

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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## COMPANY NAME

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	S	U	B	S	I	D	I	A	R	I	E	S																	

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

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Form Type

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Department requiring the report

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Secondary License Type, If Applicable

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## COMPANY INFORMATION

Company's Email Address

N/A
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Company's Telephone Number

815-9636 to 38
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Mobile Number

N/A
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No. of Stockholders

402
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Annual Meeting (Month / Day)

July 17
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Fiscal Year (Month / Day)

December 31
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## CONTACT PERSON INFORMATION

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

Name of Contact Person

Maria Teresa T. Bautista
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Email Address

mtbautista@hoi.com.ph
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Telephone Number/s

815-9636
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Mobile Number

N/A
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## CONTACT PERSON'S ADDRESS

3rd Floor, Grepalife Building, 219 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila

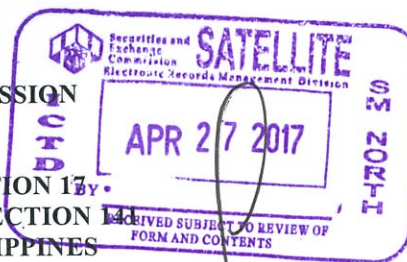
**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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



**SECURITIES AND EXCHANGE COMMISSION  
AMENDED SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE REVISED SECURITIES ACT AND SECTION 141  
OF CORPORATION CODE OF THE PHILIPPINES**



1. For the fiscal year ended **December 31, 2016**
2. SEC Identification Number: **15393**      3. BIR Tax Identification No.: **000-463-069**
4. Exact Name of registrant as specified in its charter **House of Investments, Inc.\***
5. **Manila, Philippines**  
Province, Country or other jurisdiction  
of incorporation or organization
6.   (SEC Use Only)  
Industry Classification Code:
7. **3<sup>rd</sup> Flr., Grepalife Bldg, 219 Sen. Gil Puyat Avenue, Makati City**      **1200**  
Address of principal office      Postal Code
8. **(632) 815-9636**  
Registrant's telephone number, including area code
9. **Not Applicable**  
Former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares Outstanding
Common, P1.5 par value	615,996,114
Preferred, P0.40 par value	702,007,052

Total Debt Outstanding as of December 31, 2016: P19.08 Billion

11. Are any or all of these securities listed on the Philippine Stock Exchange: **Yes/Common**
12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes ☒      No ☐

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

Yes ☒      No ☐

13. As of March 31, 2017, within 60 days prior to the filing of SEC17-A, the aggregate market value of the voting stock held by non-affiliates of the Company is equivalent to One Billion, Seven Hundred Eleven Million, Five Hundred Twenty-Eight Thousand, One Hundred Ninety-Five Pesos and 32 centavos (P1,711,528,195.32) or Two Hundred Sixty Seven Million, Eight Hundred Forty-Four Thousand and Seven Hundred Eighty-Eight (267,844,788) shares at P 6.39/share.

*\* Full Name as it appears in the Company's Charter: House of Investments, Inc. doing business also under the names of Honda Cars Quezon City, Honda Cars Manila, Honda Cars Marikina, Honda Cars Fairview, Honda Cars Tandang Sora, Honda Cars Marcos Highway, Isuzu Manila, Isuzu Commonwealth, Isuzu Greenhills, and Isuzu Leyte.*

## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents are incorporated by reference:

- (a) 2016 Audited Consolidated Financial Statements

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## **PART I – BUSINESS AND GENERAL INFORMATION**

### **Item 1: Description of Business**

House of Investments, Inc. (HI) was incorporated in 1959 as an investment bank, the first of such bank to be organized in the Philippines in 1959. However, since investment banking had yet to be developed, HI decided to create its own investments and evolved into an investment holding company with a diversified portfolio.

Throughout its history, HI has successfully acquired, organized, invested, and divested in various corporate institutions and industries while focusing its corporate goal of contributing to the economic development of the country and providing employment while at the same time fostering a corporate culture of integrity and excellence. As of the end of 2016, it has a total consolidated asset base of PhP34.80 billion. Consolidated revenues for 2016 summed to PhP29.10 billion, with consolidated net income of PhP1.37 billion.

Using funding raised through various sources (internally generated cash, equity, debt, or a combination) HI seeks to buy entire businesses (or take majority control in a friendly transaction) with a view towards increasing the returns from such enterprises. By taking control of high return businesses, management seeks to increase the enterprise value of the company as the earnings stream and cash flows from such investments grow.

These returns are then channelled to stockholders primarily through dividends.

HI does have the alternative of exiting investments via sale of such assets. This is also a tool for leaving low-return businesses with the objective of investing additional capital in higher return businesses.

HI participates in eight distinct sectors and its investments are organized into four core business units, namely: Car Dealership, Construction, Education and Project & Property Management collectively with its other portfolio investments.

#### **CORE BUSINESS UNITS:**

##### **A. CAR DEALERSHIP:**

HI operates two car retailing brands: Honda and Isuzu.

HI operates five Honda dealerships, namely: Honda Cars Quezon City (HCQC), Honda Cars Manila (HCMA), Honda Cars Marikina (HCMK), Honda Cars Fairview (HCFV), Honda Cars Marcos Highway (HCMH) and one service center in Tandang Sora (HCTS). HI also owns a majority stake in Honda Cars Kalookan, Inc. that operates two dealerships in Kalookan (HCKI) and Greenhills (HCGH).

HI operates four Isuzu dealerships, namely: Isuzu Manila (IMI), Isuzu Commonwealth (ICW), Isuzu Greenhills (IGH), and Isuzu Leyte (ILY)

##### **B. CONSTRUCTION**

HI owns a majority stake in one of the largest Philippine construction and general contracting firms, EEI Corp. (EEI). EEI has international operations spanning from the Kingdom of Saudi Arabia to Africa and Asia. It is also a market leader in the domestic construction and contracting sector.

##### **C. EDUCATION**

HI owns a majority stake in iPeople, inc. (IPO), the vehicle for our investments in education. IPO (together with HI) wholly owns the Malayan Colleges, Inc. (MCI) operating under the name of Mapua Institute of Technology. MCI is widely considered to be the leading engineering and I.T. school in the country.

MCI also has two other wholly-owned subsidiaries, the Malayan Colleges Laguna, Inc. (MCL) and the Malayan High School of Science (MHSS).

MCI is expanding in Mindanao with the acquisition of a 3-hectare property in Davao under Malayan Colleges Mindanao (A Mapua School), Inc. Construction of the new campus is underway and completion is expected in 2018 in time for the Academic Year 2018-19.

#### **D. PROJECT & PROPERTY MANAGEMENT**

HI wholly owns Landev Corp. Landev is primarily engaged in property management and project management for the YGC. It also provides comprehensive security services to leading installations through its subsidiary Greyhounds Security and Investigation Agency Corp. (GSIA).

HI also owns minority stake in RCBC Realty Corp., which owns the RCBC Plaza. The operations of RCBC Plaza are managed by HI.

*The operations of each core business, along with a discussion of risks and 2016 performance, will be discussed in the appropriate section.*

#### **PORTFOLIO INVESTMENTS:**

##### **A. ENERGY**

HI has investments in the energy sector through its stake PetroEnergy Resources Corp. (PERC) and EEI Power Corp., a wholly-owned subsidiary of EEI Corp.

PERC has investments in conventional and renewable energy, exploration and development. Its subsidiary PetroGreen Energy, Corp. has investments in a 20-MW Maibarara Geothermal Power Plant in Sto. Tomas, Batangas, 36-MW Nabas Wind Power Project in Aklan, and a 50-MW solar farm in Tarlac.

EEI Power Corp. operates a 15-megawatt Heavy Fuel Oil (HFO) power plant in the City of Tagum, Davao del Norte. It also has investments in renewable energy through its participation in Petro Wind Energy, Inc. and PetroSolar Corp., both of which are subsidiaries of PERC.

##### **B. PHARMACEUTICALS**

HI owns 50% of HI-Eisai Pharmaceuticals, Inc. which is a joint venture with the Eisai Co. of Japan. HI-ESAI imports pharmaceuticals from Japan which it sells in the Philippine market through established drug distributors

##### **C. AFTERLIFE SERVICES**

HI owns material stakes in both Manila Memorial Park Cemetery, Inc. (MMPCI) and La Funeraria Paz-Sucat, Inc. (LFPSI). MMPCI is the recognized market leader in afterlife services. It sells memorial lots and owns, operates, and maintains memorial parks. LFPSI provides mortuary services to the bereaved and their loved ones.

##### **D. CONSUMER FINANCE**

HI owns 50% of Zamboanga Industrial Finance Corp. (ZIFC). ZIFC provides consumer finance services (personal loans, secured loans, equipment leasing) in Zamboanga City.

#### **THE HOLDING COMPANY**

Executive management monitors the business performance of companies in the portfolio very closely. Through regular review of actual results compared to budgets and previous year performance, HI is able to determine if the Group is able to perform as expected.

In particular, management watches operating metrics very closely and how these impact the financial metrics. By monitoring operating metrics and financial metrics, executive management can always determine whether the capital deployed to various businesses within the portfolio is being used efficiently, and generating returns that meet hurdle rates.

Executive management also engages in a continuous business development program. These business development activities range from assisting portfolio companies in identifying growth opportunities in existing businesses; assisting portfolio businesses by helping them develop new products and services that increase organic growth; or buying entire companies or controlling stakes in companies which show high growth potential and the returns of which meet hurdle rates.

### **Risks at the Holding Company Level**

The following covers the risk management policies at the holding company level. *For a discussion of risks faced by each core business unit, please refer to the appropriate section in this report.*

**a. Interest Rate Risk**

HI is exposed to interest rate risk because it has borrowings from local banks. It is a company policy to use excess liquidity to pay down borrowings in order to decrease financing costs, and reduce exposure to rising interest rates. It is also a company policy to actively discuss with lending banks on how to lower financing costs. When possible, HI will use lower cost debt to pay down higher cost debt. HI does not have a practice of speculating on the direction of interest rates. The main objective is to lower financing costs as much as possible.

**b. Foreign Exchange Risk**

HI's exposure to foreign exchange risk is minimal. The company have excess funds denominated in U.S. dollars. Where possible and when warranted, it is the company practice to pay dollar liabilities with its excess dollar funds. The company does not speculate on the direction of foreign exchange rates.

**c. Liquidity Risk**

HI seeks to manage its liquidity to be able to service maturing debts, finance capital requirements, and pay for existing operations. HI maintains a consistent level of funding to be able to pay for its day to day operations. HI constantly monitors its projected cash flows through risk meetings that occur on a weekly basis. When major acquisitions are identified, HI assesses market conditions to be able to source the funding as inexpensively as possible.

**d. Credit Risk**

HI's holding of cash and short term securities exposes the company to the credit risk of the counterparty. Given HI's diverse body of counterparties, it does not have a concentrated credit risk exposure. The Group's exposure to credit risk is very minimal because its receivables are mostly from related parties, which are being managed through close account monitoring and limit setting.

**e. Price Risk**

Available for sale (AFS) financial instruments are held and are subject to price fluctuation. These securities are vulnerable to price risk due to changes in market values because of specific factors related to these securities, or because of factors related to the overall market for financial assets. These prices change depending on how market participants act in the market.

HI closely monitors developments in the market. The company regularly assesses the opportunity cost of holding these securities. When a more appropriate use of the funds is determined, it is HI's intention to liquefy these investments and put the excess cash to work.

**f. Business Continuity Risk**

HI is acutely conscious of the risks posed by natural disasters, acts of God, or other man-made actions that can have an adverse impact on the continuity of regular operations. The HI management works together with the management of the operating divisions and subsidiaries in ensuring that the business continuity plans of each operating unit is in place and up to date.

**g. Competition**

HI is subject to competition in the segments in which each of its core business units operates. *Please refer to the related section of each core business unit on the risks each group faces.*

HI faces competition in some cases when it is in the process of bidding on prospective deals. There are other holding companies or business groups that are very active in expanding their Philippine portfolio of earning assets. In some situations, HI might find itself bidding against such competitors when prime assets of businesses are for sale.

**h. Succession Risk**

HI knows that people are an important resource and that its executive management team is a significant contributor to the value-adding activities of the Company. In order to preserve the management chain of succession and institutional knowledge that comes with it, each member of executive management is accountable for putting a succession plan in place that includes the identification and development of his or her successor.

The respective company presidents, general managers, and chief risk officers of each portfolio company are accountable for making sure that their risk management policies line up with the risk management policies of the holding company. Group Internal Audit (GIA) provides valuable input to risk management support by conducting regular business unit audits that also incorporate the evaluation of risk management practices.

The Risk Management Committee of the Board meets regularly and exercises and oversight role on executive management who are accountable for managing the risks that arise out of regular business operations.

## **CAR DIVISIONS**

HI operates two car retailing brands: Honda and Isuzu. Honda's vehicle line up include passenger cars and commercial vehicle categories, while Isuzu's are purely commercial vehicles.

### **HONDA**

HI's Honda dealership group is a significant player in the retailing of Honda cars in Metro Manila.

HI owns and operates Honda dealerships in the following Metro Manila locations: Quezon Ave., Manila, Marikina, Fairview, and Marcos Highway and one service center in Tandang Sora. HI also owns a majority stake in Honda Cars Kalookan, Inc. that owns and operates dealerships in Kalookan and Greenhills.

### **ISUZU**

HI's Isuzu dealerships, on the other hand, are in four locations: Manila, Commonwealth, Greenhills, and Leyte.

New vehicle unit sales are cyclical. Changes in unit sales are driven by factors like manufacturer incentives, interest rates, fuel prices, unemployment, inflation, weather, the level of personal discretionary spending, credit availability, consumer confidence and others. Car retailers have historically been less vulnerable than car manufacturers and car parts suppliers to declines in new vehicle sales. We believe this is due to the more flexible expense structure of retailers (they don't own the factories) and their diversified revenue streams. Car manufacturers may also offer various dealer incentives which help to decrease earnings volatility for car retailers.

Our dealerships generate higher margin revenue through repair services, the sale of replacement and aftermarket parts, and the sale of third party finance and insurance products. We believe our various income streams help to lower the impact of the cyclical found in the automotive sector. Revenues from higher margin service and parts sales are typically less cyclical than retail vehicle sales, and generate the largest part of our gross profit.

## **Risk Factors at the Car Divisions**

**a. Macro-economic conditions**

The Car Divisions' performance is impacted by general economic conditions overall, and in particular, by economic conditions in the markets in which we operate. These economic conditions include: levels of new and used vehicle sales; availability of consumer credit; changes in consumer demand; consumer confidence levels; fuel prices; personal discretionary spending levels; interest rates; and unemployment rates.

**b. Operational Risks**

- Franchise Agreements with Honda and Isuzu.

Our dealerships operate under a franchise agreement with Honda and with Isuzu, which authorizes our dealerships to sell new vehicles of the brands we carry or perform manufacturer authorized warranty service. These agreements govern almost every aspect of the operation of our

dealerships, and give manufacturers the discretion to terminate or not renew our franchise agreements for a variety of reasons

- Information Technology.

Our information systems are fully integrated into our operations. If these systems go down, our business could be significantly disrupted. In addition, to the extent our systems are subject to intentional attacks or unintentional events that allow unauthorized access that disrupts our systems, our business could be significantly disrupted.

- Property loss, business interruption or other liabilities.

Our operations can be hampered by property losses due to fire, adverse weather conditions, and militant activities e.g. rallies and strikes, among others. In addition, our business is subject to substantial risk of loss resulting from: the significant concentration of property values, including vehicle and parts inventories, at our operating locations; claims by employees, customers, and third parties for personal injury or property damage; and fines and penalties in connection with alleged violations of regulatory requirements.

While we have insurance for many of these risks, we retain risk relating to certain of these perils and certain perils are not covered by our insurance.

c. Market Risk

- Overall success of the automotive industry and in particular on the success of Honda and Isuzu.

Significant adverse events that interrupt vehicle or parts supply to our dealerships, would likely have a significant and adverse impact on the industry as a whole, including us, particularly if the events relate to any of the manufacturers whose franchises generate a significant percentage of our revenue.

- Competition.

We generally compete with: other franchised automotive dealerships in our markets; private market buyers and sellers of used vehicles; local service and repair shops and parts retailers; and automotive manufacturers (those that own their own dealerships).

Buying decisions by consumers when shopping for a vehicle are extremely price sensitive. The level of competition in the market can lead to lower selling prices and related profits

d. Availability of financing and interest rate sensitivity

- To the Company.

Because we finance the majority of our operating and strategic initiatives using a variety of credit facilities, we are dependent on continued availability of these sources of funds. The car divisions access credit through the lines available to the head office, i.e. House of Investments, Inc. while Honda Cars Kalookan, Inc. has its own lines with Banks.

A significant portion of the cash flow we generate is used to service the interest and principal payments relating to our various financial commitments. A sustained or significant decrease in our operating cash flows could lead to an inability to meet our debt service requirements.

The interest rates we are charged on a substantial portion of our debt are variable, increasing or decreasing based on changes in certain published interest rates. Increases to such interest rates would likely result in significantly higher interest expense for us, which would negatively affect our operating results.

- To our clients.

A significant portion of vehicle sales in the Philippines is financed. Availability of credit to vehicle buyers and increased interest rates may also decrease vehicle sales, which would negatively affect our operating results.

e. Regulatory issues

We are subject to a wide variety of regulatory activities, including: government regulations, claims and legal proceedings. Government regulations affect almost every aspect of our business, including taxation, and the treatment of our employees.

In particular, the anticipated amendments to the tax regulations sees an increase in the Excise Taxes on vehicles sold, which may result in a decline in sales of some models.

In the event of regulation restricting our ability to generate revenue from arranging financing for our customers, we could be adversely affected. We could also be susceptible to claims or related actions if we fail to operate our business in accordance with applicable laws. Claims arising out of actual or alleged violations of law which may be asserted against our dealers by individuals, through class

actions, or by governmental entities in civil or criminal investigations and proceedings, may expose us to substantial monetary damages which may adversely affect us.

f. **Environmental regulations**

We are subject to a wide range of environmental laws and regulations, including those governing: discharges into the air and water; the operation and removal of storage tanks; and the use, storage and disposal of hazardous substances.

In the normal course of our operations we use, generate and dispose of materials covered by these laws and regulations. We face potentially significant costs relating to claims, penalties and remediation efforts in the event of non-compliance with existing and future laws and regulations.

## **THE CONSTRUCTION SECTOR**

### **EEI CORP. AND SUBSIDIARIES**

EEI Corp., one of the largest construction and general contracting firms in the Philippines, is 54% owned by The House of Investments.

EEI Corp., founded in 1931 is a leading provider of construction and engineering services for the erection of large-scale heavy and light industrial facilities, infrastructure, and building and property development projects worldwide. Long years of contracting and collaborating with global contractors, particularly in the Middle East and Asia Pacific countries, have enabled EEI to achieve world-caliber project management expertise and competencies in all fields and disciplines of construction.

EEI has been recognized by contractors worldwide for the quality of its work and for its safety records, and is certified as compliant with ISO 9001:2008, ISO 14001:2004 (Environmental Management System), and OHSAS 18001:2007 (Occupational Safety and Health Management System) standards. The Company stays abreast with the latest developments in technology, materials engineering, and construction methodologies while including its own innovation in the application of its work, making it a preferred provider of construction services to global Engineering, Procurement, and Construction companies.

### **Principal Activities**

#### **A. Building Construction**

EEI has constructed many landmark structures in the Philippines and has completed a variety of commercial, residential, and building projects as a general contractor or as a specialty contractor. It has undertaken the construction of various high-rise office buildings, condominiums, hotel-service apartments, mixed-use commercial developments and malls, educational institutions, hospitals, and recreational facilities.

#### **B. Infrastructure**

Through the years, EEI has been involved in the construction of roads, bridges, skyways, flyovers, mass transport and railways, as well as civic works and site development of industrial parks, airports, runways, seaports, and other gateway facilities, and construction of pumping stations for water facilities.

#### **C. Industrial Facilities**

EEI provides construction and engineering services to oil, petroleum, gas, cement, mining, and power-producing companies. It has been involved in the erection and installation of transmission and sub-station systems. Its capability spans civil works, structural construction, fabrication, erection and installation of boilers, generators and turbines for coal-fired, diesel, bunker fuel, geothermal, gas, turbine, hydroelectric, wind power, combined cycle, and nuclear powered generating facilities.

#### **D. Steel Fabrication**

EEI operates an in-house Steel Fabrication Plant – the first to be ISO 9001:2008 Certified – and is the leader in the fabrication of mechanical and structural steel structures in the Philippines. The Steel Fabrication Division of EEI has been building silos, pressure vessels, tanks, exchangers, boiler parts, and other steel structures for industrial installations including food and beverage plants, breweries, petroleum refineries, power plant, sugar mills, and other manufacturing facilities.

The shop has a modular assembly facility for the fabrication and assembly of plant modules. This includes a customs bonded manufacturing warehouse, which allows duty-free entry of materials and tax-free export of finished assemblies. Over many years, the shop has assembled modules which were shipped in entire structures to customers worldwide.

#### **E. Manpower Supply**

EEI employs more than twenty-three thousand personnel, most of whom are engineers and skilled workers, who are deployed all over the world. The Company runs several in-house training programs that develop its people to become well-rounded and proficient in various engineering disciplines.

EEI provides its construction services to the international market. It started providing overseas construction services since 1974 when it first ventured into the United Arab Emirates and the Kingdom of Saudi Arabia. Since then the company has done major projects for large-scale industrial projects including petroleum refineries, power plants, and industrial installations in Saudi Arabia, Kuwait, Iraq, Algeria, Libya, Brunei, Qatar, Malaysia, Singapore, and New Caledonia.

EEI maintains its presence in some foreign markets through alliances with domestic partners. In the Kingdom of Saudi Arabia, EEI has forged a joint venture with engineering and construction giant Al-Rushaid Petroleum Investment Group of Companies and formed Al Rushaid Construction Co., Ltd. (ARCC), which has implemented numerous projects in its more than 30 years of existence.

EEI also owns five major subsidiaries:

- **Equipment Engineers, Inc.** engages in the supply and marketing of a broad range of industrial plant facilities, process equipment, systems, and parts to the industrial, commercial, and property development companies; and, engages also in supply management services;
- **EEI Power Corp.** is a power producer and engages as well in building, rehabilitating, and operating power generating plants.
- **EEI Construction and Marine, Inc.** engages in structural fabrication works and light steel construction works such as storage tanks, pressure vessels, ducts and pipes;
- **GAIC Group** provides manpower services to both local and foreign markets;
- **EEI Realty Corp.** is engaged in the development of land, housing, and other properties.

#### **Risk Factors at the Construction Sector**

The risk management function is an important aspect of corporate governance. EEI has a Risk Management Program which has been in place since 2009. A Risk Management Council composed of the President and CEO, the Chief Risk Officer and key department heads meet regularly to discuss the new and emerging risks brought about by the peculiarities of new projects, changes in the market place, economic shifts, political upheavals, disasters, unusual events and probable impending events which had been identified in the various areas of company's business activities. The Risk Management Council is responsible for providing timely, relevant and comprehensive risk information to the Board through the Board Risk Oversight Committee which is composed of four directors.

The company is expecting the following major risks and opportunities (in no particular order) to factor into its business and is doing the corresponding actions to properly address them:

##### **a. Geopolitical risk and opportunities**

Description: The changing of the Philippines' government including the changes in the political situation of other countries particularly the US and China with economies related to ours may have effects on the construction markets where the company has interests – particularly:

- Some uncertainty in the BPO industry (which affects demand for building used as BPO offices) as most of the demand for such comes from the US. President Trump intends to bring back jobs to their country under his America First policy.
- It is expected that higher number of infrastructure projects will be bid out as the current government made its plans known that development of the country's infrastructure is one of its main objective.
- Though it is anticipated that a significant number of Chinese investors will be putting in money in the country, most of which might partner with the government to do new infrastructure projects. We must assess carefully which ones to engage.
- Japan is seriously looking at infrastructure and other business venture in the Philippines

Mitigating Measures:

- With possible reduction of building projects for the BPO industry, the company will be selective in dealing with BPO building clients.
- The company is studying how to tap into this expected increase in infrastructure projects and are exploring possible partnerships to successfully handle the demands of such projects also to diversify the risks.
- The company will perform due diligence on Chinese investors prior to entering into any partnership. Contracts related to such partnership will be thoroughly reviewed to ensure its fairness.
- Explore possible alliances with Japanese EPCs we know.

b. Business concentration risk

Description: As much as the company values its current roster of regular clients, it is always better to create a wider client base. Doing this will not only expand the opportunities open to the company but also make the company more resilient to any fluctuations on the business of our clients.

Mitigating Measures:

- Cement existing collaboration with major customers to expand business opportunities.
- Engaging other reputable conglomerates in the construction market.
- Redefine risk bearing capacity and risk appetite.
- Enhance contracting capacity for possible ramping up of participation in PPP projects and direct government contracts.

c. Credit risk

Description: As the company's backlog of contracts is at an all-time high, the amount of receivables from our clients has also increased. The efficiency at which these receivables are collected has a significant effect on the financing requirements and interest expense of the company.

Mitigating Measures:

- Efforts have been done since 2016 to facilitate faster collection of receivables.
- Initiate due diligence of new clients during tender stage as part of KYC.
- Establishing a single customer exposure limit is being explored which is meant to align the company exposure from its receivables.

d. Interest rate risk

Description: Interest rate has started to climb and will continue to increase over the next 3 years.

Aside from higher financing cost, higher interest rate will decelerate economic growth, which could slowdown demand for construction services.

Mitigating Measures:

- The company will continue to expand the list of possible banking relationships to obtain the optimal interest rate offers.
- Efforts to reduce debt levels, as long as it does not hamper our capability to perform, is underway (such as reducing credit risk as mentioned above).
- Be cautious in the slowdown in other parts of the construction market e.g. BPO and condominium building.

e. Competition risk

Description: The boom in infrastructure and the continuing ASEAN integration are anticipated to encourage more competition in the Philippine construction industry, particularly from new foreign competitors.

Mitigating Measures:

- The company is constantly finding ways to make our services more competitive whether it be by way of improving our efficiency, looking for new ways to do our work better, and explore partnerships/alliances that will help us serve the need of the market better.
- The demand for infrastructure is not limited to the Philippines but is the whole of ASEAN region. The company is exploring the possibility of bringing our services to other parts of the ASEAN region to tap this demand.
- Turn foreign competition into partners. Locally, foreign contractors cannot do the job themselves. They always need a local partner to get things done. Over the long run, the relationship forged with partnership will help EEI work outside of the country.

- f. Cybersecurity risk  
Description: Risk of cyberattacks is on the rise around the world. This threat may lead to data fraud/theft violating data privacy rights and locking of data which may cause disruption of operations.  
Mitigating Measures:
- Assessment of the company vulnerability to cyberattacks has been carried out. The gaps in information security are already identified and the necessary assets to close such gaps have already been purchased and are currently being installed.
  - Obtaining Cyber insurance is also being explored and design of the policy is underway.
- g. Succession planning  
Description: The company needs to plan for the next line of managers that will succeed the incumbents who are at or near their retirement.  
Mitigating Measures:  
The company has been running, for a few years now, extensive training programs to prepare the successors of the retiring managers.
- h. Operational risks  
Description: The company's construction projects can generally be divided into 3 types: buildings, infrastructure and electromechanical. Whatever the type of project, the operational risks that the company encounters can be categorized under the following types of risks:
- Estimation errors
  - Issues with manpower
  - Issues with equipment or tools
  - Issues with materials
  - Inefficiencies in EEI's performance during project execution
  - Inefficiencies in client's and their nominated subcontractors' performance during project execution
  - Site conditions that may affect the work
  - Actions by third parties (i.e. the public at large or government) that may affect the work
- The operational risks that the company encounters from year to year changes only in its mix mainly depending on the mix of projects that are being executed. This is because the nature of the work in each type of project results to a different mix of operational risks.  
Mitigating Measures:
- Increase awareness of project risk owners of the identification of risk and its impact on the project.
  - Develop probabilistic forecasting capabilities to enable improved management of these external factors.
  - Efforts to enhance the monitoring of project performance including the possible effects of all type of risk exposures are being undertaken and is expected to further improve the company's anticipation of risks and response.
  - Future construction contracts are being negotiated by the company to contain provisions that either transfers these externalities or at the very least provides a means of spreading or minimizing the risk.
  - Risk mitigation also happens during the tender stage where EEI can decide to pursue or ignore a tender. Creation of rule of thumbs during project execution to contain losses when the risk materializes.
- i. Saudi country risk  
Description: A relatively sizable operation of the company is situated in the Kingdom of Saudi Arabia (KSA) and the uncertainties in that area is of some concern. The prevailing low oil prices and threat of ISIS continue to be factors that affect the operations there.  
Mitigating Measures:
- There are indications that oil prices may recover but not to the high levels that were experienced before the crash in prices. Nevertheless, this is seen as a positive indicator that business prospects in KSA may soon improve as the oil prices recovers. As for now, the company will ensure that existing projects earn their profit objectives.
  - Focus on sustainable operations and maintenance contracts where margins are higher.
  - Repatriation plans has long been prepared and is ready to be deployed if peace and order situation requires it.

- Developing new international markets particularly in the ASEAN region will fill the void due to slowdown in Saudi Arabia.

Strategies to contain and mitigate these risks are formulated during Risk Management Council and Risk Management Committee meetings. In addition, the various risks that had been previously identified and the corresponding risk treatments are reviewed, reassessed, and revised accordingly.

The following risk management initiatives were undertaken in 2016:

- Efforts have been made to further improve the capabilities of the risk management function – from deterministic forecasting of the business future performance to probabilistic forecasting.
- Improvement of the risk management framework to suit this objective, designing the specific procedures to operationalize the framework, initiating the procurement of predictive tools and identifying the data requirements were also done.
- The final draft of the company's revised ERM company manual has already been done and is just awaiting the approval of the Board Risk Oversight Committee.
- The risk appetite and risk tolerance aligned with company's strategy was also drafted and also awaiting the approval of the Board Risk Oversight Committee.
- Setting up of Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) to measure and monitor performance with strategic goals was also started;
- Efforts to enhance data collection, proper storage in database, and other information systems management improvements were also started to support the data requirements of initiatives.

## **THE EDUCATION SECTOR**

### **MALAYAN COLLEGES INC. (OPERATING UNDER THE NAME OF MAPUA INSTITUTE OF TECHNOLOGY)**

MCI is widely considered to be the leading and largest private engineering and I.T. school in the country.

Don Tomas Mapúa, the first registered Filipino architect, founded Mapúa Institute of Technology (MIT) on January 25, 1925. MIT has grown to be the Philippines' biggest engineering school, with 33 undergraduate and 22 graduate engineering programs.

Mapua now offers the following courses of study:

#### **Engineering & Sciences**

- *BS Biological Engineering*
- *BS Chemical Engineering*
- *BS Chemistry*
- *BS Civil Engineering*
- *BS Computer Engineering*
- *BS Electrical Engineering*
- *BS Electronics Engineering*
- *BS Environmental & Sanitary Engineering*
- *BS Geological Science & Engineering*
- *BS Geology*
- *BS Industrial Engineering*
- *BS Manufacturing Engineering*
- *BS Materials Science & Engineering*
- *BS Mechanical Engineering*

#### **Social Sciences**

- *BS Educational Technology*
- *AB Psychology*
- *BS Psychology*
- *BS Technical Communication*

#### **Engineering Management**

- *BS Construction & Engineering Management*
- *BS Management Science and Engineering*
- *BS Service Engineering & Management*

#### **Architecture & Design**

- *BS Architecture*
- *BS Industrial Design*
- *BS Interior Design*

#### **Information Technology**

- *BS Computer Science*
- *BS Information Systems*
- *BS Information Technology*

#### **Business & Management**

- *BS Accountancy*
- *BS Business Administration*
- *BS Entrepreneurship*
- *BS Hotel & Restaurant Management*

**Graduate Studies**

- *Graduate Programs*
- *Joint programs*
- *BS-MS Programs*

**Multimedia Arts & Sciences**

- *BS Multimedia Arts & Sciences*
- *BS Fine Arts in Digital Cinema*

**New Programs**

- *BS Physics*
- *BS Physical Education*
- *BS Entertainment and Media Computing*
- *Master in Information Technology*

**Continuing Education**

Mapúa has a student population of about 14,000 spread across its main campus in Intramuros, Manila, and in its Makati City extension. It is the first school in Southeast Asia that has received the prestigious accreditation from the Accreditation Board of Engineering and Technology (ABET) in the United States for 11 of its engineering programs and two of its computing programs. This means that the graduates from those degree programs are considered to have received education and training comparable to similar degree programs in the US and Europe that have also received the ABET accreditation.

**Vision**

Mapua shall be among the best universities in the world.

**Mission**

The Institute shall provide a learning environment in order for its students to acquire the attributes that will make them globally competitive.

The Institute shall engage in economically viable and/or publishable research, development, and innovation.

The Institute shall provide state-of-the-art solutions of the problems of industries and communities.

**Core Values**

Mapúa Institute of Technology aims at the empowerment of the youth by providing education grounded on academic excellence and strength of character. Students are expected to develop the passion for mental knowledge and meritorious performance as well as the recognition of moral values as essential to growth of character. The integration of humanities and the social sciences into the technical curriculum has paved the way to the achievement of this goal.

Mapúa upholds the reinforcement of time-honored values learned in school and at home directed towards the development in the student of a strong moral fiber that will contribute to his/her personal well-being as well as that of other members of society.

Mapúa emphasizes the importance of the following core values:

- DISCIPLINE
- EXCELLENCE
- COMMITMENT
- INTEGRITY
- RELEVANCE

By ensuring that these core values are learned in the classroom and outside, MAPÚA shall have done its share in producing men and women who lived fulfilled and meaningful lives.

**Educational Philosophy**

The Mapúa Institute of Technology offers its students professional and advanced scientific and engineering education with a healthy dose of the arts, letters, philosophy, and social sciences to form men and women who shall possess not only technological expertise but also the human values and perspective that promote moral development.

Mapúa upholds academic excellence and social responsibility as core values.

Mapúa provides quality academic curricula that are current in content and state-of-the-art in delivery.

Mapúa provides a learning environment that encourages the exercise of creativity and the experience of discovery.

Mapúa adheres to a learner-centered, outcomes-based education (OBE) system.

Mapúa captures the full synergy among instruction, research, and extension work to heighten the learning experience of its students.

Mapúa builds linkages with industry and government in order to maintain the relevance of its academic programs and to engage in collaborative research.

### **Integrated Management System Policy**

Mapúa commits to continually improve the effectiveness of its management system in order to satisfy its clients' expectations as contained in our statement of program educational objectives and student outcomes.

Mapúa commits to have a quality management system that is compliant with all statutory, regulatory, and other requirements applicable to the organization's business and environmental dimensions of operations.

Mapúa commits to strategic initiatives on pollution prevention, energy conservation, and resource-use optimization.

### **Integrated Management System Policy**

1. Enhance customer satisfaction by managing all related activities and resources efficiently and effectively.
2. Meet the organizational goals through improved teamwork and reinforced interfaces among different departments and functions.
3. Improve the processes for cost effectiveness.
4. Comply with all legal and statutory requirements with regard to the organization's environmental dimensions of operations.
5. Meet the set of goals on pollution prevention, energy conservation, and resource-use optimization.

### **Strategic Objectives**

The Future Mapúa shall be a digital, research-driven, outcomes-based international domain (D.R.O.I.D.)

Strategic Objective 1: Implement Learner-Centered, Outcomes-Based Education (LC-OBE) to its full promise

Strategic Objective 2: Harness digital education to its full potential

Strategic Objective 3: Heighten research/development/innovation (RDI) and advisory/consultancy capabilities to be a credible international player

Strategic Objective 4: Broaden the international dimension of school operations to global norms

### **General Objectives**

The Institute seeks to become an international Center of Excellence in integrated engineering, architecture, and IT education. It seeks to develop young Filipinos into highly competent engineers, architects, and IT professionals in order to meet local and global human resource requirements. It seeks to generate new knowledge to heighten the nation's competitiveness in today's knowledge-based and global economy. It seeks to apply knowledge in order to make the world a better place for Filipinos and humankind.

### **Special Objectives**

Aside from the objectives stated above, the Institute declares the following for itself:

1. Develop in the student quality values and attitudes needed to produce moral and ethical professionals;
2. Provide opportunities to develop critical thinking and sound judgment essential in the practice of one's profession;
3. Foster strong ties among the faculty, students, and alumni;
4. Develop workable technologies that could tap the potentials of the country's resources.

Its enrollees account for at least 16% of the total student population in BS in Chemical (ChE), Civil (CE), Computer (CpE), Electrical (EE), Electronics (ECE), Environmental and Sanitary (EnSE), Industrial (IE), and Mechanical Engineering (ME) programs of the top 10 engineering schools in the country, based on Commission on Higher Education's (CHED) enrollment data.

Mapúa's program offerings in other fields of study have also expanded particularly in Architecture and Design, Information Technology (IT), Business and Management, Multimedia Arts and Sciences, Social Sciences, and Health Science.

Mapúa's efforts to continuously improve the quality of its education have been notable. For demonstrating high standards in classroom instruction, research, and extension service, CHED declared the Institute as National Center of Excellence for Chemical Engineering, Civil Engineering, Computer Engineering, Electrical Engineering, Electronics Engineering, Environmental and Sanitary Engineering, Information Technology, and Mechanical Engineering programs and Center of Development for Industrial Engineering program.

Industry partnerships have also been given more focus in the recent years by the Institute. Currently, it has tie-ups with hundreds of local and international educational institutions, organizations, and companies for its exchange programs, faculty development, collaborative researches, and student internships. Such efforts enabled Mapúa to consistently produce topnotchers in licensure examinations. On record, the Institute's board heroes have reached close to 287 since 2002.

Mapúa moves to fine-tune its teaching standards with a series of accreditations. The Philippine Association of Colleges and Universities Commission on Accreditation (PACUCOA) affirmed the Institute's high standards in educational operations, granting Level IV accreditation to its CE program and Level III accreditation to its CpE, EE, ECE, EnSE, IE, and ME programs.

As a move towards realizing its vision to be among the best universities in the world, Mapúa has pursued international accreditation for its academic programs with ABET (Accreditation Board for Engineering and Technology), a non-governmental organization that accredits post-secondary education programs in applied science, computing, engineering, and engineering technology. To date, 13 Mapúa programs are now ABET-accredited, namely, ChE CpE, CE, EE, ECE, EnSE, ME, IE, BE, MSE, MfgE, CS, and IT.

Mapúa has also secured accreditation with the Philippine Technological Council-Accreditation and Certification Board for Engineering and Technology (PTC-ACBET), the sole organization recognized by the CHED and the body of engineering professionals in the country to be the sole signatory-applicant and representative of the Philippine jurisdiction to the Washington Accord. Mapúa's EE, ECE, IE, CE ChE, EnSE, CpE and ME programs have all been accorded full accreditation by the PTC-ACBET.

Further, Mapúa has adopted BlackboardLearn, a new learning management system (LMS) for all its schools and departments including its subsidiaries. BlackboardLearn is a tool that provides students and teachers an easy and effective way to access course materials. It gives the capability for asynchronous online collaboration and course delivery, advanced roles and rights management, including the capability to create customized communities of users, library integration, and a centralized content repository with granular control over content objects. This new technology will give way to the standardization of LMS across all programs and departments of the Institute and its subsidiaries.

Mapúa's strategic initiatives to keep up with the demands of the integration are bolstering its research capabilities and students' math and science and technology proficiency. On top of various local and international accreditations, it has put a prime in research and academic and local partnerships. The Institute recently opened a new research building, which houses laboratories, researchers' rooms, and a large working area. This state-of-the-art facility is also home to the Innovation and Technology Support Office, which is responsible for giving strategic direction to the Institute's R&D and to convert outputs into patents, designs, utility models, and even spinoff companies.

In terms of industry-academe linkages, Mapúa doubles its efforts to forge more partnerships intended to give students and professors a better understanding of what companies need and access to the latest technology and equipment.

To expose its engineering students to different technologies and processes employed in other Asian countries, Mapúa initiated international plant visits to Singapore, Taiwan, Thailand, Malaysia, Japan, South Korea, and Hong Kong. In 2016, the Institute was able to send about 255 students for international plant exposure.

Likewise, it has strongly promoted international on-the-job trainings and student exchange programs. To date, Mapúa has now over 281 partner companies for OJT (local and international). It has sent over 1,779 students to various universities and partner institutions abroad since the internationalization programs started in 2010.

Alongside its pursuit of academic excellence, Mapúa also endeavors to be part of the solution to the global issue of climate change. Mapúa has long been an advocate of environment conservation and engineering for the environment, beginning with the opening of its BS Environmental and Sanitary Engineering (EnSE) program in 1958, followed by the opening of its Master of Science in Environmental Engineering program in 2001 and Ph.D. in Environmental Engineering program in 2004. EnSE's curriculum currently includes 17 three-unit courses related to the protection and conservation of the environment and its engineering.

Furthermore, the Institute has also included environmental engineering and environmental science courses in all of its engineering and non-engineering programs, respectively. Mapúa believes that these courses are enough introductions for all the students to understand the real situation of the environment. It is also believed that these courses are sufficient to train them to be able to design, construct, and implement sustainable solutions to environmental problems.

To complement its instruction, Mapúa included in its 2010–2020 initiatives the reduction of its carbon footprint. To initiate an institutional effort of carbon footprint reduction (CFR), the Institute formed a core group led by the Subject Chairperson for Chemical Engineering (ChE) Dr. Alvin R. Caparanga.

Some ChE students were commissioned to conduct an initial study to compute the Institute's total carbon footprint. Upon the presentation of results, the CFR committee convened to come up with necessary actions to be taken by the Institute to reduce its carbon footprint, which is mainly produced by its consumption of energy, water, and paper.

Together with the different schools and offices, the CFR committee has gathered best practices for the conservation of its resources. Mapúa has started replacing all of its lamps with more energy-efficient ones. It has also started replacing its air-conditioning units with ones using inverter technology. The CFR group is currently in the process of setting targets and monitoring guidelines for this effort, aiming for full implementation in 2016.

Apart from its internal efforts, Mapúa also has extension services dedicated to address environmental concerns through education. Under its Social Orientation and Community Involvement Program (SOCIP), the Institute has conducted seminars on recycling, energy conservation, and use of renewable energy; information drive about global warming and pollution in the community; and tree-planting and clean-and-green projects in partnership with the government and non-government organizations.

Mapúa also has three other wholly owned operating subsidiaries, Malayan Colleges Laguna (MCL), Mapúa Information Technology Center (MITC), and the Malayan High School of Science (MHSS). MCI is expanding in Mindanao with the acquisition of a 2.3-hectare property in Davao through its newly incorporated school, Malayan Colleges Mindanao (A Mapúa School), Inc.

Mapúa is offering senior high school starting 2016. It has a total of 982 enrolled students at present.

#### **MALAYAN COLLEGES LAGUNA, INC.**

Located in Cabuyao, Laguna, alongside several science and industrial parks, Malayan Colleges Laguna was established to extend the brand of the Mapúa Institute of Technology to the south by offering programs in engineering, computer science, information technology, business, accountancy, and hotel and restaurant management to students who prefer to stay closer to home.

Driven by passion for knowledge, MCL seeks to meet the challenges of globalization in order to produce graduates who can exercise their skills in the global labor market. Given its excellent location, the MCL campus

gives students the opportunity to train and apprentice with technology-driven companies during their academic years.

In November 2006, the Commission on Higher Education (CHED) gave the approval for MCL to offer eight programs of study in Engineering, Information Technology, and Business. This was after MCL's satisfactory compliance with the standards of the CHED's Regional Quality Assurance Team. To date, the campus offers 21 bachelor's degree programs and two diploma programs under five colleges and one institute: the Mapúa Institute of Technology at Laguna, the E.T. Yuchengco College of Business, the College of Computer and Information Science, the College of Arts and Science, the Mapúa-PTC College of Maritime Education, and the Institute for Excellence in Continuing Education and Lifelong Learning.

Last June 2016, MCL Senior High School was opened, welcoming more than a thousand Grade 11 students under the Academic and Technical-Vocational-Livelihood Tracks.

With its excellent facilities, technologically advanced and IT-integrated curricula, MCL was envisioned to be a Center of Excellence for science and technology education in Southern Luzon. A decade later, the institution finds itself succeeding, as proven by its graduates' and students' consistently excellent performance in licensure and certification exams, and in local and national competitions and quiz bowls. Just last 2016, it was marked as the number one private school in CALABARZON and the 10<sup>th</sup> best school in the Philippines by FindUniversity.ph.

The institution's community started with 854 students in its first year in the academe. Today, there are 5,079 students under both college and Senior High School.

#### **Mission**

1. To educate students to have the entry-level technical competencies, soft skills and global perspective as to be the most sought-after graduates by industry worldwide.
2. To produce social wealth from the generation of new knowledge.
3. To help solve industry's and society's problems by the expert application of existing knowledge.

#### **Vision**

Malayan Colleges Laguna shall be a global steeple of excellence in professional education and research.

#### **Core Values**

Excellence and Virtue

#### **MALAYAN HIGH SCHOOL OF SCIENCE, INC.**

MHSS is a science- and math-oriented high school located in Pandacan, Manila. Modelled after similar but publicly funded science high schools, MHSS offers a rigorous academic program geared towards graduating hard-working, mathematical and scientific-trained students that will excel in their university studies and beyond. The school is focused on optimizing student-to-teacher time and currently has 327 students. MHSS is offering senior high school starting 2016.

MHSS is envisioned to be a global Center of Excellence in secondary education with a special focus on science and technology, thus giving the same quality education that its parent school, Mapúa Institute of Technology, is known for. It has a top-notch faculty, state-of-the-art facilities, and a curriculum that will allow students to "fully express not only their scientific inclinations but also their artistic bent." At its young age, MHSS has already gained recognitions from numerous academic and non-academic events both here and abroad.

MHSS is offering senior high school starting 2016. It has a total of 36 enrolled students at present under the Science, Technology, Engineering, and Mathematics (STEM) strand of the Academic Track.

#### **Mission & Vision**

The Malayan High School of Science shall be a global Center of Excellence in secondary education especially in the area of science and technology.

#### **Program Outcomes**

The Malayan High School of Science shall educate its students to have a very strong foundation in the natural sciences and the mathematics; excellent communications skills; a deep appreciation of the most important

technologies of the day; an analytical mind and a creative, innovative spirit; awareness of social, global and environmental issues; love of country and humanity.

#### **Core Values**

- DISCIPLINE
- EXCELLENCE
- COMMITMENT
- INTEGRITY
- RESPONSIBILITY

#### **MAPUA INFORMATION TECHNOLOGY CENTER, INC. (MITC)**

MITC caters to professionals, career entrants, and career shifters who are seeking to enhance their competencies in a short timeframe. MITC is envisioned to become a leader in non-university-type education.

