15 July 2017

Mr. Jose Valeriano B. Zuño III
OIC - Disclosure Department
Philippine Stock Exchange
Makati City, Metro Manila

Dear ***Mr. Zuño:***

In furtherance to our Disclosure dated 24 May 2017 pertaining to the execution of a Memorandum of Understanding (MOU) with PDB (Netherlands) B.V. , a wholly owned subsidiary of PETRONAS Dagangan Berhad (PDB) in relation to the planned 100% share acquisition of PETRONAS ENERGY PHILIPPINES, INC. (PEPI), and Duta, Inc. (DUTA)

Today, the Company's Board of Directors has approved and authorized the execution of two agreements for the acquisition of PEPI and DUTA subject to PCC approval.

Please find attached comprehensive corporate disclosure on the transaction including the audited financial statements of PEPI and DUTA.

Thank you and warm regards.

Very truly yours,

Atty. Socorro Ermac Cabreros
Corporate Secretary

Acquisition by P-H-O-E-N-I-X Petroleum Philippines, Inc. ("Phoenix") of 100% shares owned by **PDB (Netherlands) B. V.** ("PDBN")in PETRONAS Energy Philippines, Inc. (PEPI) and 100% interest in Duta, Inc. ("DUTA")

1. The Transaction:

The Board of Directors of Phoenix (Purchaser) wishes to announce that on July 5, 2017 it has approved and authorized the execution of two agreements for the purchase of (i) 100% shares owned by PDBN (Seller) in PEPI and (ii) 100% shares in DUTA (Sale Shares) for a total purchase price of USD 126.1 million, subject to price adjustment. (paragraph 10.a on other salient terms)

DUTA is 40% owned by the Seller and the balance of 60% is owned by other shareholders, namely:

a) Alsons Consolidated Resources, Inc. with principal address located at Alsons Building, 2286 Chino Roces Ave., Makati City, Metro Manila, Philippines.
b) Masaligan, Inc. with principal address located at the 22nd Floor, Citibank Center, Citibank Plaza, 8741 Paseo de Roxas Ave., Makati City, Metro Manila

The total purchase price of USD126.1 million pertains to the following:

i. USD 120,050,000.00 representing 100% equity interest in PEPI
ii. USD 6,079,000.00 representing 100% equity interest in DUTA

2. The Parties:

a. The Seller, PDBN, is a company organized under the laws of Netherlands with principal address located at Rivium 1e straat 42 Capelleaan den IJsse, 2909LE, The Netherlands. It is the investment holding company of PETRONAS Dagangan Berhad ("PDB"). PDB is controlled by Petroliam Nasional Berhad ("PETRONAS"), which owns 69.88% of PDB's outstanding shares.

PDB is a company organized under the laws of Malaysia and listed on the main board of the stock exchange of Malaysia. It is the principal marketing arm of PETRONAS. PDB is a retailer and marketer of downstream oil and gas products. It has four core businesses: retail, commercial, LPG, and lubricants.

PETRONAS was created pursuant to the Malaysian Petroleum Development Act 1974 ("PDA 1974") and was incorporated under the Companies Act 1965 ("CA 1965") as a business entity, wholly owned by the Malaysian Government. PETRONAS is a fully integrated multinational oil and gas company.

b. The Purchaser, Phoenix, is a Philippine corporation incorporated on May 8, 2002 with principal address located along Stella Hizon Reyes Rd., Bo. Pampanga, Lanang, Davao City. It is engaged primarily in the trading of refined petroleum products, except LPG, on wholesale basis and the operation of oil depots in various parts of the country. Phoenix is listed on the Philippine Stock Exchange (PSE)

3. **<u>The Sale Shares</u>**

The shares subject of sale to Phoenix are as follows:

a. 1,092,500,000 common shares of PHP1.00 par value each and 1,511,325 redeemable preferred shares of PHP1.00 par value each in PEPI (collectively referred to as "**PEPI Shares**"), representing 100% equity interest in PEPI for a cash consideration of USD120.1 million; and

b. 457,500 common shares of PHP100.00 par value each in DUTA ("**Duta Shares**"), representing 100% equity interest in DUTA (including a shareholder advance by PDB to DUTA) for a cash consideration of USD6.1 million;

4. **<u>Information on the Acquired Corporations</u>**

Petronas Energy Philippines, Inc. (PEPI)

PEPI is a private stock corporation incorporated on 20 June 1995 and registered with the Securities and Exchange Commission of the Philippines ("SEC").

As at the date of this Announcement, PEPI is a wholly-owned subsidiary of PDB via PDBN, which is also a wholly-owned subsidiary of PDB.