MITC offers a wide range of choices to make participants skilled and completely up-to-date professionals. Learning tracks are pursued in cooperation with the best practices in the industry and are geared towards developing skills with high industry demands and certifications in technologies like Cisco, Linux or Java.

#### **Vision**

To be the preferred provider of continuing and alternative learning in the Philippines and in the Southeast Asia Region.

#### **Mission**

Empower individuals by developing their talents and competencies using innovative teaching-learning methodologies and technologies.

Enhance work quality and engender optimum performance in organizations thru continuing education and lifelong learning.

The faculty and trainers are duly-accredited and certified by global industry partners to assure clients of the finest quality training possible. They are industry practitioners to enable them to know the current trends and practices in the industry.

MITC provides high quality training to the following:

- Corporations
- Non-IT related graduates (Post-graduates) / Career Shifters
- Executives / Professionals

The center offers the following training modules:

- |                   |                            |
|-------------------|----------------------------|
| • JAVA            | • Unix/Linux               |
| • Oracle          | • Cisco                    |
| • . NET           | • Office Productivity      |
| • Web Development | • Project Management       |
| • Comptia A+      | • SAAD                     |
| • IT Essentials   | • Business Analysis        |
| • SDLC            | • English in the Workplace |
|                   | • Other Customized Program |

#### **Risk Factors at the Education Sector**

- a. Regulatory, recognition of academic programs, and accreditations from government, and self-regulating private accreditation organizations.
  - Accreditations.

The schools are governed and regulated by the CHED and by the Department of Education (DepEd), depending on the program offerings. In addition, MCI and MCL are also accredited by PACUCOA, a leading accreditation body in the Philippines for colleges and universities. MCI is also accredited by the Accreditation Board of Engineering & Technology (ABET). The failure of any of our schools to pass government standards, or to meet accreditation renewal standards, may negatively impact the perception of the quality of our academic programs and

facilities. If this happens we might expect our enrolment to materially decrease, which would have an adverse impact to our profits and cash flow.

- **Tuition Fee.**

The Commission on Higher Education (CHED) and the Department of Education regulates tuition increases at the university level and the secondary level, respectively, and routinely sets maximum limits on percentage increases in tuition fees. MCI, MCLI, and MHSS are subject to maximum percentage increase guidelines issued by both the CHed and the DepEd, as applicable. The inability of MCI and MCL to increase tuition fees to cover higher operating costs may pose a risk to profits and cash flows over time.

- **Changes in regulations.**

The DepEd K+12 program increases the total number of years of education at the pre-university level to from 10 years to 12 years. The addition of two extra years of schooling prior to the university level means universities and colleges will end up with two academic years of no entering freshman classes.

The reduction of the student population because of the K+12 program poses a serious short to medium-term risk to IPO profits and cash flows. MCI, MCL and MHSS is offering senior high school starting 2016 to cushion the effects of the K + 12 Program. However, these measures may not offset the entire impact of a loss of two freshman classes.

**b. Competition**

- **Faculty.**

The schools depend on high quality faculty to teach the educational programs. To the extent that they can, the schools at both the tertiary and secondary level recruit faculty with excellent academic credentials and teaching skills. The schools might not be able to recruit the desired faculty due to any number of factors, including mismatches between the desired compensation and offer; competing recruitment from other educational institutions; or candidates seeking opportunities abroad.

The schools also work to retain key faculty in certain academic disciplines in order to maintain continuity and reduce turnover. If recruitment and retention efforts suffer, the quality of teaching and the quality of academic programs might suffer.

- **Students.**

Competition among schools for greater student enrolment is fierce. The schools compete against an impressive array of non-profit and for-profit schools. The competitors in the elite school level bring a formidable set of resources to the battle: money, facilities, history, tradition, an active alumni base, a spirited student body, established brands, and large marketing budgets.

While Mapua is an established brand, it also has its own impressive set of resources. It continues to pursue accreditations from self-regulating private accreditation organizations in addition to the government accreditation bodies.

**c. Credit Risk**

As the schools increase their enrollment, the level of receivables also increases. Some of the students who cannot afford to make the full payment of tuition and miscellaneous fees during an academic quarter execute a Promissory Note and are expected to settle their accounts prior to the start of the next academic quarter. In certain cases, students who have signed promissory notes cannot pay these notes.

The schools do not aggressively pursue collection of defaulted student debt given that the default rate is small. Regardless, the schools face a risk that a rise in student defaults on promissory notes would impact profits and cash flows negatively.

**d. Operational Risk**

The operations of the Mapúa schools may be hampered by the following:

- **Transportation Strikes.** In the event of a transportation strike, students, faculty, and the admin staff are unable to come to the campuses affected. Classes are normally suspended during these events.
- **Natural calamities and disasters.** Our schools, like many other enterprises, are subject to adverse occurrences beyond our control, which include (but are not limited to) earthquakes, floods, and similar natural phenomena. We believe we carry enough insurance to hedge against the monetary damages caused by these events. In the event that the damage to our facilities arising from said events are severe and our insurance is not enough to cover it, our operations and ability to return to normal conditions might be severely affected.

- Union. MCI has two unions, Faculty Association of MIT (FAMIT) and MIT Labor Union (MITLU). A strike by any of the two unions would obstruct operations.

In the event of calamities, strikes, and the like that could hamper the operations of the schools, Mapúa has tested and instituted the use of Blackboard, its learning management system that is capable of conducting real-time online classes.

- e. Unions - Faculty Association of MIT (FAMIT) and MIT Labor Union (MITLU) of MCI  
MCI is bound by the collective bargaining agreement (CBA) signed between the institution and the two unions.

MCI negotiates with each union separately. The FAMIT represents the faculty members. The MITLU represents the non-teaching staff. To the extent that unions negotiate CBA's with higher increases over time, this would negatively impact the cost structure of MCI and lower the expected value of its profit and cash flows over time.

In the event that a CBA is not negotiated successfully or there is an issue that results in labor unrest, it could have a material adverse impact on the operations of MCI.

- f. Dilution Risk and Interest Rate Risk  
The schools need capital to grow. All of our schools pursue growth opportunities, which may involve any of the following actions: building new teaching and non-teaching facilities at existing campuses; building campuses at new locations; or even buying other schools.

In order to grow, the schools will need to raise funding. This fund raising can arise from the sale of equity, selling debt securities, borrowing from existing debt facilities, or borrowing from new debt facilities.

- If capital is raised through borrowings, the Mapúa schools will also be subject to interest rate risk. An increase in our negative carry will also adversely impact our profitability.
- If capital is raised through equity, there is a risk of diluting the interest of current shareholders if new investors infuse the capital.

- g. Market Risk and Political Risk  
In the event that adverse macro-economic or micro-economic factors hit the country that may force a subset of students to temporarily drop out and continue their education at a later time, permanently stop school, or they decide to transfer to another school, our enrolment may be negatively impacted and this will have a negative effect on our profitability.

A certain portion of the student population depends on family members who are Overseas Filipino Workers to pay for their tuition and miscellaneous fees. International relations of the Philippines with the employer countries is a key element to avoid any serious disruption in the size and frequency of inward-bound overseas remittances.

## **PROPERTY AND PROJECT MANAGEMENT**

### **LANDEV CORP.**

HI wholly owns Landev Corp. Landev Corp. is primarily engaged in property management and project management for the YGC. Its large contracts include:

- property management for RCBC Plaza and RCBC Savings Bank Corporate Center
- facilities management for RCBC and RCBC Savings Bank branches nationwide
- project management for the construction of the ETY Building in Binondo and the Mapua campus in Davao.

### **GREYHOUNDS SECURITY AND INVESTIGATION AGENCY**

Landev owns a subsidiary named Greyhounds Security and Investigation Agency (GSIA). GSIA provides comprehensive security services to leading installations like RCBC Plaza, all RCBC branches, RCBC Savings Bank branches and all EEI projects nationwide.

## **RCBC REALTY CORP.**

HI owns 10% of RCBC Realty Corp., which owns the YGC flagship property, RCBC Plaza.

The RCBC Plaza is the biggest and most modern office development in the Philippines today. Inaugurated in 2001, the complex consists of the 46-storey Yuchengco Tower, 41-storey Tower 2, and a three-level podium. Also housed in RCBC Plaza are the 450-seat Carlos P. Romulo Auditorium, the Yuchengco Museum, a 200-seat chapel, a VIP lounge, banking chambers, convenience and service shops, food court, seven-level basement parking, gym and health spa, and open-air courtyard. YGC members such as the RCBC and AY Foundation hold their offices here.

RCBC Plaza is the first IT zone in Makati designated by the Philippine Economic Zone Authority.

### **Risk Factors at the Property Management and Project Management**

#### **a. General Economic Conditions**

The success of our business is significantly related to general economic conditions and accordingly, our business could be harmed by an economic slowdown and downturn in commercial real estate asset values, property sales and leasing activities. Periods of economic weakness or recession, significantly rising interest rates, declining employment levels, declining demand for commercial real estate, falling real estate values, or the public perception that any of these events may occur, may negatively affect the performance of some or all of our business lines.

These economic conditions can result in a general decline in disposition and leasing activity, as well as a general decline in the value of commercial real estate and in rents, which in turn reduces revenue from property management fees and commissions derived from property sales and leasing.

#### **b. Credit Risk**

If we experience defaults by multiple clients or counterparties, it could adversely affect our business. We could be adversely affected by the actions and deteriorating financial condition and results of operations of certain of our clients or counterparties if that led to losses or defaults by one or more of them, which in turn, could have a material adverse effect on our results of operations and financial condition.

Any of our clients may experience a downturn in their business that may weaken their results of operations and financial condition. As a result, a client may fail to make payments when due, become insolvent or declare bankruptcy. Any client bankruptcy or insolvency, or the failure of any client to make payments when due, could result in material losses to our company. A client bankruptcy would delay or preclude full collection of amounts owed to us.

#### **c. Operational Risk**

##### **• Loss Of Key Personnel.**

Our success depends upon the retention of our senior management, as well as our ability to attract and retain qualified and experienced employees. The departure of any of our key employees or the loss of a significant number of key revenue producers, if we are unable to quickly hire and integrate qualified replacements, could cause our business, financial condition and results of operations to suffer.

In addition, the growth of our business is largely dependent upon our ability to attract and retain qualified support personnel in all areas of our business. Competition for these personnel is intense and we may not be able to successfully recruit, integrate or retain sufficiently qualified personnel. If we are unable to attract and retain these qualified personnel, our growth may be limited and our business and operating results could suffer.

##### **• Natural calamities and disasters.**

Our operations can be hampered by property losses (both ours and our clients') due to fire, adverse weather conditions, earthquakes, and militant activities e.g. rallies and strikes, among others. In addition, our business is subject to substantial risk of loss resulting from: claims by employees, customers, and third parties for personal injury or property damage; and fines and penalties in connection with alleged violations of regulatory requirements.

While we and our clients have insurance for many of these risks, we retain risk relating to certain of these perils and certain perils are not covered by our insurance.

d. Litigation Risk

We are subject to substantial litigation risks and may face significant liabilities and damage to our professional reputation as a result of litigation allegations and negative publicity.

In our property management business, we hire and supervise third-party contractors to provide construction services for our managed properties. While our role is limited to that of an agent for the owner, we may be subject to claims for construction defects or other similar actions.

e. Competition

We compete across a variety of business disciplines within the commercial real estate services industry, including commercial property and corporate facilities management, occupier and property/agency leasing, and property sales. We face competition from other commercial real estate service providers, including outsourcing companies that traditionally competed in limited portions of our facilities management business and have recently expanded their offerings, in-house corporate real estate departments, and developers.

f. Regulatory Risk

If we fail to comply with laws and regulations applicable to us in our role as a property/facility manager, we may incur significant financial penalties.

g. Environmental Liability

We may be subject to environmental liability as a result of our role as a property or facility manager or developer of real estate. Various laws and regulations impose liability on real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at a property.

In our role as a property or facility manager, we could be held liable as an operator for such costs. This liability may be imposed without regard to the legality of the original actions and without regard to whether we knew of, or were responsible for, the presence of the hazardous or toxic substances.

If we fail to disclose environmental issues, we could also be liable to a buyer or lessee of a property. If we incur any such liability, our business could suffer significantly as it could be difficult for us to sell such properties. Additionally, liabilities incurred to comply with more stringent future environmental requirements could adversely affect any or all of our lines of business.

### **Risk Factors at the Security Agency**

a. Regulatory Risks

We are subject to a large number national and local laws and regulations that apply to security agencies and their guards. Any liability we may have from our failure to comply with these regulations may materially and adversely affect our business by restricting our operations and subjecting us to potential penalties.

b. Operational Risk

- Loss of Key Management Personnel.

Our success depends to a significant extent upon the continuing efforts and abilities of our key executive officers and senior management personnel several of whom have worked in our industry for decades. The loss or unavailability of any such key executives or senior management personnel, due to retirement, resignation or otherwise could have a material adverse effect on our business, financial condition and results of operations.

- Catastrophic Events.

We might be exposed to potential claims for catastrophic events, such as acts of terrorism, or based upon allegations that we failed to perform our services in accordance with contractual or industry standards. We believe we carry enough insurance coverage to cover these possible adverse events. In the event that our losses from an event are larger than our coverage, we will have a negative impact on our financial condition and performance results.

c. Competition

- Ability to attract new customers and Loss of large customers.

Our assumptions regarding projected results depend largely upon our ability to retain substantially all of our current customers and obtain new customers. Retention is affected by several factors including, but not limited to, regulatory limitations, the quality of the services that we provide, the quality and pricing of comparable services offered by competitors and continuity of our management and non-management personnel. Our ability to gain or maintain sales, gross margins and/or employees may be limited as a result of actions by our competitors.

Security services companies such as ours face the risk of losing customers as a result of the expiration or termination of a contract, or as a result of a merger or acquisition or business failure involving our large customers, or the selection by such customers of another provider of security services.

- Service Contracts.

Competitive pressures in the security services sector may prevent us from increasing our billing rates on contract anniversary or renewal dates. Our profitability will be adversely affected if, due to inflation or other causes, including increases in statutory payroll taxes, we are compelled to increase the wages, salaries and related benefits of our employees in amounts that exceed the amount that we can pass on to our customers through increased billing rates charged under our service contracts.

- Recruitment and Retention.

Our business involves the labor-intensive delivery of security services. We derive our revenues through the services rendered by our employees. Our future performance depends in large part upon our ability to attract, train, motivate and retain our skilled operational and administrative staff.

The loss of the services of, or the failure to recruit, the required complement of operational and administrative staff would have a material adverse effect on our business, financial condition and results of operations, including our ability to secure and complete security service contracts.

Additionally, if we do not successfully manage our existing operational and administrative staff, we may not be able to achieve the anticipated gross margins, service quality, overtime levels and other performance measures that are important to our business, financial condition and results of operations.

d. Liability

In many cases, our security services contracts require us to indemnify our customers or may otherwise subject us to additional liability for events occurring on customer premises. We maintain insurance programs that we believe provide appropriate coverage for certain liability risks, including personal injury, death and property damage.

Insurance may not be adequate to cover all potential claims or damages. If a plaintiff brings a successful claim against us for punitive damages in excess of our insurance coverage, then we could incur substantial liabilities that would have a material adverse effect on our business, financial condition and results of operations.

e. Credit Risk and Collection Efficiency

Our business efficiency is highly dependent on our ability to manage our working capital well. If we experience delays in collections of accounts receivable, there will be a major impact on the availability of funding for our day to day operations. Any default by one or more of our significant customers due to bankruptcy or otherwise could have a material adverse impact on our liquidity, results of operations and financial condition.

f. Changes in Technology

Technological change that provides alternatives to security officer services or that decrease the number of security officers required to effectively perform their services may decrease our customers' demand for our security officer services. A decrease in the demand for our security officer services or our inability to effectively utilize such technologies may adversely affect our business, financial condition and results of operations.

## Item 2: Properties

The office space used by HI belongs to an affiliate. As a holding company, HI does not use large amounts of office space. The car division uses leased properties to sell and service vehicles. Each dealership site has lease contracts with their respective landlords. The only exception to this is the property used by Honda Cars Quezon Avenue, which is owned by HI.

The following summarizes information on HI and subsidiaries real property ownership as of December 31, 2016.

PROPERTY DESCRIPTION	DATE ACQUIRED	AREA (SQ. M.)	TYPE
<b>HOUSE OF INVESTMENTS, INC.</b>			
Quezon Avenue	2002	4,604	Industrial
Talayan, Q.C.	2002	2,700	Warehouse
<b>EEI CORP.</b>			
Itogon, Benguet	1985	688	Residential
Majada, Canlubang, Laguna	1998	29,481	Equipment yard
Lemery, Batangas	1997	390,049	Industrial
Golden Haven Memorial - Las Pinas	2003	166	Memorial Lot
Minuyan, <i>Norzagaray</i> , Bulacan	2005	138,216	Agricultural
Minuyan, San Jose del Monte, Bulacan	2005	133,371	Agricultural
San Jose, Sta. Maria, Bulacan	2005	102,633	Industrial
Bauan, Batangas	2012	118,522	Fabrication Shop
<b>EEI CONSTRUCTION AND MARINE, INC.</b>			
Silang, Cavite	2010	21,197	Fabrication Shop
<b>EEI REALTY CORP.</b>			
Trece Martires, Cavite	1995	594,920	Residential
Calamba, Laguna	1995-96	53,207	Residential
Marikina - Suburbia East	1999	3,135	Residential
Ayala Greenfield	2003	820	Residential
<b>EQUIPMENT ENGINEERS, INC.</b>			
Itogon, Benguet	2006	367	Residential
Irisan, Benguet	2009	3,201	Residential
<b>GULF ASIA INTERNATIONAL CORP.</b>			
General Trias, Cavite	1998	259	Residential
<b>EEI POWER CORP.</b>			
Tagum City, Davao Del Norte	2013	7,887	Industrial
<b>MALAYAN COLLEGES, INC.</b>			
Intramuros, Manila	1999	17,997	School campus
Intramuros, Manila	2013	513.5	Vacant lot for expansion
Sen. Gil Puyat Ave., Makati	2001	8,371	School campus
<b>MALAYAN COLLEGES, INC.</b>			
Paco, Manila	2002	3,624	School campus
<b>MALAYAN COLLEGES LAGUNA, INC.</b>			
Cabuyao, Laguna	2010	60,000	School campus
Cabuyao, Laguna	2012	14,640	Vacant lot for expansion
<b>MALAYAN COLLEGES MINDANAO, INC.</b>			
Matina, Davao	2015	23,000	Vacant lot for expansion

The following details the properties that House of Investments and subsidiaries have leased:

PROPERTY DESCRIPTION	LOCATION	AREA (IN SQM)	LEASE EXPIRATION
<b>HOUSE OF INVESTMENTS</b>			
2-storey building	Paco, Manila	6,432	2016
2-storey building	Paco, Manila	6,147	2016
2-storey building	Marikina	1,650	2020
2-storey building	Commonwealth, QC	2,754	2020
2-storey building	Commonwealth, QC	1,576	2021

PROPERTY DESCRIPTION	LOCATION	AREA (IN SQM)	LEASE EXPIRATION
<b>HOUSE OF INVESTMENTS</b>			
1-storey building	Marcos Highway	2,500	2023
2-storey building	Greenhills	2,573	2028
PROPERTY DESCRIPTION	LOCATION	AREA (IN SQM)	LEASE EXPIRATION
<b>HONDA CARS KALOOKAN, INC.</b>			
3-storey building	EDSA, Caloocan	4,566	2018
1-storey building	Q.C.	3,198	2022

Certain properties, machinery, equipment, and other fixed assets of the group are used to secure its loans payable and long-term debt from various banks and other financial institutions. These consist mainly of mortgages on various assets of MCI and EEI.

For additional details on the Group's loans payable and long-term debt and the corresponding encumbrances on their assets, refer to the notes related to loans payable, and to the notes related to long term-debt in the Consolidated Financial Statements.

The principal assets reflected in the consolidated balance sheets are registered mainly under HI's main subsidiaries that are engaged in construction and infrastructure, education, and car dealership. As a holding company, HI's indirect ownership on the said properties covers/applies only to the extent of, and is limited by the amount of holdings it has in these subsidiaries.

### **Item 3 – Legal Proceedings**

EEI has substantial claims against various parties in connection with completed projects. The majority of these claims came from EEI's various claims for cost of variation orders, time extension, and loss and expense due to prolongation and disturbance costs. Any recoveries from these claims will be reported as income in the year when the recoverability of the claims is determined to be probable.

There are pending legal cases against EEI that are being contested by EEI and its legal counsel. Management and its legal counsel believe that the final resolutions of these cases will not have a material effect on the financial position and results of operations of EEI.

MCI is facing a number of labor lawsuits and disputes. There are other suits and claims filed for or against certain subsidiaries. Management believes that these suits and claims will ultimately be settled in the normal course of operations and will not adversely affect the subsidiaries' financial position and operating results.

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

There were no matters during the Annual Stockholders' Meeting held on 15 July 2016 that required the vote of the Company's stockholders owning more than 2/3 of the outstanding number of shares.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5 – Market for Issuer’s common equity and related stockholder matters

The common stock (PSE: HI) is traded on the Philippine Stock Exchange.

PERIOD	STOCK PRICE	
	HIGH	LOW
2017 First Quarter	6.68	5.76
2016 Fourth Quarter	6.00	5.29
2016 Third Quarter	6.88	5.93
2016 Second Quarter	7.50	6.01
2016 First Quarter	6.24	5.18
2015 Fourth Quarter	6.00	5.30
2015 Third Quarter	6.74	5.93
2015 Second Quarter	7.50	6.01
2015 First Quarter	6.49	5.50
2014 Fourth Quarter	6.36	5.90
2014 Third Quarter	6.39	5.30
2014 Second Quarter	6.68	5.70
2014 First Quarter	6.49	6.37

The market price of HI’s common stock as of April 26, 2017 (latest practicable trading date) is at P6.39 for high and P6.20 for low.

### Stockholders

The top 20 owners of common stock as of March 31, 2017 are as follows:

STOCKHOLDER	COMMON SHARES	% OF TOTAL
Pan Malayan Management & Investment Corp.	294,759,575	47.85%
PCD Nominee Corporation (Fil.)	234,829,971	38.12%
PCD Nominee Corporation (Non-Fil.)	37,982,736	6.16%
A.T. Yuchengco, Inc.	7,036,070	1.14%
Gdsk Development Corp.	5,064,840	0.82%
Go Soc & Sons And Sy Gui Huat, Inc.	4,019,890	0.65%
Y Realty Corp.	3,545,890	0.58%
Malayan Securities Corp.	2,790,000	0.45%
Seafront Resources Corp.	2,484,000	0.40%
Meer, Alberto M.	2,217,030	0.36%
RCBC Ta#76-299-7	1,791,000	0.29%
Enrique T. Yuchengco, Inc.	1,211,360	0.20%
Yu, John Peter C. Yu &/Or Juan G.	1,080,000	0.18%
Cheng, Berck Y.	850,000	0.14%
Villonco, Vicente S.	803,800	0.13%
RP Land Development Corp.	726,720	0.12%
Lim, Tek Hui	627,000	0.10%
EBC Securities Corp.	485,320	0.08%
Dee, Helen Y. Itf: Michelle	482,240	0.08%
Bardey, John C.	476,230	0.08%
<b>SUB TOTAL</b>	<b>603,263,672</b>	<b>97.93%</b>
Others	12,732,442	2.07%
<b>TOTAL</b>	<b>615,996,114</b>	<b>100.00%</b>

HI has a total of 400 common shareholders owning a total of 615,996,114 shares as of March 31, 2017.

Top 20 owners of preferred stock as of March 31, 2017.

STOCKHOLDER	PREFERRED SHARES	% OF TOTAL
Yuchengco, Alfonso T.	383,569,427	54.64%
Pan Malayan Management & Investment Corp.	263,336,511	37.51%
Alfonso T. Yuchengco, Inc.	17,892,250	2.55%
Enrique T. Yuchengco, Inc.	16,897,651	2.41%
Gomez, Eriberto H.	9,848,744	1.40%
Siguion-Reyna, Leonardo	1,951,378	0.28%
Alvendia Jr., Carmelino P.	1,348,753	0.19%
RP Land Development Corp.	1,223,458	0.17%
Rosario, Rodolfo P. Del	750,936	0.11%
Tantuco, Eloisa G.	561,983	0.08%
Wilson, Isabel Caro	558,093	0.08%
Jaka Investment Corp.	302,023	0.04%
Padilla, Alexander A.	243,147	0.03%
Padilla, Felipe A.	229,572	0.03%
Padilla, Francisco A.	229,572	0.03%
Padilla, Mercedes A.	229,572	0.03%
Villonco, Romeo	161,385	0.02%
Chan, Frederick	156,132	0.02%
Galvez, Maria Rosario P.	153,047	0.02%
Padilla Jr., Ambrosio	153,047	0.02%
<b>SUB TOTAL</b>	<b>699,796,681</b>	<b>99.69%</b>
Others	2,210,371	0.31%
<b>TOTAL</b>	<b>702,007,052</b>	<b>100.00%</b>

HI has a total of 48 preferred shareholders owning a total of 702,007,052 shares as of March 31, 2017.

### Dividends

In accordance with the Corporation Code of the Philippines, HI intends to declare dividends (either in cash or stock or both) in the future. Common and preferred stockholders of HI are entitled to receive a proportionate share in cash dividends that may be declared by the Board of Directors out of surplus profits derived from HI's operations after satisfying the cumulative interest of preferred shares.

The same right exists with respect to a stock dividend of which the declaration is subject to the approval of stockholders representing at least two-thirds (2/3) of the outstanding shares entitled to vote. The amount will depend on HI's profits and its capital expenditure and investment requirements at the relevant time.

The company has declared cash dividends as follows:

YEAR	DIVIDEND PER COMMON SHARE	DIVIDEND PER PREFERRED SHARE	TOTAL AMOUNT
Q1 2017	N/A	P0.00415	P2.92 MM
Q4 2016	N/A	P0.00311	P2.48 MM
Q3 2016	N/A	P0.00342	P2.53 MM
Q2 2016	P0.065	P0.02059	P55.90 MM
Q1 2016	N/A	P0.00355	P2.76 MM
Q4 2015	N/A	P0.00370	P2.95 MM
Q3 2015	N/A	P0.00386	P3.16 MM
Q2 2015	P0.065	P0.02128	P57.88 MM
Q1 2015	N/A	P0.00347	P2.98 MM
Q4 2014	N/A	P0.00329	P2.90 MM
Q3 2014	N/A	P0.00326	P2.95 MM
Q2 2014	P0.065	P0.02061	P59.17 MM
Q1 2014	N/A	P0.00305	P2.90 MM

HI has not identified any restriction that limits the ability to pay dividends on common equity or that are likely to do so in the future.

#### **Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction**

There was no sale of unregistered or exempt securities, nor recent issuance of securities constituting an exempt transaction in 2016.

#### **Description of Registrant's Securities: Common Stock and Preferred Stock**

The equity capital structure of the firm as of December 31, 2016 is shown below:

	<b>Common Stock</b>	<b>Preferred Stock</b>
<b>Authorized Capital</b>	1,250,000,000	2,500,000,000
<b>Issued</b>	616,296,114	702,007,052
<b>Paid Up Capital</b>	P1,076,414,900	P280,802,820
<b>Par Value</b>	P1.50	P0.40
<b>Features</b>	<b>Common Stock</b>	<b>Preferred Stock</b>
<b>Dividends</b>		
<i>General</i>	Dividends shall be declared only from the surplus profits and shall be payable at such time and in such manner and in such amounts as the Board of Directors shall determine. No dividends shall be declared which will impair the capital of the company.	
<i>Other Features</i>	Not Applicable	<ul style="list-style-type: none"> <li>• Entitled to dividends at the rate of average 91-day T-Bill plus two percent;</li> <li>• Fully participating as to distribution of dividends</li> </ul>
<b>Voting</b>	All common and preferred shareholders shall have voting rights	
<b>Liquidation Rights</b>	Not Applicable	All preferred shareholders shall have preferences as to assets upon dissolution of the Parent Company over common shareholders.
<b>Conversion</b>	Not Applicable	Convertible into common shares at the option of the holders thereof from the date of issue at the conversion rate of 3 and 3/4 preferred shares to 1 common share for a price of Php1.5 per common share subject to adjustments
<b>Redemption and Sinking Fund Provision</b>	Not Applicable	Redeemable at any one time or from time to time, at the option of the BOD of the Parent Company, subject to availability of funds HI shall provide for a sinking fund
<b>Pre-emption Rights</b>	All stockholders shall have no pre-emptive rights with respect to any shares of any other class or series of the present capital or on future or subsequent increases in capital	

#### **Item 6 – Management Discussion and Analysis of Operations**

##### ***Plan of Operations within the next twelve months***

- The management believes that HI can satisfy its cash requirements within the next twelve months without the need to raise additional funds;
- There are no product research and development that HI will perform within the next twelve months;
- There are no expected purchase or sale of plant and significant equipment within the next twelve months; and

- (d) There are no expected significant changes in the number of employees.

### ***Management Discussion and Analysis***

## **CONSOLIDATED RESULTS**

*Year 2016 vs. Year 2015*

### **INCOME STATEMENT**

For the year ending December 2016, the Group posted a net income after tax of P0.22 billion vis-à-vis the P1.37 billion in 2015. The 84% decline is attributable to the losses incurred by ARCC, an associate of EEI Corp. EEI's 49% share in the net loss amounted to P1.42 billion as compared to last year's P0.67 billion.

Total revenues decreased by 12%, from P29.09 billion to P25.74 billion. Sales of services declined by 20% due to the completion of the following major projects for the year 2016 such as FDC Misamis 3x135MW Coal Power Plant for NEPC Power Construction Corporation in Misamis Oriental; Slag Flotation Plant for Philippine Associated Smelting and Refinery Corporation in Isabel, Leyte; The New CNS Sumitomo ATM Contract Package 1 and 2 for Sumitomo Corporation; Star Trec Project – Bundle 1B for Pilipinas Shell Petroleum Corporation in Batangas City; Uptown Mall Towers 1, 2, 3 & 4 and BPO Offices for Megaworld Corporation in Taguig City; Segment 9 North Link Road Project Phase 1 for Manila North Tollways Corporation; Rehabilitation Of Condensed Milk Plant and Milk Powdered Plant for Alaska Milk Corporation in San Pedro, Laguna; San Gabriel Unit 70 450MW Combined Cycle Power Plant Project for Siemens Inc. in Santa Rita Batangas; Caticlan Airport Development Design & Build for Interim Runway Extension for Transaire Holdings Corporation in Malay, Aklan. Sale of goods improved by 10% due to an increase in vehicles sold by the car dealerships. Revenues from schools slightly decreased by 2%, from P2.25 billion to P2.20 billion, due to the effects of the K plus 12 program of the Department of Education (DepEd). Interest and discounts dropped by 8% due to lower interest earnings of Zamboanga Industrial Financing Corp. (ZIFC). Income from dividends increased to P0.053 billion from P0.051 billion.

Other Income increased by 21% y-o-y on account of increases in the following: (a) gain from redemption of preferred shares; (b) commission income; and (c) interest income. Equity in net losses of associates increased by P0.63 billion primarily due to provisions for probable losses incurred by ARCC because of project delays in its major project.

General and administrative expenses went up by 17% due to increases in: (a) personnel related expenses of the Group; (b) advertising and promotions related to sale of vehicle units sold; and (c) increase in miscellaneous expenses pertaining to training expenses of EEI this year, which was charged to cost of management and technical services last year. Interest and finance charges were higher in 2016 because of additional short term loans availed by the Group to finance its operating activities. Provision for income tax decreased due to lower provision by EEI for the year.

### **BALANCE SHEET**

Consolidated total assets stood at P33.69 billion against P34.80 billion last year.

Total current assets decreased by P0.53 billion. Receivables increased from P7.49 billion to P8.07 billion because of substantial increase in retention receivables from EEI. The increase in current and non-current portion of loans receivable is related to ZIFC operations. Costs and estimated earnings in excess of billings on uncompleted contracts went down due to completion of domestic projects of EEI. Increase in Inventories is due to (a.) buildup in stock inventory by Honda and Isuzu and (b.) fire and waterproofing materials and petroleum parts by Equipment Engineers. Prepaid expenses and other current assets went up due to reclassification of receivable from a project owner from other noncurrent assets to current assets resulting from the agreement that the receivable will be settled in 2017.

Investments in associates and joint ventures dropped due to impact of EEI share on ARCC's losses. Available for sale securities declined by 17% as RCBC Realty Corp. redeemed its preferred shares. Investment properties decreased due to the sale of land in Baguio by HI and the increase in sale of condominium units and parking slots by EEI. Property and equipment at revalued amount went up due to higher appraised value of HI's Quezon City property and of IPO Group's Mindanao property. Deferred tax assets decreased primarily due to the tax effect of EEI's unrealized foreign currency exchange loss and accrued retirement. Retirement asset increased due to higher contribution made for 2016. Decrease in other noncurrent assets pertains to EEI's reclassification of advances from a customer to current asset.

Consolidated total liabilities decreased from P20.62 billion to P19.08 billion.

Total current liabilities dropped by P0.94 billion. Accounts payable and accrued expenses decreased by 8% due to settlement of the Group of its obligations during the year. Billings in excess of costs and estimated earnings on uncompleted contracts went down due to recoupment of down payments from various completed projects. Significant increase in unearned tuition fees is due to effect of Senior High School offering from IPO Group. Income tax payable decreased due to the application of creditable withholding taxes and lower earnings posted by the Group. Customers' deposits dropped by 12% due to the application by EEI of its deposit on the progress billings for various clients other than construction contracts.

Total noncurrent liabilities decreased by P0.60 billion, from P3.78 billion to P3.18 billion. Long-term debt decreased by 18% as the Group settled its maturing obligations with the banks. Accrued retirement liability declined as the Group increased its contribution to the retirement fund. Deferred tax liabilities increased relative to higher valuation on land.

Total consolidated equity rose from P14.18 billion to P14.61 billion, of which P10.05 billion is attributable to the parent company. Decrease in preferred stock reflects regular redemption of the Parent Company's preferred shares. Revaluation increment significantly increased due to higher valuation of land owned by the Group. Net unrealized gains on available-for-sale securities due to the drop in prices of quoted available-for-sale securities. Remeasurement losses on net retirement liability declined by 91% due to actual return on plan assets, actuarial changes arising from changes in financial and geographical assumptions, and experience adjustments. Change in cumulative translation adjustment represents exchange differences arising from the translation of financial statements of the foreign subsidiary, EEI BVI.

Total consolidated retained earnings increased from P7.19 billion to P7.53 billion.

*Year 2015 vs. Year 2014*

## **INCOME STATEMENT**

For the year ending December 2015, the Group posted a net income after tax of P1.37 billion vis-à-vis P1.96 billion in 2014. The decline of 30% is attributable to losses incurred by ARCC, an associate of EEI Group, in two of its projects, the Naptha and Aromatics (Saipem) and the Petro-Rabigh II Mitsubishi Hitachi Power Systems, Ltd. The 49% share of EEI in the net loss amounted to P673.7 million as compared to the reported share in net earnings of P442.1 million in 2014.

Total revenues increased by 18%, from P24.72 billion to P29.10 billion. Sales of services improved by 11%. This is due to increase in EEI's on-going domestic projects. Increase in sale of goods significantly increased by 46%. This is primarily attributable to higher number of sales of vehicles against last year. Revenues from schools went up by 8%, from P2.08 billion to P2.25 billion. This is a combined result of increase in number of students with slight increase in tuition fees. Interest and discounts slightly increase by 1%, representing interest earnings of Zamboanga Industrial Financing Corp. (ZIFC). Income from dividends went up from P0.035 billion to P0.051 billion.

Other Income increase by 16% against last year due to increase in dealers income attributed to higher number of vehicle units sold, gain on redemption of preferred shares and insurance renewal income. This year includes

reversal of long outstanding payables amounting to P56.14 million. Equity in net earnings of associates significantly decrease by P1.3 billion primarily due to losses incurred by ARCC in two of its projects, the Naptha and Aromatics (Saipem) and the Petro-Rabigh II Mitsubishi Hitachi Power Systems, Ltd.

General and administrative expenses increased by 8% as the Group increase its repairs of office equipment and software maintenance, and increase in depreciation to meet its operational needs of the Group. Interest and finance charges are higher this year because of additional loans availed by the Group to finance its operation and capital expenditures.

## **BALANCE SHEET**

Consolidated total assets stood at P34.80 billion against P28.81 billion last year.

Total current assets increased by 20%. Cash and cash equivalents are higher by 8% or P0.178 billion from last year, from P2.16 billion to P2.34 billion. Receivables are up from P6.83 billion to P7.49 billion because of heavy construction activity from EEI, increase in sales from schools and the car dealerships. Costs and estimated earnings in excess of billings on uncompleted contracts are significantly higher due to cost incurrence of major on-going domestic projects of EEI. Inventories increased in relation to higher volume of vehicle units sold as of year end by the car dealership. Receivable from related parties pertains mainly to advances extended to an affiliate and receivables of EEI for manpower services. Prepaid expenses and other current assets increased primarily due to prepaid taxes from EEI attributable to the increase in progress billings for the period. Financial asset at FVPL pertains to the schools' investment in UITFs.

Investments in associates and joint ventures increased due to additional investments of Parent Company in Petroenergy (PERC) and investments of EEI Power on Petro Wind Energy Inc. and Petro Green Energy Corp. Increase in available for sale securities is mainly attributable to investment of EEIPC for a 10% equity share in PetroGreen Energy Corp. (PGEC) amounting to ₱237.3 million with partial offset of ₱14.0 million owing to the decrease in the authorized capital stock of Brightnote Assets Corp. and the redemption of the Parent's investment in preferred shares from RCBC Realty Corp.. Property and equipment went up due to EEI's acquisition of various machinery, tools and construction equipment, transportation and service equipment, furniture and fixtures million, and leasehold improvements as well as the gym renovation and the research and admissions building by iPeople group. Other noncurrent assets went down due to payment of account from EEI Retirement Fund Inc. amounting P117.0 million.

Consolidated total liabilities increased from P16.07 billion to P20.62 billion.

Total current liabilities rose by P3.85 billion. Loans payable increase due to loan availment made by the Group for the year. Accounts payable and accrued expenses increased by 20% primarily because of higher project costs and heightened construction activity in EEI. Billings in excess of costs and estimated earnings on uncompleted contracts also increased due contract deposits from newly awarded projects and unrecouped down payments from various on-going domestic projects. Increase in unearned tuition fees is a timing factor as enrolment for the next academic quarter started in December 2015. Income tax payable decreased because of lower taxable income from EEI's foreign subsidiary. Due to related parties pertains mainly to obligations of the Group to its affiliates. Customers' deposits dropped significantly by 59% due to applications of advance payments to progress billings of EEI.

Total noncurrent liabilities increased by P0.71 billion, from P3.07 billion to P3.78 billion. Long-term debt relatively increased as EEI took out an additional loan to finance its new projects. Lease liability which pertains to EEI's obligation to RCBC Leasing and Finance Corp. relative to purchase of various machinery and construction equipment under financial lease, was fully paid at the end of the year. Accrued retirement liability increased due to unfunded obligation of the Group to its employees' retirement fund, wherein, the liability of the Group exceeds the plan assets of the fund. Deferred tax liabilities increased relative to higher valuation on the value of the land.

Total consolidated equity rose from P12.75 billion to P14.18 billion, of which P9.43 billion is attributable to Parent Company. Decrease in preferred stock reflects regular redemption of the Parent Company's preferred shares. Equity reserve on acquisition of noncontrolling interest represents difference in par value and acquisition cost of additional EEI shares purchased by the Parent Company. Revaluation increment significantly increased due to higher valuation of land accounts. Net unrealized gains on available-for-sale securities decrease due to the decline in fair market value of quoted available-for-sale securities. Decrease in remeasurement losses on net

retirement liability pertains to the actual return on plan assets, actuarial changes arising from changes in financial and geographical assumptions, and experience adjustments. Change in cumulative translation adjustment represents exchange differences arising from the translation of financial statements of the foreign subsidiary, EEI BVI, whose functional currency is the United States dollar and foreign associate.

Total consolidated retained earnings increased from P6.23 billion to P7.19 billion.

*Year 2014 vs. Year 2013*

## INCOME STATEMENT

For the year ending December 2014, the Group posted a net income after tax of P1.96 billion vis-à-vis P1.83 billion in 2013. The growth of 7% is attributable to increase in local production of the Group's construction segment, robust increase in revenues of the education segment and improvement in Car dealerships combined with lower expenses for the period.

Total revenues have significantly increased by 39%, from P17.74 billion to P24.72 billion. Sales of services improved by 60%. This is largely contributed to increase in EEI's local construction projects. Increase in sale of goods of 8% is primarily attributable to higher number of sales of vehicles. Revenues from schools went up by 12%, from P1.85 billion to P2.07 billion. This is a combined result of increase in number of students and minimal increase in fees. Interest and discounts is up by 7%, representing interest earnings of Zamboanga Industrial Financing Corp. (ZIFC). Income from dividends is down from P0.317 billion to P0.035 billion.

Other Income last year includes gain on sale of available-for-sale securities and investment on an associate and, recovery of inventory losses which were provided for in previous years.

Equity in net earnings of associates increased by 8%, mainly because of higher intake from Petroenergy Resources Corp. (PERC) and RCBC Realty Corp. (RRC), which the Parent Company has 22.41% and 10% ownership, respectively.

General and administrative expenses dropped by 6% as the Group continuously control and manage its expenses. Interest and finance charges are significantly higher this year because of additional loans availed by EEI to finance its new and on-going domestic projects.

## BALANCE SHEET

Consolidated total assets stood at P28.81 billion against P22.87 billion last year.

Total current assets increased by 45%. Cash and cash equivalents are slightly higher by 2% or P0.050 billion from last year, from P2.11 billion to P2.16 billion. Receivables are up from P4.53 billion to P6.83 billion because of higher level of sales from EEI, the schools and the car dealerships. Costs and estimated earnings in excess of billings on uncompleted contracts are significantly higher because of new domestic projects of EEI. Inventories are also higher, which are primarily from the car dealerships. Receivable from related parties are lower because of increased collections of Parent Company from its affiliates. Prepaid expenses and other current assets increased primarily due to reclassification of EEI's receivable from EEI Retirement Fund Inc. (EEIRFI) amounting to P117 million, from other non-current assets to other current assets, as collections are expected to come within the following year. Increase is also attributable to unutilized prepaid and input taxes. Financial asset at FVPL pertains to the schools' investment in UITFs.

The increase in investments in associates and joint venture represents additional investments made by the Group. Available for sale securities (AFS) decrease mainly due to reclassification of investment of EEI in Philippine Hybrid Energy Systems Inc. to other receivables. Property and equipment includes cost to renovate and construction of new school buildings. Other noncurrent assets include receivable from EEI Retirement Fund, Inc., which was restructured in 2013 with payment terms longer than previously agreed.

Consolidated total liabilities increased from P12.06 billion to P16.06 billion.

Total current liabilities rose by P4.19 billion. Accounts payable and accrued expenses represent primarily obligations to contractors and suppliers relative to the renovation and construction of new school buildings and project related costs of EEI. Billings in excess of costs and estimated earnings on uncompleted contracts also increased due to on-going and new domestic projects of EEI. Loans payable and current portion of long term

debt also increased as EEI took out new loans to finance its new projects. Increase in unearned tuition fees is a timing factor as enrolment for the next academic quarter started in December 2014. Income tax payable is lower because of lower taxable income from EEI's foreign subsidiary. Due to related parties dropped because of accelerated payment of obligations to affiliates. Increase in customers' deposits pertain to advance payment received by EEI on its on-going Nabas Wind Power Plant project.

Total noncurrent liabilities dropped by P0.195 billion, from P3.26 billion to P3.07 billion as the Group consistently paid down its loans. Decrease in lease liability represents substantial reduction on obligation of EEI to RCBC Leasing Corp. relative to acquisition of various machinery and construction equipment. Accrued retirement liability decreased due to change in actuarial basis of valuation for the year. Deferred tax liabilities increased relative to higher valuation on the value of the land.

Total equity before non-controlling interest grew by 19%, from P6.88 billion to P8.21 billion.

### **Financial Ratios**

Below are the financial ratios that are relevant to the Group's for the years ended December 31, 2016 and 2015:

Financial ratios		2016	2015
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>1.11:1</b>	1.08:1
<i>Indicates the Group's ability to pay short-term obligation</i>			
Solvency Ratio	$\frac{\text{Net Income} + \text{Depreciation}}{\text{Total liabilities}}$	<b>0.06:1</b>	0.10:1
<i>Shows how likely a company will be to continue meeting its debt obligations</i>			
Debt-to-equity ratio	$\frac{\text{Total Debt}}{\text{Total Equity}}$	<b>1.31:1</b>	1.45:1
<i>Measures the Group's overall leverage</i>			
Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>2.31:1</b>	2.45:1
<i>Measures the group's leverage and long-term solvency</i>			
Interest Rate Coverage	$\frac{\text{EBIT}^*}{\text{Interest Expense}}$	<b>2.96:1</b>	7.86:1
<i>Shows how easily a company can pay interest on outstanding debt</i>			
Return on Assets	$\frac{\text{Net Income}}{\text{Average Total Assets}}$	<b>0.64%</b>	4.30%
<i>Measure the ability to utilize the Group's assets to create profits</i>			
Return on Equity	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	<b>1.52%</b>	10.15%
<i>Reflects how much the Group's has earned on the funds invested by the stockholders</i>			

\*Earnings before interest and taxes

Current ratio increased from 1:08:1 in 2015 to 1.11:1 in 2016. The settlement of the Group's short-term obligations this year resulted in the improvement of the company's liquidity.

Solvency ratio decreased from 0.10:1 in 2015 to 0.06:1 in 2016 due to the net losses incurred from the construction segment.

Debt-to-Equity ratio measures the Group's leverage. It is lower at 1.31 compared to same period last year of 1.45 because of reduced level of debt.

Asset-to-Equity ratio decreased from 2.45:1 in 2015 to 2.31:1 in 2016 because of the decline in Costs and estimated earnings in excess of billings on uncompleted contracts. The decline is due to completion of EEI's major domestic projects.

Interest Rate Coverage ratio shows how easily a company can pay interest on outstanding debt. It is lower at 2.96 times compared to last year due to the decline in EEI's profitability.

Return on Assets measures the ability to utilize the Group's assets to create profits. The Group's return on assets for year 2016 decreased to 0.64% from 4.30% in 2015 due to decline in net income brought about by the losses incurred by EEI for the year.

Return on Average Stockholders' Equity (ROAE) measures the profitability of the Company in relation to the average stockholders' equity. The ROAE for 2016 dropped to 1.52% from 10.15% in 2015 due to decline in net income brought about by the losses incurred by EEI for the year.

The above-mentioned ratios are applicable to the Group as a whole.

***Other qualitative and quantitative factors***

- (i) There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in HI's liquidity increasing or decreasing in any material way;
  - a. HI does not anticipate any cash flow or liquidity problems within the next twelve months;
  - b. HI is not in default or breach of any note, loan, lease, or other indebtedness or financing arrangement which will require HI to make payments;
  - c. There is no significant amount of trade payable that have not been paid within the stated terms; and
  - d. HI's depends on dividends from its subsidiaries as its source of liquidity.
- (ii) There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;
- (iii) There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period;
- (iv) Below are the material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.

iPeople, inc's subsidiary, Malayan Colleges, Inc. (Operating under the name Mapua Institute of Technology) is constructing of a new campus on a 2.3-hectare property in Davao through its subsidiary, Malayan Colleges Mindanao (A Mapua School), Inc. (MCMI). Completion is expected in time for the Academic Year 2018-2019. The project is estimated to cost around P2 billion and will be funded partially by debt;
- (v) Below are the known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

The K plus 12 program of the DepEd, which calls for the two extra years of basic education started in 2016. There will be two academic years where there will be no students moving on to tertiary studies in starting 2016. This is expected to severely impact the profit and cash flow of both for-profit and non-profit tertiary education institutions during the transition period.

In response to address the effects during the transition period, Malayan Colleges, Inc. and Malayan Colleges Laguna, Inc. offered Senior High School and started to take in Grade 11 students in 2016 who will accelerate to Grade 12 in 2017. Also, as a strategic response to the K Plus 12 developments, iPeople is actively seeking opportunities to expand its current education portfolio.

Other than the K plus 12, there is no known trend, event or uncertainty that have had or that are reasonably expected to have a material impact on the net sales or revenues or income of the Group from continuing operations;

- (vi) There are no significant elements of income or loss that did not arise from the HI's continuing operations;
- (vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item are discussed above;
- (viii) There are no seasonal aspects that had a material effect on the financial condition or results of operations.

#### **Item 7 – Financial Statements**

The 2016 audited consolidated financial statements of HI are incorporated herein by reference. The schedules listed in the accompanying index to Supplementary Schedules are filed as part of this Form 17-A.

#### **Item 8 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

The accounting firm of Sycip Gorres Velayo and Co. (SGV & Co.), with office address at 6760 Ayala Avenue, SGV Building, Makati City, Philippines, has been the Company's Independent Auditors since the Company's incorporation, and has been recommended to serve as such for the current year.

Pursuant to Memorandum Circular No. 8, series of 2003 (rotation of external auditors), the Company has engaged Ms. Wenda Lynn M. Loyola, as the engagement partner of SGV & Co. effective 2016. SEC rules mandate the compulsory rotation of audit partners after 5 years.

The engagement of the external auditors was favorably endorsed by the Audit Committee to the Board of Directors. The engagement is ultimately submitted for approval of the stockholders.

##### Disagreement with Accountants on Accounting and Financial Disclosure

There was no event for the last 5 years where SGV & Co. had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

##### Attendance of Accountants at the Meeting

Representatives of SGV & Co. are expected to be present at the annual stockholders meeting with the opportunity to make any statement, if they so desire, and will be available to respond to appropriate questions on the Company's financial statements.

##### External Audit Fees and Services

The Company has engaged SGV & Co. as the external auditor, and is tasked to conduct the financial audit of the Company. For this service, SGV & Co. has billed the company the following amounts:

YEAR	AUDIT FEE BILLING
2016	P2,881,500
2015	P2,817,190
2014	P2,774,970

The Company has not engaged SGV & Co. for any other services aside from its annual audit for the last seven (7) years.

##### Tax Fees

The Company has not engaged the services of the external auditor for tax accounting, compliance, advice, planning and any other form of tax services.

All Other Fees

There are no other fees billed in each of the last two years for the products and services provided by the external auditor, other than the services reported under the items mentioned above.

## PART III – CONTROL AND COMPENSATION INFORMATION

### Item 9 – Directors and Executive Officers of the Issuer

HI's Board of Directors (BOD) has eleven (11) members elected by and from among the stockholders. The Board is accountable for providing overall management and direction of the firm. Board meetings are held on a regular basis or as often as required to discuss HI's operations, business strategy, policies, and other corporate matters. The information below includes positions currently held by the directors and executive officers, as well as positions held during the past five years.

<b>DIRECTORS</b>		
<b>Name</b>	<b>Position</b>	<b>Length of Service</b>
Helen Y. Dee	Chairperson	14 Years
Amb. Alfonso T. Yuchengco*	Director	24 Years
Medel T. Nera	President & CEO	5 Years
Atty. Wilfrido E. Sanchez	Director	16 Years
Dr. Reynaldo B. Veja	Director	6 Years
Yvonne S Yuchengco	Director	15 Years

\* Passed away on April 15, 2017.

<b>INDEPENDENT DIRECTORS</b>		
<b>Name</b>	<b>Position</b>	<b>Length of Service</b>
Roberto F. de Ocampo	Director	16 Years
John Mark Frondoso	Director	4 Months
Ermilando D. Napa	Director	9 Months
Francisco H. Licuanan III	Director	9 Years
Juan B. Santos	Director	2 Years

<b>EXECUTIVE OFFICERS</b>			
<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Citizenship</b>
Ms. Helen Y. Dee	Chairperson	72	Filipino
Mr. Medel T. Nera	President & CEO	61	Filipino
Ms. Gema O. Cheng	EVP – COO, CFO & Treasurer	52	Filipino
Mr. Porfirio S. de Guzman, Jr.	SVP – Internal Audit	78	Filipino
Mr. Alexander Anthony G. Galang	SVP – Internal Audit	56	Filipino
Mr. Joselito D. Estrella	SVP – Chief Information Officer	52	Filipino
Ms. Ma. Esperanza F. Joven	VP – Finance	46	Filipino
Ms. Ma. Elisa E. Delara	VP – Internal Audit	47	Filipino
Ms. Maria Teresa T. Bautista	AVP – Corporate Controller	44	Filipino
Mr. Jose A. Tanjangco III	AVP – Chief Risk Officer	55	Filipino
Ms. Sonia P. Villegas	AVP – Human Resources Head	48	Filipino
Atty. Lalaine P. Monsarate	AVP – Legal & Compliance Officer	52	Filipino
Atty. Samuel V. Torres	Corporate Secretary	52	Filipino
Atty. Ma. Elvira Bernadette G. Gonzalez	Asst. Corporate Secretary	40	Filipino

<b>EXECUTIVES SECONDED TO SUBSIDIARIES</b>			
<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Citizenship</b>
Ms. Ruth C. Francisco	SVP Seconded to MCI as EVP- CFO	54	Filipino
Mr. Joselito D. Estrella	SVP seconded to PPCC as President	52	Filipino
Atty. Maria Eloisa R. Gan	VP Seconded to MCI as SVP-Operations	46	Filipino
Mr. Aloysius Nathaniel S. Costales	AVP Seconded to MCL as CFO	58	Filipino
Ms. Marina B. Bayag	AVP Seconded to MCI as Asst. Treasurer	67	Filipino

## POSITION AND BACKGROUND WITHIN THE LAST 5 YEARS

**HELEN Y. DEE, 72, Filipino** is the **Chairperson of the Board** from 2001 to present. She was also **President & CEO** of the Company from 2001 to 2011. Mrs. Dee is also **Chairperson** of EEI Corp., Landev Corp., HI-Eisai Pharmaceuticals, Inc., Manila Memorial Park Cemetery, Inc., Mapua Information Technology Center, Inc., Rizal Commercial Banking Corp., Pan Malayan Realty Corp., RCBC Savings Bank, La Funeraria Paz-Sucat, Inc., Malayan Insurance Co., Inc., Xamdu Motors, Inc., National Reinsurance Corp. of the Phils., Seafront Resources Corp., PetroEnergy Resources Corp., RCBC Leasing and Finance Corp., PetroWind Energy, Inc., Malayan High School of Science, Inc.; **Chairperson & CEO** of Tameena Resources, Inc.; **Chairperson & President** of Hydee Management & Resources, Inc. and Mijo Holdings, Inc.; **Vice Chairperson** of Pan Malayan Management & Investment Corp. and West Spring Development Corp.; **Director** of Philippine Long Distance Telephone Co., MICO Equities, Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corp., Luisita Industrial Park Corp., AY Holdings, Inc., RCBC Realty Corp., Pan Malayan Express, Inc., Honda Cars Kalookan, Inc., Sun Life Grepa Financial, Inc., Philippine Integrated Advertising Agency, Inc., iPeople, inc., Y Realty, Inc. and Luis Miguel Foods; **Director & Chairperson** of the EXCOM of RCBC Forex Brokers Corp.; **Director & Vice President** of Nth Millennium Foundation of the Phils, Inc.; **President** of Moira Management, Inc., YGC Corporate Services, Inc. and GPL Holdings; **Vice President** of A.T. Yuchengco, Inc.; **Member, Board of Trustees and Treasurer** of Philippine Philharmonic Society, Inc.; **Member, Board of Trustees** of Malayan Colleges, Inc. operating under the name Mapua Institute of Technology and Philippine Business for Education; **Trustee** of Malayan Colleges Laguna, Inc.; **Member, Advisory Board** of Asean Insurance Council; **Member** of Philippine Insurers Club and World Presidents' Organization; **Treasurer** of Business Harmony Realty, Inc. *Her past experiences include:* **Chairperson** of Merchants Bank; **Chairperson and President** of Grepalife Fixed Income Fund Corp. and Grepalife Asset Management Corp.; **Vice Chairperson** of Zurich Insurance (Taipei), Ltd., KK Converter, Inc., and Chailease Finance Corp.; **Vice President & Director** of Hermoza Ecozone Development Corp.; **President** of Equitas Insurance Brokers, Inc.; **Director** of South Western Cement Corp., La Funeraria Paz-Sucat, Inc., Great Pacific Life Assurance Corp., **Treasurer** of Business Harmony Realty, Inc. **Educational Background:** Master in Business Administration from De La Salle University, Philippines and Bachelor of Science in Commerce Major in Administration from Assumption College, Philippines.

**ALFONSO T. YUCHENGCO<sup>o</sup>, 94, Filipino**, was a **Director** from 1984-1986, 1988-1995, 1998-2001, 2005 to 2017. He was also the **Chairman of the Board** of AY Foundation, EEI Corp., GPL Holdings, Inc., Graduate School of Business of De La Salle University and Far Eastern University Institute of Law, MICO Equities, Inc., Mapua Institute of Technology, Philippine Integrated Advertising Agency, Inc., Pan Malayan Management & Investment Corp., RCBC Realty Corp., Y realty Corp.; YGC Corporate Services, Inc., Yuchengco Center, Yuchengco Museum; **Chairman Emeritus** of Philippine Constitutional Association (PHILCONSA), Rizal Commercial Banking Corp.; **Director** of Malayan Insurance Co., Inc., RCBC Land, Inc., Sun Life Grepa Financial, Inc.; **Chairman of the Board of Trustees** of Bayanihan Folk Arts Foundation, Inc.; **Vice Chairman of the Board of Judges** of Blessed Teresa of Calcutta Awards; **Member, Board of Governors** of Pacific Forum based in Honolulu, Hawaii; **Member of Board of Overseers** of Columbia University Business School (New York, USA); **Member, Honors Committee and Board of Directors** of International Insurance Society (IIS), **Presidential Adviser** on Foreign Affairs with Cabinet Rank, Office of the President; **Trustee Emeritus** of University of San Francisco (USA); **Member, Council of Advisers** of Philippines-Japan Society, Inc.; **Chairman of the Board** of Great Life Financial Assurance Corp; **Director** of Great Pacific Life Assurance Corp.; **Member, Board of Trustees** of Aliant International University; **Chairman of the Advisory Board** of Corporate Governance Institute of the Philippines, and Confederation of Asia-Pacific Chamber of Commerce and Industries (CACCI); **Member, International Board of Trustees** of University of San Francisco (USA); **Member, Advisory Board** of Philippines-Japan Economic Cooperation Committee (PHILJEC); **Trustee Emeritus** of McLaren School of Business. **Educational Background:** Bachelor of Science in Commerce Major in Accountancy from Far Eastern University, Philippines; Master in Business Administration from Columbia University, New York City, USA; Professor of Accounting of Far Eastern University and University of the East, Philippines; Honorary Doctorate Degree in Business Management from De La Salle University, Philippines; Distinguished Honorary Professor in Finance and Economics from University of Alabama, USA; Honorary Doctorate Degree in Humanities from Baguio University, Philippines; Honorary Doctorate Degree in Laws from Waseda University, Japan; Honorary Doctorate Degree in Institutional Relations, Ritsumeikan University, Japan; Honorary Doctorate Degree in Laws from Soka University, Japan; Honorary Doctorate Degree in Humanities from Far Eastern University, Philippines; Honorary Doctorate Degree in Laws, Philippine Women's University, Philippines; and Honorary Doctorate Degree in Humane letters and Commencement Speaker at University of San Francisco, USA.

**MEDEL T. NERA, 61, Filipino**, is a **Director** and the **President & CEO** from 2011 to present. He is also the **Chairman of the Board** of Hexagon Lounge, Greyhounds Security & Investigation Agency Corp., and Zamboanga Industrial Finance Corporation (ZIFC); **Director and President** of Honda Cars Kalookan, Inc. and RCBC Realty Corp.; **Director** of EEI Corp., EEI Realty Corp., iPeople, inc., HI-Eisai Pharmaceuticals, Inc., Investment Managers, Inc., Landev Corp., Malayan Colleges Laguna, Inc. Manila Memorial Cemetery Park, Inc., People eServe Corp., and YGC Corporate Services, Inc.; **Director and Treasurer** of Seafront Resources Corp. and CRIBS Foundation, Inc.; **Independent Director** of National Reinsurance Corp. of the Philippines; **His past experiences include: Director and Chairman of Risk Committee** of Rizal Commercial Banking Corp.; and **Senior Partner** at Sycip Gorres Velayo & Co. **Educational Background:** Master in Business Administration from Stern School of Business, New York University, USA and Bachelor of Science in Commerce from Far Eastern University, Philippines, International Management Program from Manchester Business School, UK, Pacific Rim Program from University of Washington, USA.

**ATTY. WILFRIDO E. SANCHEZ, 80, Filipino**, is a **Director** from 2000 to present. He is also a **Director** in Adventure International Tours, Inc., Amon Trading Corp., Antonelli Realty Holdings, Inc., Asia Brewery, Inc., Center for Leadership & Change, Inc., EEI Corp., EMCOR, Inc., Eton Properties Philippines, Inc., J-DEL Investments and Management Corp., Joint Research and Development Corp., JRV Foundation, Inc., K-Servico, Inc., Kawasaki Motor Corp., LT Group, Inc., Rizal Commercial Banking Corp., Magellan Capital Holdings, Corp., NYK-TDG Friendship Foundation, Inc., Tanduay Distillers, Inc., Transnational Diversified Corp., Transnational Financial Services, Inc., Transnational Plans, Inc. and Universal Robina Corp.; **Tax Counsel** of Quiazon Makalintal Barot Torres Ibarra Sison and Damaso Law Firm; and **Trustees** of Asian Institute of Management (AIM). **His Past experiences include: Chairman, Taxes & Tariff of the Philippine Committee** of American Chamber of Commerce; **Co-Chairman**, Tax Committee of Philippine Chamber of Commerce; **Managing Director & Head, Tax Division** of Sycip Gores Velayo & Co.; **Vice Chairman** of Center for Leadership and Change, Inc.; **Vice President** of JVR Foundation, Inc.; **Director** of NYK-TDG Maritime Academy, Wodel, Inc., Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., Omico Corp., APEX (Phils.) Equities Corp., Grepalife Bond Fund Corp., Jubilee Shipping Corp., PET Plans, Inc., Philippine Pacific Ocean Lines, Inc., and Wodel Manpower Services, Inc.; **Director** of PETNET, Inc. **Educational Background:** Masters of Law from Yale Law School, USA; Bachelor of Laws and Bachelor of Arts from Ateneo de Manila University, Philippines.

**REYNALDO B. VEA, PhD, 65, Filipino**, is a **Director** from 2010 to present. He is also the **President & CEO** of Malayan Colleges, Inc. operating under the name Mapua Institute of Technology; **Director and President** of iPeople, inc., Malayan Colleges Laguna, Inc., Malayan Colleges Mindanao (A Mapua School), Inc., Malayan High School of Science, Inc., Mapua I.T. Center, Inc., Mapua Techserv; **Trustee** of AY Foundation, Yuchengco Center of De La Salle University, and Yuchengco Museum, **Director** of Maibarara Geothermal, Inc., and Petrogreen, Inc.; **Chairman** of the Engineering Science and Technology Division of the National Academy of Science and Technology and the Philippine Science High School Foundation, Inc. **His past experiences include: Director** of Grepalife Dollar Bond Fund, Grepalife Fixed Income Fund, National Research Council of the Philippines, PetroWind, Inc., Rizal Commercial Banking Corp.; **Member** of Philippine Fulbright Commission and UNESCO National Commission, **Trustee** of Philippine Association Colleges and University; **Chairman** of Committee on Science and Technology in UNESCO National Commission; **Dean** of UP College of Engineering. **Educational Background:** Ph.D. in Engineering from University of California, Berkley, USA; Master in Naval Architecture and Marine Engineering from Massachusetts Institute of Technology, USA; and Bachelor of Science in Mechanical Engineering (magna cum laude) from University of the Philippines.

**YVONNE S. YUCHENGCO, 63, Filipino**, is a **Director** from 1999-2006, 2008 to present. She is also the **Chairperson** of First Nationwide Assurance Corp., RCBC Capital Corp., XYZ Assets Corp.; **Chairperson and President** of Malayan Securities Corp., Royal Commons, Inc., Y Tower II Office Condominium Corp. and Yuchengco Tower Office Condominium Corp.; **Chairperson and Trustee** of The Malayan Plaza Condominium Owners Association Inc., **Vice Chairperson** of Yuchengco Museum Inc.; **Director and President** of Alto Pacific Corp. Malayan Insurance Co., Inc., Malayan Securities Corp., MICO Equities, Inc., Philippine Integrated Advertising Agency, Inc., RCBC Land, Inc.; **Director** of Asia-Pac Reinsurance Co., Ltd., AY Holdings, Inc., DS Realty, Inc., First Nationwide Assurance Corp., GPL Holdings, Inc., HYDee Management & Resource Corp., iPeople, inc., La Funenaria Paz Sucat, Inc., Luisita Industrial Park Corp., Malayan Colleges, Inc. operating under the name Malayan Colleges Laguna, Inc., Malayan Insurance (H.K.), Malayan International Insurance Corp., Manila Memorial Park Cemetery, Inc., National Reinsurance Corp. of the Phils., Pan Malayan Realty Corp., Pan Pacific Computer Center Inc., Pan Malayan Express, Inc., RCBC Capital Corp., Seafront Resources Corp., Shayamala Corp., YGC Corporate Services, Inc.; **Director, Vice**

**President and Treasurer** of Pan Managers, Inc.; **Director and Corporate Secretary** of MPC Investment Corp., **Director and Treasurer** of Honda Cars Kalookan, Inc., Malayan High School of Science, Inc., Mona Lisa Development Corp., Petro Energy Resources Corp.; **Director, Treasurer and CFO** of Pan Malayan Management & Investment Corp.; **Assistant Treasurer** of Enrique T. Yuchengco Inc.; **Trustee** of AY Foundation, Inc., Mapua Institute of Technology, Phil-Asia Assistance Foundation, Inc., Yuchengco Center, Inc. and Yuchengco Museum Inc.; **Member, Advisory Board** of Rizal Commercial Banking Corp. **Educational Background:** Bachelor of Arts in Interdisciplinary Studies from Ateneo De Manila University, Philippines.

**ROBERTO F. DE OCAMPO, 71, Filipino**, is an **Independent Director** from 2000 to present. He is also the **Chairman** of the British Alumni Association, Centennial Asia Advisors Pte Ltd., Center for Philippine Futuristics Studies and Management Inc., Foundation for Economic Freedom, Hatch Asia, Inc., MoneyTree Publishing Corp., Philippine Asset Management, Inc., Philippine Veterans Bank, Public Finance Institute of the Philippines, RFO Center for Public Finance and Regional Economic Cooperation (designated an ADB Knowledge Hub), Stradcom Corp., Tollways Association of the Philippines; ; **Vice Chairman** of Agus 3 Hydro Power Corp., La Costa Development Corp., Montalban Methane Power Corp., Philippines-United States Business Council and Tranzen Group; **Independent Director & Chairman, Audit Committee** of Alaska Milk Corp. and Salcom Power Corp., **Director** of Bankard, Inc., Bankers Association of the Philippines, Beneficial-PNB Life Insurance Co., Inc., EEI Corp., Global Reporting Initiative (GRI:Amsterdam), Investment Capital Corp. of the Philippines (ICCP) Group of Companies, PHINMA Corp., and Robinsons Land Corp.; **Vice Chairman, Board of Trustees** of Makati Business Club; **Member, Board of Trustees** of Children's Hour, Filipino War Veterans Foundation, Inc., Philippine Business for the Environment, and Sycip Gorres Velayo & Co. Foundation; ; **Board of Trustees & Treasurer** of Association of the Awardees of the Order of the Legion of Honour and the National Order of Merit (Phil. Chapter); **Board of Trustees & Chairman, Excom** of Ramos Peace & Development Foundation (RPDEV); **Founding Director** of Emerging Markets Forum and Centennial Group Policy & Strategic Advisors (Washington D.C.); **Member, Board of Advisors** of AESCorp. (Phils), ARGOSY Fund, Inc., Corporate Governance of the Philippines, Philippine Quality & Productivity Movement, Inc., Teach for the; **Member of Global Advisory Board** of The Conference Board (New York); **Member, Council of Advisers** of Philippine Cancer Society; **Founding Member** of BOAO Forum Asia; **Member for Life** of Philippine Constitution Association; **Strategic Advisor** for Renewable Energy Asia Fund (Berkeley Energy, UK); **Member, Advisory Council** of Health Justice Philippines; **Member, International Advisory Board** of CIMB Group; and **Member** of Trilateral Commission . *His past experiences include:* **President** of Asian Institute of Management; **Chairman** of Dun & Bradstreet (Asia Pacific) Pte. Ltd., First Asia Transit Partners (Philippines), First Philippine Fund, Inc. (New York), Philippine Associated Smelting & Refining Corp., Eastbay Realty, Inc., Emerald Headway Distributors, Inc., Grace Park International, Inc., MediData, Inc., Prime East Properties, Inc., JPLatex Technology, Inc., Philam Group of Companies, Stradcom International Holdings, Inc., DFNN International, Centennial Asia Advisors Pte. Ltd., Universal LRT Corp. Ltd., Intervest Project, Inc. Libera International Advisory Board (London), Eastbay Resorts, Inc. Thomson Ratings Philippines; **Chairman, Board of Trustees** of De La Salle University; **Senior Advisor** of Planters Bank, Sycip Gorres Velayo & Co., Ateneo University Scholarship Foundation and Magbasa Kita Foundation; **President** of Management Association of the Philippines and Philippine Quality & Productivity Movement and Philam Asset Management, Inc. **Board of Advisers** of Bantay Bata (ABS-CBN Foundation, Inc.); **Vice Chairman, Board of Trustees** of Montalban Methane Power Corp. Agus 3 Hydro Power Corp., La Costa Development Corp.; **Vice Chairman** of Universal LRT Corp. Ltd.; **Director and Chairman, Audit Committee** of Psi Technologies, Inc.; **Director** of AIG-Philam Savings Bank, Inc., Globe Telecom, Inc., Bacnotan Consolidated Industries, Inc., Manila Polo Club, Investment & Capital Corp. of the Philippines (ICCP) Group of Companies, Philippine Phosphate Fertilizer Corp., Thunderbird Resorts, Inc., Manila Electric Co., ABS-CBN; **Executive Director** of AIM-Gov. Jose B. Fernandez Jr. and Center for Banking and Finance; **Member, Board of Trustees** of Angeles University Foundation and Asian Institute of Management; **Member, Board of Advisers** of NAVIS Capital Partners Foundation for Economic Freedom, and Sa Aklat Sisikat Foundation, Inc.; **Vice Chairman, Board of Trustees** of Makati Business Club; **CEO** of Philippine Veterans Bank; **Vice Chairman** of Seaboard Eastern Insurance Co., Inc.; **Independent Director** of Rizal Commercial Banking Corp.; **Director** of Governance Commission for Government owned or Controlled Corporations (GCG), AB Capital and Investment Corp., and Philippine Gaming Investments Pte. Ltd.; **Vice President** of Center for Philippine Futuristic Studies and Management, Inc.; **Director & President** of Philam Fund, Inc., Philam Bond Fund, Inc., Philam Strategic Growth Fund, Inc., Philam Managed Income Fund, Inc., AIG Global Bond Fund, Inc., Philam Dollar Fund, Inc. and GSIS Mutual Fund, Inc. **Educational Background:** Doctorate of Humane Letters (Honoris Causa) from San Beda College, Philippines; Doctorate in Philosophy in Business Administration (Honoris Causa) from De La Salle University, Philippines; Doctorate in Laws (Honoris Causa) from Philippine Women's University, Philippines; Doctorate in Public Administration (Honoris Causa) from University of Angeles City, Philippines; Fellow in Development Administration (DDA) from London School of

Economics, UK; Master in Business Administration from University of Michigan, USA; and Bachelor of Arts Major in Economics from Ateneo De Manila University, Philippines.

**JOHN MARK S. FRONDOSO, 42, Filipino**, was elected as an **Independent Director** in December, 2016. He is also the **President** of Star Two Holdings, Inc.; **Trustee and Chairman of the Investment Committee** of Philippine Public School Teachers Association; **Director** of HC Consumer Finance Philippines, Inc. (Home Credit), Asian Aerospace Corp.; **Chairman & President** of FSG Capital, Inc. ***His Past experiences include: Philippine Chief Representative & Executive Director*** of Morgan Stanley (Singapore) Holdings Pte Ltd. Investment Banking, Manila; **Associate Director** of Barclays Capital (Investment Banking Division of Barclays Bank PLC). ***Educational Background:*** Bachelor of Science in Industrial Management (University Honors) from Carnegie Mellon University, USA.

**FRANCISCO H. LICUANAN III, 73, Filipino**, is an **Independent Director** since 2006 to present. He is also **Chairman & CEO** of Battery Park Investment, Inc., Geo EState Development Corp. and New Pacific Resource Management Inc.; **President & CEO** of Innovative Property Solutions, Inc.; **President** of Stonebridge Corp. ***Educational Background:*** Master of Business Administration from Harvard Business School, USA; Bachelor of Arts in Economics (cum laude) from Ateneo De Manila University, Philippines.

**ERMILANDO D. NAPA, 67, Filipino**, was elected as an **Independent Director** in 2016. He is also the **Chairman & CEO** of Manila Consulting & Management Co., Inc.; **Chairman** of E & F Holdings, Inc., Catanauan Resources & Development Corp.; **Director and Chairman** of Trade and Investment Development Corp. (Philexim); **Group Treasurer** of L'Opera Group of Restaurants; **Independent Director and Chairman of Audit Committee** of National Reinsurance Corp. of the Philippines; **Independent Director and Chairman of Audit Committee** of CIIF - Oil Mills Group; and **Chairman of the Interim Governance Board** of National Life Insurance Co. of the Philippines; **Member** of Philippine Institute of Certified Public Accountants and Rotary Club of Makati Legaspi. ***His past experiences include: Partner*** in SyCip Gorres Velayo & Co.; **Principal & Manager** of Kassim Chan & Co.; **President** of Rotary Club of Makati Legaspi. ***Educational Background:*** Master in Management from Asian Institute of Management, Philippines and Bachelor of Science in Business Administration from Aquinas, Philippines.

**JUAN B. SANTOS, 78, Filipino**, was elected as an **Independent Director** in 2014. He is also a **Director** of Allamanda Management Corp., Alaska Milk Corp., East-West Seed ROH Limited (Bangkok, Thailand), Golden Spring Group (Singapore), Philippine Investment Management, Rizal Commercial Banking Corporation, Sunlife Grepa Financial, Inc.; **Chairman, Board of Trustee** of Dualtech Training Center Foundation, Inc.; **Trustee** of St. Luke's Medical Center; **Member of the Board of Advisors** of AMUNDI (Singapore), Coca-Cola FEMSA Philippines, East-West Seeds Co., Mitsubishi Motor Phil. Corp.; **Consultant** of Marsman-Drysdale Group of Companies. ***His past experiences include: Chairman*** of Social Security System; **Chairman and CEO** of Nestle Philippines., Singapore and Thailand; **Director** of Equitable Savings Bank, Inc., PCI Leasing and Finance Inc., Philex Mining Corp., Philippine Long Distance Telephone Company (PLDT), San Miguel Corp.; **Secretary** of Trade Industry; ***Educational Background:*** Advanced Management from International Institute of Management Development (IMD), Lausanne, Switzerland; Post-graduate studies on Foreign Trade from Thunderbird School of Global Management, Arizona, USA; and Bachelor of Science in Business Administration from Ateneo De Manila University, Philippines.

#### **EXECUTIVE OFFICERS:**

**GEMA O. CHENG, 52, Filipino**, is the **Executive Vice President – Chief Operating Officer, Chief Finance Officer, and Treasurer**. She joined the company in February, 2016 and holds the following positions within the group: She also holds the following positions within the group: **Senior Vice President for Finance and Treasurer** in iPeople inc.; **Director, Chief Financial Officer and Treasurer** in Investment Managers, Inc.; **Director, Vice President for Finance and Treasurer** in Landev Corp.; **Director, Vice President for Finance and Treasurer** in People eServe Corp.; **Director** in Manila Memorial Park Cemetery, Inc., Treasurer in Xamdu Motors, Inc. ***Her past experiences include: Senior Vice President*** of SM Investments Corp.; **Treasury Head** for SM Prime and its various business segments (Malls, Hotels & Conventions, Residences, Leisure and Commercial Properties Group); **Finance Head** for the SMIC Property Group; **Chief Finance Officer** for SM Land Inc., SM Development Corp., Costa del Hamilo Inc., Prime Metroestate Inc., Summerhills Homes and Development Corp. and Pico de Loro Beach and Country Club in addition to oversight of other SMIC-owned property companies; **Operations Support Group Head** of Malayan Insurance Co., Inc. (MICO); **Chief Finance Officer and Treasurer** of the Malayan Group of Insurance Companies. ***Educational Background:***

Bachelor of Arts in Economics (Magna Cum Laude) from the University of the Philippines-Diliman, Philippines; Certificate of Special Studies in Administration and Management from Harvard University, USA.

**PORFIRIO S. DE GUZMAN, JR., 78, Filipino**, has been a **Senior Vice President for Internal Audit** for more than ten (10) years. He is also a **Director** of Landev Corp., Grepaland, Inc. and Philippine Integrated Advertising Agency; **Vice President & Deputy Chief Finance Officer** of Pan Malayan Management & Investment Corp., Enrique T. Yuchengco, Inc., and Y Realty Corp.. ***His past experiences include:*** **Partner** at Sycip Gorres Velayo & Co. ***Educational Background:*** Master in Business Administration courses from Ateneo de Manila University, Philippines; Bachelor of Science in Business Administration Major in Accounting from University of the East, Philippines

**ALEXANDER ANTHONY G. GALANG, 56, Filipino**, is the **Senior Vice President for Internal Audit** since 2009. He was **Vice President** of the company from 2004 to 2009. ***His past experiences include:*** **Vice President for Audit & Special Projects** of Anglo Asian Strategic Management Inc.; **President** of Avrion Systems Inc.; **Deputy Managing Director** of Cala Paniman, Inc.; **Treasury Head** of Anglo Asian Holdings Corp.; **Regional Auditor** for Asia and Pacific of Triumph International, Inc.; **Finance Head** of Triumph International Vietnam, Inc.; **Senior International Corporate Auditor** of International Semi-Tech Microelectronics, Inc., then parent company of Singer Sewing Machine Co. USA.; **Internal Audit Manager** of Honda Philippines, Inc., **Finance Comptroller** of Midas Touch Foods Corp, et. al.; **Senior Auditor** at SGV and Co. CPAs.; **Member, Board of Trustees** of the Association of Certified Fraud Examiners - Philippine Chapter. He is a Certified Public Accountant (CPA) having placed 12<sup>th</sup> in the 1981 licensure exams. He has a Global Certification as a Certified Fraud Examiner (CFE) and a Certification in Risk Management Assurance (CRMA). ***Educational Background:*** Bachelor of Science in Business Administration Major in Accounting from University of Sto. Tomas, Philippines.

**JOSELITO D. ESTRELLA, 52, Filipino**, is the **Senior Vice President and Chief Information Officer** and is seconded to Pan Pacific Computer Center Inc as **President**. ***His past experiences include:*** **Vice President for Sales & Marketing** of AGD Infotech Inc.; **Sales Manager, Business Development Manager and Product and Services Head** of Pan Pacific Computer Center Inc. ***Educational Background:*** Bachelor of Science in Commerce Major in Management from San Beda College; Master of Science in Information Technology from De La Salle University.

**MA. ESPERANZA F. JOVEN, 46, Filipino**, is the **Vice President for Finance**. She also holds the following positions within the group: **Vice President for Finance** in iPeople, inc.; **Vice President for Finance & Treasurer** in HI-Eisai Pharmaceuticals, Inc.; and **Director** in People eServe Corp. and Zamboanga Industrial Finance Corp. She is also an **Assistant Professional Lecturer** at De La Salle University. ***Her past experiences include:*** **Assistant Vice President for Financial Reporting** at J.P.Morgan Chase Bank N.A; **MSCF Program Coordinator** at De La Salle University; **General Securities Principal/Manager II** at E\*TRADE Securities LLC holding the Series 7, 63, and 24 licences with the Financial Industry Regulatory Authority (FINRA), The Nasdaq Stock Market, and 52 states and territories of the USA. ***Educational Background:*** Master of Science in Computational Finance and Bachelor of Science in Applied Mathematics from De La Salle University-Manila.

**MARIA ELISA E. DE LARA, 47, Filipino**, is the **Vice President** for Internal Audit since 2013. She joined the company in October 2010 and was appointed as **Assistant Vice President** for Group Internal Audit effective January 2011. She is a Certified Public Accountant and holds a Global Certification in Risk Management Assurance (CRMA). ***Educational Background:*** Bachelor of Science in Business Administration Major in Accounting from Philippine Women's University (Magna Cum Laude).

**MARIA TERESA T. BAUTISTA, 44, Filipino**, was appointed as **Assistant Vice President and Corporate Controller** in October 2011. She is also the **Controller** of iPeople, inc. ***Her past experiences include:*** **Group Finance Manager** of Prime Orion Philippines, Inc. She is a Certified Public Accountant, holds a global certification for Internal Auditors (CIA) and has completed the Six Sigma Green Belt Program. ***Educational Background:*** Bachelor of Science in Accountancy from St. Paul College, Philippines.

**JOSE A. TANJANGCO III, 55, Filipino**, is an **Assistant Vice President and Chief Risk Officer** from December 2010 to present. He also holds the following positions within the group: **Chief Risk Officer** of iPeople, inc.; **Director** of Manila Memorial Park Cemetery, Inc. and Zamboanga Industrial Finance Corp. ***Educational Background:*** Master in Business Administration from IESE, Barcelona, Spain; Bachelor of Arts in Economics from Ateneo de Manila University, Philippines.

**SONIA P. VILLEGAS, 47, Filipino**, is an **Assistant Vice President for Human Resources** since 2013. She is also a **Director** of Greyhounds Security & Investigation Agency Corp. Prior to her current position, she was the **Administrative Executive Assistant** of the SVP for Finance & Treasurer, Chief Information Officer, Chief Compliance Officer from 2000 to 2013 and **Research Assistant** at the Business Development Department from 1990 to 1993. **Educational Background:** Bachelor of Arts in Economics from the University of the East, Philippines.

**LALAIN P. MONSERATE, 52, Filipino**, joined the Company in November, 2016 as **Assistant Vice President – Legal and Compliance Officer**. **Her past experiences include:** **Assistant Director** of the Investigation and Prosecution Division, Enforcement and Investor Protection Department of the Securities and Exchange Commission (SEC). She spent 12 years at the SEC, rising from the ranks, i.e. from Securities Investigator, Securities Counsel, Chief Counsel, Division Head and Assistant Director. **Educational Background:** Bachelor of Laws and Bachelor of Arts in Political Science from University of Nueva Caceres. She passed the Bar Examinations in 1999.

**SAMUEL V. TORRES, 52, Filipino**, is the **Corporate Secretary**. His other present positions include: **General Counsel & Corporate Secretary** of Pan Malayan Management & Investment Corp., and **Corporate Secretary** of RCBC Bankard Services, Inc., Sun Life Grepa Financial, Inc., PetroEnergy Resources Corp., Seafont Resources Corp., GPL Cebu Tower Office Condominium Corp., iPeople, inc., RCBC Land, Inc., RCBC Forex Brokers Corp., RCBC Realty Corp., RCBC Securities, Inc., RCBC Capital Corp., Malayan High School of Science, Inc., Mapua Information Technology Center, Inc., Malayan Colleges, Inc., Malayan Colleges Mindanao (A Mapua School), Inc., GPL Holdings, Pan Pacific Computer Center, Inc., Honda Cars Kalookan, Inc., Hi-Eisai Pharmaceutical, Inc., People eServe Corp., La Funeraria Paz Sucat, Inc., Landev Corp., Pan Malayan Realty Corp., First Nationwide Assurance Corp., Malayan Insurance Co., Inc., Malayan Reinsurance Corp., Malayan Zurich Insurance Corp., MICO Equities, Inc., and Tokio Marine Malayan Insurance Corp. **His past experiences include:** **International Counsel** of South Pacific for Federal Express Corp. **Educational Background:** Bachelor of Laws from Ateneo De Manila University School of Law, Philippines; Bachelor of Science in Business Economics from the University of the Philippines.

**MA. ELVIRA BERNADETTE C. GARCIA-GONZALEZ, 40, Filipino**, is the **Assistant Corporate Secretary**. She is also the **Assistant General Counsel** of Pan Malayan Management & Investment Corporation, Inc., the **Corporate Secretary** of Blackhounds Security and Investigation Agency, Inc. and the Assistant Corporate Secretary of iPeople, Inc., Malayan Colleges Mindanao (A Mapua School), Inc., Yuchengco Tower Office Condominium Corp., Y Tower II Office Condominium Corp., and GPL Holdings, Inc. **Her past experiences include:** **Legal Counsel and Assistant Corporate Secretary** of Coca-Cola Bottlers Philippines, Inc.; **Assistant Corporate Secretary** of Philippine Bottlers, Inc. and Luzviminda Land Holdings, Inc. **Educational Background:** Juris Doctor from Ateneo De Manila University School of Law; Bachelor of Arts in Political Science from Ateneo De Manila University, Philippines.

#### **EXECUTIVES SECONDED TO SUBSIDIARIES:**

**RUTH C. FRANCISCO, 54, Filipino**, is the **Senior Vice President for Finance** seconded to Malayan Colleges, Inc. as **Executive Vice President for Finance and Chief Finance Officer**. She is also the **Treasurer** of the MIT Retirement Fund, Inc., Malayan Colleges Mindanao (A Mapua School), Inc., and Malayan Colleges Foundation, Inc. **Her past experiences include:** **Vice President for Finance and Administration** of PhilamCare Health Systems, Inc. **Educational Background:** Master in Business Administration from Philippine Christian University; Bachelor of Arts in Economics from University of the East, Philippines.

**MARIA ELOISA R. GAN, 46, Filipino**, is **Vice President** seconded to Malayan Colleges, Inc. operating under the name Mapua Institute of Technology as **SVP – Operations**. Prior to her current assignment, she was **AVP – Legal and Administrative Head** of the company. **Her past experiences include:** **Chief Legal and Compliance Officer** of Great Life Financial Assurance Corp., **Head of the Legal Services Division and Assistant Corporate Secretary** of Sun Life Grepa Financial, Inc. (formerly Great Pacific Life Assurance Corp.); **Assistant Corporate Secretary** of Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., Grepalife Dollar Bond Fund Corp., and Grepalife Bond Fund Corp. **Educational Background:** Master in Business Administration from De La Salle University, Philippines; Juris Doctor of Law from Ateneo de Manila University, Philippines; Bachelor of Arts in Political Science from Univeristy of the Philippines.

**ALOYSIUS NATHANIEL S. COSTALES, 57, Filipino**, is the **Assistant Vice President** seconded to Malayan Colleges Laguna, Inc. as Vice President and Chief Finance Officer. Prior to his current assignment, he

held the following positions within the group: **Internal Audit Manager** of the Company; **Acting General Manager** of Greyhounds Security and Investigation Agency Corp.; **Acting Head** of the YGC-Coordinating Center for Procurement. **Educational Background:** Bachelor of Science in Commerce Major in Accounting from University of Baguio, Philippines.

**MARINA B. BAYAG, 66, Filipino**, is an **Assistant Vice President** seconded to Malayan Colleges, Inc. (operating under the name Mapua Institute of Technology, Inc.) as **Assistant Treasurer**. She is also the **Assistant Treasurer** of Malayan Colleges Laguna, Inc., Malayan High School of Science, Inc., Mapua Information Technology Center, and Mapua Techserv, Inc. She joined HI in 1975 as **Financial Analyst** and has held several positions in the organization until she was assigned to Mapua Institute of Technology in 2000. **Educational Background:** Bachelor of Science in Commerce Major in Accounting from St. Theresa's College, Philippines.

#### **RESIGNATION OF DIRECTORS**

To date, no director has resigned or declined to stand for re-election for the Board of Directors due to any disagreement with the Corporation relative to the Corporation's operations, policies and practices.

Mr. Renato C. Valencia resigned as Independent Director on December 2, 2016 in lieu of a conflict of commitments relative to his forthcoming position in another company, which the Board accepted with regrets.

#### **ELECTION OF DIRECTORS**

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

#### **APPOINTMENT AND RESIGNATION OF OFFICERS**

Officers are appointed or elected annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified.

#### **SIGNIFICANT EMPLOYEE**

There is no person who is not an executive officer that is expected by the issuer to make a significant contribution to the business.

#### **FAMILY RELATIONS**

Amb. Alfonso T. Yuchengco was the father of both Mrs. Helen Y. Dee and Ms. Yvonne S. Yuchengco.

#### **INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

The Company is not aware of the following events during the past 5 years up to March 31, 2017:

- (a) any bankruptcy petition filed by or against any business of which any of its director or executive officers was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time.
- (b) any conviction by final judgment of any director or senior executive in a criminal proceeding domestic or foreign or being subject to a pending criminal proceeding domestic or foreign, of any director, executive officer or person nominated to be a director
- (c) any director or senior executive being subject to any order, judgment or decree not subsequently reversed suspended or vacated of any court of competent jurisdiction, domestic or foreign permanently or temporarily enjoining barring, suspending or otherwise limiting such directors' or executive officer's involvement in any type of business securities, commodities or banking activities
- (d) any executive officer or director found by a domestic or foreign court of competent jurisdiction, the Commission or other foreign body or a domestic or foreign Exchange or other organized trading market or self-regulatory organization to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

## Item 10 – EXECUTIVE COMPENSATION

Information as to the aggregate compensation paid or accrued during the last two fiscal years and to be paid in the ensuing fiscal year to the Company's Chief Executive Officer and other officers follows:

NAME AND POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION
The top 5 executives of the Company are as follows:				
1. Medel T. Nera, President & CEO				
2. Gema O. Cheng, EVP – Chief Operating Officer, Chief Financial Officer & Treasurer				
3. Profirio S. De Guzman, Jr., SVP-Internal Audit				
4. Alexander Anthony G. Galang SVP – Internal Audit	2017	P 27.0M (est)	P0	P0
5. Joselito D. Estrella, SVP – Chief Information Officer	2016	P 25.4M	P0	P0
	2015	P21.7M	P0	P0
All other officers and directors as group unnamed.	2017	P 26.1M (est)	P0	P1.2M (est)
	2016	P 23.2M	P0	P0.7M
	2015	P 18.8M	P0	P0.8M
TOTALS	2017	P 53.1M(est)	P0	P1.2M (est)
	2016	P 48.6M	P0	P0.7M
	2015	P 40.5M	P0	P0.8M

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, other than those stated on the above table during the Company's last completed fiscal year, and the ensuing year, for any service provided as an executive officer or member of the Board of Directors.

Directors are paid a per diem of P25,000 for attendance in a Board meeting. Board meetings are scheduled every quarter in a year. A director is also paid a per diem of P10,000 for participation in Audit and Risk committee meetings and P5,000 in other committee meetings.

There is no director, executive officers, nominee for director, beneficial holder and family members involved in any business transaction of the Company.

## Item 11 – Security Ownership of Certain Beneficial Owners and Management

### Owners of more than 5% of voting securities as of March 31, 2017.

The following table shows the beneficial owners directly or indirectly owning more than 5% of the Company's capital stock as of March 31, 2017:

#### COMMON STOCK

SHARE CLASS	NAME AND ADDRESS OF RECORD OWNER	NAME OF BENEFICIAL OWNER & RELATIONSHIP WITH RECORD OWNER	CITIZENSHIP	NUMBER OF SHARES BENEFICIALLY OWNED	% OF TOTAL
Common	<b>PAN MALAYAN MANAGEMENT &amp; INVESTMENT CORP.</b> 48/F, Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City <i>Principal Stockholder</i>	<b>Ms. Helen Y. Dee</b> <i>Chairperson</i> is authorized to direct voting of the shares held by House of Investments	Filipino	294,758,580	47.85%

SHARE CLASS	NAME AND ADDRESS OF RECORD OWNER	NAME OF BENEFICIAL OWNER & RELATIONSHIP WITH RECORD OWNER	CITIZENSHIP	NUMBER OF SHARES BENEFICIALLY OWNED	% OF TOTAL
Common	<b>RCBC SECURITIES, INC.</b> 7/F Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City	<b>Mr. Raul M. Leopando</b> <i>Nominee</i> <b>Mr. Raul Ruiz</b> <i>VP - Research</i> are authorized to direct voting of the shares held by RCBC Securities	Filipino	89,357,805	14.51%
Common	<b>BPI SECURITIES CORP.</b> 8/F BPI Head Office Bldg., Ayala Ave., cor. Paseo de Roxas Makati City	<b>Mr. Michaelangelo R. Oyson</b> <i>President &amp; CEO</i> is authorized to direct voting of the shares held by BPI Securities Corp.	Filipino	48,558,058	7.88%

#### PREFERRED STOCK

SHARE CLASS	NAME AND ADDRESS OF RECORD OWNER	NAME OF BENEFICIAL OWNER & RELATIONSHIP WITH RECORD OWNER	CITIZENSHIP	NUMBER OF SHARES BENEFICIALLY OWNED	% OF TOTAL
Preferred	<b>YUCHENGCO, ALFONSO T.</b> 48/F, Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City <i>Principal Stockholder</i>	Pending settlement of estate proceedings.	Filipino	424,449,007	54.64%
Preferred	<b>PAN MALAYAN MANAGEMENT &amp; INVESTMENT CORP.</b> 48/F, Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City	<b>Ms. Helen Y. Dee</b> <i>Chairperson</i> is authorized to direct voting of the shares held by Pan Malayan Mgt. & Inv. Corp.	Filipino	291,402,057	37.51%

There are no arrangements that may result in change in control.