PEPI's authorized capital stock is PHP1,100,000,000 comprising 1,100,000,000 common shares with par value of PHP1.00 per share, of which 1,092,500,000 common shares have been issued while PEPI's authorized redeemable preferred share capital is PHP2,000,000 comprising 2,000,000 redeemable preferred shares of PHP1.00 each, of which 1,511,325 redeemable preferred shares have been issued and fully paid-up.

PEPI is primarily engaged in the buying, selling, storing, distributing, and marketing at wholesale of all kinds of goods, including but not limited to liquefied petroleum gas and other petroleum products.

As at the date of this Announcement, PEPI does not have any subsidiary or associated company.

The shareholders and/or directors of PEPI together with their respective shareholdings as of 30 June 2017 are as follows:

Name	Class of shares No. of ordinary shares	No. of preferred shares	% of ownership
PDBN	1,092,499,996	1,511,325	100.0
Lu Jia Lih(1)	1	-	*
Norliwati Abdul Wahab(1)	1	-	*
Mohd Shobri Bin A Bakar(1)	1	-	*
Mohd Ibrahimnuddin Bin Mohd Yunus(1)	1	-	*
Total	**1,092,500,000**	**1,511,325**	**100.0**

Notes:

(1) The Directors of PEPI who hold one (1) ordinary share each in trust for PDBN.

* *Negligible.*

Based on the latest audited financial statements of PEPI for the financial year ended ("**FYE**") 31 December 2016, PEPI registered a net income of PHP153.4 million and net assets ("**NA**") of PHP2,532.2 million.

Duta, Inc. (DUTA)

DUTA is a private stock corporation incorporated on 9 November 1994 and registered with the SEC.

As at the date of this Announcement, the ownership of DUTA is 40%owned by PDBN, 30% owned by Alsons and 30% owned by Masaligan. DUTA is an indirect associated company of PDB.

DUTA's authorized capital stock is PHP51,000,000 comprising of 510,000 common shares with par value of PHP100.00 per share, of which 457,500 common shares have been issued and fully paid-up.

DUTA is primarily engaged in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.

As at the date of this Announcement, DUTA has a wholly-owned subsidiary, namely Kaparangan, Inc ("Kaparangan"). Kaparangan was incorporated and registered with the SEC on 21 January 1994 and is primarily engaged in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.

The shareholders and/or directors of DUTA together with their respective shareholdings as at 30 June 2017are as follows:

Name	No. of ordinary shares	% of ownership
PDBN	182,996	40.0%
Tomas I. Alcantara	54,850	12.0%
Tirso G. Santillan, Jr.	82,400	18.0%
Tarcisio M. Medalla	82,400	18.0%
Roy R. Romano	54,850	12.0%
Lu Jia Lih	1	*
Norliwati Abdul Wahab	1	*
Mohd Shobri Bin A Bakar	1	*
Mohd Ibrahimnuddin Bin Mohd Yunus	1	*
Total	**457,500**	**100.0**

**Negligible.*

Based on the latest audited consolidated financial statements of DUTA for the FYE 31 December 2016, DUTA registered a net loss of PHP9.5 million and NA of PHP34.7 million.

5. **Discussion on Major Project and Investments of Acquired Companies:**

As of 2016 until to date, there are no major projects or investments undertaken by PEP, DUTA or Kaparangan.

6. **Source of Funds:**

Funding for the subject purchase shall be primarily sourced from banking loans or lines duly approved for the purpose.

7. **Net Asset Valuation of the Acquired Corporations:**

The combined net assets of PEPI and DUTA is PHP 2,567.0 million as of 31 December 2016

8. **Manner, Mode and Terms of Settlement**

The total Purchase Price of USD126.1 million (equivalent to Php6,268.6 million*)will be satisfied entirely via cash in the manner as set out below:

Payment terms	Timing	Payment to be received	
		USD million	PHP million*
(i) Mode of settlement pursuant to acquisition of PEPI by Phoenix			
Deposit sum	Within 3 business days after the	24.0	1,193.3

	execution of the SPAs		
Balance	Payment in full upon completion of the Divestment	96.1	4,773.2
Subtotal		**120.1**	**5,966.5**

(ii) Mode of settlement pursuant to divestment of PDBN and other shareholders in Duta

Total consideration	Payment in full upon completion of the Divestment	6.1	302.1
Subtotal		6.1	**302.1**
Total		126.10	**6,268.6**

**Assumes USD$1.00 = Php 49.70*

9. Principle followed in determining the amount of consideration. (Basis of consideration)

The basis for determining the consideration of USD126.10 million was arrived at on a willing-buyer-willing-seller basis, after taking into consideration the following:

i. The audited financial performance of PEPI and DUTA for the FYE 31 December 2016; and
ii. The combined new assets of Php2,567.0 million of PEPI and DUTA for FYE 31 December 2016 of which the total purchase price or consideration represents a price-to-book ratio ("PB ratio") of approximately 2.44 times.