#### SECURITY OWNERSHIP OF MANAGEMENT

Securities beneficially owned by the directors, nominees, officers, other than qualifying shares, as of March 31, 2017 according to the records of its stock and transfer agent, Rizal Commercial Banking Corp. (RCBC):

#### COMMON STOCK

NAME OF BENEFICIAL OWNER	CITIZENSHIP	NATURE OF OWNERSHIP	SHARES OWNED	% OF CLASS
Amb. Alfonso T. Yuchengco	Filipino	Direct	794,450	0.1289%
Helen Y. Dee	Filipino	Direct Indirect	1,125,345 528,520	0.1826% 0.0858%
Antonino L. Alindogan, Jr.	Filipino	Direct	500	0.0001%
John Mark S. Frondoso	Filipino	Direct	5	0.0000%
Francisco H. Licuanan III	Filipino	Direct	500	0.0001%
Medel T. Nera	Filipino	Direct	5	0.0000%
Roberto F. de Ocampo	Filipino	Direct	5	0.0000%
Atty. Wilfrido E. Sanchez	Filipino	Direct	5	0.0000%
Juan B. Santos	Filipino	Direct	5	0.0000%

NAME OF BENEFICIAL OWNER	CITIZENSHIP	NATURE OF OWNERSHIP	SHARES OWNED	% OF CLASS
Dr. Reynaldo B. Veal	Filipino	Direct	10	0.0000%
Yvonne S Yuchengco	Filipino	Direct	90,255	0.0146%
<b>Sub-Total</b>			<b>2,540,600</b>	<b>0.4123%</b>
<b>Total Common Shares</b>			<b>615,896,757</b>	<b>100%</b>

#### PREFERRED STOCK

NAME OF BENEFICIAL OWNER	CITIZENSHIP	NATURE OF OWNERSHIP	SHARES OWNED	% OF CLASS
Amb. Alfonso T. Yuchengco	Filipino	Direct	383,569,427	54.64%
<b>Sub-Total</b>			<b>383,569,427</b>	<b>54.64%</b>
<b>Total Preferred Shares</b>			<b>720,007,052</b>	<b>100%</b>

#### Item 12 – Certain Relationships and Related Transactions

There is no director, executive officer, nominee for director, beneficial holder, or any family member involved in any business transaction with HI and subsidiaries.

There are no material transactions which were negotiated by the Company with parties whose relationship with the Company fall outside the definition of “related parties” under Philippine Accounting Standards 24, Related Party Disclosures, but with whom the Company has relationship that enables such parties to negotiate terms that may not be available from other, more clearly independent parties on an arm’s length basis.

In 2016, the EEI was engaged by Malayan Colleges Mindanao (A MAPUA School, Inc.) for the bored piling works located in Talomo, Ma-a, Davao City. Contract price amounted to P171.8 million and was completed on December 16, 2016. There are no outstanding receivables as at December 31, 2016.

Please refer to Note 22 to the consolidated financial statements for the details of related party transactions. As discussed in the notes, in the normal conduct of business,, other transactions with certain affiliates include sharing in general and administrative expenses and cash advances.

## **PART IV – CORPORATE GOVERNANCE**

### **Item 13 – Corporate Governance**

#### **(a) Evaluation System to Measure Compliance with Manual on Corporate Governance**

The Company has monitored its compliance with SEC Memorandum Circular No. 6 dated June 22, 2009 as well as all relevant Philippine Stock Exchange Circulars on Corporate Governance. The Company likewise submitted its revised corporate governance manual and complied with the leading practices and principles on good corporate governance. The Company also complied with the appropriate self-rating assessment and performance evaluation to determine and measure the compliance with the Manual.

In compliance with SEC Memorandum Circular No. 19 dated November 22, 2016, the Company will submit a New Manual on Corporate Governance on or before May 30, 2017.

In compliance with SEC Memorandum No. 20 dated December 8, 2016, the Company will submit the Annual Corporate Governance Report on or before May 30, 2017.

In compliance with SEC Memorandum No. 4 dated March 9, 2017, all Independent Directors are within the maximum cumulative terms limit of nine (9) years from the reckoning year of 2012.

#### **(b) Measures Undertaken to Fully Comply with Leading Practices on Corporate Governance**

The Company has exerted best efforts to comply with the provisions in its Manual on Corporate Governance. To ensure that leading practices on corporate governance are fully observed, the following steps have been undertaken:

- 1) Attendance of each Director on all the Board of Directors' Meeting are monitored and recorded.
- 2) All financial reports were reviewed by the Audit Committee before being finalized and thereafter endorsed to the Board of Directors for approval and submission to pertinent offices.
- 3) Other systems and measures have been undertaken such as observance of the Code of Ethics, Financial and Manpower Audit, providing seminars and conferences to comply with all relevant laws, regulations and codes of business practices. The Company maintains its system of check and balance.

#### **(c) Deviation from the Manual on Corporate Governance**

There is no known deviation from the Manual on Corporate Governance.

#### **(d) Plans to Improve Corporate Governance**

In order to improve Company's adherence to the leading practices in good corporate governance, the Company's Directors and Top Management attends the annual seminar on Corporate Governance conducted by an entity accredited with the Securities and Exchange Commission. Further, the Company continuously monitors all relevant PSE and SEC Circulars on Corporate Governance that maybe used to improve its Manual on Corporate Governance.

## PART V – EXHIBITS AND SCHEDULES

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

#### SUMMARY OF SEC FORM 17-C

July 15, 2016

- First quarter consolidation report (SEC 17Q) of House of Investments, Inc.
- Declaration of PhP 2,729,936.68 cash dividends to the preferred stockholders covering the second quarter of FY2016, i.e. April to June. The equivalent dividend per preferred share is PhP0.003604. The record date is August 12, 2016 and the payment date is September 2, 2016.
- Declaration of PhP 53, 168,084.36 in cash dividends to the stockholders of record as of August 12, 2016, representing 615,996,114 common shares and 757,404,055 participating preferred shares. The equivalent to dividend per common stock is PhP0.065 and the equivalent dividend per preferred stock is PhP0.01733. The payment date is September 6, 2016.
- Redemption of two and a half percent (2 1/2%) of 757,404,055 preferred shares, representing 18,935,101 preferred shares at PhP0.40 per preferred share amounting to PhP7, 574,040.55. The record date is August 12, 2016 and the payment date is September 8, 2016.
- Elections of members of the board of directors for the year 2016-2017
- Re-appointment of SGV & Co., as external auditors for the fiscal year ending 2016
- Election of officers of House of Investments, Inc. and the appointment of Chairmen/members of the various committees.

September 30, 2016

- Second Quarter Consolidation Report (SEC 17Q) of House of Investments, Inc.
- Declaration of PhP 2,525,563.82 (Philippine Pesos: Two Million Five Hundred Twenty-five Thousand Five Hundred Sixty-three and eighty-two centavos) cash dividends to the HI preferred stockholders of record as of October 28, 2016 covering the 3rd quarter of 2016 (July 2016 to September 2016). The equivalent dividend per preferred share is PhP 0.003420. The payment date is November 22, 2016.
- Redemption of 2 ½% (two and one half percent) of 738,468,954 shares of preferred stock of House of Investments, representing 18,461,724 (Eighteen Million Four Hundred Sixty One Thousand Seven Hundred Twenty Four) preferred shares at PhP 0.40 per share, amounting to PhP 7,384,689.54 (Philippine Pesos: Seven Million Three Hundred Eighty Four Thousand Six Hundred Eighty Nine and Fifty Four Centavos). The record date is October 28, 2016 and the payment date is November 24, 2016.

December 2, 2016

- Resignation of Mr. Renato C. Valencia as the Company's Independent Director, effective December 2, 2016.
- Election of Mr. John Mark S. Frondoso as the Company's new Independent Director, to fill up the vacancy created by the resignation of Mr. Renato C. Valencia.
- Third Quarter Consolidation Report (SEC 17Q) of House of Investments, Inc.
- Redemption of 2 ½% (two and one half percent) of 720,007,230 (Seven Hundred Twenty Million Seven Thousand Two Hundred Thirty) shares of preferred stock of House of Investments, representing 18, 000, 181 (Eighteen Million One Hundred Eighty One) preferred shares at PhP0.40 per share, amounting to PhP7,200,072.30 (Philippine Pesos: Seven Million Two Hundred Thousand Seventy Two and Thirty Centavos). The record date is December 29, 2016 and the payment date is January 23, 2017.
- Appointment of Atty. Lalaine P. Monserate as the Company's Compliance Officer, to replace Atty. Samuel V. Torres, and as AVP-Legal, effective December 2, 2016. Prior to Atty. Monserate's said appointment, she was previously employed with the Securities and Exchange Commission for a period of more than twelve (12) years.
- Appointment of Mr. Joselito D. Estrella as Chief Information Officer effective December 2, 2016.

December 8, 2016

- Declaration of PhP 2,476,824.87 (Philippine Pesos: Two Million Four Hundred Seventy Six Thousand Eight Hundred Twenty Four and Eighty Seven Centavos) cash dividends to the HI preferred stockholders of record as of December 29, 2016, covering the fourth quarter of 2016 (October 2016 to December 2016). The equivalent dividend per preferred share is PhP 0.00344. Payment Date is on January 23, 2017.
- Election of Mr. Juan B. Santos as a Member of the Executive Committee and the Compensation Committee and of Mr. John Mark S. Frondoso as a Member of the Risk Committee and the Good Governance Committee in view of the vacancies therein created by the resignation of Mr. Renato C. Valencia as an Independent Director of the company.

March 31, 2017

- Approval of the 2016 Audited Financial Statements of House of Investments, Inc. and its subsidiaries.
- Declaration of PhP 2,915,294.88 (Philippine Pesos Two Million Nine Hundred Fifteen Thousand Two Hundred Ninety Four and Eighty Eight Centavos) cash dividends to the preferred stockholders of HI covering the 1st quarter of 2017 (January 2017 to March 2017). The equivalent dividend per preferred share is PhP 0.0041528. The record date is April 28, 2017 and the payment date is May 21, 2017.
- Redemption of 2 ½% (two and one half percent) of 702,007,052 (Seven Hundred Two Million Seven Thousand Fifty Two) shares of preferred stock of House of Investments, representing 17,550,176 (Seventeen Million Five Hundred Fifty Thousand One Hundred Seventy Six) preferred shares at PhP 0.40 per share, amounting to PhP 7,020,070.40 (Philippine Pesos Seven Million Twenty Thousand Seventy and Forty Centavos). The record date is April 28, 2017 and the payment date is May 22, 2017.

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereto duly authorized, in the City of Makati on April 26, 2017.

IN WITNESS WHEREOF, we have hereunto affixed our signatures and the seal of the Corporation this 26<sup>th</sup> day of April, 2017 at Makati City.





By:

**Medel T. Nera**  
President & CEO

**Gema O. Cheng**  
EVP-Finance, COO, CFO & Treasurer

**Maria Teresa T. Bautista**  
AVP – Finance & Controller

**Atty. Samuel V. Torres**  
Corporate Secretary

  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
**26 APR 2017**

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_ 2017, at MAKATI CITY.  
Affiant exhibited to me their Residence Certificate Numbers indicated below each name.

Names	Document No.	Date & Place of Issue/Expiration
Medel T. Nera	PN#EB6915474	12-10-2012 Manila / 12-9-2017
Gema O. Cheng	DL#N06-84-036923	01-13-2015 Mandaluyong / 12-08-2017
Maria Teresa T. Bautista	DL#692094899	11-20-2014 Makati / 11-23-2017
Atty. Samuel V. Torres	DL#1383001463	1-6-2015 QC / 11-10-2017

Doc. No. 302;  
Page No. 62;  
Book No. 117;  
Series of 2017.

  
**RUBEN T.M. RAMIREZ**  
NOTARY PUBLIC  
UNTIL DEC. 31, 2017  
2734 M. AURORA ST., MAKATI CITY  
IBP NO. 1052369 / CY - 2017 APPT. R. M-23  
ROLL NO. 28947 / MCLE-4 NO. 006324, 06-19-12  
PTR NO. MKT. 5909552 / 01-03-17

**HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY SCHEDULES**  
**SEC FORM 17-A**

**CONSOLIDATED FINANCIAL STATEMENTS**

Statement of Management's Responsibility for Consolidated Financial Statements

Report of Independent Auditor's Report

Consolidated Statements of Financial Position as at December 31, 2016 and 2015

Consolidated Statements of Income for the years ended  
December 31, 2016, 2015 and 2014

Consolidated Statements of Comprehensive Income for the years ended  
December 31, 2016, 2015 and 2014

Consolidated Statements of Changes in Equity for the years ended  
December 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the years ended  
December 31, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

**SUPPLEMENTARY SCHEDULES**

Report of Independent Auditor's on Supplementary Schedules

- I. Schedules Required under SRC Rule 68, As Amended
  - A. Financial Assets
  - B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
  - C. Amounts Receivable from / Payables to Related Parties which are Eliminated during the Consolidation of Financial Statements
  - D. Intangible Assets - Other Assets
  - E. Long-term Debt
  - F. Indebtedness to Related Parties
  - G. Guarantees of Securities of Other Issuers
  - H. Capital Stock
- II. Schedule of Retained Earnings Available for Dividend Declaration
- III. Schedule of all the effective standards and interpretations under PFRS as of December 31, 2016
- IV. Schedule of Financial Soundness Indicators
- V. Map of the relationships of the Companies within the Group



# HI

**HOUSE OF INVESTMENTS, INC.**

**A YGC Member**

3rd Floor, Grepalife Building, 219 Sen. Gil Puyat Avenue, Makati City

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of House of Investments, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

  
**HELEN Y. DEE**  
Chairman of the Board

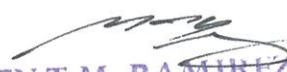
  
**MEDEL T. NERA**  
President and Chief Executive Officer

  
**GEMA O. CHENG**  
EVP - COO/Chief Financial Officer & Treasurer

SUBSCRIBED AND SWORN TO BEFORE  
ME THIS DAY OF 25 APR 2017 IN THE  
CITY OF MAKATI AFFIANT EXHIBITED HIS/  
HER COMMUNITY TAX CERTIFICATE NO. \_\_\_\_\_  
ISSUED ON \_\_\_\_\_ ISSUED AT \_\_\_\_\_

Signed this 31<sup>st</sup> day of March, 2017

JUL NO. 474  
PAGE NO. 96  
BOOK NO. 554  
SERIES OF 2017

  
**RUBEN T.M. RAMIREZ**  
NOTARY PUBLIC  
UNTIL DEC. 31, 2017  
2734 M. AURORA ST., MAKATI CITY  
IBP NO. 1052369 / CY - 2017 APPT. NO. M-23  
ROLL NO. 28947 / MCLE-4 NO. 006324, 06-19-12

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
House of Investments, Inc.  
3rd Floor, Grepalife Building  
219 Sen. Gil J. Puyat Avenue  
Makati City, Metro Manila

### Opinion

We have audited the consolidated financial statements of House of Investments, 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.

### **Recognition of revenue and cost from construction contracts**

More than 50% of the Group's construction revenue are derived from fixed price construction projects on electro-mechanical works, production facilities, buildings and infrastructure. Revenue and cost from construction projects are determined using the percentage of completion method determined based on physical progress of the construction project. We consider this as a key audit matter because this process is complex and requires the technical expertise of the Group's engineers, particularly with respect to the calculation of estimated costs to complete, stage of completion and contract price variations. Note 5 to the consolidated financial statements provide the relevant discussion regarding this matter.

#### *Audit response*

We obtained an understanding of the Group's processes to accumulate actual costs incurred and to estimate the expected cost to complete and tested the relevant controls. We considered the competence, capabilities and objectivity of the Group's engineers by referring to their qualifications, experience and reporting responsibilities. We examined the signed supplemental agreements with customers for price variations and the approved total estimated completion costs and any revisions thereto. On a sampling basis, we tested actual costs incurred by examining invoices and other supporting third party correspondence. We also conducted ocular inspections on selected sample projects. During site visits, we discussed the status of the projects under construction with the Group's engineers. Likewise, we inspected the related project documentation and inquired about the significant deviations from the targeted completion.

### **Accounting for investment in Al-Rushaid Construction Company Ltd.**

As disclosed in Note 13 to the consolidated financial statements, the Group owns 49% equity interest in Al-Rushaid Construction Company Ltd. (ARCC), a company incorporated in the Kingdom of Saudi Arabia and an associate engaged in the construction business. The investment in this associate is accounted for under the equity method and tested for impairment in case an impairment indicator is identified. As of December 31, 2016, ARCC recognized deferred tax asset on net operating loss carryover of P492.6 million. We consider the accounting for the results of and investment in ARCC as a key audit matter due to the Group's share in ARCC's net earnings. In addition, management's assessment process on the recoverability of the tax loss is based on assumptions, which are affected by expected future market or economic conditions.

#### *Audit response*

We sent instructions to ARCC's statutory auditors to perform an audit on the relevant financial information of ARCC for the purpose of the consolidated financial statements of the Group, detailing their scope of work and reporting requirements. We obtained an understanding of the statutory auditor's key audit areas, their planned audit procedures and significant areas of estimation and judgment. We also reviewed their working papers and obtained relevant conclusion statements related to their audit



procedures. Furthermore, we also evaluated management's assumptions and inquired with the Group's management on the basis of the projections. We compared key assumptions such as revenue growth rate and gross margin rate against historical performance.

### **Valuation of Land**

The Group accounts for its parcel of land, mainly where the school buildings and other facilities are located, using the revaluation model. As of December 31, 2016, the carrying value of the Group's land amounted to ₱4,955.2 million, representing more than 30% of the Group's noncurrent assets. In addition, the Group recognized a revaluation gain of ₱374.8 million in other comprehensive income for the year ended December 31, 2016. The valuation of the land requires the assistance of an external appraiser whose calculations involve certain assumptions, such as sales price of similar properties and adjustments to sales price based on internal and external factors. This matter is significant to our audit because it involves significant judgment and estimates.

Refer to Note 4 to the consolidated financial statements for the relevant accounting policy, and Note 14 for the detailed disclosure about the Group's land.

#### *Audit response*

We involved our internal specialist in the review of the scope, bases, methodology and results of the work by the Group's external appraiser whose professional qualifications and objectivity were also taken into consideration. We compared the relevant information supporting the sales price of similar properties and the adjustments made to the sales price against real estate industry data. We also reviewed the Group's disclosures with respect to the fair value of the land.

### **Recoverability of Goodwill of Malayan Colleges, Inc.**

Under PFRSs, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2016, the Group's goodwill attributable to the acquisition of Malayan Colleges, Inc. amounted to ₱137.9 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process involves judgment and is based on assumptions such as number of forecasted students and related tuition and other matriculation fees, revenue growth rate and discount rate in estimating discounted cash flow projections. The Group's disclosures about goodwill are included in Note 15 to the consolidated financial statements.

#### *Audit response*

We obtained an understanding of the Group's impairment model and the assumptions on the key business drivers of the cash flow forecasts, specifically on the number of forecasted students and related tuition and other matriculation fees. For the number of forecasted students, we checked if the Group has considered the impact of K to 12 Basic Education Program implementation. As to the tuition and other matriculation fees, we checked if the estimated percentage of increase in tuition and other matriculation fees is within the range of historical increase in tuition and other matriculation fees provided by the Group. We involved our internal specialist to assist us in evaluating the discount rate used. In addition, we reviewed the Group's disclosures about those assumptions to which the outcome of the impairment tests are most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of the goodwill.



## **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  
Wenda Lynn M. Loyola.

SYCIP GORRES VELAYO & CO.



Wenda Lynn M. Loyola

Partner

CPA Certificate No. 109952

SEC Accreditation No. 1540-A (Group A),

March 8, 2016, valid until March 8, 2019

Tax Identification No. 242-019-387

BIR Accreditation No. 08-001998-117-2016,

February 15, 2016, valid until February 14, 2019

PTR No. 5908712, January 3, 2017, Makati City

March 31, 2017



# HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



December 31

2016

2015

### ASSETS

#### Current Assets

Cash and cash equivalents (Note 6)	₱2,393,201,221	₱2,339,213,766
Financial asset at fair value through profit or loss	8,339,643	8,205,773
Accounts receivable (Note 8)	8,071,471,679	7,493,009,471
Current portion of loans receivable (Note 7)	11,449,015	10,171,347
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 9)	4,261,827,547	5,946,503,761
Receivables from related parties (Note 22)	54,371,552	54,237,550
Inventories (Note 10)	1,566,727,416	1,306,249,637
Prepaid expenses and other current assets (Note 11)	1,248,965,683	986,789,423
<b>Total Current Assets</b>	<b>17,616,353,756</b>	<b>18,144,380,728</b>

#### Noncurrent Assets

Available-for-sale (AFS) financial assets (Note 12)	524,064,241	634,649,043
Loans receivable - net of current portion (Note 7)	3,875,640	3,491,253
Investments in associates and joint ventures (Note 13)	3,722,070,350	4,532,017,905
Investment properties (Note 16)	205,834,597	236,543,500
Property and equipment (Note 14)		
At revalued amount	4,955,173,600	4,578,358,058
At cost	5,774,235,031	5,654,792,675
Goodwill (Note 15)	471,357,459	471,357,459
Retirement asset (Note 31)	39,949,093	17,407,863
Deferred tax assets - net (Note 32)	120,800,051	159,182,744
Other noncurrent assets - net (Note 17)	254,999,838	366,115,272
<b>Total Noncurrent Assets</b>	<b>16,072,359,900</b>	<b>16,653,915,772</b>
<b>Total Assets</b>	<b>₱33,688,713,656</b>	<b>₱34,798,296,500</b>

### LIABILITIES AND EQUITY

#### Current Liabilities

Loans payable (Note 19)	₱4,100,000,000	₱4,160,000,000
Accounts payable and other current liabilities (Note 18)	6,472,908,749	7,013,515,433
Current portion of long-term debt (Note 20)	491,748,610	498,897,436
Income tax payable (Note 32)	19,790,007	34,434,796
Due to related parties (Note 22)	127,809,141	122,674,902
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 9)	4,622,231,447	4,983,318,365
Unearned tuition fees	53,041,443	12,453,843
Customers' deposits	16,641,303	18,903,474
<b>Total Current Liabilities</b>	<b>15,904,170,700</b>	<b>16,844,198,249</b>

#### Noncurrent Liabilities

Long-term debt - net of current portion (Note 20)	2,671,946,840	3,263,461,807
Retirement liability (Note 31)	147,815,273	218,006,352
Deferred tax liabilities - net (Note 32)	358,892,950	297,549,580
<b>Total Noncurrent Liabilities</b>	<b>3,178,655,063</b>	<b>3,779,017,739</b>
<b>Total Liabilities</b>	<b>₱19,082,825,763</b>	<b>₱20,623,215,988</b>

(Forward)



	December 31	
	2016	2015
<b>Equity</b>		
Attributable to equity holders of the Parent Company		
Preferred stock (Note 38)	<b>₱280,802,820</b>	₱310,729,869
Common stock (Note 38)	<b>921,836,572</b>	921,836,572
Additional paid-in capital	<b>154,578,328</b>	154,578,328
Equity reserve on acquisition of noncontrolling interest	<b>(179,954,180)</b>	(179,954,180)
Revaluation increment on land - net (Note 14)	<b>1,106,401,670</b>	876,113,387
Cumulative translation adjustments (Note 41)	<b>159,864,897</b>	100,057,558
Net unrealized gain on AFS financial assets (Note 12)	<b>79,859,050</b>	86,516,972
Remeasurement loss on defined benefit plans (Note 31)	<b>(2,832,302)</b>	(31,137,535)
Retained earnings (Note 39)	<b>7,529,455,996</b>	7,190,445,946
	<b>10,050,012,851</b>	9,429,186,917
Noncontrolling interests (Note 35)	<b>4,555,875,042</b>	4,745,893,595
Total Equity	<b>14,605,887,893</b>	14,175,080,512
	<b>₱33,688,713,656</b>	₱34,798,296,500

*See accompanying Notes to Consolidated Financial Statements.*



**HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31		
	2016	2015	2014
<b>REVENUE</b> (Note 36)			
Sales of services - net	₱15,670,330,884	₱19,700,654,455	₱17,721,455,935
Sales of goods - net	7,803,941,763	7,074,703,794	4,855,065,068
School and related operations	2,203,794,405	2,252,281,825	2,091,605,515
Interest and discounts	10,786,917	11,737,198	11,574,832
Dividends (Notes 12 and 13)	52,890,208	51,448,085	35,055,218
	<b>25,741,744,177</b>	<b>29,090,825,357</b>	<b>24,714,756,568</b>
<b>COSTS OF SALES AND SERVICES</b>			
Cost of services (Notes 24 and 26)	13,493,607,664	17,190,247,076	15,749,498,757
Cost of goods sold (Notes 24 and 25)	7,339,307,717	6,629,847,421	4,529,466,153
Cost of tuition and other fees (Notes 24 and 27)	1,300,042,918	1,213,004,494	1,110,079,209
	<b>22,132,958,299</b>	<b>25,033,098,991</b>	<b>21,389,044,119</b>
<b>GROSS PROFIT</b>	<b>3,608,785,878</b>	<b>4,057,726,366</b>	<b>3,325,712,449</b>
<b>OTHER INCOME - Net</b> (Note 23)	<b>476,225,101</b>	<b>393,296,091</b>	<b>337,676,958</b>
<b>EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES</b> (Note 13)	<b>(1,094,246,390)</b>	<b>(464,411,056)</b>	<b>659,772,494</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 28)	<b>(2,100,882,227)</b>	<b>(1,790,729,099)</b>	<b>(1,598,341,796)</b>
<b>INTEREST AND FINANCE CHARGES</b> (Notes 19, 20, 22 and 30)	<b>(300,802,231)</b>	<b>(279,516,588)</b>	<b>(260,599,380)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>589,080,131</b>	<b>1,916,365,714</b>	<b>2,464,220,725</b>
<b>PROVISION FOR INCOME TAX</b> (Note 32)	<b>369,720,557</b>	<b>549,872,780</b>	<b>506,549,360</b>
<b>NET INCOME</b>	<b>₱219,359,574</b>	<b>₱1,366,492,934</b>	<b>₱1,957,671,365</b>
Net income (loss) attributable to:			
Equity holders of the Parent Company	₱402,669,546	₱1,022,731,322	₱1,268,099,877
Noncontrolling interests	(183,309,972)	343,761,612	689,571,488
	<b>₱219,359,574</b>	<b>₱1,366,492,934</b>	<b>₱1,957,671,365</b>
<b>EARNINGS PER SHARE</b> (Note 33)			
<b>BASIC</b>	<b>₱0.6153</b>	<b>₱1.6166</b>	<b>₱2.0137</b>
<b>DILUTED</b>	<b>₱0.5307</b>	<b>₱1.2752</b>	<b>₱1.5333</b>

*See accompanying Notes to Consolidated Financial Statements.*



**HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2016	2015	2014
<b>NET INCOME</b>	<b>₱219,359,574</b>	<b>₱1,366,492,934</b>	<b>₱1,957,671,365</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Cumulative translation adjustments	<b>110,020,860</b>	161,578,737	12,543,312
Net unrealized gain (loss) on AFS (Note 12)	<b>(6,887,653)</b>	(23,276,461)	13,890,441
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation increment on land (Note 14)	<b>374,754,842</b>	819,570,401	108,223,602
Remeasurement gains (losses) on net retirement liability (Note 31)	<b>49,658,724</b>	(108,280,558)	240,610,016
Income tax effect on revaluation of land and retirement	<b>(67,375,039)</b>	(146,541,075)	(85,346,421)
	<b>460,171,734</b>	703,051,044	289,920,950
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱679,531,308</b>	<b>₱2,069,543,978</b>	<b>₱2,247,592,315</b>
Total comprehensive income attributable to:			
Equity holders of the Parent Company	<b>₱714,412,479</b>	₱1,487,399,345	₱1,447,405,067
Noncontrolling interests	<b>(34,881,171)</b>	582,144,633	800,187,248
	<b>₱679,531,308</b>	<b>₱2,069,543,978</b>	<b>₱2,247,592,315</b>

See accompanying Notes to Consolidated Financial Statements.



**HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

	Attributable to equity of the Parent Company											
	Equity					Net						
	Reserve on		Cumulative	Unrealized								
	Acquisition of	Revaluation		Translation	Gain on							
	Preferred	Common	Additional	Noncontrolling	Interest	on Land - Net	Adjustments	Financial	Assets	Remeasurement	Retained	Noncontrolling
	Stock	Stock	Paid-in	Interest	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)	Benefit Plans	Earnings	Interests
	Stock	Stock	Capital	(Note 2)	(Note 2)	(Note 14)	(Notes 13	(Note 12)	(Note 31)			

See accompanying Notes to Consolidated Financial Statements.



**HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱589,080,131</b>	₱1,916,365,715	₱2,464,220,725
Adjustments for:			
Equity in net losses (earnings) of associates and joint venture (Note 13)	<b>1,094,246,390</b>	464,411,056	(659,772,494)
Depreciation and amortization (Notes 14, 17, 25, 26, 27, 28 and 29)	<b>901,670,818</b>	756,372,773	605,005,402
Interest and finance charges (Notes 5, 19, 20, 22 and 30)	<b>300,802,231</b>	279,516,588	260,599,380
Loss on liquidation of subsidiaries (Note 13)	<b>26,174,418</b>	—	—
Unrealized foreign exchange loss	<b>1,381,743</b>	39,326,724	752,293
Loss on disposal of financial asset at fair value through profit or loss (Note 4)	—	—	7,125,290
Impairment loss (recovery from) other assets (Notes 23 and 28)	—	5,388,517	(8,320,670)
Recovery of damaged properties (Notes 14 and 28)	—	—	(81,829)
Market gain on financial asset at fair value through profit or loss (Note 4)	<b>(133,870)</b>	(184,143)	(57,289)
Gain on sale of:			
Available-for-sale financial assets (Notes 12 and 23)	<b>(63,041,964)</b>	(34,587,158)	(28,368,239)
Investment properties (Notes 16 and 23)	<b>(24,746,631)</b>	(5,390,206)	—
Property and equipment (Notes 14 and 23)	<b>(4,179,887)</b>	(4,115,025)	(1,748,018)
Dividend income (Notes 4 and 22)	<b>(52,890,208)</b>	(51,448,085)	(35,055,218)
Interest income (Note 23)	<b>(77,124,698)</b>	(42,741,377)	(45,322,974)
Movements in net retirement liabilities (Note 31)	<b>(92,732,309)</b>	93,451,396	(235,038,419)
Operating income working capital changes	<b>2,598,506,164</b>	3,416,366,775	2,323,937,940
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	<b>(570,509,390)</b>	(644,452,197)	(2,289,688,627)
Loans receivable	<b>(1,662,055)</b>	2,936,925	(1,720,217)
Costs and estimated earnings in excess of billings on uncompleted contracts	<b>1,666,872,418</b>	(1,826,727,942)	(2,155,315,286)
Inventories	<b>(260,477,779)</b>	(256,727,465)	(163,466,722)
Prepaid expenses and other current assets	<b>(262,176,260)</b>	(56,376,076)	(410,411,918)
Increase (decrease) in:			
Billings in excess of costs and estimated earnings on uncompleted contracts	<b>(361,086,918)</b>	1,942,619,768	1,707,741,893
Accounts payable and other current liabilities	<b>(532,888,330)</b>	737,898,627	1,566,362,294
Customers' deposits	<b>(2,262,171)</b>	(26,693,749)	11,076,671
Unearned tuition fees	<b>40,587,600</b>	2,296,355	1,046,501
Net cash generated from operations	<b>2,314,903,279</b>	3,291,141,021	589,562,529
Interest received	<b>77,124,698</b>	42,741,377	45,889,139
Interest and finance charges paid	<b>(300,212,692)</b>	(272,377,724)	259,583,235
Income tax paid	<b>(360,445,037)</b>	(549,801,266)	(494,727,159)
Net cash flows provided by operating activities	<b>1,731,370,248</b>	2,511,703,408	400,307,744

(Forward)



	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Investments in associates and joint ventures (Note 13)	(P296,369,355)	(P1,035,640,156)	(P158,485,100)
Property and equipment (Notes 14 and 40)	(998,056,194)	(1,687,672,452)	(1,258,570,968)
Available-for-sale securities (Note 12)	—	(243,837,196)	—
Proceeds from sale of:			
Investments in fair value through profit or loss		—	348,174,874
Available-for-sale securities (Note 12)	166,686,113	90,705,769	59,476,337
Property and equipment (Note 14)	11,353,056	13,627,373	8,750,792
Investment properties (Note 16)	54,118,895	26,134,425	200,000
Return of capital (Note 12)	53,000	—	—
Proceeds from return of investments in an associate	4,191,782	—	—
Dividends received	94,334,408	81,211,645	304,208,254
Increase (decrease) in other noncurrent assets	152,127,823	(135,087,293)	159,814,479
Net cash flows used in investing activities	(811,560,472)	(2,890,557,885)	(536,431,332)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Loans payable (Note 19)	12,470,000,000	13,245,000,000	7,710,000,000
Long-term debt	—	2,006,967,904	442,454,200
Payments of:			
Loans payable (Note 19)	(12,530,000,000)	(12,605,400,000)	(7,419,000,000)
Long-term debt	(601,397,435)	(1,413,094,389)	(235,134,344)
Payments received from (advances to) related parties	27,106,524	(33,996,282)	3,668,070
Acquisition of noncontrolling interest	—	(381,605,435)	(23,844,685)
Decrease in lease liability	—	(281,259)	(3,518,480)
Redemption of preferred shares (Note 39)	(29,927,049)	(33,128,338)	(36,663,170)
Cash dividends paid (Note 38)	(219,240,811)	(246,781,916)	(250,447,017)
Net cash flows provided by (used in) financing activities	(883,458,771)	537,680,285	187,514,574
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>			
ON CASH AND CASH EQUIVALENTS	17,636,450	19,280,145	(1,793,464)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>53,987,455</b>	<b>178,105,953</b>	<b>49,597,522</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,339,213,766</b>	<b>2,161,107,813</b>	<b>2,111,510,291</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>P2,393,201,221</b>	<b>P2,339,213,766</b>	<b>P2,161,107,813</b>

See accompanying Notes to Consolidated Financial Statements.



## **HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

House of Investments, Inc. (the Parent Company) is a stock corporation incorporated under the laws of the Republic of the Philippines on May 21, 1959. On July 20, 2007, the Parent Company's corporate life was extended for another fifty (50) years starting May 21, 2009.

The Parent Company and its subsidiaries (collectively known as the Group) are primarily engaged in car dealership, construction, education and information technology, afterlife services, consumer finance, property management, project management, security and pharmaceuticals.

The Parent Company's common stock was listed with the Philippine Stock Exchange (PSE) on July 2, 1962, the Parent Company's initial public offering (IPO). The Parent Company's shares of stock are currently traded at the PSE. The ultimate parent company of the Group is Pan Malayan Management and Investment Corporation (PMMIC).

The registered office address and principal place of business of the Parent Company is at 3rd Floor, Grepalife Building, 219 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila.

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#### **2. Basis of Preparation**

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for land, which is carried at revalued amount and financial asset at FVPL and available-for-sale financial assets which are measured at fair value. The accompanying consolidated financial statements are presented in Philippine Peso (Php, ₱), which is also the Parent Company's functional currency. Except as indicated, all amounts are rounded off to the nearest peso.

##### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).



### Basis of Consolidation

The consolidated financial statement include the Parent Company and the following companies that it controls:

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership			
				2016		2015	
				Direct	Indirect	Direct	Indirect
Landev Corporation	Philippines	Property management	Philippine peso	100.00	—	100.00	—
Hexagon Lounge, Inc.	Philippines	Restaurant	Philippine peso	—	100.00	—	100.00
Greyhounds Security and Investigation Agency Corp.	Philippines	Security agency	Philippine peso	—	100.00	—	100.00
Secon Professional Security Training Academy Inc. <sup>(a)</sup>	Philippines	Training service provider	Philippine peso	—	100.00	—	100.00
Xamdu Motors, Inc. (XMI)	Philippines	Car dealership	Philippine peso	100.00	—	100.00	—
		Insurance agent, financing, trading and real estate					
Investment Managers, Inc. (IMI)	Philippines		Philippine peso	100.00	—	100.00	—
Zamboanga Realty and Development Corporation (ZRDC)	Philippines	Real estate	Philippine peso	100.00	—	100.00	—
Zamboanga Carriers, Inc. (ZCI)	Philippines	Transportation	Philippine peso	100.00	—	100.00	—
Honda Cars Kalookan, Inc. (HCKI)	Philippines	Car dealership	Philippine peso	55.00	—	55.00	—
Zamboanga Industrial Finance Corporation (ZIFC)	Philippines	Consumer Finance	Philippine peso	50.00	—	50.00	—
EEl Corporation (EEl)	Philippines	Construction	Philippine peso	54.36	—	54.36	—
	British Virgin Islands						
EEl Limited	British Virgin Islands	Holding company	US Dollar	—	100.00	—	100.00
Clear Jewel Investments, Ltd.	Islands	Holding company	US Dollar	—	100.00	—	100.00
EEl Corporation (Singapore) Pte. Ltd <sup>(b)</sup>	Singapore	Construction	Singapore Dollar	—	—	—	100.00
EEl Nouvelle-Caledonie SARL <sup>(b)</sup>	New Caledonia	Construction	French Franc	—	—	—	100.00
	British Virgin Islands						
Nimaridge Investments, Limited	Islands	Holding company	US Dollar	—	100.00	—	100.00
EEl (PNG), Ltd	Papua New Guinea	Holding company	US Dollar	—	100.00	—	100.00
	United States of America						
EEl Corporation (Guam), Inc.	America	Construction	US Dollar	—	100.00	—	100.00
EEl Construction and Marine, Inc.	Philippines	Construction	Philippine peso	—	100.00	—	100.00
EEl Realty Corporation (EEl Realty)	Philippines	Real estate	Philippine peso	—	100.00	—	100.00
EEl Subic Corporation	Philippines	Construction	Philippine peso	—	100.00	—	100.00
Equipment Engineers, Inc. (EE)	Philippines	Construction	Philippine Peso	—	100.00	—	100.00
		Rental of scaffolding and formworks					
JP Systems Asia Inc. (JPSAI) <sup>(c)</sup>	Philippines		Philippine Peso	—	60.00	—	—
EEl Power Corporation (EPC)	Philippines	Power generation	Philippine Peso	—	100.00	—	100.00
Gulf Asia International Corporation (GAIC)	Philippines	Manpower services	Philippine peso	—	100.00	—	100.00
GAIC Professional Services, Inc. (GAPSI)	Philippines	Manpower services	Philippine peso	—	100.00	—	100.00
GAIC Manpower Services, Inc. (GAMSI)	Philippines	Manpower services	Philippine peso	—	100.00	—	100.00
Bagumbayan Equipment & Industrial Products, Inc.	Philippines	Consultancy services	Philippine peso	—	100.00	—	100.00
Philmark, Inc.	Philippines	Construction	Philippine peso	—	100.00	—	100.00
Philrock Construction and Services, Inc.	Philippines	Manpower services	Philippine peso	—	100.00	—	100.00
		Education and					
iPeople, Inc. (IPO)	Philippines	Information Technology	Philippine peso	67.34	—	67.34	—
		Education and					
Malayan Colleges, Inc. (MCI)	Philippines	Information Technology	Philippine peso	7.00	93.00	7.00	93.00
Mapua Information Technology Center, Inc. (MITC)	Philippines	Education and		—	—	—	—
Mapua Techserv, Inc. (MTI)	Philippines	Information Technology	Philippine peso	—	100.00	—	100.00
Mapua Techpower, Inc.	Philippines	Consultancy	Philippine peso	—	100.00	—	100.00
Mapua Techpower, Inc.	Philippines	Consultancy	Philippine peso	—	75.00	—	75.00
San Lorenzo Ruiz Institute of Health Sciences, Inc. (SLRHSI)	Philippines	Education and					
Malayan High School of Science, Inc. (MHSSI)	Philippines	Information Technology	Philippine peso	—	100.00	—	100.00
		Education and					
Malayan Colleges Laguna, Inc. (MCLI)	Philippines	Information Technology	Philippine peso	—	100.00	—	100.00
Malayan Colleges Mindanao, Inc. (MCMi)	Philippines	Education and					
People eServe Corporation (People eServe)	Philippines	Information Technology	Philippine peso	—	100.00	—	100.00
Pan Pacific Computer Center, Inc. (PPCCI)	Philippines	Technology	Philippine peso	—	100.00	—	100.00

(a) Acquired in 2016

(b) Liquidated in 2016

(c) Incorporated in December 2016



The consolidated financial statements are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intercompany transactions that are recognized in assets are eliminated in full.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

Noncontrolling interest represents the portion of profit or loss and net assets not held by the Group. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the noncontrolling interests having a deficit balance.

Losses within a subsidiary are attributed to the noncontrolling interest until the balance is reduced to nil. A change in the ownership interest of a subsidiary, without a 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;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Group's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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### 3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.



- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements 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*)
- 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*

*Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- 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.

- 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.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*



*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*

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#### **4. Summary of Significant Accounting Policies**

##### Cash and Cash Equivalents

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

##### Financial Instruments

###### *Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery of financial instruments 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 liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities include transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or loans and receivables. The Group classifies its financial liabilities as financial liabilities at FVPL or other financial liabilities.



The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every financial reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

The Group do not have any HTM investments and financial liabilities at FVPL as of December 31, 2016 and 2015.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

#### *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to 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 and liabilities 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; and



- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by 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.

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

*'Day 1' profit or loss*

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

*Financial assets at FVPL*

This includes financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at FVPL are recorded in the consolidated statement of financial position at fair value with unrealized mark-to-market gains and losses reported as part of the current year operations in the consolidated statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded when the right to receive payment has been established. Derivatives, including separated embedded derivatives are also classified as FVPL unless they are designated as effective hedging instruments or a financial guarantee contract.

Financial assets may be designated at initial recognition as at 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.

The Group's financial asset at FVPL consist of peso-denominated investment in unit investment trust fund (UITF) in Rizal Commercial Banking Corporation (RCBC).

*Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or



short-term resale and are not classified as financial assets held for trading, designated as available-for-sale or as financial assets at FVPL. After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This category includes the Group's cash and cash equivalents, accounts receivable, loans receivable, receivables from related parties, receivable from a customer, miscellaneous deposits (included in the prepaid expenses and other current assets) and receivable from EEI Retirement Fund, Inc.

#### *AFS financial assets*

AFS financial assets are those nonderivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include government securities, equity investments and other debt instruments.

After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of available-for-sale financial assets are excluded from reported earnings and are reported in other comprehensive income. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in "Other income (loss)" account in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding available-for-sale debt investments are reported as interest income using the EIR. Dividends earned on holding available-for-sale equity investments are recognized in the consolidated statement of income as "Other income" account when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as "Provisions on impairment losses" under operating expenses in the consolidated statement of income.

If the fair market value of the unquoted equity instruments under available-for-sale cannot be reliably measured, the financial asset is carried at cost less allowance for impairment loss, if any.

Available-for-sale financial assets are classified as current assets when it is expected to be sold or realized within twelve (12) months after the reporting date or within the normal operating cycle, whichever is longer.

The Group's available-for-sale financial assets include investments in quoted and unquoted golf club and equity shares (Note 12).

#### *Derivative financial instruments*

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in the statement of income.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL.



The Group has no derivative financial instruments as at December 31, 2016 and 2015.

*Other financial liabilities*

Other financial liabilities are nonderivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These liabilities are carried at amortized cost in the consolidated statement of financial position. Amortization is determined using the effective interest method. Gains and losses are recognized in the consolidated statement of comprehensive income, when the liabilities are derecognized as well as through the amortization process.

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve (12) months from the financial reporting date or the Group does not have an unconditional right to defer settlement for at least 12 months from financial reporting date. Otherwise, these are classified as noncurrent liabilities. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized.

The Group's other financial liabilities consist of loans payable, accounts payable and other current liabilities, due to related parties and long-term debt.

Derecognition of Financial Assets and Financial Liabilities

*Financial asset*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial liability*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments

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



offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

This accounting policy relates to the net payable to Philippine Transmarine Carriers, Inc. (PTC) amounting ₱13.1 million as of December 31, 2016 and 2015, respectively, and included under “Accounts payable and other current liabilities” in the consolidated statements of financial position (Note 18).

The memorandum of agreement of the joint operation has a provision to settle the amounts due from and due to on a net basis.

#### Impairment of Financial Assets

The Group assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 a borrower or a group of borrowers are 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.

#### *Financial assets carried at amortized cost*

The Group first assesses whether an 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, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ 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 use of an allowance account and the amount of loss is charged to the consolidated statement of income. Loans, 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 as year-level of students for information technology and education segment, customer profile and mode of payment for car dealership segment.

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

*AFS financial assets carried at cost*

If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

*AFS financial assets carried at fair value*

In case of equity instruments classified as available-for-sale, impairment would include a significant or prolonged decline in the fair value of investments below its cost. If an available-for-sale security is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from other comprehensive income to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of income but in other comprehensive income. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed to operations if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

Jointly Controlled Operations

A jointly controlled operation involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the selling price in the ordinary course of business, less the estimated costs of completion of inventories and the estimated costs necessary to sell.

Cost includes purchase price and other costs directly attributable to its acquisition such as non-refundable taxes, handling and transportation cost.



The cost of real estate inventories includes (a) land cost; (b) freehold and leasehold rights for land; (c) amounts paid to contractors for construction; (d) borrowing costs, planning and design cost, cost of site preparation, professional fees, property taxes, construction overheads and other related costs.

Cost of inventories is generally determined primarily using the moving-average method, except for automotive units of the car dealerships and real estate inventories of EEI Realty, which are accounted for using the specific identification method.

#### Value-Added Tax (VAT)

The input value-added tax pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the local sale of goods or services by the Group. If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Accounts payables and other current liabilities" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under "Prepaid expenses and other current assets" account.

#### Prepaid Expenses

Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments of insurance premiums, rents and others. It is included as part of other current assets in the consolidated statement of financial position.

#### Other Current Assets

Other current assets pertain to other resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group within the reporting period.

#### Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investment in the investee company is 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 company, less any impairment in value. The profit or loss reflects the share of the results of the operations of the investee company reflected as "Equity in net earnings (losses) of associates and joint venture" in the consolidated statement of comprehensive income. Goodwill relating to associate is included in the carrying amount of the investment and is not amortized. The Group's share in the investee's post acquisition movements in the investee's equity reserves is recognized directly in equity. Profit and losses resulting from transactions between the Group and the investee company are eliminated to the extent of the interest in the investee company and for unrealized losses to the extent that there is no evidence of impairment of



the assets transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investment in investee company is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee company. When the investee company subsequently reports 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 company 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.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates and joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates and joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the impairment loss in the consolidated statement of income.

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 associates or joint venture 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.

The Group's associates and joint ventures accounted for using the equity method as of December 31 follows:

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership	
				2016	2015
<b>Associates:</b>					
Hi-Eisai Pharmaceutical, Inc. (HEPI)	Philippines	Pharmaceutical	Philippine peso	50.00	50.00
La Funeraria Paz Sucat, Inc. (LFPSI)	Philippines	Funeral Service	Philippine peso	37.50	37.50
T'boli Agro-Industrial Development, Inc.	Philippines	Agriculture	Philippine peso	28.47	28.47
Manila Memorial Park Cemetery, Inc. (MMPC)	Philippines	Funeral Service	Philippine peso	25.98	25.98
Lo-oc Limestone Development Corporation (LLDC)	Philippines	Mining	Philippine peso	25.00	25.00
Petroenergy Resources Corporation (PERC)	Philippines	Renewable energy	Philippine peso	22.41	22.41
RCBC Realty Corporation (RRC)	Philippines	Realty	Philippine peso	10.00	10.00
Al-Rushaid Construction Company Limited (ARCC)	Saudi Arabia	Construction	Saudi riyal	49.00	49.00
PetroSolar Corporation (PSOC)	Philippines	Renewable energy	Philippine peso	44.00	44.00
<b>Joint ventures:</b>					
ECW Joint Venture, Inc. (ECW)	Philippines	Construction	Philippine peso	—	50.00
PetroWind Energy, Inc. (PWEI)	Philippines	Renewable energy	Philippine peso	20.00	20.00

#### Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, amortization and impairment loss, if any, except for land which is carried at revalued amount based on the latest



appraisal conducted by an independent appraisers. The appraisal increment resulting from the revaluation is treated as a separate component in the Group's equity.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as part of current operations.

Depreciation is computed using the straight-line method over the following average estimated useful lives (EUL):

	Years
Buildings and improvements	10-20
Machinery, tools and construction equipment	5-10
Transportation and service equipment	4-5
Furniture, fixtures and office equipment	2-10

Amortization of leasehold improvements is computed over the EUL of the improvement or term of the lease, whichever is shorter.

The useful lives and 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 property and equipment.

Minor repairs and maintenance costs are charged to consolidated statement of income as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost or revalued amount, appraisal increase and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are reflected in the consolidated statement of income.

Construction in progress represents property and equipment under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Upon disposal of land, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted if appropriate, at each financial year-end.



### Investment Properties

Investment properties are measured at cost less accumulated depreciation and impairment loss, if any, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Investment properties are depreciated on a straight-line basis over its estimated useful life of fifteen (15) to twenty years (20). Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment in value.

Investment properties are derecognized when they either 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 gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

### Software Costs

Software costs are stated at cost less accumulated amortization and any impairment in value. Costs related to software purchased by the Group for use in the operations are amortized on a straight-line basis over a period of three (3) years.

Costs associated with developing and maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets to be measured at cost less accumulated amortization and provision for impairment losses, if any.

### Impairment of Nonfinancial Assets

For investments in associate and joint venture, property and equipment, investment properties and computer software costs, 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 assets' recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount



since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognized in equity up to the amount of any previous revaluation.

#### Borrowing Costs

Interest and other related financing charges on borrowed funds used to finance property development are capitalized as part of development costs (included under “Inventories” account) and the acquisition and construction of a qualifying asset (included under “Construction in progress” account in property and equipment) are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the asset for its intended use are in progress. It is suspended during extended periods in which active development is interrupted and ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. The capitalization for inventories account is based on the weighted average borrowing cost and specific borrowing for property, plant and equipment.

The borrowing costs capitalized as part of property and equipment are amortized using the straight-line method over the estimated useful lives of the assets. If after capitalization of the borrowing costs, the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded in the consolidated statement of income.

All other borrowing costs are expensed in the period in which they occur.

Interest expense on loans and borrowings is recognized using the EIR method over the term of the loans and borrowings.

#### Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets.

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.

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 OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

PFRS 3 provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair



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

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. Before recognizing a gain on a bargain purchase, the Group assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and recognize any additional assets or liabilities that are identified in that review.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

#### Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. The Group



assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. When the Group is acting as a principal in an arrangement, revenue is recorded at gross. When the Group is acting as an agent, the revenue recorded is only the commission. Except for Greyhounds and certain arrangements of Equipment Engineers, Inc. (EE), the Group has concluded that it is acting as principal in all of its arrangements.

The following specific recognition criteria must also be met before revenue and cost are recognized:

Sale of services:

*Construction contracts*

Revenue from construction contracts are recognized using the percentage of completion method of accounting. Under this method, revenues are generally measured on the basis of estimated completion of the physical proportion of the contract work. Revenue from labor supply contracts with project management and supervision are recognized on the basis of man-hours spent.

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. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements that may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined. Profit incentives are recognized as revenue when their realization is reasonably assured.

The asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents total contract costs incurred and estimated earnings recognized in excess of amounts billed. The liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of total contract costs incurred and estimated earnings recognized. Retention receivables are included in the trade receivable account, which is shown as part of the accounts receivables account in the consolidated statement of financial position.

*Management and consultancy fees, and commission income* are recognized as the related services are rendered.

*Equipment rental* arises from the Group equipment's that are being held for rentals. Revenue is measured on straight-line basis over the term of the lease agreement.

*Cost of services* includes all expenses associated with sale of services. Cost of services include all materials and supplies used, direct labor, depreciation of production equipment, power and water and other expenses related to services rendered. Such costs are recognized when the related services have been rendered.

Sale of goods:

*Merchandise sales*

Revenue from merchandise sales is normally recognized when the buyer accepts delivery and when installation and inspection are complete. However, revenue is recognized immediately upon the buyer's acceptance of delivery when the installation process is simple in nature.



*Cost of goods sold*

Cost of goods sold includes all expenses associated with the specific sale of goods. Cost of goods sold include all materials and supplies used, direct labor, depreciation of production equipment, royalty, power and water and other expenses related to production. Such costs are recognized when the related sales have been recognized.

*Real estate*

Revenue on sale of raw parcels of land with no future obligation to develop the property is recognized using the full accrual method.

Sale of developed lots and residential units is accounted for using the full accrual method of accounting. Under this method, the revenue is recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the buyers have actually confirmed their acceptance of the related loan applications after the same have been delivered to and approved by either the banks or other financing institutions for externally financed accounts; and (b) the down payment comprising a substantial portion of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

If any of the criteria under the full accrual 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 is recognized as deposit from customers presented under the "Customers' deposits" account in the liabilities section of the consolidated statement of financial position.

*Cost of real estate*

Cost of real estate sales is recognized consistent with the revenue recognition method applied. The cost of real estate sales recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property and an allocation of any non-specific cost based on the relative size of the property sold.

*School and related operations:*

Revenues from school operations are recognized as income over the corresponding school term. Unearned revenues are shown as unearned tuition fees in the consolidated statement of financial position and will be recognized as revenues when the educational service has been fulfilled in the applicable school term.

Admission, examination and other fees are recognized as income when examination has been granted by the school and related services have been provided to the students.

Cost of tuition and other fees constitute expenses directly related to the Group's school and related operations which include expenses for salaries and wages of teaching and academic support personnel, student welfare activities, advertising, and all other student-related costs and expenses. Cost of school and related operations are recognized as expense when school and related services have been provided to the students.

*Others:*

*Interest income* is recognized as it accrues taking into account the effective yield on the asset.

*Rent income* is recognized as revenue on a straight-line basis over the lease term.

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



Other cost of sales and services arise in the ordinary activities of the Group and are recognized as incurred.

#### General and Administrative Expenses

The Group's general and administrative expenses constitute costs of administering the business. General and administrative expenses are recognized as incurred.

#### Foreign Currency-denominated Transaction and Translation

The consolidated financial statements are presented in Philippine Peso. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate at the reporting date. All differences are taken to consolidated statement of income. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at reporting date, the assets and liabilities of subsidiaries whose functional currency is not the Philippines Peso are translated into the presentation currency of the Parent Company (the Philippine Peso) at the closing rate as at the reporting date, and the consolidated statement of income accounts are translated at monthly weighted average exchange rate. Likewise, the the financials of the Group's associate whose functional currency is not the Philippine Peso that is accounted for under equity method are translated to the presentation currency of the Parent Company in a similar manner. The exchange differences arising on the translation are taken directly to a separate component of equity under "Cumulative translation adjustments" account.

Upon disposal of a foreign subsidiary, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of income.

#### Retirement Cost

##### *Defined benefit plan*

The defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, if any, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Defined benefit costs on the Group's defined benefit retirement plan are actuarially computed using the projected unit credit (PUC) valuation method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to the services rendered in the current period.

Defined benefit costs comprise the following:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) remeasurements of net defined benefit liability or asset.



Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

### Income Tax

#### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantially enacted by the end of the financial reporting date.

#### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences 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, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associate and interest in joint venture. With respect to investments in foreign subsidiaries, associate and interest in joint venture, deferred tax liabilities are recognized except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



The carrying amount of deferred tax assets is reviewed by the end of each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be used. Unrecognized deferred tax assets are reassessed at the end of each financial reporting date and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the financial reporting date.

Deferred tax relating to items recognized outside profit or loss are recognized in correlation to the underlying transactions either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and deferred income taxes relate to the same entity and the same taxation authority.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether 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, even if that right is not explicitly specified in an arrangement.

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 a lessee*

Operating lease of the Group represents those under which substantially all the risks and benefits of ownership of the assets remain with the lessor. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

#### *Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the leased term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to equity holders of the Group adjusted for the after-tax amounts of dividends on preferred stock by the weighted average



number of common stock outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits.

Diluted EPS is computed by adjusting the net income for the year attributable to equity holders of the Group and the weighted average number of common stock outstanding during the year after giving retroactive effect for any stock dividends, stock splits or reverse stock splits and adjusted for the effects of all dilutive potential common stock.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 a finance cost.

#### 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.

#### Stock Option Plan

No benefit expense is recognized relative to the shares issued under the stock options plan. When the shares related to the stock option plans are subscribed, these are treated as capital stock issuances. The stock option plan is exempt from PFRS 2, *Share-based Payment*.

#### Segment Reporting

The Group's operating business are organized and managed separately according to the nature of 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 36.

#### Capital Stock

The Group records common stocks at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity shares. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. When the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in equity (Note 38).

#### Retained Earnings

Retained earnings represent accumulated earnings of the Group and any adjustment arising from application of new accounting standards, policies or corrections of errors applied retroactively less dividends declared. The individual accumulated retained earnings of the subsidiaries are available for dividends when they are declared by the subsidiaries as approved by their respective BOD. Retained earnings are further restricted for the payment of dividends to the extent of the cost of treasury shares (Note 39).



#### Events After the Financial Reporting Date

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

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### 5. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRSs requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ for such estimates.

#### Judgment

*Determination of significant influence on investment in an associate if ownership is less than 20%*

Holding of less than 20% of voting rights is presumed not to give rise to significant influence unless it can be clearly demonstrated that there is in fact significant influence. The Parent Company is able to exercise significant influence for ownership less than 20% because it has an active participation in the policy-making process including operating decisions of the investee.

As of December 31, 2016 and 2015, the Group holds 10% of interest in RRC. The Group exercises significant influence in RRC since the Parent Company's President is the concurrent president of RRC. The president is also a member of the Board of Directors. As such, the president of the Parent Company effectively has a participation in the policy-making process of RRC. Hence, the Parent Company is able to exercise significant influence even if ownership is less than 20%.

#### Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of 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.

#### *Recognition of revenue and cost from construction contracts*

Revenues and costs from construction projects are determined using the percentage of completion based on the physical progress of the construction projects. Apart from involving significant estimates, this process is complex and requires the technical expertise of the Group's engineers, particularly with respect to the calculation of estimated costs to completion, stage of completion and contract price variations.

As of December 31, 2016 and 2015, the costs and estimated earnings in excess of billings on uncompleted contracts amounted to ₱4,261.8 million and ₱5,946.5 million, respectively. Billings in excess of costs and estimated earnings on uncompleted contracts amounted to ₱4,622.2 million and ₱4,983.3 million as of December 31, 2016 and 2015, respectively (Note 9).



*Estimating allowance for impairment of receivables*

The Group maintains an allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. For education segment, the evaluation factors will include the number of days the receivables is outstanding, year level of students and historical experience. For other segments the evaluation of collectability considers the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis or those with existing allowances needing reversals.

The carrying value of loans and receivables are disclosed in Notes 7, 8 and 22 to the consolidated financial statements.

*Valuation of land under revaluation basis*

The Group's parcel of land are carried at revalued amounts. The valuations of these parcels of land were performed by SEC accredited independent appraisers and were determined using the market approach. Significant adjustments to inputs used in determining the fair value of land such as location and utility could affect the appraised value of the assets.

Land carried under revaluation basis amounted to ₱4,955.2 million and ₱4,578.4 as of December 31, 2016 and 2015, respectively. The key assumptions used to determine the fair value of the parcels of land are disclosed in Note 14.

*Provisions and Contingencies*

The Group is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Management does not believe that these proceedings will have a material adverse effect on the Group's financial statement because management and its legal counsels believe that the Group has substantial legal and factual bases for its position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Notes 18 and 34).

*Impairment of goodwill of Malayan Colleges, Inc.*

The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the recoverable amount, which is the higher of fair value less costs of disposal and value in use of the CGU to which the goodwill is attributed.

Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. This estimate is based on the Group's past results and future expectations on cash flow from the CGU.

However, there is no assurance that the Group will generate sufficient cash flow to associate that the goodwill will not be impaired in the future.

Management determined that the goodwill of Malayan Colleges, Inc. amounting to ₱137.9 million as of December 31, 2016 and 2015 is not impaired (Note 15).



#### *Retirement benefits*

The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates were disclosed in Note 31. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

Retirement assets amounted to ₱39.9 million and ₱17.4 million as of December 31, 2016 and 2015, respectively whereas retirement liabilities amounted to ₱147.8 million and ₱218.0 million as of December 31, 2016 and 2015, respectively. Remeasurement loss on net retirement liability as of December 31, 2016 and 2015 amounted to ₱2.8 million and ₱31.1 million, respectively (Note 31).

#### *Deferred tax assets*

The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Where there is no absolute assurance that each legal entity in the Group will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized, deferred tax assets are not recognized.

Deferred tax assets recognized and unrecognized by the Group are disclosed in Note 32 to the consolidated financial statements.

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## 6. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand and in banks	<b>₱1,478,830,024</b>	₱1,726,651,223
Short-term investments	<b>914,371,197</b>	612,562,543
	<b>₱2,393,201,221</b>	₱2,339,213,766

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earns annual interest at the respective short-term investment rates.

Interest income from cash in banks and short-term investments amounted to ₱27.3 million and ₱15.8 million and ₱12.2 million for the years ended December 31, 2016, 2015 and 2014, respectively (Note 23).



## 7. Loans Receivable

Loans receivable consists of:

	2016	2015
Gross receivables	<b>₱19,378,197</b>	₱17,481,969
Less allowance for impairment	<b>4,053,542</b>	3,819,369
	<b>15,324,655</b>	13,662,600
Less noncurrent portion	<b>3,875,640</b>	3,491,253
Current portion	<b>₱11,449,015</b>	₱10,171,347

Loans receivable is composed of receivables of ZIFC with the following details:

	2016	2015
Time loan principals	<b>₱25,723,287</b>	₱25,262,473
Unearned discount and interest	<b>(6,345,090)</b>	(7,780,504)
	<b>19,378,197</b>	17,481,969
Less allowance for impairment	<b>4,053,542</b>	3,819,369
	<b>₱15,324,655</b>	₱13,662,600

Time loan principals are collectible in full at maturity date while interest is due monthly or at maturity. Annual interest rates range from 12% to 31% in 2016 and 2015. The term of the loan ranges from one (1) to five (5) years.

Details of receivables follow:

- a) As to secured and unsecured and type of security for secured loans

	2016	2015
Secured loans		
Chattel mortgage	<b>₱6,099,210</b>	₱4,387,234
Real estate mortgage	<b>17,974,587</b>	20,012,563
	<b>24,073,797</b>	24,399,797
Unsecured loans	<b>1,649,490</b>	862,676
	<b>₱25,723,287</b>	₱25,262,473

- b) As to maturity

	2016	2015
Maturing within one year	<b>₱19,775,990</b>	₱20,188,954
Maturing one year to five years	<b>5,947,297</b>	5,073,519
	<b>₱25,723,287</b>	₱25,262,473

The changes in individually assessed allowance for impairment as at December 31 follow:

	2016	2015
Balance at beginning of year	<b>₱3,819,369</b>	₱3,687,378
Provision for impairment losses (Note 28)	<b>542,324</b>	250,000
Written-off	<b>(308,151)</b>	(118,009)
Balance at end of year	<b>₱4,053,542</b>	₱3,819,369



## 8. Accounts Receivable

This account consists of:

	2016	2015
Trade		
Construction and infrastructure (including retention receivable of ₱3.3 billion and ₱2.5 billion as of December 31, 2016 and 2015, respectively)	<b>₱5,746,048,844</b>	₱5,301,390,692
Car dealership	<b>926,152,028</b>	732,345,921
Education and information technology	<b>171,394,833</b>	183,325,950
Other services	<b>19,706,600</b>	18,964,887
Other receivables		
Advances to suppliers and contractors	<b>582,635,273</b>	739,095,204
Consultancy fee	<b>305,946,232</b>	289,688,635
Receivables from plant	<b>81,254,888</b>	58,497,711
Advances to officers and employees	<b>34,598,478</b>	41,926,134
Rent receivable	<b>669,873</b>	499,708
Others	<b>442,709,806</b>	396,959,599
	<b>8,311,116,855</b>	7,762,694,441
Less allowance for impairment	<b>239,645,176</b>	269,684,970
	<b>₱8,071,471,679</b>	₱7,493,009,471

### Trade receivables

The trade receivables are noninterest-bearing and collectible within one (1) year.

This consists of the following:

#### *Receivable from construction and infrastructure*

Receivables from construction and infrastructure represent amounts arising from domestic and foreign construction contracts. These receivables are based on the monthly progress billings provided to customers over the period of the construction and collectible over a period of thirty (30) to ninety (90)-day period. Retention receivables are recouped upon completion of the construction contract.

#### *Receivables from car dealership*

Receivables from car dealership represent amounts arising from the sale of car, parts and accessories and services collectible within 30 days.

#### *Receivables from education and information technology*

Receivables from education and information technology represent amounts arising from tuition and other fees generally collectible within 90 days and from computer and service sales collectible within 30 days.

#### *Receivables from other services*

Receivables from other services represent amounts arising from management and consultancy services provided by the Group generally collectible within 30 days.

No trade receivables were used as collaterals to secure obligations in 2016 and 2015.



Other receivables

*Advances to suppliers and subcontractors* represent down payment to subcontractors for the contract work to be performed and advance payment for the purchase of various construction materials and machineries and equipment items.

*Consultancy fees* pertain to receivables arising from contract negotiations, administration of commercial issues and claims, sales leads and application of computerization programs.

*Receivables from plant* pertain to noninterest-bearing receivables from Honda Cars Philippines, Inc. and Isuzu Philippines Corporation, for promotional subsidy and fleet discounts. Receivables from plant are collectible within a year in the normal course of Group's business.

*Advances to officers and employees* mainly pertain to interest-bearing advances and loans made by officers and employees. Annual interest of 8.0% shall be liquidated on a monthly basis through salary deduction and therefore collectible within a year.

Receivables classified as "Others" consist of interest, dividends, commission, rebates, insurance and various receivables.

The changes in allowance for impairment as at December 31 follow:

	2016					
	Construction and Infrastructure	Car Dealership	Education and Information Technology	Other Services	Other Receivables	Total
Balances at beginning of year	₱67,921,840	₱32,259,687	₱61,335,683	₱7,733,529	₱100,434,231	₱269,684,970
Provisions - net of recoveries (Notes 27 and 28)	1,047,078	8,744,920	5,916,388	316,668	(783,355)	15,241,699
Reversals	—	(2,969,290)	—	—	(664,444)	(3,633,734)
Write-offs	(33,621,290)	—	(6,126,298)	(1,841,342)	(58,830)	(41,647,760)
Balances at end of year	₱35,347,628	₱38,035,317	₱61,125,773	₱6,208,855	₱98,927,602	₱239,645,175
Individually impaired	₱35,347,628	₱38,035,317	₱8,967,565	₱6,208,855	₱98,927,602	₱187,486,967
Collectively impaired	—	—	52,158,208	—	—	52,158,208
Total	₱35,347,628	₱38,035,317	₱61,125,773	₱6,208,855	₱98,927,602	₱239,645,175

	2015					
	Construction and Infrastructure	Car Dealership	Education and Information Technology	Other Services	Other Receivables	Total
Balances at beginning of year	₱71,578,409	₱31,634,062	₱55,979,766	₱7,964,620	₱87,253,095	₱254,409,952
Provisions -net of recoveries (Notes 27 and 28)	1,778,410	625,625	5,355,917	(231,091)	21,069,396	28,598,257
Reversals	—	—	—	—	(6,000,000)	(6,000,000)
Write-offs	(5,434,979)	—	—	—	(1,888,260)	(7,323,239)
Balances at end of year	₱67,921,840	₱32,259,687	₱61,335,683	₱7,733,529	₱100,434,231	₱269,684,970
Individually impaired	₱67,921,840	₱32,259,687	₱3,719,416	₱7,733,529	₱100,434,231	₱212,068,703
Collectively impaired	—	—	57,616,267	—	—	57,616,267
Total	₱67,921,840	₱32,259,687	₱61,335,683	₱7,733,529	₱100,434,231	₱269,684,970

## 9. Costs, Estimated Earnings and Billings on Uncompleted Contracts

The Group's revenue from construction contracts amounted to ₱13,826.1 million ₱17,951.6 million and ₱15,708.6 million for the years ended 2016, 2015 and 2014, respectively.



The details of the costs, estimated earnings and billings on uncompleted contracts follow:

	2016	2015
Total costs incurred	<b>₱57,629,587,385</b>	₱56,199,099,834
Add estimated earnings	<b>6,255,395,155</b>	5,567,001,273
	<b>63,884,982,540</b>	61,766,101,107
Less total billings	<b>64,245,386,440</b>	60,802,915,711
	<b>(₱360,403,900)</b>	₱963,185,396

The foregoing balances are reflected in the consolidated statements of financial position under the following accounts:

	2016	2015
Costs and estimated earnings in excess of billings on uncompleted contracts	<b>₱4,261,827,547</b>	₱5,946,503,761
Billings in excess of costs and estimated earnings on uncompleted contracts	<b>(4,622,231,447)</b>	(4,983,318,365)
	<b>(₱360,403,900)</b>	₱963,185,396

#### 10. Inventories

This account consists of:

	2016	2015
At cost		
Land and land development	<b>₱219,021,006</b>	₱219,256,480
Subdivision lots and contracted units for sale	<b>98,455,666</b>	85,875,299
Raw lands	<b>45,229,389</b>	44,916,103
	<b>362,706,061</b>	350,047,882
At NRV		
Merchandise	<b>1,066,795,911</b>	917,866,672
Construction materials	<b>81,538,956</b>	33,895,779
Spare parts and supplies	<b>55,686,488</b>	4,439,304
	<b>1,204,021,355</b>	956,201,755
	<b>₱1,566,727,416</b>	₱1,306,249,637

The related costs of inventories recorded at NRV follow:

	2016	2015
Merchandise	<b>₱1,077,687,229</b>	₱936,118,246
Construction materials	<b>90,023,201</b>	33,895,779
Spare parts and supplies	<b>81,538,956</b>	28,405,761
	<b>₱1,249,249,386</b>	₱998,419,786

The Group recognizes inventory write-down whenever the NRV of the existing inventories is lower than its cost.

The total cost of goods sold recognized in the Group's statements of comprehensive income amounted to ₱7,339.3 million, ₱6,629.8 million and ₱4,529.5 million in 2016, 2015 and 2014, respectively (Notes 24 and 25).



The rollforward of allowance for inventory obsolescence is as follows:

	2016	2015
Balances at beginning of year	<b>₱42,218,031</b>	₱50,329,777
Provisions (Note 28)	<b>3,010,000</b>	—
Reversals	—	(8,102,323)
Write-off	—	(9,423)
Balances at end of year	<b>₱45,228,031</b>	₱42,218,031

The summary of the movement in real estate inventories is set out below:

	2016	2015
Balance at beginning of year	<b>₱350,047,882</b>	₱348,572,719
Repossessioned inventories	<b>3,324,291</b>	6,454,348
Construction/development costs incurred	<b>23,269,593</b>	626,508
Disposals (recognized as cost of real estate sales)	<b>(13,935,705)</b>	(5,605,693)
Balances at end of year	<b>₱362,706,061</b>	₱350,047,882

No inventories were pledged as security to obligations as of December 31, 2016 and 2015.

#### 11. Prepaid Expenses and Other Current Assets

This account consists of:

	2016	2015
Receivable from a customer	<b>₱380,296,805</b>	₱—
Input value added tax (VAT)	<b>310,564,822</b>	496,552,931
Prepaid taxes	<b>308,871,426</b>	165,238,983
Current portion of receivable from EEI Retirement Fund, Inc. (Notes 17 and 22)	<b>45,266,388</b>	117,361,532
Prepaid expenses	<b>64,668,674</b>	92,423,446
Miscellaneous deposits	<b>49,314,686</b>	50,365,856
Restricted cash investment	<b>17,265,970</b>	8,388,705
Unused office supplies	<b>2,051,763</b>	4,644,275
Others	<b>74,427,576</b>	55,576,122
	<b>1,252,728,110</b>	990,551,850
Less allowance for impairment	<b>3,762,427</b>	3,762,427
	<b>₱1,248,965,683</b>	₱986,789,423

Receivable from a customer represents advances to project owner that bear interest at 7.25% per annum which will be collected in 2017.

Input VAT represents taxes imposed to the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. This will be used against future output VAT liabilities or will be claimed as tax credits. Management has estimated that all input VAT is recoverable at its full amount.



Miscellaneous deposits mainly represent the Group's refundable rental, utilities and guarantee deposits on various machinery and equipment items.

## 12. Available-for-Sale Financial Assets

This account consists of:

	2016	2015
Quoted shares - at fair value	<b>₱59,332,410</b>	₱66,220,064
Unquoted shares - at cost	<b>464,731,831</b>	568,428,979
	<b>₱524,064,241</b>	₱634,649,043

Rollforward analysis of the account follow:

	2016	2015
Balance at beginning of year	<b>₱634,649,043</b>	₱484,239,518
Additions	—	244,596,453
Disposals and redemption	<b>(103,644,149)</b>	(56,877,867)
Return of capital	<b>(53,000)</b>	—
Impairment loss	—	(32,600)
Reduction	—	(14,000,000)
Net unrealized loss recognized in other comprehensive income	<b>(6,887,653)</b>	(23,276,461)
	<b>₱524,064,241</b>	₱634,649,043

Movements in the net accumulated unrealized gain on available-for-sale financial assets are as follows:

	2016	2015
Attributable to equity holders of the parent:		
Balance at beginning of year	<b>₱86,516,972</b>	₱105,648,267
Loss recognized in OCI	<b>(6,657,922)</b>	(19,131,295)
Balance at end of year	<b>79,859,050</b>	86,516,972
Noncontrolling interest:		
Balance at beginning of year	<b>2,915,590</b>	7,060,756
Loss recognized in OCI	<b>(229,731)</b>	(4,145,166)
Balance at end of year	<b>2,685,859</b>	2,915,590
	<b>₱82,544,909</b>	₱89,432,562

The unquoted shares consist of shares of the following nonlisted companies:

	2016	2015
PetroGreen Energy Corporation	<b>₱237,279,889</b>	₱237,279,889
RCBC Realty Corporation (RRC)	<b>104,112,432</b>	206,656,581
Hermosa Ecozone Development Corporation	<b>100,000,000</b>	100,000,000
Brightnote Assets Corporation	<b>11,000,000</b>	11,000,000
Sta. Elena Properties	<b>7,680,033</b>	7,680,033
Heritage Park	<b>1,980,000</b>	3,080,000
Subic Power Corporation	<b>37,500</b>	37,500
Others	<b>2,641,977</b>	2,694,976
	<b>₱464,731,831</b>	₱568,428,979



Fair value for these unquoted financial assets cannot be determined reliably because these equity instruments represent equity shares in private companies that are not quoted on any market and do not have any comparable industry peer that is listed.

The Group's investments in RRC, classified as AFS securities, are non-voting preference shares. Investments in RRC financial assets amounting to ₱102.5 million and ₱53.7 million were redeemed in 2016 and 2015, respectively, which resulted to gains amounting to ₱57.8 million and ₱30.3 million, respectively (Note 23).

In 2016 and 2015, the Parent Company sold a portion of its investment in Heritage Park, an unquoted security, amounting to ₱1.1 million and ₱2.0 million, respectively. The sale of such security resulted to a gain of ₱5.3 million and ₱4.3 million, respectively (Note 23).

In 2015, the Group purchased 143.4 million shares amounting to ₱237.3 million for a 10% equity interest in PetroGreen Energy Corporation (PGEN) and acquired additional shares of YGC Corporate Services, Inc. amounting ₱0.4 million.

In 2015, the Group wrote-off its investment in Brightnote Asset Corporation and its related subscription payable amounting to ₱14.0 million because the investee issued a certificate of decrease in capital stock with the same amount.

As of December 31, 2016 and 2015, available-for-sale investments pledged as security to long-term debt amounted to ₱104.1 million and ₱206.7 million, respectively (Note 20).

### 13. Investments in Associates and Joint Venture

The rollforward analysis of this account follows:

	2016	2015
Acquisition cost		
Balances at beginning	<b>₱2,509,185,650</b>	₱1,992,371,494
Additions	<b>296,369,355</b>	516,814,156
Reclassification	<b>518,826,000</b>	—
Return of investments	<b>(4,191,782)</b>	—
Balance at end of year	<b>3,320,189,223</b>	2,509,185,650
Accumulated impairment loss	<b>74,536,609</b>	74,536,609
Accumulated equity in net earnings		
Balance at beginning of year	<b>1,521,558,753</b>	2,025,354,729
Equity in net losses	<b>(1,094,246,390)</b>	(464,411,056)
Dividends received	<b>(33,134,920)</b>	(39,384,920)
Balance at end of year	<b>394,177,443</b>	1,521,558,753
Subtotal	<b>3,639,830,057</b>	3,956,207,794
Equity in cumulative translation adjustment	<b>82,240,293</b>	56,984,111
Advances	—	518,826,000
	<b>₱3,722,070,350</b>	<b>₱4,532,017,905</b>



The details of significant investments accounted for under the equity method are as follows:

(Amounts in millions)

	2016					
	PERC	RRC	MMPC	ARCC	PWEI	PSOC
Acquisition cost:						
Balance, January 1	₱538	₱959	₱120	₱18	₱257	₱366
Reclassification	—	—	—	519	—	—
Additions	—	—	—	295	—	—
Balance, December 31	538	959	120	832	257	366
Accumulated equity in net earnings (losses):						
Balance, January 1	148	148	150	1,034	(13)	(8)
Equity in net earnings (losses)	19	114	68	(1,416)	27	73
Dividends declared	—	—	(24)	—	—	—
Balance, December 31	167	262	194	(382)	14	65
Subtotal	705	1,221	314	450	271	431
Equity in cumulative translation adjustments	—	—	—	117	—	—
	₱705	₱1,221	₱314	₱567	₱271	₱431

	2015					
	PERC	RRC	MMPC	ARCC	PWEI	PSOC
Acquisition cost:						
Balance, January 1	₱404	₱959	₱120	₱18	₱241	₱—
Additions	134	—	—	—	16	366
Balance, December 31	538	959	120	18	257	366
Accumulated equity in net earnings (losses):						
Balance, January 1	99	89	118	1,708	(18)	—
Equity in net earnings (losses)	49	59	55	(674)	5	(8)
Dividends declared	—	—	(24)	—	—	—
Balance, December 31	148	148	149	1,034	(13)	(8)
Subtotal	686	1,107	269	1,052	244	358
Equity in cumulative translation adjustments	—	—	—	92	—	—
Advances	—	—	—	519	—	—
	₱686	₱1,107	₱269	₱1,663	₱244	₱358

The reconciliation of the net assets of the associates and joint ventures to the carrying amounts of the interests in significant associates and joint ventures recognized in the consolidated financial statement is as follows:

	2016					
	PERC	RRC	MMPC	ARCC	PWEI	PSOC
Net assets *	₱1,195	₱3,030	₱911	₱1,158	₱1,354	₱978
Proportionate ownership in the associate	22.41%	10.00%	25.98%	49.00%	20.00%	44.00%
Share in net identifiable assets	268	303	237	567	271	430
Transaction costs	—	—	—	—	—	1
Premium	437	918	77	—	—	—
Carrying value	₱705	₱1,221	₱314	₱567	₱271	₱431

\*Excluding treasury shares and cumulative translation adjustments



	2015					
	PERC	RRC	MMPC	ARCC	PWEI	PSOC
Net assets *	₱1,109	₱1,890	₱741	₱2,336	₱1,036	₱312
Proportionate ownership in the associate	22.41%	10.00%	25.98%	49.00%	20.00%	44.00%
Share in net identifiable assets	249	189	192	1,144	207	137
Share in deposits for future stocks subscription	—	—	—	—	37	220
Transaction costs	—	—	—	—	—	1
Advances	—	—	—	519	—	—
Premium	437	918	77	—	—	—
Carrying value	₱686	₱1,107	₱269	₱1,663	₱244	₱358

\*Excluding treasury shares and cumulative translation adjustments

Summarized financial information of the Group's significant associates and joint venture are as follows:

	2016					
	PERC	RRC	MMPC	ARCC	PWEI	PSOC
Current assets	₱1,432	₱1,062	₱1,007	₱4,967	₱1,043	₱455
Noncurrent assets	9,222	6,368	1,093	2,448	4,047	2,959
Total assets	₱10,654	₱7,430	₱2,100	₱7,415	₱5,090	₱3,414
Current liabilities	₱1,110	₱1,438	₱877	₱5,372	₱1,000	₱327
Noncurrent liabilities	5,105	4,601	338	885	2,736	2,108
Total liabilities	₱6,215	₱6,039	₱1,215	₱6,257	₱3,736	₱2,435
Revenues	₱1,597	₱2,644	₱701	₱6,837	₱770	₱559
Cost	(1,052)	(982)	(79)	(9,703)	(568)	(199)
Gross margin	₱545	1,662	622	(2,866)	202	360
Selling and administrative, and other expenses	(256)	(180)	(268)	(650)	(68)	(183)
Pre-tax income (loss)	₱289	₱1,482	₱354	(₱3,516)	₱134	₱177
Proportionate ownership in the associate	22.41%	10.00%	25.98%	49.00%	20.00%	44.00%
Share in pre-tax income (loss)	65	148	92	(1,723)	27	77
Income tax	(2)	(34)	(24)	307	—	(4)
Non-controlling interest	(44)	—	—	—	—	—
Equity in net earnings (losses)	₱19	₱114	₱68	(₱1,416)	₱27	₱73
Dividends received	₱—	₱—	₱24	₱—	₱—	₱—

	2015					
	PERC	RRC	MMPC	ARCC	PWEI	PSOC
Current assets	₱2,009	₱919	₱972	₱8,268	₱477	₱1,263
Noncurrent assets	9,150	6,511	958	2,179	4,277	2,889
Total assets	₱11,159	₱7,430	₱1,930	₱10,447	₱4,754	₱4,152
Current liabilities	₱1,971	₱1,543	₱891	₱6,094	957	₱1,527
Noncurrent liabilities	5,311	3,684	321	2,017	2,761	2,314
Total liabilities	₱7,282	₱5,227	₱1,211	₱8,111	₱3,718	₱3,841
Revenues	₱1,109	₱2,370	₱606	₱12,353	₱313	₱6
Cost	(614)	(1,295)	(78)	(13,701)	(160)	—
Gross margin	495	1,075	528	(1,348)	153	6
Selling and administrative, and other expenses	(432)	(204)	(221)	(371)	(126)	(24)
Pre-tax income (loss)	₱63	₱871	₱306	(₱1,719)	₱27	(₱18)
Proportionate ownership in the associate	22.41%	10.00%	25.98%	49.00%	20.00%	44.00%
Share in pre-tax income (loss)	14	87	80	(842)	5	(8)
Income tax	35	(28)	(25)	168	—	—
Equity in net earnings (losses)	₱49	₱59	₱55	(₱674)	₱5	(₱8)
Dividends received	₱—	₱—	₱24	₱—	₱—	₱—



#### ARCC

EEI Limited extended advances to ARCC amounting to ₪518.8 million in 2015. These advances were converted into additional investment in ARCC in 2016 and were presented as part of additions to the investment in ARCC. EEI Limited made additional investment of ₪294.9 million to ARCC in 2016.

The Group's share in the net income of ARCC is subject to 20% Saudi Arabia income taxes. In 2016, LLDC issued a certificate of decrease in capital stock which resulted to a decrease in the Group's investment by ₪4.19 million.

In 2015, the Parent Company availed of the stock rights issued by PERC totaling 30.68 million shares for ₪4.38 per share. Such transaction did not result to a change in the 22.41% ownership of the Group on PERC. PERC's market price amounted to ₪3.50 per share as of December 31, 2015.

In 2015, EPC purchased additional 0.2 million shares from PWEI for ₪16.0 million. This transaction did not result to a change in the 20% ownership of EPC over the joint venture.

As of December 31, 2016, investments in RRC and MMPCI amounting ₪958.7 million and ₪14.4 million, respectively, were pledged as security to obligations (Note 20).

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#### 14. Property and Equipment

##### *Property and equipment at revalued amount*

Movements in the revalued land are as follows:

	2016	2015
Balance at beginning of year	₪4,578,358,058	₪3,321,553,137
Additions:		
Acquisition	—	425,500,000
Capitalizable costs	2,060,700	11,734,520
Appraisal increase	374,754,842	819,570,401
Balance at end of year	₪4,955,173,600	₪4,578,358,058

Capitalizable costs include taxes paid for purchase of land.

As of December 31, 2016 and 2015, the appraised values of the parcels of land were determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size, shape and terrain (5% to -15%), utility (-5%), location (5%), among others. Significant favorable (unfavorable) adjustments to aforementioned factors based on the professional judgement of the independent appraisers would increase (decrease) the fair value of the land (level 3 - Significant unobservable inputs). The parcels of land were valued in terms of their highest and best use.



Description of the valuation techniques used and key inputs to valuation of land follow:

Location	Valuation Techniques	Unobservable Inputs Used	Range (Weighted Average)	
			2016	2015
Chino Roces Avenue (Pasong Tamo Extension), Makati City	Market Approach	Price per square meter	<b>₱300,000 to ₱400,000 (₱355,000)</b>	₱190,000 to ₱280,000 (₱232,000)
Muralla Street, Intramuros, Manila	Market Approach	Price per square meter	<b>₱45,000 to ₱55,000 (₱48,750)</b>	₱45,000 to ₱84,804 (₱59,115)
Paz Mendoza Guazon, Pandacan, Manila	Market Approach	Price per square meter	<b>₱37,000 to ₱55,000 (₱45,250)</b>	₱35,000 to ₱85,500 (₱48,200)
Barangay Pulo, City of Cabuyao, Laguna (Forward)	Market Approach	Price per square meter	<b>₱10,000 to ₱12,000 (₱10,333)</b>	₱10,000 to ₱16,000 (₱10,600)
MacArthur Highway (Davao-Cotabato National Road), Brgy. Ma-a, Davao City	Market Approach	Price per square meter	<b>₱8,972 to ₱35,000 (₱24,329)</b>	₱10,000 to ₱16,000 (₱10,600)
Quezon and Panay Avenue, Quezon City	Market Data Approach	Price per square meter	<b>₱76,000 to ₱140,471 (₱81,000)</b>	₱78,875 to ₱120,000 (₱68,000)

In 2016, 2015 and 2014, the Group revalued its land based on the appraisals made by SEC accredited appraisers. Movements in revaluation increment on land, net of deferred tax effect, for the years ended December 31 follow:

	2016	2015	2014
Beginning of year	<b>₱1,438,725,861</b>	₱865,026,581	₱789,270,059
Revaluation increment	<b>262,328,389</b>	573,699,281	75,756,521
End of year	<b>₱1,701,054,250</b>	₱1,438,725,861	₱865,026,581

As of December 31, 2016 and 2015, the cost of the parcels of land land carried at revalued amounts amounted to ₱2,462.8 million and ₱2,460.7 million, respectively.



*Property and equipment at cost*

The rollforward analysis of this account follows:

2016						
	Land, Buildings and Improvements	Machinery, Tools and Construction Equipment	Transportation and Service Equipment	Furniture, Fixtures, and Office Equipment	Construction in Progress (Note 19)	Total
<b>Cost</b>						
At beginning of year	₱3,032,627,795	₱4,164,600,286	₱1,032,484,749	₱1,976,232,744	₱21,131,339	₱10,227,076,913
Additions	46,476,852	399,721,070	316,973,890	192,706,659	42,177,723	998,056,194
Disposals/retirements	—	(11,489,918)	(24,664,691)	(38,556,272)	—	(74,710,881)
Reclassifications	(39,149,471)	19,699,117	(13,206,507)	40,379,099	(7,722,238)	—
Transfers	—	17,745,839	—	57,957	—	17,803,796
At end of year	3,039,955,176	4,590,276,394	1,311,587,441	2,170,820,187	55,586,824	11,168,226,022
<b>Accumulated Depreciation and Amortization</b>						
At beginning of year	1,321,799,602	1,344,315,250	457,336,306	1,448,833,080	—	4,572,284,238
Depreciation and amortization (Note 29)	138,304,347	394,953,567	142,919,897	213,066,654	—	889,244,465
Disposals/retirements	—	(10,327,117)	(18,986,281)	(38,224,314)	—	(67,537,712)
Reclassifications	(1,490,400)	2,325,888	(865,179)	29,691	—	—
At end of year	1,458,613,549	1,731,267,588	580,404,743	1,623,705,111	—	5,393,990,991
<b>Net Book Value at Cost</b>	<b>₱1,581,341,627</b>	<b>₱2,859,008,806</b>	<b>₱731,182,698</b>	<b>₱547,115,076</b>	<b>₱55,586,824</b>	<b>₱5,774,235,031</b>
<b>Land at Revalued Amounts</b>	<b>₱4,955,173,600</b>					

2015						
	Land, Buildings and Improvements	Machinery, Tools and Construction Equipment	Transportation and Service Equipment	Furniture, Fixtures, and Office Equipment	Construction in Progress (Note 19)	Total
<b>Cost</b>						
At beginning of year	₱2,255,790,100	₱3,372,866,686	₱714,330,236	₱1,790,615,854	₱448,190,632	₱8,581,793,508
Additions	254,868,160	728,466,343	344,798,172	210,110,516	149,429,261	1,687,672,452
Disposals/retirements	(2,285,827)	(32,542,911)	(31,147,919)	(49,728,411)	—	(115,705,068)
Reclassifications	9,774,454	—	—	104,986	(9,879,440)	—
Transfers	514,480,908	95,810,168	4,504,260	25,129,799	(566,609,114)	73,316,021
At end of year	3,032,627,795	4,164,600,286	1,032,484,749	1,976,232,744	21,131,339	10,227,076,913
<b>Accumulated Depreciation and Amortization</b>						
At beginning of year	1,211,231,319	1,043,539,423	397,931,353	1,286,042,120	—	3,938,744,215
Depreciation and amortization (Note 29)	114,678,100	309,763,797	94,138,016	214,941,801	—	733,521,714
Disposals/retirements	—	(32,215,895)	(25,035,652)	(48,941,173)	—	(106,192,720)
Reclassifications	(4,109,817)	23,227,925	(9,697,411)	(3,209,668)	—	6,211,029
At end of year	1,321,799,602	1,344,315,250	457,336,306	1,448,833,080	—	4,572,284,238
<b>Net Book Value at Cost</b>	<b>₱1,710,828,193</b>	<b>₱2,820,285,036</b>	<b>₱575,148,443</b>	<b>₱527,399,664</b>	<b>₱21,131,339</b>	<b>₱5,654,792,675</b>
<b>Land at Revalued Amounts</b>	<b>₱4,578,358,058</b>					

The distribution of the depreciation and amortization expenses of the Group's property and equipment follows:

	2016	2015	2014
<b>Cost of sales and services</b>			
Construction contracts (Note 26)	<b>₱483,036,014</b>	₱373,765,749	₱278,963,346
Tuition and other fees (Note 27)	<b>190,097,703</b>	160,594,643	124,922,880
Manpower and other services (Note 26)	<b>46,535,401</b>	44,587,611	43,710,394
Merchandise sold (Note 25)	—	—	627,833
Capitalized as part of cost of inventories	<b>165,063</b>	—	—
	<b>719,834,181</b>	578,948,003	448,224,453
<b>General and administrative expenses (Note 28)</b>	<b>169,410,284</b>	154,573,711	139,614,439
	<b>₱889,244,465</b>	₱733,521,714	₱584,238,480



On July 8, 2014, the Group also started the construction of the new engineering building in Laguna amounting to ₱171.9 million which was completed in June 2015. The building was equipped with state-of-the-art facilities and interactive learning environment to aid the students in their advanced engineering studies.

In 2016 and 2015, the Group reclassified construction equipments from Cost and Estimated Earnings in Excess of Billings on Uncompleted Contracts to Property and Equipment amounting to ₱17.8 million and ₱73.3 million, respectively.

Property and equipment amounting ₱2,589.3 million and ₱1,628.8 million as of December 31, 2016 and 2015, respectively, are fully depreciated but are still in active use.

## 15. Goodwill

The carrying amount of goodwill allocated to each of the CGUs follows:

	2016	2015
EEI Corporation and Subsidiaries	<b>₱300,859,305</b>	₱300,859,305
Malayan Colleges, Inc.	<b>137,853,346</b>	137,853,346
iPeople, inc.	<b>32,644,808</b>	32,644,808
	<b>₱471,357,459</b>	₱471,357,459

### Goodwill of EEI Corporation and Subsidiaries and iPeople, Inc. (iPeople)

Management determined that the recoverable amount of the goodwill balances of EEI Corporation and Subsidiaries and iPeople were fair values less costs of disposal wherein the fair values are the quoted prices of the shares of stocks of EEI Corporation and Subsidiaries and iPeople in the Philippine Stock Exchange as of December 29, 2016 (Level 1 - Quoted prices in active market). Management assessed that the costs of disposal, which mainly consist of the stock transaction tax, brokers' commission and transaction fee with the stock exchange to be insignificant.