10. Other salient conditions

a. ***Purchase Price Adjustment***

The purchase price will be adjusted based on the working capital position, cash and non-trade receivables position, and debt and non-trade payables position of DUTA as at the completion date of the accounts of DUTA which shall be the same date as the DUTA Completion Date (as defined in paragraph b below).

b. Completion

The completion of PEPI SPA shall take place, on the last calendar day of the same month during which the Conditions Precedent as provided in Paragraphs c below are satisfied or waived, unless the date when all of the said conditions precedent are satisfied or waived is less than 3 business days prior to the last day of the same month, then the PEPI Transaction Completion shall be deemed to occur on the last calendar day of the subsequent month, or at another time, date and/or place as the Purchaser and PDBN may agree in writing.

c. Conditions precedent

The obligation of the Sellers and the Purchaser to consummate the transactions contemplated by the Duta SPA is subject to the satisfaction, or waiver, on or before the Long Stop Date (as defined in paragraph d below), of the completion of the sale and purchase of all of the PEPI Shares in PEPI to the Purchaser occurring at the same time as the completion of the sale and purchase of the Duta Shares to the Purchaser.

d. Long Stop Date

a. The Long Stop Date means the date 2 years from the date of the signing of the PEPI SPA or such later date the parties may mutually agree in writing, for the parties to satisfy the Conditions Precedent.

b. In the event that any of the Conditions Precedent of the Purchaser and PDBN has not been fulfilled on or before Long Stop Date, the PEPI SPA shall terminate unless the parties agree on or prior to the Long Stop Date to extend the Long Stop Date to a later date.

11. Effects on the business, financial condition and operation of the Issuer (Phoenix)

For **PEPI**

a. Capital Structure of PEPI

Common shares	Before	After
Authorized Capital Stock	1,100,000,000 shares	1,100,000,000 shares
Issued and Subscribed Capital Stock	1,092,500,000 shares	1,092,500,000 shares
Par Value Per Share	Php1.00	Php1.00

Redeemable Preferred shares	Before	After
Authorized Capital Stock	2,000,000 shares	2,000,000 shares
Issued and Subscribed Capital Stock	1,511,325 shares	1,511,325 shares
Par Value Per Share	Php1.00	Php1.00

b. Ownership Structure of PEPI BEFORE the transaction

Name	Class of shares Before the Transaction No. of ordinary shares	No. of preferred shares	% of ownership
PDBN	1,092,499,996	1,511,325	100.0
Lu Jia Lih	1	-	*
Norliwati Abdul Wahab	1	-	*
Mohd Shobri Bin A Bakar	1	-	*
Mohd Ibrahimnuddin Bin Mohd Yunus	1	-	*
Total	**1,092,500,000**	**1,511,325**	**100.0**

c. Ownership Structure of PEPI AFTER the transaction:

Name	Class of shares AFTER the transaction No. of ordinary shares	No. of preferred shares	% of ownership
P-H-O-E-N-I-X Petroleum Philippines, Inc.	1,092,499,996	1,511,325	100.0
Dennis A. Uy	1	-	*
Henry Albert R. Fadullon	1	-	*
Joseph John L. Ong	1	-	*
Romeo B. de Guzman	1	-	*
Total	**1,092,500,000**	**1,511,325**	**100.0**

d. Current members of the Board of Directors of PEPI:

i. Mohd Ibrahimnuddin Bin Mohd Yunus — Chairman
ii. Lu Jia Lih — President & CEO
iii. Norliwati Binti Abdul Wahab
iv. Mohd Shobri Bin A Bakar
v. Nicanor N. Padilla — Corporate Secretary
vi. Evelyn C. Taneo — Treasurer/CFO