### Goodwill of Malayan Colleges, Inc. (MCI)

Management has determined that the recoverable amount of the goodwill of MCI is value-in-use, which is based on a discounted cash flow model. The cash flow projections are based on financial projections approved by senior management covering a 5-year explicit forecast period, including a terminal value. Impact of the Enhanced K+12 Basic Education Program on MCI's financial performance is also considered in the forecast.

Key assumptions used to determined value-in-use as of December 31, 2016 follow:

Assumptions	Description
Discount rate	15% Based on weighted average cost of capital
Revenue growth rates	8.85% Growth rates in revenues are based on the Company's expectations of market developments and past historical performance.

### *Sensitivity to changes in assumptions*

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of goodwill of MCI to materially exceed its recoverable amount.



As of December 31, 2016, the recoverable amounts are higher than the carrying value of the CGUs.

## 16. Investment Properties

The rollforward analysis of this account follows:

	2016		
	Land Held for Capital Appreciation	Condominium Units and Parking Slots	Total
<b>Cost</b>			
Balances at beginning of year	₱203,822,291	₱52,391,054	₱256,213,345
Disposals	(10,391,870)	(27,883,636)	(38,275,506)
Balances at end of year	193,430,421	24,507,418	217,937,839
<b>Accumulated Depreciation and Amortization</b>			
Balances at beginning of year	–	19,669,845	19,669,845
Depreciation and amortization	–	1,336,639	1,336,639
Disposals	–	(8,903,242)	(8,903,242)
Balances at end of year	–	12,103,242	12,103,242
<b>Net Book Value</b>	<b>₱193,430,421</b>	<b>₱12,404,176</b>	<b>₱205,834,597</b>

	2015		
	Land Held for Capital Appreciation	Condominium Units and Parking Slots	Total
<b>Cost</b>			
Balances at beginning of year	₱210,429,459	₱68,445,854	₱278,875,313
Disposals	(6,607,168)	(16,054,800)	(22,661,968)
Balances at end of year	203,822,291	52,391,054	256,213,345
<b>Accumulated Depreciation and Amortization</b>			
Balances at beginning of year	–	18,579,206	18,579,206
Depreciation and amortization	–	3,008,388	3,008,388
Disposals	–	(1,917,749)	(1,917,749)
Balances at end of year	–	19,669,845	19,669,845
<b>Net Book Value</b>	<b>₱203,822,291</b>	<b>₱32,721,209</b>	<b>₱236,543,500</b>

Land classified as investment properties include parcels of land located in Batangas, Benguet, Zamboanga, Cavite, Nueva Ecija, Bulacan and memorial lots in Las Piñas with carrying values of ₱180.1 million, ₱6.3 million, ₱1.8 million, ₱0.5 million, ₱0.2 million, ₱2 thousand and ₱4.5 million, respectively, as of December 31, 2016. Carrying values of parcels of land located in Batangas, Benguet, Zamboanga and Baguio, Cavite, Nueva Ecija, Bulacan and memorial lots in Las Piñas amounted to ₱180.1 million, ₱9.5 million, ₱4.8 million, ₱0.5 million, ₱0.2 million, ₱2 thousand and ₱8.7 million, respectively, as of December 31, 2015.

Parcels of land in Batangas and Benguet has a fair value amounting to ₱292.5 million and ₱7.4 million, respectively as of December 5, 2016 determined based on valuation performed by an independent appraiser whose report was dated December 12, 2016. Management believes that there is no significant change in the fair value of the investment property from December 5, 2016 to December 31, 2016 because there were no significant improvements made to the said



investment property since the last appraisal and no impairment indicators existed as of December 31, 2016.

The fair values of the aforementioned investment property were determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size, location, frontage/visibility, view and utilization (Level 3 - Significant unobservable inputs).

The aggregate carrying values of the condominium units located in Taguig, Manila and Makati amounted to ₱11.4 million and ₱28.1 million as of December 31, 2016 and 2015, respectively. Parking slots located in Taguig and Pasig have carrying values amounting to ₱1.0 million and ₱4.6 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the fair values of the condominium units and the parking slots amounted to ₱19.3 million and ₱58.1 million, respectively, based on market transactions involving identical or comparable assets and adjusted to reflect any differences in the characteristics of the properties (Level 3 - Significant unobservable inputs).

Rental income derived from the investment properties amounted to ₱4.5 million, ₱1.7 million and ₱2.6 million in 2016, 2015 and 2014, respectively (see Note 23).

Proceeds from the disposal of investment properties amounted to ₱54.1 million, ₱26.1 million and ₱0.2 million in 2016, 2015 and 2014, respectively. Gain on sale of investment properties amounted to ₱24.7 million, ₱5.4 million and nil in 2016, 2015 and 2014, respectively (see Note 23).

None of the investment properties were pledged as a security to obligations as of December 31, 2016 and 2015.

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## 17. Other Noncurrent Assets

This account consists of:

	2016	2015
Receivable from EEI-RFI - net of current portion (Notes 11 and 22)	<b>₱178,000,000</b>	₱156,000,000
Receivable from a customer (Note 11)	—	162,326,173
Computer software	<b>13,772,672</b>	15,791,828
Others	<b>63,227,166</b>	31,997,271
	<b>₱254,999,838</b>	₱366,115,272

The Group sold a parcel of land to EEI-RFI, a trustee of the EEI's employee retirement fund in previous years. Both parties agreed the selling price be repaid in installments and bear annual interest rate of 5%. In 2016, the Group and the Fund agreed to extend the term of the payment until April 30, 2021.

Receivable from a customer represents advances to project owner subject to liquidation after project completion expected to be completed beyond one year.



There was no impairment recognized for computer software in 2016 and 2015.

Rollforward of computer software follows:

	2016	2015
<b>Cost</b>		
Balance at the beginning of the year	<b>₱96,024,917</b>	₱88,895,987
Additions	<b>9,070,558</b>	7,128,930
Balance at the end of the year	<b>105,095,475</b>	96,024,917
<b>Accumulated Amortization</b>		
Balance at the beginning of the year	<b>80,233,089</b>	60,390,418
Amortization (Note 29)	<b>11,089,714</b>	19,842,671
Balance at the end of the year	<b>91,322,803</b>	80,233,089
<b>Net Book Value</b>	<b>₱13,772,672</b>	₱15,791,828

Other noncurrent assets include noncurrent deferred charges, deposit on contracts, refund from Meralco, receivable from PGEC and others.

#### 18. Accounts Payable and Other Current Liabilities

This account consists of:

	2016	2015
Accounts payable	<b>₱5,042,381,584</b>	₱5,558,361,086
Deferred output taxes	<b>604,419,731</b>	559,612,484
Accrued expenses	<b>293,063,159</b>	304,255,994
Output tax payable	<b>138,489,300</b>	266,429,537
Provisions	<b>142,976,418</b>	144,835,772
Withholding taxes and others	<b>57,660,445</b>	64,345,366
Subscriptions payable	<b>31,988,718</b>	31,988,718
SSS and other contributions	<b>26,677,549</b>	24,162,510
Dividends payable	<b>23,372,820</b>	23,816,752
Chattel mortgage payable	<b>15,531,566</b>	8,351,159
Payable to PTC	<b>13,052,018</b>	13,052,018
Payable to Land Transportation Office	<b>7,590,214</b>	2,011,201
Deferred income	<b>3,679,534</b>	8,610,319
Others	<b>72,025,693</b>	3,682,517
	<b>₱6,472,908,749</b>	₱7,013,515,433

Accounts payable pertains to the Group's obligation to local suppliers. The normal trade credit terms of accounts payable and accrued expenses of the Group are expected to be settled within the next twelve (12) months.

Subscriptions payable represents unpaid subscriptions on equity securities.



Accrued expenses consist of:

	2016	2015
Accrued rent	<b>₱38,459,033</b>	₱39,216,177
Accrued insurance	<b>31,941,963</b>	28,554,229
Accrued salaries and wages	<b>25,481,445</b>	20,137,392
Accrued interest	<b>12,864,670</b>	15,008,773
Accrued security services	<b>12,479,188</b>	11,465,981
Accrued professional fees	<b>7,478,169</b>	16,439,193
Accrued utilities	<b>3,608,160</b>	5,392,652
Others	<b>160,750,531</b>	168,041,597
	<b>₱293,063,159</b>	₱304,255,994

Provisions include the Groups's recognized payable associated with the Faculty Associations of Mapua Institute of Technology (FAMIT) reranking case. This case involves the faculty ranking and evaluation instrument that was part of the 2001 Collective Bargaining Agreement negotiations with the FAMIT. The Supreme Court reversed an earlier Court of Appeals decision in favor of management. An entry of judgment dated March 13, 2008 was made in the Supreme Court Book of Entries of Judgments, making the decision final and executory. A Memorandum of Agreement was entered into by management with FAMIT before the Voluntary Arbitrators wherein the parties agreed to continue the process of faculty ranking. The evaluation process was completed in December 2008.

On January 22, 2009, MCI and FAMIT entered into a Compromise Agreement regarding the payment of the amounts due to the permanent faculty members of MCI in relation to the faculty reranking case.

As at December 31, 2016 and 2015, total accumulated payments to faculty members amounted to ₱230.8 million and ₱228.9 million, respectively. In 2016, the Group made payments amounting ₱1.9 million. Related accruals as at December 31, 2016 and 2015 amounted to ₱64.1 million and ₱66.0 million, respectively.

#### *Payable to PTC*

On January 22, 2008, the Group entered into a memorandum of agreement with PTC to jointly establish the Mapua-PTC CMET. It shall be housed and be a part of the Group and shall be composed of at least five departments enumerated as follows:

- 1) Department of Marine Engineering;
- 2) Department of Maritime Transportation;
- 3) Department of Naval Architecture and Marine Engineering;
- 4) Department of Ship Management; and
- 5) Department of Shipping Policy Studies.

The parties agree that the operation and management of Mapua-PTC CMET shall be under the auspices of the Group and that the parties shall execute both an Operations and Management Agreement to operate the educational activities and general administrative functions of the Mapua-PTC CMET.

The Group shall be responsible for establishing academic, faculty, student and academic services policies and the enforcement thereof, as well as provide overall administrative control and supervision of all school personnel, faculty and engaged service providers.



All properties acquired under the project shall be equally owned by the PTC and the Group unless otherwise borrowed or leased by the Group for the Mapua-PTC CMET or donated with preconditions imposed by third parties on Mapua-PTC CMET.

All net income or losses which results from the operation of the Mapua-PTC CMET shall be shared and distributed equally on a 50%-50% basis between the Group and PTC.

In 2015, the parties agreed that the above agreement shall continue for the next five (5) years unless earlier terminated by either party evidenced by the Memorandum of Agreement executed on September 16, 2015. As of December 31, 2015, the agreement was accounted for as jointly controlled operations.

*Service Agreement*

On January 12, 2016, the Group amended the MOA with PTC to terminate the jointly-controlled operations effective December 31, 2015. On the same date, a service agreement was executed between the Group and PTC to support the services to be rendered by PTC related to Mapua-PTC CMET such as the provision of adequate facilities for the conduct of training requirements of the students, support in scholarship programs and ship-board trainings, and support in obtaining grants and donations from international shipping companies.

In consideration for the above services, PTC will bill the the Group a service fee commensurate to the services. In 2016, PTC charged service fee amounting to ₱1.9 million.

Net payables to PTC as of December 31, 2016 and 2015 amounted to ₱13.1 million. This is presented net of receivables from PTC amounting to ₱112.6 million as of December 31, 2016 and 2015.

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## 19. Loans Payable

This account consists of:

	2016	2015
Loans payable (Note 22)		
Unsecured bank loans	₱3,600,000,000	₱4,000,000,000
Secured bank loans	500,000,000	160,000,000
	<b>₱4,100,000,000</b>	<b>₱4,160,000,000</b>

Unsecured

Unsecured bank loans are obtained from local banks and related party financial institutions with annual interest rates ranging from 2.50% to 3.00% and 2.50% to 3.27% in 2016 and 2015, respectively.

Secured

The secured loans from local banks bear annual interest rates ranging from 3.00% to 3.25% and 3.00% to 3.49% in 2016 and 2015, respectively. The carrying value of the investments in subsidiary (at cost) held as collaterals amounted to ₱33.7 million as of December 31, 2016 and 2015, respectively (see Note 13).



## 20. Long-term Debt

This pertains to the long-term debt of the following companies:

	2016	2015
<b>Parent Company</b>		
Peso-denominated syndicated bank loan payable within ten (10) years which shall commence after three (3) years from the date of issue with a floating rate per annum based on the higher of (i) the three (3) - month Philippine Dealing System Treasury Reference Rates - Fixing (PDST-F) plus a spread of two percent (2.0%) per annum or (ii) the BSP overnight rate plus a spread of 1.5%	<b>₱631,847,726</b>	<b>₱644,072,479</b>
Peso-denominated syndicated bank loan payable within 10 years which shall commence after three (3) years from the date of issue with a fixed rate per annum based on the highest of (i) five (5)-year PDST-F, plus a spread of 2.0% per annum or (ii) floating rate per annum based on the higher of (i) the three (3) - month Philippine Dealing System Treasury Reference Rates - Fixing (PDST-F) plus a spread of 2.0% per annum or (ii) the BSP overnight rate plus a spread of 1.5% or (iii) 5.5% per annum	<b>631,847,725</b>	<b>644,072,478</b>
Peso-denominated five (5) year term loan, payable in twenty (20) equal quarterly installments starting March 2016 with interest of 5.11% per annum	<b>400,000,000</b>	<b>500,000,000</b>
<b>MCI</b>		
Peso-denominated syndicated bank loan payable after 7.5 years starting November 2010 without grace period on principal payment, subject to floating rate equal to the 3-month Philippine Dealing System Treasury Reference Rates-Fixing (PDST-F) plus a per annum spread of 1.75% payable in accelerating amounts up to May 22, 2018 in 2015 and November 22, 2020 in 2014.	—	<b>188,500,000</b>
<b>EEI Power</b>		
Peso-denominated seven (7) year term loan, payable in equal quarterly installments and will mature on August 27, 2022 with interest of 4.80% per annum.	<b>410,714,285</b>	<b>482,142,858</b>
<b>EEI</b>		
Fixed-rate corporate promissory notes with effective interest rates of 5.1667% and 5.1875% per annum	<b>1,089,285,714</b>	<b>1,303,571,428</b>
	<b>3,163,695,450</b>	<b>3,762,359,243</b>
Less current portion of long-term debt	<b>491,748,610</b>	<b>498,897,436</b>
	<b>₱2,671,946,840</b>	<b>₱3,263,461,807</b>

### Parent Company

On September 17, 2013, the Parent Company obtained interest-bearing loans from various local commercial banks (Eastwest Bank, Robinsons Bank and Philippine Bank of Communications) which were executed through individual loan agreements with chattel mortgage. Each interest-



bearing loan has a term of ten years. Fifty percent (50%) of the total loan will be paid on the 10th year, while the remaining 50% of the loan, inclusive of a three (3) year grace period on principal payment, will be paid in 28 quarterly instalments commencing on the 13th quarter.

The proceeds of the loan were used for the acquisition of the 10% ownership in RRC. A portion of each loan bears a fixed annual effective interest rate of 5.5%, subject to repricing on the fifth (5) year while the remaining portion bears a floating effective interest rate of 5%, subject to quarterly repricing.

Loans financed by Eastwest Bank are secured by the Parent Company's investment in an associate. The carrying value of the investment held as collateral amounted to ₱706.0 million and ₱773.6 million as of December 31, 2016 and 2015, respectively (see Note 13).

Loans financed by Robinsons Bank are secured by the Parent Company's investment in an associate, investment in a subsidiary and AFS securities with carrying values amounting to ₱524.5 million and ₱559.4 million as of December 31, 2016 and 2015, respectively (see Notes 12 and 13).

Loans financed by Philippine Bank of Communications are secured by the Parent Company's investment in subsidiary. The carrying value of the investment held as collateral amounted to ₱307.2 million as of December 31, 2016 and 2015.

The aggregate outstanding long-term debt to the four (4) banks amounted to ₱1,663.7 million and ₱1,788.1 million as of December 31, 2016 and 2015, respectively.

On December 16, 2015, the Parent Company acquired from BPI loan amounting ₱500.0 million, payable within five (5) years. The proceeds of the loan were used for general financing requirements and working capital purposes. This loan is secured by shares of the Parent Company to a subsidiary. The carrying value of the shares amounted to ₱75.7 million as of December 31, 2016 and 2015 (see Note 13).

The Parent Company is required to maintain specified financial ratios such as debt to equity and current ratios. As of December 31, 2016 and 2015, the Parent Company was in compliance with the loan covenants.

#### MCI

MCI acquired a loan from RCBC amounting to ₱860.0 million, payable within ten (10) years. This loan is backed up by land properties in Manila and Makati owned by the Group. The unpaid principal amount is subject to floating rate equivalent to 3-month PDST-F plus a per annum spread of 1.75%. The carrying value of the collateral amounted to ₱2,220.4 million in 2016 and 2015 (see Note 14).

In 2015, the MCI made payments amounting to ₱241.5 million which effectively shortened the term of the loan. The new maturity date of the loan is May 22, 2018.

On September 2, 2016, MCI fully paid the remaining balance of ₱188.5 million. No pre-termination penalty was paid.

The loan requires MCI to maintain debt-to equity ratio below 2.5:1 and current ratio not less than 1:1. In 2016 and 2015, MCI has complied with the loan covenants.



### EEI Power Corporation

On August 28, 2015, EEI Power entered into a 4.8% per annum fixed rate term loan amounting to ₱500.0 million with the Bank of the Philippines Islands (BPI) and will mature on August 27, 2022.

Interest on this long-term debt amounted to ₱23.0 million, ₱26.6 million and ₱34.4 million in 2016, 2015 and 2014, respectively (see Note 30).

The Group has complied with all loan covenants for the years ended December 31, 2016 and 2015.

### EEI

On June 15, 2015, EEI obtained a loan from Land Bank of the Philippines amounting to ₱1,000.0 million with an interest of 4.8% per annum. This loan matures within seven (7) years from the date of issue.

In 2014, EEI received ₱500.0 million proceeds from the issuance of unsecured fixed-rate corporate promissory notes to a local bank that bear annual interest of 5.2%. Subsequently, the bank reduced the interest rate to 4.8% effective starting May 26, 2015 until maturity. The promissory notes mature within seven (7) years from the date of issuance. The proceeds of the loan were used for general corporate and project financing requirements.

Interest expense incurred on these corporate notes amounted to ₱47.9 million, ₱40.1 million and ₱15.1 million in 2016, 2015 and 2014, respectively.

The aforementioned loans require the EEI to maintain certain financial ratios. As of December 31, 2016 and 2015, the Group was in compliance with the loan covenants.

Movements in the account follow:

	2016	2015
Balance at beginning of year	<b>₱3,762,359,243</b>	₱3,164,319,126
Availment	—	2,006,967,904
Payments	<b>(601,397,435)</b>	(1,413,094,389)
Amortization of transaction costs	<b>2,733,642</b>	4,166,602
Balance at end of year	<b>3,163,695,450</b>	3,762,359,243
Less current portion	<b>(491,748,610)</b>	(498,897,436)
	<b>₱2,671,946,840</b>	₱3,263,461,807

## **21. EEI's Stock Option Plan**

The EEI's stock option plan, as amended (Amended Plan), had set aside 35 million common shares for stock options available to regular employees, officers and directors of the Parent Company and its subsidiaries.

Under the Amended Plan, the option or subscription price must be equal to the book value of the EEI's common stock but not less than 80% of the average market price quoted in PSE for five trading days immediately preceding the grant, but in no case less than the par value. The option or subscription price should be paid over a period of five years in 120 equal semi-monthly installments. Shares acquired under the Amended Plan are subject to a holding period of one year.



A summary of the plan availments is shown below.

	Number of Shares
Shares allocated under the Original Stock Option Plan	19,262,500
Shares allocated under the Amended Stock Option Plan	15,737,500
Total shares allocated	35,000,000
Shares subscribed under the Original Stock Option Plan	19,365,815
Shares subscribed under the Amended Stock Option Plan	10,886,188
Total shares subscribed	30,252,003
Shares allocated at end of year	4,747,997

EEI opted to avail the exemption in PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, from applying PFRS 2 upon adoption on January 1, 2005 as it allows non-adoption of PFRS 2 for equity instruments that were granted on or before November 7, 2002. Since 2000, there were no shares under the stock option plan that were granted, forfeited, exercised and expired.

No benefit expense is recognized relative to the shares issued under the stock option plan. When options are exercised, these are treated as capital stock issuances. The stock option plan is exempt from PFRS 2.

## 22. 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 the party is an associate or a joint venture. Related parties may be individuals or corporate entities. Related parties include entities under common control, which pertains to other subsidiaries of PMMIC, which is the Group's ultimate parent company.

The year-end balances and transactions with respect to related parties included in the consolidated financial statements are as follows (amounts in thousands):

Category	2016			
	Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
<b>Parent Company - PMMIC</b>				
a. Accounts payable	₱1,627	(₱223)	Noninterest-bearing	Unsecured
Miscellaneous expenses incurred	1,484	—	—	—
b. Dividends payable	—	(929)	Noninterest-bearing	Unsecured
Dividends declared	28,019	—		
<b>Associates</b>				
c. Dividends receivable	—	—	Noninterest-bearing	Unsecured, no impairment
Dividends earned	33,135	—		

(Forward)



		2016			
Category		Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
d.	Receivables from related parties	P-	P4,109	Noninterest-bearing	Unsecured
	Rendering management and audit services	8,590	-	-	-
e.	Subscriptions payable	-	(9,735)	Noninterest-bearing	Unsecured
<b>Other affiliates</b>					
f.	Receivable from EEI Retirement Fund, Inc.	-	223,266	Interest-bearing, 5% per annum	Secured, no impairment
	Lease of property	52,093	-	-	-
	Interest earned	11,928	-	-	-
<b>Entities under common control</b>					
g.	Cash and cash equivalents	2,137,076	2,137,076	Interest-bearing at prevailing bank deposit rates	Unrestricted
	Interest earned	20,856	-	-	-
h.	Accounts receivable	-	46,275	Noninterest-bearing	Unsecured, no impairment
	Sale of vehicles	39,940	-	-	-
	Agency fee income earned	40,588	-	-	-
i.	Dividends receivable	-	30,116	Noninterest-bearing	Unsecured, no impairment
	Dividends earned	52,770	-	-	-
j.	Commission receivable	-	-	Noninterest-bearing	Unsecured, no impairment
	Commission earned	-	-	-	-
k.	Receivables from related parties	-	50,263	Noninterest-bearing	Unsecured, no impairment
	Rendering janitorial service	329,457	-	-	-
	Other income earned	2,239	-	-	-
	Rental income earned	10,975	-	-	-
	Audit fee income earned	3,433	-	-	-
l.	Management fee receivable	-	12,580	Noninterest-bearing	Unsecured, no impairment
	Rendering management services	119,945	-	-	-
m.	Accounts payable and accrued expenses	-	(5,092)	Noninterest-bearing	Unsecured
	Rental of office space	6,048	-	-	-
n.	Due to related parties	-	(127,809)	Noninterest-bearing	Unsecured
	Insurance expense	6,372	-	-	-
o.	Loans payable	600,000	-	Interest-bearing; 5.5% to 6.5% per annum	Secured
	Interest expense	1,558	-	-	-
p.	Long-term debt (including current portion of long-term debt)	188,500	-	Interest-bearing, 6.00% per annum (EEI); 10-year, interest at 3-mo. PDST-F plus spread per quarter (iPeople)	Secured
	Interest expense	4,516	-	-	-



2015				
Category	Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
<b>Parent Company -</b>				
<b>PMMIC</b>				
a. Accounts payable	₱831	₱—	Noninterest-bearing	Unsecured
Miscellaneous expenses incurred	786	—	—	—
b. Dividends payable	—	(1,106)	Noninterest-bearing	Unsecured
Dividends declared	29,257	—		
<b>Associates</b>				
c. Dividends receivable	—	7,500	Noninterest-bearing	Unsecured, no impairment
Dividends earned	39,385	—		
d. Due from related parties	—	14,322	Noninterest-bearing	Unsecured
Rendering management and audit services	10,561	—	—	—
e. Subscriptions payable	—	(9,375)	Noninterest-bearing	Unsecured
<b>Other affiliates</b>				
f. Receivable from EEI Retirement Fund, Inc.	—	273,362	Interest-bearing, 5% per annum	Secured, no impairment
Lease of property	49,613	—	—	—
Interest earned	16,269	—	—	—
<b>Entities under common control</b>				
g. Cash and cash equivalents	—	1,916,342	Interest-bearing at prevailing bank deposit rates	Unrestricted
Interest earned	15,619	—	—	—
h. Accounts receivable	—	80,670	Noninterest-bearing	Unsecured, no impairment
Sale of vehicles	26,048	—	—	—
Agency fee income earned	32,057	—	—	—
i. Dividends receivable	—	—	Noninterest-bearing	Unsecured, no impairment
Dividends earned	43,191	—	—	—
j. Commission receivable	—	382	Noninterest-bearing	Unsecured, no impairment
Commission earned	348	—	—	—
k. Due from related parties	—	39,915	Noninterest-bearing	Unsecured, no impairment
Rendering janitorial service	175,324	—	—	—
Other income earned	574	—	—	—
Rental income earned	25,365	—	—	—
Audit fee income earned	5,111	—	—	—
l. Management fee receivable	—	11,869	Noninterest-bearing	Unsecured, no impairment
Rendering management services	111,396	—	—	—
m. Accounts payable and accrued expenses	—	(471)	Noninterest-bearing	Unsecured
Rental of office space	5,815	—	—	—
n. Due to related parties	—	(122,675)	Noninterest-bearing	Unsecured
Rental expense incurred	281	—	—	—
Insurance expense	5,991	—	—	—



2015				
Category	Amount/ Volume	Outstanding Balance Receivable (Payable)	Terms	Conditions
o. Lease liability	–	–	Interest-bearing, 2.03% - 2.45% per annum (EEI); non-interest bearing (iPeople)	Secured
p. Loans payable	770,000	(100,000)	Interest-bearing; 5.5% to 6.5% per annum	Secured
Interest expense	14,993	–		
q. Long-term debt (including current portion of long-term debt)	517,912	(706,412)	Interest-bearing, 6.00% per annum (EEI); 10-year, interest at 3-mo. PDST-F plus spread per quarter (iPeople)	Secured
Interest expense	37,362	–	–	–

#### Parent Company - PMMIC

- a. Accounts payable to PMMIC pertains to unpaid expenses on shared costs such as legal expenses which are included under “Miscellaneous expense”. Accounts payable to PMMIC as at December 31, 2016 and 2015 amounted to ₱0.2 million and nil, respectively.
- b. Dividends declared in 2016 and 2015 by the Parent Company amounted to ₱63.7 million and ₱70.0 million, respectively (see Note 39). Out of the total declared dividends, dividends payable to PMMIC as at December 31, 2016 and 2015 amounted to ₱0.9 million and ₱1.1 million, respectively.

#### Associates

- c. Outstanding dividends receivable from associates as at December 31, 2016 and 2015 amounted to nil and ₱7.5 million, respectively.
- d. Due from related parties arises from services rendered by the Parent Company to its associates. These services include management consultancy and internal audit fees. As at December 31, 2016 and 2015, the Group has an outstanding receivable from its associates amounting ₱4.1 million and ₱14.3 million, respectively. Management fee income charged to associates is fixed per month while audit fee income depends on the audit engagement letter agreed by both parties.
- e. Outstanding subscription payable to an associate amounted to ₱9.7 million and ₱9.4 million as at December 31, 2016 and 2015, respectively.

#### Other affiliates

- f. In 2006, the EEI sold parcels of land to EEI Retirement Fund, Inc. (EEI-RFI), a trustee of the EEI employees retirement fund. EEI-RFI is managed by RCBC Trust and Investment Division. The parcels of land sold are located in Manggahan, Quezon City and Bauan, Batangas (see Note 14). Interest income recognized from the receivables from EEI-RFI is disclosed in Note 23. The receivables bear interest of 5% per annum in 2016, 2015 and 2014.

Starting January 2007, EEI and EEI-RFI entered into operating lease agreements for the said land and improvements. The terms are for one year and renewable at the option of EEI provided that for each and every renewal, the monthly rentals shall be increased upon mutual agreement of both parties. Rental expense for the property located in Manggahan, Quezon City amounted to ₱52.1 million, ₱49.6 million and ₱47.3 million for the years ended



December 31, 2016, 2015 and 2014, respectively (see Note 28).

On December 12, 2012, EEI acquired certain parcels of land including land improvements located in Bauan, Batangas from EEI-RFI amounting to ₱581.8 million, inclusive of 12% VAT. The operating lease agreement of the said properties between EEI and EEI-RFI was terminated on the same date.

In 2013, the receivable from the EEI-RFI amounting to ₱390.0 million was restructured and reclassified to other noncurrent assets with fixed 5% interest rate per annum. In 2016, EEI and the Fund agreed to extend the term of the payment until April 30, 2021.

Entities under common control of PMMIC

- g. The Group maintains cash and cash equivalents with RCBC, an entity under common control. As at December 31, 2016 and 2015, cash and cash equivalents with RCBC amounted to ₱2,137.1 million and ₱1,916.3 million, respectively. The related deposits earn interest at the prevailing bank deposit rates. Interest income earned from cash and cash equivalents amounted to ₱20.9 million, ₱15.6 million and ₱10.8 million in 2015, 2014 and 2013, respectively.
- h. The Group generates income by providing security services at a 15% mark-up to entities under common control. In 2016, 2015 and 2014, the Group's agency fee income is attributable to security services provided to majority of RCBC branches in the country. As at December 31, 2016 and 2015, the Group's accounts receivable from RCBC amounted to ₱40.7 million and ₱51.4 million, respectively. Agency fees amounted to ₱40.6 million, ₱32.1 million and ₱30.6 million in 2016, 2015 and 2014, respectively.

The Group sold vehicle units to various entities under common control of PMMIC with terms ranging from 30-60 days. The outstanding receivable from the sale amounted to ₱5.6 million and ₱28.6 million as at December 31, 2016 and 2015, respectively. Revenues from motor vehicle sales amounted to ₱39.9 million, ₱26.0 million and ₱39.7 million in 2016, 2015 and 2014, respectively.

- i. Dividend income earned in 2016, 2015 and 2014 from entities under common control of PMMIC amounted to ₱52.8 million, ₱43.2 million and ₱35.0 million, respectively. Unpaid dividends amounted to ₱30.1 million and nil as at December 31, 2016 and 2015, respectively.
- j. The Group earns commission income from insurance referrals to all insurance affiliate. As at December 31, 2016 and 2015, commission receivables amounted to nil and ₱0.4 million. Commission income amounted to nil, ₱0.4 million and ₱0.4 million in 2016, 2015, and 2014, respectively.
- k. Due from entities under common control of PMMIC arises from RCBC's rental of the Group's office spaces in its Makati and Intramuros properties. The term of the lease is for three years and future minimum rental payments receivable under the aforementioned lease agreement follows (see Note 34):

	2016	2015
Within one (1) year	<b>₱1,814,043</b>	₱13,882,019
More than 1 year but not more than 5 years	<b>9,126,110</b>	28,505,941
	<b>₱10,940,153</b>	₱42,387,960



In 2015, RCBC preterminated a portion of lease on the Group's office space and parking spaces effective December 31, 2015.

Rental income earned amounted to ₱11.0 million, ₱25.4 million and ₱24.4 million in 2016, 2015 and 2014, respectively.

Also receivable from related parties arises from janitorial services rendered by EEI (GAMSI) to the Group's affiliates. The service revenue earned from janitorial services rendered in 2016, 2015 and 2014 amounted to ₱329.5 million, ₱175.3 million and ₱223.9 million, respectively.

- l. One of the subsidiaries entered into various agreements with entities under common control to perform property and project management services. Receivable from this transaction is accounted under "Management fee receivable". The Group's outstanding receivable from property and project management fees amounted to ₱12.6 million and ₱11.9 million as at December 31, 2016 and 2015, respectively. Services fees amounted to ₱119.9 million, ₱111.4 million and ₱103.7 million in 2016, 2015 and 2014, respectively.
- m. Payable to an entity under common control pertains to rental of office space and share in the utilities expense of the Group amounting ₱5.1 million and ₱0.5 million as at December 31, 2016 and 2015, respectively.
- n. As at December 31, 2016 and 2015, the outstanding intercompany payables presented under "Due to related parties" account in the consolidated statements of financial position amounted to ₱127.8 million and ₱122.7 million, respectively.

iPeople obtains property and personnel insurance from its affiliated insurance company, Malayan Insurance Company, Inc. (MICO). Insurance contract coverage pertains to Group's fire, accident, group and other insurance policies.

- o. The Group entered into various loan agreements with entities under common control of PMMIC. The loan agreement bears an annual interest ranging 2.50%-3.00% and 2.50%-3.50% in 2016 and 2015, respectively. Outstanding loan balance as at December 31, 2016 and 2015 amounted to nil and ₱100.0 million, respectively (see Note 19).
- p. On June 13, 2012, EEI Power entered into a secured 6.5% fixed-rate term loan in the aggregate principal amount of ₱385.0 million with Rizal Commercial Banking Corporation (RCBC) to finance the acquisition, design, construction, operation of the 15MW diesel generator set to be installed in Tagum, Davao del Norte (see Note 20). Such loan was settled in full in 2016. No interest was capitalized in 2016 and 2015.

iPeople's long term debt pertains to the Group's ₱860.0 million long-term loan to refinance its previous loans with RCBC collateralized by the Company's Makati and Manila properties. In 2016 and 2015, payments made in relation to the principal amounted ₱188.5 million and ₱327.5 million, respectively. On September 2, 2016, the Group had paid all the remaining balance (see Note 20). Corresponding interest expense for the loan amounted to ₱4.5 million, ₱37.4 million and ₱19.5 million in 2016, 2015 and 2014, respectively.

The Group maintains its retirement fund with RCBC trust division. As at December 31, 2016 and 2015, the fair values of the plan assets of the retirement fund amounted to ₱1,195.3 million and ₱935.4 million, respectively (see Note 31). Trust fees amounting to ₱5.0 million, ₱4.8 million and ₱6.1 million were recognized by the retirement plan arising from its transactions with RCBC for



the years ended December 31, 2016, 2015 and 2014, respectively.

*Remuneration of key management personnel*

The remuneration of directors and other members of key management of the Group are as follows:

	2016	2015	2014
Compensation and short-term benefits	<b>₱263,788,022</b>	₱225,869,767	₱228,429,730
Post-employment benefits	<b>45,790,605</b>	41,643,895	7,147,768
	<b>₱309,578,627</b>	₱267,513,662	₱235,577,498

*Terms and conditions of transactions with related parties*

Outstanding balances at year-end are not covered by guarantees, unsecured and settlement occurs in cash. As of December 31, 2016 and 2015, the Company has not made any provision for impairment loss relating to amounts owed by related parties. This assessment is undertaken at each financial year by examining the financial position of the related party and market in which the related party operates.

## 23. Other Income (Expense) - Net

This account consists of:

	2016	2015	2014
Finance income	<b>₱122,007,715</b>	₱117,797,953	₱87,264,090
Commission income	<b>98,840,187</b>	65,556,704	72,423,189
Gain on sale of assets	<b>91,968,482</b>	44,092,390	30,116,257
Interest income	<b>77,800,246</b>	42,741,377	45,322,974
Insurance income	<b>15,127,483</b>	14,400,737	8,302,138
Tax refund/discount	<b>14,791,234</b>	5,701,647	7,406,912
Rental income (Note 16)	<b>13,434,051</b>	5,141,355	6,030,018
Income from reversal of payables	<b>10,781,594</b>	56,139,471	14,605,004
Income from defaults	<b>7,558,561</b>	6,900,718	10,000
Space and car rentals	<b>6,900,920</b>	15,252,284	13,769,816
Recoveries from previously written-off receivables	<b>787,826</b>	535,714	11,724,583
Income from sale of pre-owned car	<b>448,015</b>	1,025,593	935,371
Income from reversal of provision for impairment of CWT	—	—	8,320,670
Reversal of provision for losses	—	—	6,000,000
Foreign exchange loss	<b>(65,119)</b>	(28,480,960)	(752,293)
Miscellaneous	<b>15,843,906</b>	46,491,108	26,198,229
	<b>₱476,225,101</b>	₱393,296,091	₱337,676,958

Commission income pertains to the commission received by the Parent Company as compensation for the services they performed as a third party for the processing of bills of PLDT, SMART and regular purchases of its affiliates in the Yuchengco Group of Companies (YGC).



Interest income consists of income from:

	2016	2015	2014
Installment contract receivable	<b>₱36,430,339</b>	₱5,826,784	₱8,680,227
Savings deposit and short-term investments (Note 6)	<b>27,272,071</b>	15,821,488	12,240,891
Receivable from EEI-RFI (Notes 11, 17 and 22)	<b>11,928,075</b>	16,269,348	17,652,530
Others	<b>2,169,761</b>	4,823,757	6,749,326
	<b>₱77,800,246</b>	₱42,741,377	₱45,322,974

Gain on sale of assets consists of income from:

	2016	2015	2014
Available-for-sale securities (Note 12)	<b>₱63,041,964</b>	₱34,587,159	₱28,368,239
Property and equipment (Note 14)	<b>4,179,887</b>	4,115,025	1,748,018
Investment properties (Note 16)	<b>24,746,631</b>	5,390,206	—
	<b>₱91,968,482</b>	₱44,092,390	₱30,116,257

In 2014, reversal of provision for losses amounted to ₱6.0 million. There is no reversal of provision in 2016 and 2015.

Miscellaneous include income from sale of sludge and used oil, rebate from purchase of fuel, and share in savings from utility companies.

## 24. Costs of Sales and Services

This account consists of:

	2016	2015	2014
Cost of services (Note 26)			
Cost of construction contracts	<b>₱12,126,749,307</b>	₱15,815,224,731	₱14,261,798,939
Cost of manpower and other services	<b>1,366,858,357</b>	1,375,022,345	1,487,699,818
	<b>13,493,607,664</b>	17,190,247,076	15,749,498,757
Cost of goods sold			
Cost of merchandise sold (Note 25)	<b>₱7,325,372,012</b>	₱6,624,241,728	₱4,514,818,400
Cost of real estate sold (Note 10)	<b>13,935,705</b>	5,605,693	14,647,753
	<b>7,339,307,717</b>	6,629,847,421	4,529,466,153
Cost of tuition and other fees (Note 27)	<b>1,300,042,918</b>	1,213,004,494	1,110,079,209
	<b>₱22,132,958,299</b>	₱25,033,098,991	₱21,389,044,119



## 25. Cost of Merchandise Sold

This account consists of (Notes 10 and 24):

	2016	2015	2014
Inventory, beginning	<b>₱998,419,786</b>	₱700,949,453	₱544,702,787
Purchases	<b>7,569,405,400</b>	6,913,278,378	4,657,576,901
Total goods available for sale	<b>8,567,825,186</b>	7,614,227,831	5,202,279,688
Less inventory end	<b>1,249,249,386</b>	998,419,786	700,949,453
Cost of inventories sold	<b>7,318,575,800</b>	6,615,808,045	4,501,330,235
Personnel expenses	<b>4,291,512</b>	5,140,442	8,304,361
Others	<b>2,504,700</b>	3,293,241	5,183,804
	<b>₱7,325,372,012</b>	₱6,624,241,728	₱4,514,818,400

## 26. Cost of Services

	2016	2015	2014
Cost of construction contracts (Note 24)			
Labor	<b>₱5,119,261,703</b>	₱5,174,228,370	₱4,664,108,039
Equipment costs and others	<b>3,960,863,198</b>	5,337,771,601	4,852,094,411
Materials	<b>2,563,588,392</b>	4,929,459,011	4,466,633,143
Depreciation and amortization (Notes 14 and 29)	<b>483,036,014</b>	373,765,749	278,963,346
	<b>12,126,749,307</b>	15,815,224,731	14,261,798,939
Cost of manpower and other services (Note 24)			
Personnel expenses	<b>583,300,152</b>	543,733,370	545,599,126
Materials	<b>400,031,702</b>	334,482,758	313,102,582
Parts and accessories	<b>162,178,505</b>	261,413,532	381,589,383
Depreciation and amortization (Notes 14 and 29)	<b>46,535,401</b>	44,587,611	43,710,394
Others	<b>174,812,597</b>	190,805,074	203,698,333
	<b>1,366,858,357</b>	1,375,022,345	1,487,699,818
	<b>₱13,493,607,664</b>	₱17,190,247,076	₱15,749,498,757



## 27. Cost of Tuition and Other Fees

This amount consists of (Note 24):

	2016	2015	2014
Personnel expenses	<b>₱602,806,069</b>	₱567,465,887	₱540,121,034
Depreciation and amortization (Notes 14, 17 and 29)	<b>190,097,703</b>	160,594,643	124,922,880
Student-related expenses	<b>146,784,618</b>	135,548,101	128,552,620
Management and other professional fees	<b>106,690,199</b>	96,336,053	97,093,616
Utilities	<b>85,398,299</b>	86,155,036	83,621,893
Tools and library books	<b>26,008,973</b>	26,466,324	27,790,430
Advertising	<b>24,338,283</b>	34,865,972	22,748,569
Research and development fund	<b>16,303,676</b>	5,752,585	6,657,701
Periodicals	<b>15,625,679</b>	14,270,775	11,178,975
Seminar	<b>14,250,241</b>	13,096,019	14,621,257
Repairs and maintenance	<b>13,688,679</b>	12,435,522	14,268,980
Accreditation cost	<b>9,483,202</b>	18,055,589	5,083,439
Laboratory supplies	<b>7,865,267</b>	8,607,529	7,180,769
Office supplies	<b>5,779,015</b>	6,392,718	5,416,060
Insurance	<b>5,149,653</b>	4,693,815	3,807,678
Taxes and licenses	<b>2,003,163</b>	1,841,180	1,701,100
Rent	<b>945,095</b>	1,932,042	2,657,420
Transportation and travel	<b>876,604</b>	1,189,466	2,035,759
Entertainment, amusement and recreation	<b>327,857</b>	356,927	1,213,025
Miscellaneous	<b>25,620,643</b>	16,948,311	9,406,004
	<b>₱1,300,042,918</b>	₱1,213,004,494	₱1,110,079,209

## 28. General and Administrative Expenses

This account consists of:

	2016	2015	2014
Personnel expenses (Note 31)	<b>₱853,867,893</b>	₱701,851,720	₱711,569,514
Rent, light and water	<b>193,916,894</b>	181,344,130	181,094,792
Depreciation and amortization (Notes 14 and 29)	<b>182,001,700</b>	177,424,770	156,352,576
Taxes and licenses	<b>122,719,124</b>	108,894,289	95,702,907
Entertainment, amusement and recreation	<b>92,620,687</b>	80,419,727	57,568,759
Management and other fees	<b>78,322,882</b>	71,927,563	38,745,017
Advertising and promotions	<b>76,698,091</b>	60,863,485	38,311,470
Transportation and travel	<b>73,794,310</b>	69,158,000	66,533,497
Professional fees	<b>72,946,736</b>	59,459,483	54,415,257
Securities and utilities	<b>60,806,777</b>	31,461,266	30,781,136
Direct expenses	<b>40,434,457</b>	31,854,778	30,983,283
Repairs and maintenance	<b>29,727,429</b>	40,931,647	20,120,911

(Forward)



	2016	2015	2014
Commissions	<b>₱25,820,748</b>	₱28,224,142	₱16,353,158
Office expenses	<b>25,625,855</b>	19,108,467	19,774,267
Insurance	<b>22,542,484</b>	12,775,130	12,270,249
Donations and contributions	<b>18,762,449</b>	15,570,380	7,024,959
Provision for (recovery of) probable losses on accounts receivables (Notes 8 and 22)	<b>12,150,289</b>	36,250,018	(16,256,789)
Seminars	<b>3,782,758</b>	2,419,576	1,558,641
Accreditation cost	—	1,069,499	96,423
Provision (recovery) for inventory obsolescence (Note 10)	<b>3,010,000</b>	—	893,944
Provision for impairment (Notes 7, 8, 15 and 22)	<b>2,542,324</b>	5,638,517	—
Recovery on investments in associates (Note 13)	—	—	—
Loss (recovery) on damaged properties (Note 14)	—	—	(81,829)
Miscellaneous	<b>108,788,340</b>	54,082,512	74,529,654
	<b>₱2,100,882,227</b>	₱1,790,729,099	₱1,598,341,796

Miscellaneous expense includes dues and subscriptions, periodicals, training and seminar, bank charges, legal and notarial fees and other contracted services.

Below are the details of net provision for (recovery of) probable losses on loans receivable and accounts receivable (Notes 7 and 8):

	2016	2015	2014
Provision			
Loans receivable	<b>₱542,324</b>	₱250,000	₱500,000
Accounts receivable	<b>15,241,699</b>	28,598,257	15,928,804
	<b>15,784,023</b>	28,598,257	16,428,804
Recoveries	—	—	(43,595,377)
Reversals	<b>(3,633,734)</b>	(6,000,000)	—
Direct write-off	—	13,651,761	10,909,784
	<b>₱12,150,289</b>	₱36,250,018	(₱16,256,789)

No provision for impairment was charged to cost of school and related operations in 2016, 2015 and 2014 (see Note 27).



## 29. Depreciation and Amortization

This account consists of depreciation and amortization included in (Notes 14, 16 and 17):

	2016	2015	2014
Cost of Sales and Services			
Construction contracts (Note 26)	<b>₱483,036,014</b>	₱373,765,749	₱278,963,346
Tuition and other fees (Note 27)	<b>190,097,703</b>	160,594,643	124,922,880
Manpower and other services (Note 26)	<b>46,535,401</b>	44,587,611	43,710,394
Merchandise sold (Note 25)	—	—	627,833
Capitalized as part of cost of inventories	<b>165,063</b>	—	—
	<b>719,669,118</b>	578,948,003	448,224,453
General and administrative expenses (Note 28)	<b>182,001,700</b>	177,424,770	156,352,576
	<b>₱901,670,818</b>	₱756,372,773	₱604,577,029

## 30. Interest and Finance Charges

The Group's interest and finance charges consist of interest on the following:

	2016	2015	2014
Long-term debt (Note 20)	<b>₱172,484,833</b>	₱174,147,888	₱166,424,261
Loans payable (short-term) (Note 19)	<b>125,251,727</b>	104,649,568	93,116,926
Advances to affiliates and other finance charges (Note 22)	<b>3,065,671</b>	719,132	1,058,193
	<b>₱300,802,231</b>	₱279,516,588	₱260,599,380

## 31. Retirement Plan

The Group has a funded, noncontributory retirement plans (the Plans) for all of its regular employees. The Plans provide for normal, early retirement, death and disability benefits.

The most recent actuarial valuation was carried out on February 2, 2017 for the retirement plan of the Group as of December 31, 2016.

The following tables summarize the components of the benefit expense recognized in the consolidated statements of comprehensive income and amounts recognized in the consolidated statements of financial position for the retirement plan.