For **DUTA**

e. Capital Structure of DUTA

Common shares	Before	After
Authorized Capital Stock	510,000 shares	510,000 shares
Issued and Subscribed Capital Stock	457,500 shares	457,500 shares
Par Value Per Share	Php1.00	Php1.00

f. Ownership Structure of DUTA BEFORE the transaction

Name	No. of common shares	% of ownership
PDBN	182,996	40.0%
Tomas I. Alcantara	54,850	12.0%
Tirso G. Santillan, Jr.	82,400	18.0%
Tarcisio M. Medalla	82,400	18.0%
Roy R. Romano	54,850	12.0%
Lu Jia Lih	1	*
Norliwati Abdul Wahab	1	*
Mohd Shobri Bin A Bakar	1	*
Mohd Ibrahimnuddin Bin Mohd Yunus	1	*
Total	**457,500**	**100.0**

g. Ownership Structure of DUTA AFTER the transaction

Name	No. of ordinary shares	% of ownership
P-H-O-E-N-I-X Petroleum Philippines, Inc.	457,493	99.99%
Dennis A. Uy	1	*
Henry Albert R. Fadullon	1	*
Romeo B. de Guzman	1	*
Socorro Ermac Cabreros	1	*
Joseph John L. Ong	1	*
Alan Raymond T. Zorrilla	1	*
Domingo T. Uy	1	*
Total	**457,500**	**100.0**

**Negligible*

12. Rationale of the acquisition of PEPI

The Company views the LPG business as a strong strategic fit as it broadens its product portfolio and petroleum presence across the country, with cross selling opportunities in fuel and LPG to consumers and corporates

PETRONAS ENERGY PHILIPPINES, INC.
[A Wholly-owned Subsidiary of PDB (Netherlands) B.V.]

FINANCIAL STATEMENTS
December 31, 2016 and 2015

R.G. Manabat & Co.
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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petronas Energy Philippines, Inc.
LPG Import Terminal and Bottling Plant
Matab-ang, Dalipuga, Iligan City

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Petronas Energy Philippines, Inc. (a wholly-owned subsidiary of PDB (Netherlands) B.V.) (the "Company"), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 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.

KPMG

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the BOD and management, 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.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

John Molina

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-1, Group A, valid until April 30, 2017
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 5904936MD
Issued January 3, 2017 at Makati City

February 24, 2017
Makati City, Metro Manila

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REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and Stockholders
Petronas Energy Philippines, Inc.
LPG Import Terminal and Bottling Plant
Matab-ang, Dalipuga, Iligan City

We have audited the accompanying financial statements of Petronas Energy Philippines, Inc. (the "Company"), a wholly-owned subsidiary of PDB (Netherlands) B.V., as at and for the year ended December 31, 2016, on which we have rendered our report dated February 24, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has only one (1) stockholder owning one hundred (100) or more shares.

R.G. MANABAT & CO.

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-1, Group A, valid until April 30, 2017
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REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

The Board of Directors and Stockholders
Petronas Energy Philippines, Inc.
LPG Import Terminal and Bottling Plant
Matab-ang, Dalipuga, Iligan City

We have audited the accompanying financial statements of Petronas Energy Philippines, Inc. (the "Company"), a wholly-owned subsidiary of PDB (Netherlands) B.V., as at and for the year ended December 31, 2016, on which we have rendered our report dated February 24, 2017.

In compliance with Revenue Regulation V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

R.G. MANABAT & CO.

John Molina

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-1, Group A, valid until April 30, 2017
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2016
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February 24, 2017
Makati City, Metro Manila

PETRONAS ENERGY PHILIPPINES, INC.
[A Wholly-owned Subsidiary of PDB (Netherlands) B.V.]
STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2016**	2015
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 20*	**P135,951,289**	P147,304,112
Receivables - net	*5, 19, 20*	**363,031,574**	822,422,964
Due from related parties	*14, 20*	**77,556,553**	105,711,972
Inventories	*6*	**97,315,170**	182,050,064
Prepaid expenses and other current assets	*7, 20*	**52,189,714**	149,311,855
Total Current Assets		**726,044,300**	1,406,800,967
Noncurrent Assets			
Noncurrent portion of receivables	*5, 19, 20*	**5,317,754**	107,381,322
Property, plant and equipment - net	*8*	**2,440,352,867**	2,719,020,201
Deferred tax assets - net	*18*	**63,927,253**	71,665,641
Other noncurrent assets	*9*	**67,018,020**	60,244,306
Total Noncurrent Assets		**2,576,615,894**	2,958,311,470
		P3,302,660,194	P4,365,112,437
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*10, 14, 20*	**P231,830,552**	P497,109,515
Due to related parties	*14, 20*	**6,144,608**	16,437,125
Current loans payable	*12, 20*	**180,000,000**	890,000,000
Total Current Liabilities		**417,975,160**	1,403,546,640
Noncurrent Liabilities			
Customers' deposits	*11, 20*	**138,876,078**	254,079,370
Retirement benefits liability	*16*	**21,069,591**	15,805,431
Long-term loans payable - net of current portion	*12, 20*	**192,500,000**	302,500,000
Total Noncurrent Liabilities		**352,445,669**	572,384,801
Total Liabilities		**770,420,829**	1,975,931,441
Equity			
Capital stock	*13*	**802,426,828**	802,426,828
Additional paid-in capital	*13*	**1,509,813,675**	1,509,813,675
Remeasurements of net defined benefit plan	*16*	**953,718**	11,252,660
Retained earnings		**219,045,144**	65,687,833
Total Equity		**2,532,239,365**	2,389,180,996
		P3,302,660,194	P4,365,112,437