Based on the actuarial valuation as of December 31, 2016 and 2015 computed using the PUC method, the Group's retirement liabilities, retirement assets and expenses are summarized as follows:

	2016	2015
Retirement liabilities	<b>₱147,815,273</b>	₱218,006,352
Retirement assets	<b>39,949,093</b>	17,407,863
Net retirement liabilities	<b>107,866,180</b>	200,598,489
Net retirement expenses	<b>135,278,067</b>	116,283,644

The amounts recognized in the consolidated statements of financial position follow:

<i>Net retirement liabilities</i>	<b>2016</b>	<b>2015</b>
Present value of defined benefit obligation	<b>₱1,185,448,720</b>	₱1,167,921,193
Fair value of plan assets	<b>(1,037,633,447)</b>	(949,914,841)
	<b>₱147,815,273</b>	₱218,006,352
<i>Net retirement assets</i>	<b>2016</b>	<b>2015</b>
Present value of defined benefit obligation	<b>₱124,555,815</b>	₱114,490,465
Fair value of plan assets	<b>(164,504,908)</b>	(131,898,328)
	<b>(₱39,949,093)</b>	(₱17,407,863)

The movements in the net retirement liability follow:

	2016	2015
At beginning of year	<b>₱200,598,488</b>	₱107,147,093
Contributions paid	<b>(178,351,651)</b>	(131,112,807)
Net retirement expense	<b>135,278,067</b>	116,283,644
Amount recognized in OCI	<b>(49,658,724)</b>	108,280,558
At end of the year	<b>₱107,866,180</b>	₱200,598,488

Movement of cumulative remeasurement effect recognized in OCI:

	2016	2015
Balance at beginning of year	<b>(₱117,076,203)</b>	(₱8,795,645)
Remeasurement gain (loss)	<b>49,658,724</b>	(108,280,558)
Total amounts recognized in OCI	<b>(₱67,417,479)</b>	(₱117,076,203)

The movements in the present value of defined obligation follow:

	2016	2015
Balance at beginning of year	<b>₱1,282,411,658</b>	₱1,183,043,307
Current service cost	<b>120,966,325</b>	111,163,939
Interest cost on obligation	<b>64,999,233</b>	56,166,606
Past service cost	<b>4,532,574</b>	—
Remeasurement loss (gain)	<b>(46,548,478)</b>	23,768,964
Benefits paid	<b>(116,356,777)</b>	(91,731,158)
Balance at end of year	<b>₱1,310,004,535</b>	₱1,282,411,658



The movements in the fair value of plan assets follow:

	2016	2015
Balance at beginning of year	<b>₱1,081,813,169</b>	₱1,075,896,213
Contributions	<b>178,351,651</b>	131,112,807
Remeasurement gain (loss)	<b>3,110,247</b>	(84,511,594)
Asset return in net interest cost	<b>55,220,065</b>	51,046,901
Benefits paid	<b>(116,356,777)</b>	(91,731,158)
Balance at end of year	<b>₱1,202,138,355</b>	₱1,081,813,169

The major categories of plan assets and its fair value are as follows:

	2016	2015
Cash	<b>₱129,567,801</b>	₱351,467,519
Investment in government securities	<b>785,176,635</b>	511,452,210
Investments in shares of stock	<b>242,929,940</b>	185,397,361
Investments in other securities and debt instruments	<b>32,762,151</b>	26,506,909
Interest receivables and other receivables	<b>13,060,606</b>	8,863,149
Accrued trust fees and other payables	<b>(1,358,778)</b>	(1,873,979)
	<b>₱1,202,138,355</b>	₱1,081,813,169

The Group expects to contribute ₱145.6 million to its defined benefit pension plans in 2017.

The Retirement fund (Fund) of the Group is being maintained and managed, in trust, by RCBC Trust and Investment Group (TIG), an affiliate financial institution.

Trust fees paid in 2016, 2015 and 2014 amounted to ₱5.0 million, ₱4.8 million and ₱6.1 million, respectively.

The composition of the fair value of the trust fund includes:

*Investment in government securities* - include investment in Philippine Retail Treasury Bonds (RTBs) and Fixed Rate Treasury Notes (FXTNs).

*Cash* - include savings and time deposit with affiliated bank and special deposit account with Bangko Sentral ng Pilipinas (BSP SDA).

*Investment in equity securities* - include investment in common and preferred shares traded in the Philippine Stock Exchange.

*Investment in debt and other securities* - include investment in long-term debt notes and retail bonds.

*Interest and other receivables* - pertain to interest and dividends receivable on the investments in the fund.

In 2016, the Fund has investment in equity securities of related parties with fair values and accumulated gain of ₱124.5 million and ₱73.2 million, respectively.

The voting rights of the above equity securities were assigned to RCBC TIG, being the investment manager who manages and administers the investments and reinvestments of the fund.

The net retirement expenses recognized by the Group (included in personnel expense in the



consolidated statements of income) are as follows:

	2016	2015	2014
Current service cost	<b>₱120,966,325</b>	₱111,163,939	₱110,645,762
Net interest cost	<b>9,779,168</b>	5,119,705	15,889,319
Past service cost	<b>4,532,574</b>	—	—
	<b>₱135,278,067</b>	₱116,283,644	₱126,535,081

The plan assets earned a return of ₱58.3 million and ₱43.4 million in 2016 and 2014, respectively. The actual loss on plan assets amounted to ₱33.5 million in 2015.

The principal actuarial assumptions used in determining retirement expense are as follows:

	2016	2015
Discount rate		
Beginning	<b>4.74%-5.94%</b>	3.92%-5.00%
End	<b>5.00%-5.67%</b>	4.74%-5.94%
Future salary increases		
Beginning	<b>3.75%-6.00%</b>	3.24%-6.00%
End	<b>3.00%-6.00%</b>	3.75%-6.00%

The sensitivity analysis that follows has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of the end of financial reporting date, assuming all other assumptions were held constant.

	2016		2015	
	Increase (decrease)	Effect on defined benefit obligation	Increase (decrease)	Effect on defined benefit obligation
Discount rates	+50bps to +100bps	(₱64,059,246)	+50bps to +100bps	(₱63,554,774)
	-50bps to -100bps	68,001,668	-50bps to -100bps	75,303,355
Salary increase rates	+50bps to +100bps	124,130,572	+50bps to +100bps	131,226,552
	-50bps to -100bps	(121,461,227)	-50bps to -100bps	(119,890,278)

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. It is the policy of the Trustee that immediate and near-term retirement liabilities of the Group's Retirement Fund are adequately covered by its assets. As such, due considerations are given that portfolio maturities are matched in accordance with due benefit payments. The Retirement Fund's expected benefits payments are determined through the latest actuarial reports.

### 32. Income Taxes

Provision for income tax consists of:

	2016	2015	2014
Current	<b>₱345,800,248</b>	₱569,996,377	₱499,096,170
Deferred	<b>23,920,309</b>	(20,123,597)	7,453,190
	<b>₱369,720,557</b>	₱549,872,780	₱506,549,360



The reconciliation of the income tax computed at the statutory tax rate to the provision for income tax shown in the consolidated statements of income follows:

	2016	2015	2014
Income before income tax	30.00%	30.00%	30.00%
Add (deduct) reconciling items:			
Equity in net earnings of associates and joint venture	71.55	9.44	(16.22)
Movement of deferred income tax assets not recognized	(30.10)	(1.30)	0.40
Income subject to lower tax rate and others	(8.69)	(9.45)	6.38
	62.76%	28.69%	20.56%

All companies in the Group are subject to the RCIT rate of 30%, except for MCI, MITC, MHSSI and MCLI, which are subject to a lower tax rate of 10%.

The significant components of deferred tax assets and liabilities are as follows:

	2016	2015
Net deferred income tax assets on a per subsidiary level:		
Accrued retirement expense	₱53,732,226	₱69,374,255
Allowance for doubtful accounts, inventory, obsolescence and other expenses	32,594,548	42,771,618
Accrued rent	8,737,263	7,782,707
NOLCO	8,003,631	11,024,527
MCIT	15,336,854	12,468,364
Unrealized foreign exchange loss	(231,385)	12,061,583
Others	2,626,914	3,699,690
	₱120,800,051	₱159,182,744
Net deferred income tax liabilities on a per subsidiary level:		
Revaluation increment on land	₱384,222,756	₱327,881,207
Accrued retirement expense	(8,587,961)	(15,603,070)
Allowance for doubtful accounts, inventory obsolescence and other expenses	(7,361,169)	(4,799,973)
Accrued expenses	(6,628,740)	(8,580,227)
Others	(2,751,936)	(1,348,357)
	₱358,892,950	₱297,549,580



The Group did not recognize deferred tax assets on the following temporary differences because the Group believes that it may not be probable that sufficient taxable income will be available in the near foreseeable future against which the tax benefit can be realized.

	2016	2015
NOLCO	<b>₱27,437,312</b>	₱42,108,955
Impairment loss	<b>52,031,090</b>	52,036,275
Allowance for doubtful accounts, inventory obsolescence and other expenses	<b>14,182,326</b>	36,285,732
MCIT	<b>753</b>	447,348
Accrued retirement expense	—	9,047,799
Others	<b>166,423</b>	29,324,646
	<b>₱93,817,904</b>	₱169,250,755

The Group did not recognize deferred tax liabilities on undistributed earnings and cumulative translation adjustments of foreign subsidiaries in 2016 and 2015 since the Group determined that the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings of the Group's foreign subsidiaries amounted to ₱448.0 million and ₱1.9 billion as at December 31, 2016 and 2015, respectively.

As of December 31, 2016, the amount of NOLCO still available for offset against future tax payable over a period of three (3) years from the year of inception are as follows:

Taxable Period	Amount	Applied/Expired	Balance	Expiry Year
2016	₱31,829,815	₱—	₱31,829,815	2019
2015	10,044,898	—	10,044,898	2018
2014	27,075,705	8,034,509	19,041,196	2017
2013	35,114,906	35,114,906	—	2016
	<b>₱104,065,324</b>	<b>₱43,149,415</b>	<b>₱60,915,909</b>	

As of December 31, 2016, the amounts of MCIT still allowable as tax credit consist of:

Taxable Period	Amount	Applied/Expired	Balance	Expiry Year
2016	₱6,360,253	₱3,517,944	₱2,842,309	2019
2015	5,344,756	4,344,399	1,000,357	2018
2014	16,035,889	15,631,431	404,458	2017
2013	14,026,795	14,026,795	—	2016
	<b>₱41,767,693</b>	<b>₱37,520,569</b>	<b>₱4,247,124</b>	

The details of NOLCO and MCIT as at December 31, 2016 are as follows:

Taxable Year Incurred	NOLCO	MCIT	Expiry Year
2016	₱31,829,815	₱2,842,309	2019
2015	10,044,898	1,000,357	2018
2014	19,041,196	404,458	2017
	<b>₱60,915,909</b>	<b>₱4,247,124</b>	



### 33. Earnings Per Share

Basic and diluted earnings per share amounts attributable to equity holders of the Group are computed as follows:

#### *Basic earnings per share*

	2016	2015	2014
Net income	<b>₱402,669,546</b>	₱1,022,731,322	₱1,268,099,877
Less dividends attributable to preferred shares	<b>23,619,749</b>	26,930,749	27,866,689
Net income applicable to common shares	<b>379,049,797</b>	995,800,573	1,240,233,188
Divided by the weighted average number of common shares	<b>615,996,114</b>	615,996,114	615,896,757
Basic earnings per share	<b>₱0.6153</b>	₱1.6166	₱2.0137

#### *Diluted earnings per share*

	2016	2015	2014
Net income	<b>₱402,669,546</b>	₱1,022,731,322	₱1,268,099,877
Add dividends attributable to preferred stock	<b>23,619,749</b>	26,930,749	27,866,689
Net income applicable to common stockholders for diluted earnings per share	<b>426,289,295</b>	1,049,662,071	1,295,966,566
Weighted average number of shares of common stock	<b>615,996,114</b>	615,996,114	615,896,757
Dilutive shares arising from convertible preference stock	<b>187,201,880</b>	207,153,246	229,338,162
Weighted average number of shares of common stock for diluted earnings per share	<b>803,197,994</b>	823,149,360	845,234,919
Diluted earnings per share	<b>₱0.5307</b>	₱1.2752	₱1.5333

The weighted average number of shares of common stock is computed as follows:

	2016	2015	2014
Number of shares of common stock issued	<b>616,296,114</b>	616,296,114	616,196,757
Less treasury shares	<b>300,000</b>	300,000	300,000
	<b>615,996,114</b>	615,996,114	615,896,757

### 34. Contingencies and Commitments

#### Contingencies

##### a. Surety Arrangement and Guarantees

The Group is contingently liable for guarantees arising in the ordinary course of business, including performance, surety and warranty bonds for various construction projects amounting



to ₱5.3 billion and ₱5.4 billion as at December 31, 2016 and 2015, respectively.

b. Standby Letters of Credit

The Group has outstanding irrevocable domestic standby letters of credit amounting to ₱8.9 billion and ₱8.9 billion in 2016 and 2015, respectively, from local banks which are used for bidding and as a guarantee for the down payments received from its ongoing construction projects. The Group also has outstanding irrevocable foreign standby letters of credit amounting to USD 429 and JPY 13.4 million in 2016 and USD 429 and JPY 13.4 million in 2015, respectively.

c. Contingencies

There are pending legal cases against the Group that are being contested by the Group and its legal counsels. The information required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed until final settlement, on the ground that it might prejudice the Group's position. Management and its legal counsels believe that the final resolutions of these cases will not have a material effect on the consolidated financial position and operating results of the Group.

Lease Commitments

The Group leases parcels of land where their respective sales office, administrative and warehouse buildings were constructed and are currently located. The lease terms cover lease periods between 10 to 20 years with escalation rates ranging from 5.0% to 12.5%.

Future minimum rental payments under the aforementioned lease agreements follow:

	2016	2015
Within one year	<b>₱85,257,482</b>	₱66,858,875
After one year but not more than five years	<b>267,799,530</b>	183,487,720
More than five years	<b>229,224,890</b>	82,226,337
	<b>₱582,281,902</b>	₱332,572,932

The Group's Intramuros and Makati campuses lease spaces to RCBC, Digitel and Bell Telecommunication Philippines, Inc. The lease terms cover lease periods of between three (3) years to ten (10) years with escalation rates ranging from 3.00% to 10.00%.

Future minimum rental receivable under the aforementioned lease agreement follows:

	2016	2015
Within one (1) year	<b>₱1,814,043</b>	₱2,051,879
More than 1 year but not more than five (5) years	<b>6,607,588</b>	6,683,573
Later than five years	<b>2,518,522</b>	4,512,253
	<b>₱10,940,153</b>	₱13,247,705



### 35. Noncontrolling Interest in Consolidated Subsidiaries

Noncontrolling interest in consolidated subsidiaries represents shareholdings in subsidiaries not held by the Group.

Dividends paid to noncontrolling interest in consolidated subsidiaries amounted to ₱155.14 million, ₱160.46 million and ₱182.53 million in 2016, 2015 and 2014, respectively.

As of December 31, 2016, 2015 and 2014, the summarized financial information attributable to non-controlling interests for significant subsidiaries follows:

	Honda Cars Kalookan, Inc. (HCKI)			iPeople, inc. (iPeople) and subsidiaries			EEI Corporation (EEI) and subsidiaries		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
<b>Assets</b>									
Current assets	₱753	₱578	₱408	₱1,120	₱857	₱1,418	₱13,568	₱14,686	₱11,891
Noncurrent assets	123	134	143	5,410	5,040	3,917	6,635	7,664	6,461
	876	712	551	6,530	5,897	5,335	20,203	22,350	18,352
<b>Liabilities and Equity</b>									
Current liabilities	₱763	₱603	₱444	792	₱786	₱850	₱13,073	₱13,945	₱10,822
Noncurrent liabilities	2	2	3	221	312	572	1,285	1,624	871
	765	605	447	1,013	1,098	1,422	14,358	15,569	11,693
<b>Revenue</b>									
	₱2,308	₱1,978	₱1,471	₱2,360	₱2,434	₱2,309	₱14,836	₱18,979	₱17,080
Net income	₱4	₱3	₱-	₱643	₱799	₱746	(₱848)	₱203	₱918
Total comprehensive income	₱5	₱3	₱-	₱916	₱1,086	₱836	(₱730)	₱329	₱1,084
<b>Share of NCI in net assets</b>									
	₱50	₱59	₱57	₱1,791	₱1,567	₱1,278	₱2,657	₱3,095	₱3,309
Share of NCI in net income (loss)	₱2	₱2	₱-	₱195	₱261	₱244	(₱387)	₱93	₱419
Dividends paid	₱-	₱-	₱-	₱65	₱85	₱67	₱94	₱94	₱94
<b>Operating</b>									
	(₱119)	(₱93)	₱40	₱796	₱967	₱959	₱1,652	₱1,781	(₱293)
Investing	(12)	(12)	(73)	(235)	(932)	(242)	(1,026)	(2,213)	(366)
Financing	157	120	25	(289)	(594)	(300)	(873)	1,119	331



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### 36. Operating Segment Information

For management purposes, 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.

Segment financial information is reported on the basis that it is used internally for evaluating segment performance and allocating resources to segments.

The Group derives its revenue from the following reportable segments:

Construction and Infrastructure - mainly consists of revenues from EEI Corporation and subsidiaries as a general contractor and trader of construction equipment and parts. The subsidiaries of EEI are mainly involved in the provision for manpower services, construction, trading of equipment, power generation, steel fabrication, real estate and others.

Consumer Finance - represents the general financing and investment business of FMLFC and ZIFC.

Education and Information Technology - primarily consists of revenues from iPeople and subsidiaries (including MCI) in education, consulting, development, installation and maintenance of information technology systems.

Car Dealership - represents automotive dealerships of the Group.

Other Services - represent support services which cannot be directly identified with any of the reportable segments mentioned above. These include sale of pharmaceutical products, trading of consumer goods and rendering various services to the consumers.

Segment assets and liabilities exclude deferred income tax assets and liabilities. Inter-segment income arise from transactions that were made on terms equivalent to those that prevail in an arms-length transactions.

Management monitors construction revenue and segment net income for the purpose of making decisions about resource allocation. Segment performance is evaluated based on net income and construction revenue.

Segment reporting is consistent in all periods presented as there are no changes in the structure of the Group's internal organization that will cause the composition of its reportable segment to change.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Group has no significant customer that contributes 10.00% or more to the revenue of the Group in 2016, 2015 and 2014.



(Amounts in Millions)

	Construction and Infrastructure				Consumer Finance				Education and Information Technology				Car Dealership				Other Services				Elimination				Consolidation			
	2016	2015	2014		2016	2015	2014		2016	2015	2014		2016	2015	2014		2016	2015	2014		2016	2015	2014		2016	2015	2014	
Revenue	₹14,836	₹18,987	₹17,080		₹11	₹12	₹11	₹11	₹2,360	₹2,434	₹2,309	₹8,749	₹8,749	₹8,749	₹8,749	₹216	₹620	₹438	₹430	₹399	₹242	₹25,742	₹25,742	₹25,742	₹29,100	₹24,720		
Domestic	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Foreign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Intersegment sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Net income attributable to share of parent	₹14,836	₹18,987	₹17,080	₹11	₹11	₹12	₹11	₹11	₹2,360	₹2,434	₹2,309	₹8,749	₹8,749	₹8,749	₹8,749	₹216	₹622	₹439	₹430	₹401	₹243	₹25,742	₹25,742	₹25,742	₹29,100	₹24,720		
Other Information	₹848	₹203	₹918	₹3	₹3	₹3	₹3	₹3	₹596	₹741	₹693	₹484	₹484	₹484	₹484	₹55	₹549	₹36	₹113	₹409	₹317	₹403	₹403	₹403	₹1,023	₹1,268		
Segment assets	₹20,203	₹22,351	₹18,352	₹30	₹30	₹30	₹30	₹30	₹6,529	₹5,897	₹5,336	₹8,027	₹8,027	₹8,027	₹8,027	₹209	₹4,780	₹4,387	₹1,309	₹1,368	₹1,446	₹33,689	₹33,689	₹34,683	₹28,812			
Deferred tax assets	(84)	(110)	(94)	(1)	(1)	(1)	(1)	(1)	(6)	(12)	(10)	(28)	(28)	(28)	(2)	(3)	-	-	-	-	43	(121)	(159)	(136)	-			
Net segment assets	₹20,119	₹22,241	₹18,258	₹29	₹29	₹29	₹29	₹29	₹6,523	₹5,885	₹5,326	₹7,999	₹7,999	₹7,999	207	₹4,777	₹4,387	₹1,309	₹1,368	₹1,403	₹33,568	₹33,568	₹34,524	₹28,676				
Segment liabilities	₹14,359	₹15,570	₹11,693	₹4	₹3	₹3	₹4	₹4	₹1,014	₹1,098	₹1,423	₹3,852	₹3,852	₹3,852	₹125	₹2,718	₹2,410	₹271	₹142	₹182	₹19,083	₹19,083	₹20,509	₹16,067				
Income tax payable	(4)	(13)	(112)	(1)	(1)	(1)	(1)	(1)	(8)	(26)	(21)	(5)	(5)	(5)	(2)	1	1	-	-	(2)	(20)	(39)	(135)	-				
Deferred tax liabilities	(72)	-	-	-	-	-	-	-	(147)	(121)	(84)	(136)	(136)	(136)	(12)	(8)	(1)	4	(76)	(1)	(359)	(298)	(122)	-				
Net segment liabilities	₹14,283	₹15,557	₹11,581	₹3	₹2	₹2	₹3	₹3	₹859	₹951	₹1,318	₹3,711	₹3,711	₹3,711	₹123	₹2,711	₹2,410	₹275	₹217	₹185	₹18,704	₹18,704	₹20,172	₹15,810				
Investments in associates and joint ventures	₹1,300	₹2,098	₹1,939	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹4,037	₹4,037	₹4,037	₹5	₹4,044	₹3,523	₹1,620	₹1,778	₹1,564	₹3,722	₹3,722	₹4,364	₹3,898				
Equity in net earnings (losses) of associates	(₹1,316)	₹845	₹424	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹222	₹212	₹236	(₹1,094)	₹633	₹660					
Cash flows arising from:																												
Operating activities	₹1,614	1,840	(₹245)	₹1	₹6	₹1	₹1	₹1	₹796	₹967	₹958	(₹504)	(₹504)	(₹504)	₹51	(₹756)	(₹1,146)	(₹227)	₹266	₹1,526	₹1,731	₹2,322	₹724					
Investing activities	(1,026)	(2,272)	(415)	1	(1)	(1)	(1)	(1)	(232)	(932)	(242)	499	499	499	5	512	(2,185)	(58)	(355)	2,126	(811)	(3,094)	(884)					
Financing activities	(835)	1,119	331	(3)	(3)	(3)	(2)	(2)	-	(594)	(299)	(2)	146	557	(34)	183	(1,901)	(9)	68	1,525	(883)	919	211					
Capital expenditures	(1,030)	1,209	547	-	-	-	-	-	(232)	(933)	593	(69)	(69)	(69)	(5)	(3,656)	5	(40)	(22)	(50)	(1,296)	(3,349)	1,259					
Interest income	(61)	29	35	-	12	-	-	-	12	11	7	(4)	(4)	(4)	(1)	(9)	3	(23)	-	-	(77)	43	45					
Interest expense	163	136	124	-	-	-	-	-	9	19	20	129	129	129	-	87	108	-	(13)	(29)	301	279	260					
Provision for income tax	226	265	400	10	1	1	1	1	79	89	83	47	47	47	168	16	22	(160)	-	1	370	381	507					
Earnings before income tax	(622)	468	1,318	4	4	4	4	4	707	830	776	(531)	(531)	(531)	(72)	565	58	118	(409)	(316)	(396)	1,404	1,775					
Earnings before income tax and depreciation and amortization	(523)	989	1,726	4	4	4	4	4	864	1,006	919	(474)	(474)	(474)	(69)	570	65	121	(407)	(298)	(80)	2,160	2,380					
Noncash items:																												
Additional revaluation increment on land	₹-	₹-	₹-	₹-	₹-	₹-	₹-	₹-	(₹234)	₹-	₹89	(₹873)	(₹873)	(₹873)	₹-	₹-	₹-	₹1,482	₹253	(₹106)	(₹375)	₹456	₹68					
Depreciation and amortization	99	521	408	-	-	-	-	-	157	176	143	57	57	57	3	5	7	-	-	18	316	756	605					



### 37. Financial Instruments and Financial Risk Management Objectives and Policies

#### Financial Risk Management Objectives and Policies

The main purpose of the Group's financial instruments is to raise finances for the Group's operations.

The main risks arising from the Group's financial instruments are liquidity risk, market risk, and credit risk. The BOD reviews and agrees on the policies for managing these risks, as well as approving and authorizing risk limits set by management, summarized below. There were no changes in the policies for managing these risks.

#### a. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations as they fall due. The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirements, finance capital expenditures and service maturing debts. As an inherent part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover its short-term and long-term funding requirements, the Group intends to use internally generated funds and available short-term and long-term credit facilities.

The tables below summarize the maturity profile of the Group's financial assets and financial liabilities as at December 31 based on undiscounted contractual cash flows.

	2016				
	On demand	< 1 year	1 to < 2 years	> 2 years	Total
<b>Financial Liabilities</b>					
Accounts payable and accrued expenses*	₱3,981,249,260	₱752,172,021	₱685,752,213	₱1,348,960	₱5,420,522,454
Bank loans					
Peso loan	—	4,100,000,000	—	—	4,100,000,000
Interest	—	72,815,461	—	—	72,815,461
Long-term debt					
Peso loan	—	491,748,610	491,748,610	2,180,198,230	3,163,695,450
Interest	—	176,168,146	149,111,836	571,680,398	896,960,380
Due to related parties	127,809,141	—	—	—	127,809,141
	4,109,058,401	5,592,904,238	1,326,612,659	2,753,227,588	13,781,802,886
<b>Financial Assets</b>					
Cash					
Cash on hand and in banks	1,478,830,024	—	—	—	1,478,830,024
Short-term investments	914,371,197	—	—	—	914,371,197
Accounts receivables					
Trade receivables	2,258,931,599	4,447,830,831	8,466,967	7,355,335	6,722,584,732
Consultancy fees	305,946,232	—	—	—	305,946,232
Receivables from plant	42,377,871	25,253,540	—	—	67,631,411
Others	197,662,181	166,826,478	874,352	859,352	366,222,363
Loan receivables	—	11,449,015	3,875,640	—	15,324,655
Receivable from related parties	54,371,552	—	—	—	54,371,552
	5,252,490,656	4,651,359,864	13,216,959	8,214,687	9,925,282,166
Liquidity gap (position)	(₱1,143,432,255)	₱941,544,374	₱1,313,395,700	₱2,745,012,901	₱3,856,520,720

\*Excluding statutory liabilities



	2015				Total
	On demand	< 1 year	1 to < 2 years	> 2 years	
Financial Liabilities					
Accounts payable and accrued expenses*	₱3,524,338,034	₱1,696,877,088	₱655,087,708	₱3,048,785	₱5,879,351,615
Bank loans					
Peso loan	—	4,600,000,000	—	—	4,600,000,000
Interest	—	13,462,185	—	—	13,462,185
Long-term debt					
Peso loan	—	498,897,436	498,897,436	2,764,564,371	3,762,359,243
Interest	—	176,168,146	118,513,043	720,792,234	1,015,473,423
Due to related parties	122,674,902	—	—	—	122,674,902
	3,647,012,936	6,985,404,855	1,272,498,187	3,488,405,390	15,393,321,368
Financial Assets					
Cash					
Cash on hand and in banks	1,726,651,223	—	—	—	1,726,651,223
Short-term investments	612,562,543	—	—	—	612,562,543
Accounts receivables					
Trade receivables	1,632,011,362	3,215,527,074	1,184,185,751	35,052,524	6,066,776,711
Consultancy fees	271,066,710	18,621,925	—	—	289,688,635
Receivables from plant	12,794,901	45,702,810	—	—	58,497,711
Others	261,708,487	65,638,021	13,779,395	4,672,298	345,798,201
Loan receivables	—	10,171,347	3,491,253	—	13,662,600
Receivable from related parties	54,237,550	—	—	—	54,237,550
	4,571,032,776	3,355,661,177	1,201,456,399	39,724,822	9,167,875,174
Liquidity gap (position)	(₱924,019,840)	₱3,629,743,678	₱71,041,788	₱3,448,680,568	₱6,225,446,194

\*Excluding statutory liabilities

b. *Market risk*

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in equity prices, foreign currency exchange rates and interest rates.

*Equity price risk*

The Group's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as available-for-sale securities.

Quoted available-for-sale securities assets 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. The Group's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

The analysis below is performed for reasonably possible movements in the market index with all other variables held constant, showing the impact on equity.

Market Index	2016		2015	
	Change in variable	Effect on Equity	Change in variable	Effect on Equity
PSE	4.93%	₱3,134,308	+5.93%	₱3,363,305
	-4.93%	(3,134,308)	-5.93%	(3,363,305)
Others	8.71%	1,162,773	+10.21%	1,396,464
	-8.71%	(1,162,773)	-10.21%	(1,396,464)



The percentage of increase and decrease in market price is based on the movement in the Philippine Stock Exchange Index (PSEI) and other market index pertaining to golf and country club shares from beginning to end of the year. The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index and other quoted equity securities will be most likely be limited to an upward or downward fluctuation of 5% and 9% in 2016, respectively, and 6% and 10% in 2015, respectively.

The impact of sensitivity of equity prices on the Group's equity already excludes the impact on transactions affecting the consolidated statements of income.

*Foreign currency risk*

Currency risk is the potential decline in the value of the financial instruments due to exchange rate fluctuations. Exposure to currency risk arises mainly when receivables and payables are denominated in a currency other than the Group's functional currency or will be denominated in such currency in the planned course of business.

Foreign currency risk is monitored and analyzed systematically and is managed centrally by the central finance department. The Group's policy is to maintain foreign currency exposure within existing internal regulations, and within acceptable risk limits as approved by the BOD.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar (USD, US\$), Singaporean dollar (SGD, S\$), Euro (EUR, €), Japanese yen (JPY, ¥) and British pound (GBP, £) currency rates, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	2016		2015	
	Percentage increase/ decrease in foreign currency	Effect on profit before tax	Percentage increase/ decrease in foreign currency	Effect on profit before tax
USD	+1.78%	₱2,560,201	+1.92%	₱3,190,161
SGD	+4.10%	495,498	+2.30%	408,063
EUR	+1.90%	15,917	+2.60%	76,098
JPY	+3.90%	948	+2.30%	2,722,936
GBP	+1.80%	(214)	+13.40%	(1,880)
USD	-1.78%	(₱2,560,201)	-1.92%	(₱3,190,161)
SGD	-4.10%	(495,498)	-2.30%	(408,063)
EUR	-1.90%	(15,917)	-2.60%	(76,098)
JPY	-3.90%	(948)	-2.30%	(2,722,936)
GBP	-1.80%	214	-13.40%	1,880

The forecasted movements in percentages used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months.



The foreign currency-denominated financial assets and financial liabilities in original currencies and equivalents to the functional and presentation currency are as follows:

	2016					Equivalents in PHP
	USD <sup>1</sup>	SGD <sup>2</sup>	EUR <sup>3</sup>	JPY <sup>4</sup>	GBP <sup>4</sup>	
<b>Financial assets</b>						
Cash	US\$1,623,838	S\$353,997	€16,740	¥57,919	£–	₱93,789,150
Receivables	196,780	–	–	–	–	9,783,902
	1,820,618	353,997	16,740	57,919	–	103,573,052
<b>Financial liabilities</b>						
Accounts payable and accrued expenses	156,078				200	7,772,372
	US\$1,664,540	S\$353,997	€16,740	¥57,919	(£200)	₱95,800,680

<sup>1</sup> Exchange rate used - ₱49.72 to US\$1

<sup>2</sup> Exchange rate used - ₱34.35 to S\$1

<sup>3</sup> Exchange rate used - ₱51.84 to €1

<sup>4</sup> Exchange rate used - ₱0.42 to ¥1

<sup>5</sup> Exchange rate used - ₱60.87 to £1

	2015					Equivalents in PHP
	USD <sup>1</sup>	SGD <sup>2</sup>	EUR <sup>3</sup>	JPY <sup>4</sup>	GBP <sup>5</sup>	
<b>Financial assets</b>						
Cash	US\$2,021,312	S\$531,071	€16,731	¥62,202,248	£–	₱ 145,734,201
Receivables	768,063	–	40,800	245,838,594	–	143,555,374
	2,789,375	531,071	57,531	308,040,842	–	289,289,575
<b>Financial liabilities</b>						
Accounts payable and accrued expenses	483,434	8,599	167	–	200	24,352,545
	US\$2,305,941	S\$522,472	€57,364	¥308,040,842	(£200)	₱264,937,030

<sup>1</sup> Exchange rate used - ₱47.06 to US\$1

<sup>2</sup> Exchange rate used - ₱33.52 to S\$1

<sup>3</sup> Exchange rate used - ₱51.74 to €1

<sup>4</sup> Exchange rate used - ₱0.39 to ¥1

<sup>5</sup> Exchange rate used - ₱70.18 to £1

There are no other effects of the foreign currency sensitivity on the Group's equity other than those already affecting the consolidated statements of income.

#### Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's short-term and long-term obligations.

The following table sets out the carrying amount, by maturity, of the Group's financial liabilities that are exposed to interest rate risk:

	2016						Total In Php
	Below 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	
<b>Long-term debt</b>							
Peso floating							
Philippine Peso	₱54,366,300	₱54,366,300	₱54,366,300	₱54,366,300	₱54,366,300	₱359,148,506	₱630,980,006
	BSP Overnight						
	plus 1.50% spread						
Peso fixed							
Philippine Peso	54,366,300	54,366,300	54,366,300	54,366,300	54,366,300	359,148,506	630,980,006
Interest rate	Floating rate plus 0.50% spread						



	2015						Total In Php
	Below 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	
Long-term debt							
Peso floating							
Philippine Peso	₱21,519,994	₱54,366,300	₱54,366,300	₱54,366,300	₱54,366,300	₱413,514,806	₱652,500,000
Floating rate	BSP Overnight plus 1.50% spread						
Peso fixed							
Philippine Peso	21,519,994	54,366,300	54,366,300	54,366,300	54,366,300	413,514,806	652,500,000
Interest rate	Floating rate plus 0.50% spread						

In order to effectively manage its interest rate risk and its financing costs, the Group closely monitors the movements of interest rates, as well as, economic factors affecting the trends of these movements. In certain cases, depending on its assessment of future movements of interest rates, the Group would pre-terminate its debt and obtain a new loan facility which provides for either floating or fixed interest rates. This is intended to minimize its financing costs.

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

	2016		2015	
	Increase/decrease in basis points	Effect on profit before tax	Increase/decrease in basis points	Effect on profit before tax
Peso floating rate borrowing	+19	(₱1,895,266)	+23	(₱2,550,281)
	-19	1,895,266	-23	2,550,281

The forecasted movements in percentages of interest rates used were sourced by management from an affiliated bank. These are forecasted movements in the next twelve months.

There are no other impact on the Group's equity other than those already affecting the consolidated statements of income.

*c. Credit risk*

The Group's exposure to credit risk on its receivables relates primarily to the inability of the debtors to pay and fully settle the unpaid balance of receivables owed to the Group. The Group manages its credit risk in accordance with its credit risk policies which requires the evaluation of the creditworthiness of the debtors. The Group's exposure to credit risk on its other receivables from debtors and related parties is managed through close account monitoring and setting limits.

There can be some credit exposures on project commitments and contingencies as at December 31, 2016 and 2015 represented by work accomplishments on backlog of projects which are not yet invoiced. These exposures are, however, limited to a few months work accomplishment as work are frozen as soon as the Group is able to determine that the risk of non-collection materializes. This risk is, however, mitigated by the Group's contractor's lien on the project. A contractor's lien is the legal right of a contractor to takeover the project in-progress and has priority in the settlement of contractor's receivables and claims on the project in the event of insolvency of the project owner. The Group assesses that the value of projects in-progress is usually higher than receivables from and future commitments with the project owners (see Note 8).

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that



would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Except for ZIFC which is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. It is the ZIFC's policy that all prospective debtors are subject to screening procedures. In addition, receivable balances are monitored on an ongoing. An analysis of concentrations of credit risk all pertains to ZIFC, as of December 31 is shown below:

	2016	2015
Loans receivable at gross	<b>₱25,493,324</b>	₱25,262,474
Less: Allowance for probable loss	<b>3,974,852</b>	3,819,369
Unearned discount and interest	<b>6,345,090</b>	7,780,504
	<b>₱15,173,382</b>	₱13,662,601

The Group's maximum credit risk exposure for its secured loans receivables is equal to its carrying value amounting ₱25.5 million and ₱25.3 million in 2016 and 2015, respectively. The Group holds collateral against these loans receivables in the form of mortgage interests over property. The fair values of the collateral amounts to ₱2.1 billion in 2016 and 2015. This resulted to a nil net exposure as at December 31, 2016 and 2015.

With respect to credit risk arising from cash and cash equivalents, unsecured loans receivables, accounts receivable, due from related parties, available-for-sale securities and receivables from EEI- RFI, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

As at December 31, the analysis of financial assets that were past due but not impaired follows:

	Neither past due nor impaired	2016 Past due but not impaired				Impaired Assets	Total
		< 30 days	30 - 60 days	60 - 90 days	> 90 days		
Cash in bank and cash equivalents	<b>₱2,390,207,142</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,390,207,142</b>
Loans receivable	<b>15,324,655</b>	-	-	-	-	4,053,542	19,378,197
Receivables from:							
Construction and infrastructure	<b>3,762,011,140</b>	<b>614,642,795</b>	<b>264,430,835</b>	<b>93,344,304</b>	<b>976,272,142</b>	<b>35,347,628</b>	<b>5,746,048,844</b>
Car dealership	<b>622,925,015</b>	-	<b>154,043,752</b>	<b>68,086,594</b>	<b>43,061,350</b>	<b>38,035,317</b>	<b>926,152,028</b>
Education and information technology	<b>76,419,090</b>	<b>15,358,579</b>	<b>409,747</b>	<b>10,900</b>	<b>18,070,744</b>	<b>61,125,773</b>	<b>171,394,833</b>
Other services	<b>2,297,888</b>	<b>9,200,174</b>	<b>581,062</b>	<b>531,787</b>	<b>886,834</b>	<b>6,208,855</b>	<b>19,706,600</b>
Other receivables:							
Consultancy fee	-	-	-	-	<b>305,946,232</b>	-	<b>305,946,232</b>
Receivables from plant	<b>27,967,072</b>	-	<b>11,591,416</b>	<b>4,020,959</b>	<b>25,642,596</b>	<b>12,032,845</b>	<b>81,254,888</b>
Others	<b>341,875,213</b>	<b>7,987,554</b>	<b>6,864,559</b>	<b>16,506,248</b>	<b>20,286,466</b>	<b>49,859,639</b>	<b>443,379,679</b>
Due from related parties	<b>54,371,552</b>	-	-	-	-	-	<b>54,371,552</b>
Receivable from a customer	<b>380,296,805</b>	-	-	-	-	-	<b>380,296,805</b>
Receivable from EEI Retirement Fund, Inc.	<b>223,000,000</b>	-	-	-	<b>266,388</b>	-	<b>223,266,388</b>
	<b>₱7,896,695,572</b>	<b>₱647,189,102</b>	<b>₱437,921,371</b>	<b>₱182,500,792</b>	<b>₱1,390,432,752</b>	<b>₱206,663,599</b>	<b>₱10,761,403,188</b>



	2015						Total
	Neither past due nor impaired	Past due but not impaired				Impaired Assets	
		< 30 days	30 - 60 days	60 - 90 days	> 90 days		
Cash in bank and cash equivalents	₱2,334,104,191	₱—	₱—	₱—	₱—	₱—	₱2,334,104,191
Loans receivable	13,662,600	—	—	—	—	3,819,369	17,481,969
Receivables from:							
Construction and infrastructure	4,272,859,369	713,402,654	27,947,691	32,598,254	199,756,870	54,825,854	5,301,390,692
Car dealership	367,729,460	—	138,228,287	69,580,688	123,768,480	33,039,006	732,345,921
Education and information technology	99,000,472	16,112,451	4,056,212	9,619,935	—	54,536,880	183,325,950
Other services	13,237,479	2,159,227	2,249,045	—	712,035	607,101	18,964,887
Other receivables:							
Consultancy fee	18,621,925	21,677,873	17,862,299	21,018,704	210,507,834	—	289,688,635
Receivables from plant	32,079,333	—	6,556,507	3,571,170	2,667,224	13,623,477	58,497,711
Others	258,383,875	4,538,949	9,457,943	6,851,535	66,565,899	51,661,106	397,459,307
Due from related parties	54,237,550	—	—	—	—	—	54,237,550
Receivable from a customer	162,326,173	—	—	—	—	—	162,326,173
Receivable from EEI Retirement Fund, Inc.	273,361,532	—	—	—	—	—	273,361,532
	₱7,899,603,959	₱757,891,154	₱206,357,984	₱143,240,286	₱603,978,342	₱212,112,793	₱9,823,184,518

There are no past due financial assets other than those stated above.

The following table provides information regarding the credit quality by class of financial assets (amounts gross of allowance for credit losses) based on the Group's credit rating system.

	2016			
	Neither past due nor impaired		Past due or Individually Impaired	Total
	High Grade	Standard		
Cash in banks and cash equivalents	₱2,390,207,142	-	-	₱2,390,207,142
Loans receivable	15,324,655	-	₱4,053,542	19,378,197
Receivables from:				
Construction and infrastructure	1,082,113,409	2,679,897,731	1,984,037,704	5,746,048,844
Car dealership	622,925,015	-	303,227,013	926,152,028
Education and information technology	72,853,316	3,565,774	94,975,743	171,394,833
Other services	2,297,888	-	17,408,712	19,706,600
Other receivables:				
Consultancy fee	-	-	305,946,232	305,946,232
Receivable from plant	27,967,072	-	53,287,816	81,254,888
Others	341,875,213	-	101,504,466	443,379,679
Due from related parties	54,371,552	-	-	54,371,552
Receivable from a customer	380,296,805	-	-	380,296,805
Receivables from EEI Retirement Fund, Inc.	223,000,000	-	266,388	223,266,388
	₱5,213,232,067	₱2,683,463,505	₱2,864,707,616	₱10,761,403,188



	2015			
	Neither past due nor impaired		Past due or Individually Impaired	Total
	High Grade	Standard		
Cash in banks and cash equivalents	₱2,334,104,191	₱—	₱—	₱2,334,104,191
Loans receivable	13,662,600	—	₱3,819,369	₱17,481,969
Accounts receivables from:				
Construction and infrastructure	1,987,606,700	2,285,252,669	1,028,531,323	5,301,390,692
Car dealership	362,973,895	4,755,565	364,616,461	732,345,921
Education and information technology	90,335,371	8,665,101	84,325,478	183,325,950
Other services	8,117,172	5,120,307	5,727,408	18,964,887
Other receivables:				
Consultancy fee	—	—	289,688,635	289,688,635
Receivable from plant	22,518,890	9,560,443	26,418,378	58,497,711
Others	256,521,514	1,862,361	139,075,432	397,459,307
Due from related parties	54,237,550	—	—	54,237,550
Receivable from a customer	162,326,173	—	—	162,326,173
Receivables from EEI Retirement Fund, Inc.	273,361,532	—	—	273,361,532
	₱5,565,765,588	₱2,315,216,446	₱1,942,202,484	₱9,823,184,518

Neither past due nor impaired accounts receivables, other receivables are classified into ‘high grade’ and ‘standard grade’. Neither past due nor impaired cash and cash equivalents, loans receivable, due from related parties, receivable from a customer and receivables from EEI-RFI are normally ‘high grade’ in nature. The Group sets financial assets as ‘high grade’ based on the Group’s positive collection experience. On the other hand, ‘standard grade’ are those which have credit history of default in payments.

### Capital Management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group which is composed of diversified operations (i.e. construction and infrastructure operations, education and information technology and finance and leasing activities) manages its capital on a per entity basis. Each entity manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015.

As at December 31, 2016 and 2015, the Group is not subject to externally imposed capital requirements other than the monitoring of the Group’s debt to equity ratio and current ratio as a result of avilment of long term debt. Debt to equity ratio should not exceed 2:1, 3:1 and 2:1 for the Parent Company, EEI Group and iPeople Group, respectively; and current ratio should not be less than 1:1 for iPeople Group and EEI Group. As of December 31, 2016 and 2015, the Group was in compliance with the loan covenants.

The Group considers total equity as its capital.

### *Parent Company, EEI and iPeople*

The Parent Company, EEI (construction and infrastructure operations) and iPeople (education and information technology) monitor capital using gearing ratio. The Parent Company, EEI and iPeople’s policies are to keep the gearing ratio up to a maximum of 2:1, 3:1 and 2:1, respectively, to comply with some of the Group’s loan agreements with banks which provides for a maximum debt-to-equity ratio.



*Parent Company*

	2016	2015
Loans payable	<b>₱500,000,000</b>	₱410,000,000
Long-term debt	<b>1,663,695,451</b>	1,788,144,957
Other noncurrent liabilities	<b>190,096,824</b>	217,338,309
Total debt	<b>2,353,792,275</b>	2,415,483,266
Less cash and cash equivalents	<b>342,506,188</b>	375,036,206
Net debt	<b>₱2,011,286,087</b>	₱2,040,447,060
Capital stock	<b>₱1,202,639,392</b>	₱1,232,566,441
Additional paid-in capital	<b>154,578,328</b>	154,578,328
Revaluation increment on land	<b>294,313,040</b>	227,845,100
Net accumulated unrealized gain on available-for-sale securities	<b>77,350,254</b>	84,485,651
Remeasurement gains on retirement asset	<b>31,888,001</b>	21,609,490
Retained earnings	<b>2,302,203,340</b>	1,886,001,155
Total Equity	<b>₱4,062,972,355</b>	₱3,607,086,165
<b>Debt to equity</b>	<b>0.58:1</b>	0.67:1
<b>Net debt to equity</b>	<b>0.50:1</b>	0.57:1

The Parent Company monitors capital using a gearing ratio of debt to equity and net debt to equity. The Parent Company's policy is to keep the gearing ratio within 2:1.

*EEI*

	2016	2015
Current liabilities	<b>₱13,073,090,932</b>	₱14,059,392,182
Noncurrent liabilities	<b>1,286,278,452</b>	1,631,098,662
Total liabilities (a)	<b>14,359,369,384</b>	15,690,490,844
Total equity (b)	<b>₱5,843,724,759</b>	₱6,781,242,557
<b>Debt to equity ratio (a/b)</b>	<b>2.46:1</b>	2.31:1

EEI monitors capital using a debt-to-equity ratio, which is total liabilities divided by total equity. The Group's policy is to maintain a debt-to-equity ratio lower than 3:1.

*iPeople*

	2016	2015
Current liabilities	<b>₱792,299,631</b>	₱785,620,364
Noncurrent liabilities	<b>221,567,599</b>	312,460,513
Total liabilities (a)	<b>1,013,867,230</b>	1,098,080,877
Equity attributable to equity holders of the Parent Company (b)	<b>₱5,167,074,598</b>	₱4,498,203,849
<b>Debt to equity ratio (a/b)</b>	<b>0.20:1</b>	0.24:1

iPeople's policy is to keep the debt to equity ratio lower than 2:1.

Fair Value Information

The Group's financial instruments are composed of long-term debt, receivable from EEI-RFI, AFS financial assets and financial assets at FVPL.

The carrying amounts of the investments approximate the fair value due to their short-term maturities and demand features except for the following:



	Carrying Amount	2016			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:					
Financial assets at FVPL	₱8,339,643	₱8,339,643	₱—	₱—	₱8,339,643
AFS financial assets	66,220,064	41,831,283	17,501,126	—	59,332,410
Receivable from EEI-RFI	223,266,388	—	225,343,598	—	225,343,598
	₱297,826,095	₱50,170,926	₱242,844,726	₱—	₱293,015,651
Financial liabilities measured at fair value:					
Long-term debt	₱3,163,695,450	₱—	₱3,227,371,671	₱—	₱3,227,371,671

	Carrying Amount	2015			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:					
Financial assets at FVPL	₱8,205,773	₱8,205,773	₱—	₱—	₱8,205,773
AFS financial assets	89,496,525	46,293,596	19,926,468	—	66,220,064
Receivable from EEI-RFI	273,361,532	—	273,869,269	—	225,343,598
	₱371,063,830	₱54,499,369	₱293,795,737	₱—	₱299,769,435
Financial liabilities measured at fair value:					
Long-term debt	₱3,762,359,243	₱—	₱3,701,715,786	₱—	₱3,701,715,786

*Receivable from EEI-RFI*

The fair values of the receivable were estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rates used in 2016 and 2015 were 4.73% and 4.85%, respectively.

*Long-term debt*

The fair values of the interest-bearing long-term loans were estimated as the present value of all future cash flows discounted using the applicable rates for similar types of loans (Level 2 - significant observable inputs). Discount rates used in 2016 and 2015 were 4.73% and 4.85%, respectively.

*Quoted AFS financial assets*

Fair values of investments in equity shares listed with Philippine Stock Exchange amounting to ₱41.8 million and ₱46.3 million as of December 31, 2016 and 2015, respectively, were determined by reference to the quoted price in the stock exchange at the end of the reporting period (Level 1 - quoted prices in active market).

Fair values of investments in club/golf shares amounting to ₱17.5 million and ₱19.9 million as of December 31, 2016 and 2015, respectively, were determined by reference to the price of the most recent transaction at the end of the reporting period (Level 2 - significant observable inputs).

*Financial assets at FVPL*

The fair values are based on net assets value per unit (NAVPU).

There were no transfers between levels of fair value measurements in 2016 and 2015. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period.



### 38. Capital Stock

The authorized preferred stock is 2,500,000,000 shares at ₱0.40 par value. A reconciliation of the number of preferred shares outstanding as at December 31, 2016, 2015 and 2014 follows:

	2016		2015		2014	
	Amount	Shares	Amount	Shares	Amount	Shares
Beginning of the year	₱310,729,869	776,824,673	₱344,007,243	860,018,109	₱380,670,413	951,676,038
Redemption of preferred stock	(29,927,049)	(74,817,621)	(33,128,338)	(82,820,845)	(36,663,170)	(91,657,929)
Conversion of preferred stock to common stock (Note 40)	—	—	(149,036)	(372,591)	—	—
	₱280,802,820	702,007,052	₱310,729,869	776,824,673	₱344,007,243	860,018,109

The authorized common stock is 1,250,000,000 shares at ₱1.50 par value. A reconciliation of the number of common shares outstanding as at December 31, 2016, 2015 and 2014 follows:

	2016		2015		2014	
	Amount	Shares	Amount	Shares	Amount	Shares
Beginning of the year	₱924,444,172	616,296,114	₱924,295,136	616,196,757	₱924,295,136	616,196,757
Conversion of preferred stock to common stock	—	—	149,036	99,357	—	—
	924,444,172	616,296,114	924,444,172	616,296,114	924,295,136	616,196,757
Treasury stock	(2,607,600)	(300,000)	(2,607,600)	(300,000)	(2,607,600)	(300,000)
	₱921,836,572	615,996,114	₱921,836,572	615,996,114	₱921,687,536	615,896,757

On May 24, 2013, the Parent Company repurchased 300,000 shares held as treasury stock at ₱8.69 per share for ₱2.61 million.

Details of the capital redemption and conversion follow:

Date of Redemption	Amount		Record Date	Payment Date
March 31, 2016	₱7,768,247	₱0.40	April 28, 2016	May 24, 2016
July 15, 2016	7,574,041	0.40	August 12, 2016	September 8, 2016
September 30, 2016	7,384,689	0.40	October 28, 2016	November 24, 2016
December 2, 2016	7,200,072	0.40	December 29, 2016	January 23, 2017
	₱29,927,049			
March 20, 2015	₱8,600,181	₱0.40	April 17, 2015	May 13, 2015
July 17, 2015	8,385,177	0.40	August 14, 2015	September 13, 2015
September 24, 2015	8,175,547	0.40	October 23, 2015	November 17, 2015
December 3, 2015	7,967,433	0.40	December 29, 2015	January 26, 2016
	₱33,128,338			
March 31, 2014	₱9,516,760	₱0.40	April 25, 2014	May 21, 2014
July 31, 2014	9,278,841	0.40	August 14, 2014	September 9, 2014
October 2, 2014	9,046,870	0.40	October 30, 2014	November 21, 2014
December 4, 2014	8,820,699	0.40	December 29, 2014	January 27, 2015
	₱36,663,170			

On November 26, 2015, 372,591 shares of preferred stock were converted into 99,357 of common stock with cost amounting to ₱0.1 million. There is no capital conversion in 2016.



The Parent Company's preferred shares have the following features:

- Entitled to dividends at the rate of average 91-day T-Bill plus two percent;
- Fully participating as to distribution of dividends;
- Convertible into common shares at the option of the holders thereof from the date of issue at the conversion rate of 3 and 3/4 preferred shares to 1 common share for a price of ₱1.50 per common share subject to adjustments;
- Redeemable at any one time or from time to time, at the option of the BOD of the Parent Company, subject to availability of funds; and
- With voting rights and preferences as to assets upon dissolution of the Parent Company over common shareholders.

Below is the summary of the outstanding number of shares and holders of security as at December 31, 2016:

Year	Number of shares registered	Issue/offer price	Date of approval	Number of holders of securities as of year end
<b>Preferred shares:</b>				
January 1, 2015	860,018,109			49
Movement:	(21,500,455)	0.40	March 20, 2015	
	(20,962,941)	0.40	July 17, 2015	
	(20,438,868)	0.40	September 24, 2015	
	(19,918,581)	0.40	December 8, 2015	
December 31, 2015	777,197,264			49
Conversion	(372,591)		November 26, 2015	
December 31, 2015	776,824,673			48
Movement:	(19,420,617)	0.40	March 31, 2016	
	(18,935,100)	0.40	July 15, 2016	
	(18,461,723)	0.40	September 30, 2016	
	(18,000,181)	0.40	December 2, 2016	
December 31, 2016	702,007,052			48
<b>Common Shares:</b>				
January 1, 2015	616,095,471			403
No Movement	(99,357)	—		
December 31, 2015	615,996,114			403
No Movement	—	—		
December 31, 2016	615,996,114			403

SEC approved the registration of the Parent Company's authorized capital stock before its listing date with the PSE, which was on July 2, 1962. The actual number of shares initially listed were 584,085 at an offer price of ₱10.0 per share. Total number of preferred and common shareholders was 48 and 402, respectively, as of December 31, 2016 and 49 and 403, respectively, as of December 31, 2015.



### 39. Retained Earnings

#### Cash Dividends

The BOD declared cash dividends as follows:

Date of BOD Approval	Amount	Amount per share		Record Date	Payment Date
		Preferred Shares	Common Shares		
March 31, 2016	₱2,761,612	₱0.004	₱—	April 28, 2016	May 20, 2016
July 15, 2016	53,165,560	0.017	0.065	August 12, 2016	September 6, 2016
July 15, 2016	2,729,936	0.004	—	August 12, 2016	September 2, 2016
September 30, 2016	2,525,564	0.003	—	October 28, 2016	November 22, 2016
December 8, 2016	2,476,824	0.003	—	December 29, 2016	January 23, 2017
	₱63,659,496				
March 20, 2015	₱2,983,403	₱0.004	₱—	April 17, 2015	May 12, 2015
July 17, 2015	54,564,800	0.017	0.065	August 14, 2015	September 9, 2015
July 17, 2015	3,311,306	0.003	—	August 14, 2015	May 12, 2015
September 24, 2015	3,156,579	0.003	—	October 23, 2015	November 13, 2015
December 8, 2015	2,947,950	0.003	—	December 29, 2015	January 22, 2016
	₱66,964,038				
March 31, 2014	₱2,902,612	₱0.003	₱—	April 25, 2014	May 20, 2014
July 17, 2014	3,037,893	0.003	—	August 14, 2014	September 3, 2014
July 17, 2014	56,133,021	0.017	0.065	August 14, 2014	September 5, 2014
October 2, 2014	2,947,470	0.003	—	November 20, 2014	November 20, 2014
December 4, 2014	2,898,482	0.003	—	December 29, 2014	January 23, 2015
	₱67,919,478				

After reconciling items, the retained earnings of the Parent Company that are available for dividend declaration amounted to ₱2,290.2 million and ₱1,883.1 million as of December 31, 2016 and 2015, respectively. Dividend distribution is approved by the BOD.

Under the Tax Code, publicly-held Corporations are allowed to accumulate retained earnings in excess of capital stock and are exempt from improperly accumulated earnings tax.

#### Restrictions

The Group's retained earnings include accumulated earnings of subsidiaries amounting to ₱5,332.1 million and ₱5,352.1 million in 2016 and 2015, respectively, not declared as dividends to the Group. Accordingly, these are not available for dividend declaration.

As of December 31, 2016, Group's retained earnings is restricted to payment of dividends to the extent of the cost of shares held in treasury and deferred tax asset amounting to ₱2.6 million and ₱120.8 million, respectively.



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#### 40. Notes on Consolidated Statements of Cash Flows

Noncash investing and financing activities are as follows:

- a. Revaluation of parcel of land resulting to revaluation increment amounting ₱374.8 million and ₱819.6 million in 2016 and 2015, respectively (see Noted 14).
- b. Conversion of preferred stock to common stock amounting ₱149,036 in 2015 and ₱43,025 in 2013 (see Note 38).
- c. The Group reclassified the receivable from EEI-RFI to current assets in 2012 because the receivable is expected to be collected in the following year. However, in 2013, receivable from the Fund amounting to ₱390.0 million was restructured and reclassified to other noncurrent assets (see Notes 11, 17 and 22).

In 2014, receivable from the Fund amounting to ₱117.0 million was reclassified from other noncurrent assets to other current assets, since the amount is expected to be collected within the following year.

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#### 41. Cumulative Translation Adjustment

Cumulative translation adjustment represents exchange differences arising from the translation of financial statements of the foreign subsidiary, EEI BVI, whose functional currency is the United States dollar and foreign associate, ARCC with functional currency of Saudi Arabia Riyal.

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#### 42. Events after the Financial Reporting Date

##### *Parent Company*

##### Cash Dividends

On March 31, 2017, the BOD approved the declaration of cash dividends of ₱0.0042 per share with a total amount of ₱2.9 million to the stockholders of the Parent Company's preferred shares as of April 28, 2017 covering the first quarter of 2017, and payable on or before May 21, 2017.

##### Capital Stock Redemption

On March 31, 2017, the BOD approved the redemption of 17,550,176 preferred shares at ₱0.40 per share amounting to ₱7.0 million from the stockholders of the Parent Company's preferred shares as of April 28, 2017 covering the first quarter of 2017, and payable on or before May 22, 2017.



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**43. Other Matters**

- a. In 2016, Equipment Engineers, Inc., acquired 60% ownership in JPSAI for ₱30.0 million. JPSAI was incorporated on December 19, 2016 and is engaged in the business of rental and supplying scaffolding and formworks. As of March 31, 2017, JPSAI has not yet started commercial operations.
- b. On April 30, 2016, ARCC, filed a claim with the International Court of Arbitration in London for the RP2 Naphtha and Aromatics Package Project in respect of the delay, disruption and acceleration of works to complete the Project. Subsequently, additional claim of SR100.0 million (₱1,328.1 million) has been submitted to the main contractor, Snamprogetti, for the associated prolongation cost for further extension of Mechanical Completion from April 30, 2016 to August 25, 2016 due to continuing delays attributable to Snamprogetti.

On May 31, 2016, ARCC entered into a settlement agreement with Snamprogetti wherein the latter will pay the former SR141.0 million (₱1,872.6 million) for the aforementioned claims.

On October 26, 2016, ARCC submitted a claim of SR166.0 million (₱2,204.6 million) of the prolongation and disruption cost due to the continued failures and delays attributable to the main contractor Snamprogetti.

- c. In 2016, Landev Corporation, acquired 100% ownership in SECON for ₱1.5 million. SECON is engaged in the business of providing training services for security guards.



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**44. Approval of Consolidated Financial Statements**

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 31, 2017.



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders  
House of Investments, Inc.  
3rd Floor, Grepalife Building  
219 Sen. Gil J. Puyat Avenue  
Makati City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing (PSAs) the consolidated financial statements of House of Investments, Inc. and its subsidiaries (the Group) as at December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016 included in this Form 17-A, and have issued our report thereon dated March 31, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules I - III listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule No. 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Wenda Lynn M. Loyola  
Partner

CPA Certificate No. 109952

SEC Accreditation No. 1540-A (Group A),  
March 8, 2016, valid until March 8, 2019

Tax Identification No. 242-019-387

BIR Accreditation No. 08-001998-117-2016,  
February 15, 2016, valid until February 14, 2019

PTR No. 5908712, January 3, 2017, Makati City

March 31, 2017



**HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON**  
**SRC RULE 68 AS AMENDED**  
**DECEMBER 31, 2016**

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by SRC Rule 68, As Amended (2011), that are relevant to the Group. This information is presented for the purpose of filing with the SEC and is not required part of the basic financial statements.

Schedule A. Financial Assets in Equity Securities

The Group is not required to disclose the financial assets in equity securities as the total available-for-sale securities amounting ₱524.1 million do not constitute 5% or more of the total current assets of the Group as at December 31, 2016.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (other than related parties)

Below is the schedule of advances to employees of the Group with balances above ₱100,000 as of December 31, 2016:

<b>Name</b>	<b>Balance at beginning of year</b>	<b>Additions</b>	<b>Collections/ Liquidations</b>	<b>Balance at end of year</b>
<i>(In Thousands)</i>				
<i>EEI</i>				
Macapagal, Norman K.	<b>₱1,532</b>	<b>₱24</b>	<b>(₱24)</b>	<b>₱1,532</b>
Mercado, Oscar D.	<b>1,454</b>	<b>22</b>	<b>(1,476)</b>	<b>—</b>
Cabrera, Lovette O.	<b>160</b>	<b>—</b>	<b>(160)</b>	<b>—</b>
San Miguel, Simon Elmer D.	<b>489</b>	<b>—</b>	<b>(489)</b>	<b>—</b>
Villarin, Pantaleon T. Jr.	<b>168</b>	<b>—</b>	<b>(168)</b>	<b>—</b>
Alonzo, Antonina J.	<b>121</b>	<b>—</b>	<b>—</b>	<b>121</b>
Canero, Raul C.	<b>117</b>	<b>—</b>	<b>—</b>	<b>117</b>
Burgos, Manuel B.	<b>108</b>	<b>19</b>	<b>(19)</b>	<b>108</b>
Zulueta, Reynaldo S.	<b>101</b>	<b>—</b>	<b>(95)</b>	<b>6</b>
Albarda, John Christian	<b>210</b>	<b>—</b>	<b>(43)</b>	<b>167</b>
Largosta, Christopher M.	<b>199</b>	<b>—</b>	<b>(49)</b>	<b>150</b>
Sunga, Renato Z.	<b>107</b>	<b>139</b>	<b>(41)</b>	<b>205</b>
Edorot, Rico C.	<b>131</b>	<b>—</b>	<b>(131)</b>	<b>—</b>
Matibag, Jun E.	<b>174</b>	<b>—</b>	<b>(42)</b>	<b>132</b>
Bernal, Edgardo A.	<b>126</b>	<b>—</b>	<b>—</b>	<b>126</b>
Cadiz, Cirilo Victoriano L.	<b>113</b>	<b>—</b>	<b>(58)</b>	<b>55</b>
Alcaraz, Jimmy S.	<b>204</b>	<b>4</b>	<b>(35)</b>	<b>173</b>
Bondoc, Alberto D.	<b>117</b>	<b>—</b>	<b>(117)</b>	<b>—</b>
Bundalian, Rolando S.	<b>102</b>	<b>12</b>	<b>(12)</b>	<b>102</b>
Duran, Roque C.	<b>109</b>	<b>285</b>	<b>(394)</b>	<b>—</b>
Encila, William L.	<b>145</b>	<b>10</b>	<b>(63)</b>	<b>92</b>
Manalo, Noelito D.	<b>327</b>	<b>—</b>	<b>(327)</b>	<b>—</b>
Lalisan, Bernabe O.	<b>—</b>	<b>176</b>	<b>(55)</b>	<b>121</b>
Tamos Jr. Eduardo C.	<b>—</b>	<b>140</b>	<b>(27)</b>	<b>113</b>
Abragan, Edmundo F.	<b>—</b>	<b>129</b>	<b>—</b>	<b>129</b>
Alon, Ronaldo M.	<b>—</b>	<b>100</b>	<b>—</b>	<b>100</b>
Puyat, Gil S.	<b>—</b>	<b>380</b>	<b>(212)</b>	<b>168</b>

(Forward)



Name	Balance at beginning of year	Additions	Collections/ Liquidations	Balance at end of year
<i>(In Thousands)</i>				
Cruz, Garizaldy F.	P–	P535	P–	P535
Realin, Marco Dindo H.	–	929	(261)	668
Reyes, Roberto B., Jr.	–	730	(614)	116
	<b>P6,314</b>	<b>P3,634</b>	<b>(P4,912)</b>	<b>P5,036</b>
<i>iPeople</i>				
Salvacion, Jonathan	P54	P375	P54	P483
Costales, Aloysius Nathaniel	560	–	(130)	430
Agbulos, Erlin C.	–	447	(45)	402
Gochioco, Geraldine	–	387	(17)	370
Songsong, Maribel	47	372	(72)	347
Francisco, Ruth C.	384	–	(74)	310
Adanza, Carina Victoria T.	539	–	(242)	297
Judilla, Roel John	367	–	(76)	291
Sauquillo, Dante	364	–	(76)	288
Apsay, Christopher	326	–	(73)	253
Papas, Aileen Kate A.	333	–	(89)	244
Geguiento, Edgardo P.	312	–	(73)	239
Ballado, Alejandro Jr.	294	–	(73)	221
Balan, Ariel Kelly	291	–	(73)	218
Cabanilla, Angela Celine	277	–	(73)	204
Cinco, Arnold	277	–	(73)	204
Camus, Rosette Eira	271	–	(73)	198
Arenillo, Denise Jordan	209	–	(76)	133
Uy, Francis Aldrine	204	–	(79)	125
Hofilena, Joy	205	–	(84)	121
Macayan, Jonathan	190	–	(77)	113
Kikuchi, Khristian	184	–	(78)	106
	<b>P5,688</b>	<b>P1,581</b>	<b>(P1,672)</b>	<b>P5,597</b>
<i>HI-Parent</i>				
Panelo, Danilo P	P–	P477	(P52)	P425
De Lara, Ma. Elisa	7	1,043	(645)	405
Villegas, Sonia P	429	50	(164)	315
Bassig, Clarissa	–	492	(188)	304
Cajes, Cieolo M..	374	108	(185)	297
Joven, Ma. Esperenza F	405	105	(221)	289
Galang, Alexander G.	363	40	(121)	282
Tanjangco, Joey A.	27	528	(282)	273
	<b>P1,605</b>	<b>P2,843</b>	<b>(P1,858)</b>	<b>P2,590</b>
<b>Total</b>	<b>P13,607</b>	<b>P8,058</b>	<b>(P8,550)</b>	<b>P13,223</b>

iPeople and HI-Parent's advances mainly pertain to the officers and employees car plan agreements. Such advances are interest-bearing and shall be liquidated on a monthly basis.

There were no amounts written off during the year. All receivables are expected to be collected within the next twelve months.

**Schedule C. Amounts Receivable from/Payable to Related Parties which are eliminated during the Consolidation of Financial Statements**

Below is the schedule of receivables (payables) with subsidiaries, which are eliminated in the consolidated financial statements as at December 31, 2016:

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Balance at end of period
<i>Landev Corporation</i>					
Due from affiliates	₱154,639	₱3,586,025	(₱2,397,750)	₱—	₱1,342,914
Dividends receivable	10,000,000	36,000,000	(22,500,000)	—	23,500,000
	10,154,639	39,586,025	(24,897,750)	—	24,842,914
<i>Greyhounds Security and Investigation Agency Corporation</i>					
Due from affiliates	476,576	3,051,146	(2,505,770)	—	1,021,952
<i>Investment Managers, Inc.</i>					
Due from affiliates	458,906	6,982,357	(6,896,376)	—	544,887
Dividends receivable	2,000,000	1,300,000	(2,000,000)	—	1,300,000
	2,458,906	8,282,357	(8,896,376)	—	1,844,887
<i>iPeople, inc. and subsidiaries</i>					
Due from affiliates	6,845,344	71,326,696	(68,231,427)	—	9,940,613
Dividends receivable	49,291,959	140,274,220	(175,503,978)	—	14,062,201
	56,137,303	211,600,916	(243,735,405)	—	24,002,814
<i>EEl Corporation and subsidiaries</i>					
Due from affiliates	1,405,782	15,912,739	(15,912,136)	—	1,406,385
<i>Zamboanga Industrial Finance Corporation</i>					
Dividends receivable	—	1,500,000	(1,500,000)	—	—
<i>Hexagon Lounge, Inc.</i>					
Due from affiliates	—	—	—	—	—
<i>Xamdu Motors, Inc.</i>					
Due from affiliates	1,248	227	(1,475)	—	—
	₱70,634,454	₱279,933,410	(₱297,448,912)	—	₱53,118,952

These receivables are non-interest bearing and are expected to be settled within the next twelve months.

**Schedule D. Intangible Asset - Other Noncurrent Assets**

As at December 31, 2016, the Group's intangible assets consist of goodwill and computer software. Goodwill in the Group's consolidated statements of financial position arose from the acquisition of EEI, iPeople, and Honda Cars Group. Details of the Group's intangible assets are as follows:

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	₱471,357,459	₱—	₱—	₱—	₱—	₱471,357,459
Computer Software	15,791,828	9,070,559	(11,089,715)	—	—	13,772,672
	₱487,149,287	₱9,070,559	(₱11,089,715)	₱—	₱—	₱485,130,131

Schedule E. Long-term Debt

Below is the schedule of long-term debt of the Group:

<b>Type of Obligation</b>	<b>Amount</b>	<b>Current</b>	<b>Noncurrent</b>
Parent Company			
Peso-denominated syndicated bank loan payable within ten (10) years which shall commence after three (3) years from the date of issue with a floating rate per annum based on the higher of (i) the three (3) - month Philippine Dealing System Treasury Reference Rates - Fixing (PDST-F) plus a spread of two percent (2.0%) per annum or (ii) the BSP overnight rate plus a spread of 1.5%.	₱631,847,725	₱53,017,162	₱578,830,563
Peso-denominated syndicated bank loan payable within ten (10) years which shall commence after three (3) years from the date of issue with a fixed rate per annum based on the highest of (i) five (5) - year PDST-F, plus a spread of two percent (2.0%) per annum or (ii) floating rate per annum based on the higher of (i) the three (3) - month Philippine Dealing System Treasury Reference Rates - Fixing (PDST-F) plus a spread of two percent (2.0%) per annum or (ii) the BSP overnight rate plus a spread of 1.5% or (iii) 5.5% per annum.	631,847,725	53,017,162	578,830,563
Peso-denominated five (5) year term loan, payable quarterly starting March 2016 with interest of 5.11% per annum	400,000,000	100,000,000	300,000,000
EEI			
Fixed-rate corporate promissory notes with effective interest of 5.1667% and 5.1875% per annum for seven (7) years	1,089,285,715	214,285,715	875,000,000
EEI Power			
Peso-denominated seven (7) year term loan, payable quarterly starting June 2014 with interest of 6.0% per annum inclusive of two-year grace period on principal amortization	410,714,285	71,428,571	339,285,714
	<b>₱3,163,695,450</b>	<b>₱491,748,610</b>	<b>₱2,671,946,840</b>

Schedule F. Indebtedness to Related Parties (Long-term Loans from Related Companies)

As at December 31, 2016, the Group has no long-term loans from its related parties.

Schedule G. Guarantees of Securities of Other Issuers

There are no guarantees of securities of other issuing entities by the Group as at December 31, 2016.

Schedule H. Capital Stock

<b>Title of issue</b>	<b>Number of shares authorized</b>	<b>Number of shares issued and outstanding as shown under related statement of financial position caption</b>	<b>Number of shares held by related parties</b>	<b>Directors, Officers and Employees</b>	<b>Others</b>
Common shares	1,250,000,000	615,996,114	344,702,846	3,443,395	267,849,873
Preferred shares	2,500,000,000	702,007,052	298,126,412	383,569,427	20,311,213

**HOUSE OF INVESTMENTS, INC.**

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**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION**

Unappropriated retained earnings, beginning	₱1,886,001,155
Less: Deferred tax asset	6,161,808
Treasury shares	2,607,600
Unappropriated retained earnings, as adjusted to amount available for dividend declaration, beginning	1,877,231,747
Net income during the year closed to retained earnings	479,861,681
Less movement in deferred tax asset that increased net income	3,224,368
Net income actually earned during the period	476,637,313
Dividend declared	63,659,496
<b>UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, ENDING</b>	<b>₱2,290,209,564</b>

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# HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

## SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

[which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2016:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions		✓*	
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		

\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Group did not early adopt these standards, interpretations and amendments

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓*	
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Amendments to PFRS 7: Hedge Accounting			✓
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9 (final version)</b>	Financial Instruments		✓*	
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities			✓

\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Group did not early adopt these standards, interpretations and amendments

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>				
<b>Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 10</b>	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓**	
	Amendments to PFRS 10: Investment Entities - Applying the Consolidation Exception	✓		
<b>PFRS 11</b>	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities - Applying the Consolidation Exception			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers		✓*	
	Amendments to PFRS 15, Clarifications to PFRS 15		✓*	
<b>PFRS 16</b>	Leases		✓*	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		

\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Group did not early adopt these standards, interpretations and amendments

\*\*Effectivity was deferred by the Financial Reporting Standards Council

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 1 (Revised)</b>	Amendments to PAS 1, Disclosure Initiative	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative		✓*	
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts	✓		
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses		✓*	
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16: Agriculture - Bearer Plants			✓
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19 (Revised)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		

\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Group did not early adopt these standards, interpretations and amendments

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓**	
	Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		

*\*\*Effectivity was deferred by the Financial Reporting Standards Council*

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting			✓
<b>PAS 40</b>	Investment Property	✓		
	Amendments to PAS 40: Transfers of Investment Property		✓*	
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 41: Agriculture - Bearer Plants			✓

\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Group did not early adopt these standards, interpretations and amendments

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>Annual Improvements to PFRSs</b>				
Improvements to PFRSs (2008)		✓		
Improvements to PFRSs (2009)		✓		
Improvements to PFRSs (2010)		✓		
Annual Improvements to PFRSs (2009-2011 Cycle)		✓		
Annual Improvements to PFRSs (2010-2012 Cycle)		✓		
Annual Improvements to PFRSs (2011-2013 Cycle)		✓		
Annual Improvements to PFRSs (2012-2014 Cycle)		✓		
Annual Improvements to PFRSs (2014-2016 Cycle)			✓*	
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 14</b>	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration		✓*	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Group did not early adopt these standards, interpretations and amendments

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative		✓*	
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses		✓*	
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16: Agriculture - Bearer Plants			✓
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19 (Revised)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans	✓		

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements		✓	
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
<b>PAS 28 (Amended)</b>	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓**	
	Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
<b>PAS 37</b>	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		

*\*\*Effectivity was deferred by the Financial Reporting Standards Council*

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 39</b>	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting			✓
<b>PAS 40</b>	Investment Property	✓		
	Amendments to PAS 40: Transfers of Investment Property		✓*	
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 41: Agriculture - Bearer Plants			✓
<b>Annual Improvements to PFRSs</b>				
Improvements to PFRSs (2008)		✓		
Improvements to PFRSs (2009)		✓		
Improvements to PFRSs (2010)		✓		
Annual Improvements to PFRSs (2009-2011 Cycle)		✓		
Annual Improvements to PFRSs (2010-2012 Cycle)		✓		

\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Group did not early adopt these standards, interpretations and amendments

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Annual Improvements to PFRSs (2011-2013 Cycle)		✓		
Annual Improvements to PFRSs (2012-2014 Cycle)		✓		
Annual Improvements to PFRSs (2014-2016 Cycle)			✓*	
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
<b>IFRIC 7</b>	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓

\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Group did not early adopt these standards, interpretations and amendments

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration		✓*	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

*\* These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments*

Standards tagged as “Not applicable” have been adopted by the Group but have no significant covered transactions for the year ended December 31, 2016.

Standards tagged as “Not adopted” are standards issued but not yet effective as of December 31, 2016. The Group will adopt the Standards and Interpretations when these become effective.

**HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS AS OF**  
**DECEMBER 31, 2016 AND 2015**

---

*Financial Soundness Indicator*

Below are the financial ratios that are relevant to the Group for the year ended December 31, 2016 and 2015:

<b>Financial ratios</b>		<b>2016</b>	<b>2015</b>
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	<b>1.11:1</b>	1.08:1
Solvency ratio	$\frac{\text{Net income plus depreciation}}{\text{Total liabilities}}$	<b>0.06:1</b>	0.10:1
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	<b>1.31:1</b>	1.45:1
Asset-to-equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	<b>2.31:1</b>	2.45:1
Interest rate coverage	$\frac{\text{EBIT*}}{\text{Interest expense}}$	<b>2.96:1</b>	7.26:1
Return on assets	$\frac{\text{Net income}}{\text{Average total assets}}$	<b>0.64%</b>	4.30%
Return on equity	$\frac{\text{Net income}}{\text{Average total equity}}$	<b>1.52%</b>	10.15%

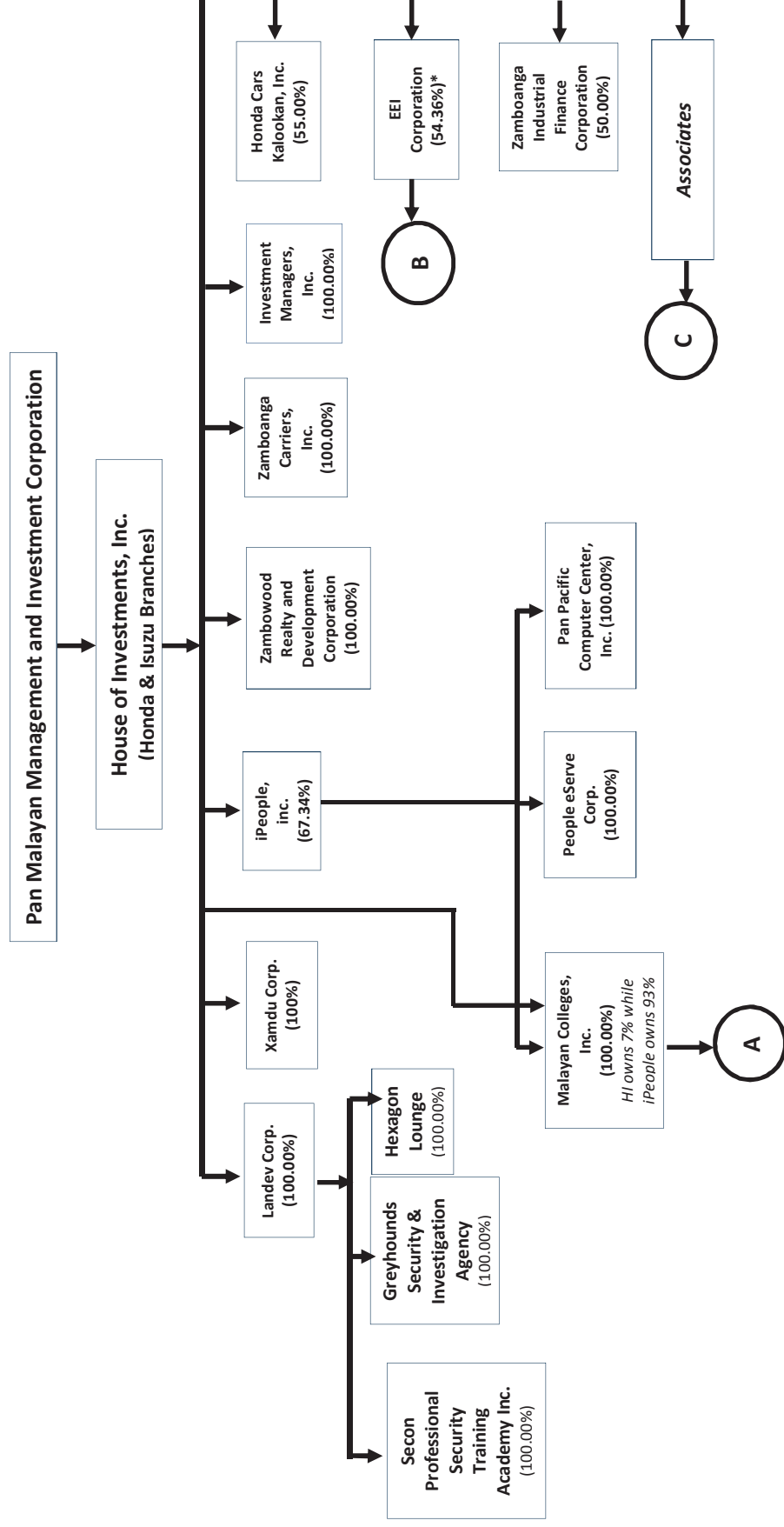
*\*Earnings before interest and taxes (EBIT)*

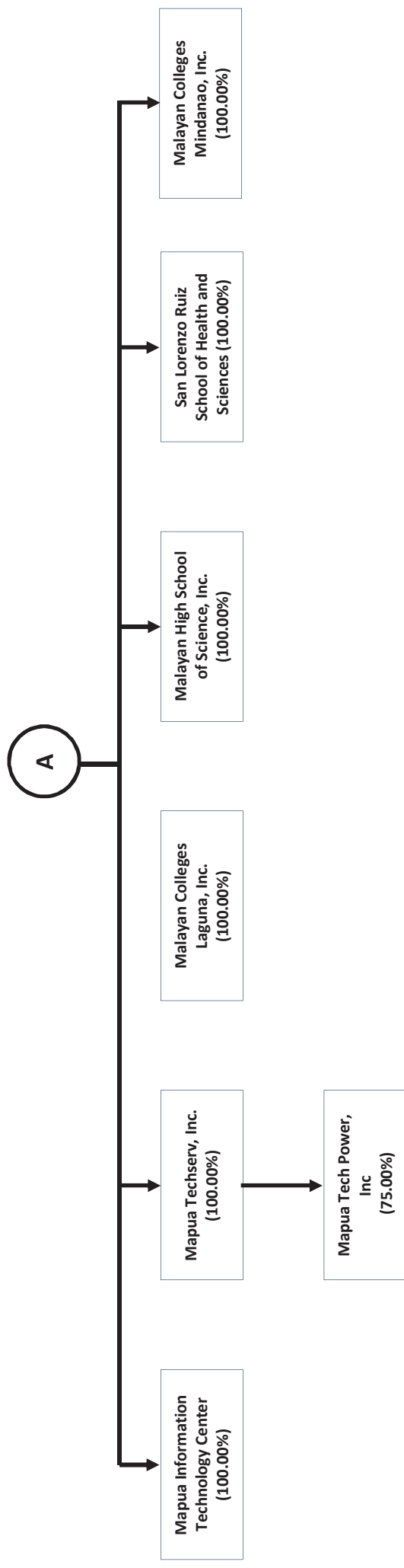
## HOUSE OF INVESTMENTS, INC. AND SUBSIDIARIES

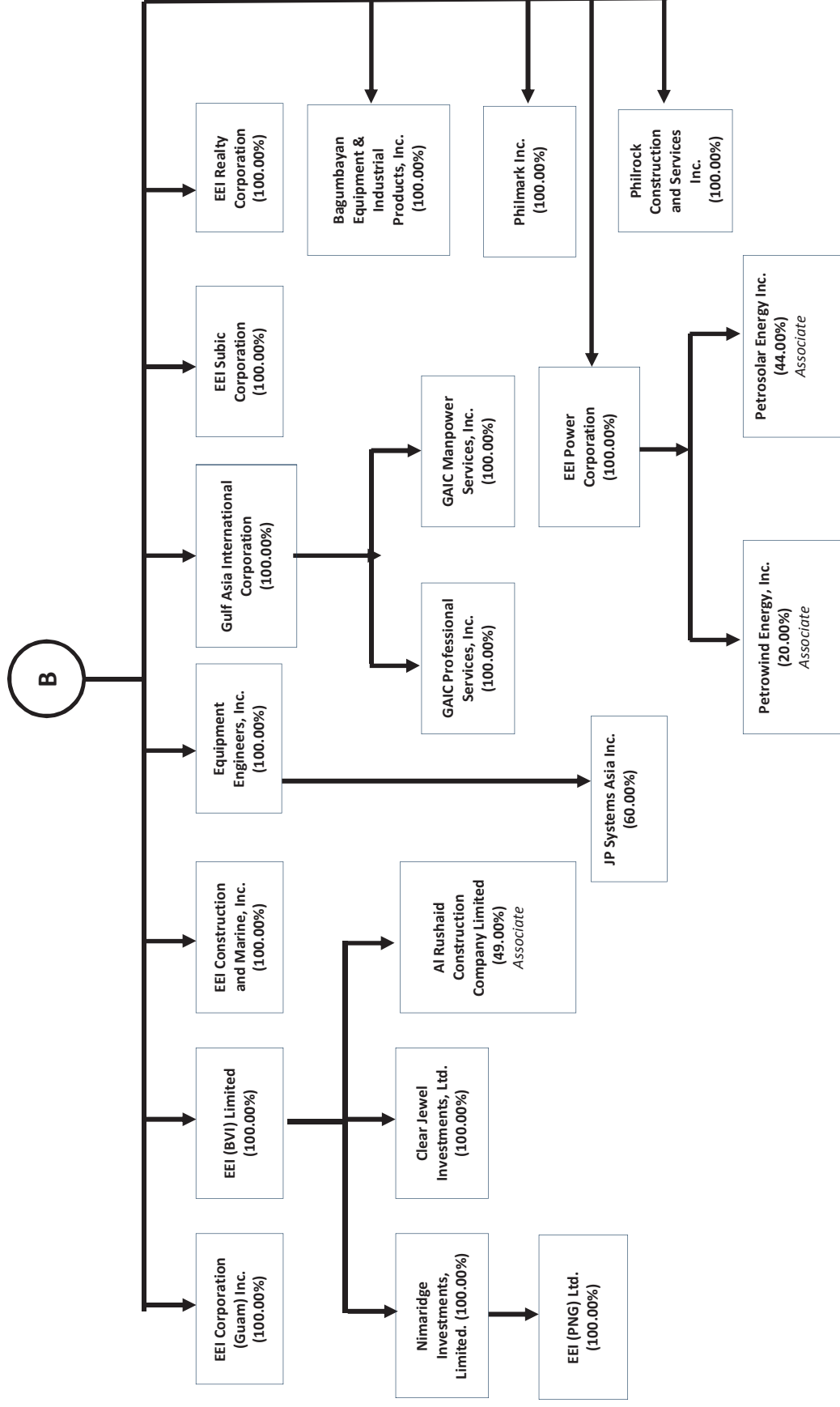
### MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

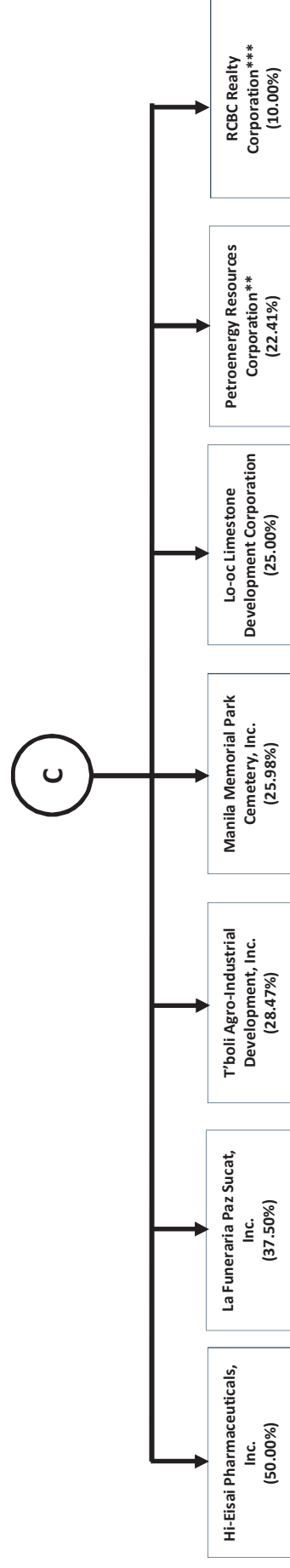
#### Group Structure

Below is a map showing the relationship between and among the Group and its ultimate parent company, subsidiaries, and associates as of December 31, 2016:









*\* In 2015, the Group purchased additional 41.9 million shares resulting to an increased ownership interest from 50.32% to 54.36%.*

*\*\* On February 21, 2013, significant influence was obtained through piecemeal acquisition. In 2014, the Group purchased additional 6.6 million shares of PERC increased ownership interest from 20.00% to 22.41%.*

*\*\*\* On September 17, 2013, the Group acquired 10.00% ownership in RRC. The Group was able to exercise significant influence since it has the capacity to participate in the financial and operating decisions of RRC through common key management and representation to the Board of Directors*

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-A, AS AMENDED

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

1. For the fiscal year ended  
Dec 31, 2016
2. SEC Identification Number  
15393
3. BIR Tax Identification No.  
000-463-069-000
4. Exact name of issuer as specified in its charter  
House of Investments, Inc.\*
5. Province, country or other jurisdiction of incorporation or organization  
Manila, Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
3rd Flr., Grepalife Bldg, 219 Sen. Gil Puyat Avenue, Makati City  
Postal Code  
1200
8. Issuer's telephone number, including area code  
(632) 815-9636
9. Former name or former address, and former fiscal year, if changed since last report  
NA
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	615,996,114
Preferred Shares	702,007,052
Amount of Debt Outstanding	19,082,825,763

11. Are any or all of registrant's securities listed on a Stock Exchange?  
Yes          No  
If yes, state the name of such stock exchange and the classes of securities listed therein:  
Philippine Stock Exchange - Common
12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes                  No

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

Yes                  No

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

P1,711,528,195 or 267,844,788 shares at P6.39/share

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes                  No

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

2016 Audited Consolidated Financial Statements

(b) Any information statement filed pursuant to SRC Rule 20

NA

(c) Any prospectus filed pursuant to SRC Rule 8.1

NA

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

# House of Investments, Inc.

## HI

**PSE Disclosure Form 17-1 - Annual Report**  
**References: SRC Rule 17 and**  
**Sections 17.2 and 17.8 of the Revised Disclosure Rules**

For the fiscal year ended	Dec 31, 2016
Currency (indicate units, if applicable)	PHP

### Balance Sheet

	Year Ending	Previous Year Ending
	Dec 31, 2016	Dec 31, 2015
Current Assets	17,616,353,756	18,144,380,728
Total Assets	33,688,713,656	34,798,296,500
Current Liabilities	15,904,170,700	16,844,198,249
Total Liabilities	19,082,825,763	20,623,215,988
Retained Earnings/(Deficit)	7,529,455,996	7,190,445,946
Stockholders' Equity	14,605,887,893	14,175,080,512
Stockholders' Equity - Parent	10,050,012,851	9,429,186,917
Book Value per Share	23.22	22.46

### Income Statement

	Year Ending	Previous Year Ending
	Dec 31, 2016	Dec 31, 2015
Operating Revenue	25,741,744,177	29,090,825,357
Other Revenue	-618,021,289	-71,114,965
Gross Revenue	25,123,722,888	29,019,710,392
Operating Expense	22,132,958,299	25,033,098,991

Other Expense	2,401,684,458	2,070,245,687
Gross Expense	24,534,642,757	27,103,344,678
Net Income/(Loss) Before Tax	589,080,131	1,916,365,714
Income Tax Expense	369,720,557	549,872,780
Net Income/(Loss) After Tax	219,359,574	1,366,492,934
Net Income/(Loss) Attributable to Parent Equity Holder	402,669,546	1,022,731,322
Earnings/(Loss) Per Share (Basic)	0.62	1.62
Earnings/(Loss) Per Share (Diluted)	0.53	1.28

#### Financial Ratios

	Formula	Fiscal Year Ended	Previous Fiscal Year
		Dec 31, 2016	Dec 31, 2015
Liquidity Analysis Ratios:			
Current Ratio or Working Capital Ratio	Current Assets / Current Liabilities	1.11	1.08
Quick Ratio	(Current Assets - Inventory - Prepayments) / Current Liabilities	0.93	0.94
Solvency Ratio	Total Assets / Total Liabilities	1.77	1.69
Financial Leverage Ratios			
Debt Ratio	Total Debt/Total Assets	0.57	0.59
Debt-to-Equity Ratio	Total Debt/Total Stockholders' Equity	1.31	1.45
Interest Coverage	Earnings Before Interest and Taxes (EBIT) / Interest Charges	2.96	7.86
Asset to Equity Ratio	Total Assets / Total Stockholders' Equity	2.31	2.45
Profitability Ratios			
Gross Profit Margin	Sales - Cost of Goods Sold or Cost of Service / Sales	0.14	0.14
Net Profit Margin	Net Profit / Sales	0.01	0.05
Return on Assets	Net Income / Total Assets	0.01	0.04
Return on Equity	Net Income / Total Stockholders' Equity	0.02	0.1
Price/Earnings Ratio	Price Per Share / Earnings Per Common Share	9.02	3.41

#### Other Relevant Information

Please see attached 17-A Report.

#### Filed on behalf by:

Name	Ma. Teresa Bautista
Designation	Controller