See Notes to the Financial Statements.

PETRONAS ENERGY PHILIPPINES, INC.
[A Wholly-owned Subsidiary of PDB (Netherlands) B.V.]
STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	**2016**	2015
SALES		**P2,830,265,202**	P3,343,135,047
COST OF SALES	*15*	**2,164,761,007**	2,852,462,083
GROSS PROFIT		**665,504,195**	490,672,964
OPERATING EXPENSES			
Depreciation and amortization	*8*	**160,980,512**	163,581,008
Salaries, wages and other employee benefits		**97,224,051**	92,499,955
Repairs and maintenance		**66,667,363**	44,241,557
Impairment losses on trade receivables	*5*	**64,077,377**	2,050,000
Contracted services		**21,985,075**	19,675,620
Rent	*17*	**14,572,860**	29,908,670
Taxes and licenses		**13,299,330**	15,685,701
Transportation and travel		**10,608,932**	11,103,761
Communication, light and water		**9,521,382**	9,488,096
Retirement benefits cost	*16*	**6,356,817**	7,562,909
Advertising and promotions		**5,099,461**	7,044,434
Supplies		**5,021,000**	4,346,432
Insurance		**4,915,035**	6,376,904
Dues and subscriptions		**3,276,731**	2,985,997
Professional fees		**3,060,831**	11,922,310
Fuel and oil		**1,452,160**	1,565,901
Trainings and seminars		**761,414**	824,586
Miscellaneous		**816,460**	1,477,657
		489,696,791	432,341,498
INCOME FROM OPERATIONS		**175,807,404**	58,331,466
OTHER INCOME (CHARGES)			
Interest expense and bank charges	*12*	**(24,438,429)**	(34,122,689)
Interest income	*4, 5, 14*	**5,955,587**	13,111,861
Foreign exchange loss - net		**(3,914,171)**	(16,852,230)
Others	*7, 8, 11*	**24,006,178**	(4,337,109)
		1,609,165	(42,200,167)
INCOME BEFORE INCOME TAX		**177,416,569**	16,131,299
INCOME TAX EXPENSE	*18*	**(24,059,258)**	(36,148,308)
NET INCOME (LOSS)		**153,357,311**	(20,017,009)
OTHER COMPREHENSIVE INCOME (LOSS)			
Remeasurements of net defined benefit plan	*16*	**(14,712,774)**	8,458,062
Income tax relating to an item that will not be reclassified subsequently		**4,413,832**	(2,537,419)
		(10,298,942)	5,920,643
TOTAL COMPREHENSIVE INCOME (LOSS)		**P143,058,369**	(P14,096,366)

See Notes to the Financial Statements.

PETRONAS ENERGY PHILIPPINES, INC.
[A Wholly-owned Subsidiary of PDB (Netherlands) B.V.]
STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31

	Note	Capital Stock (Note 13) Common	Capital Stock (Note 13) Preferred	Additional Paid-in Capital (Note 13)	Remeasurements of Defined Benefit Plan (Note 16)	Retained Earnings	Total Equity
Balance at January 1, 2015		P800,915,503	P1,511,325	P1,509,813,675	P5,332,017	P85,704,842	P2,403,277,362
Net loss for the year		-	-	-	-	(20,017,009)	(20,017,009)
Remeasurements of net defined benefit plan, net of tax	*16*	-	-	-	5,920,643	-	5,920,643
Total Comprehensive Loss		-	-	-	5,920,643	(20,017,009)	(14,096,366)
Balance at December 31, 2015		800,915,503	1,511,325	1,509,813,675	11,252,660	65,687,833	2,389,180,996
Net income for the year		-	-	-	-	153,357,311	153,357,311
Remeasurements of net defined benefit plan, net of tax	*16*	-	-	-	(10,298,942)	-	(10,298,942)
Total Comprehensive Income		-	-	-	(10,298,942)	153,357,311	143,058,369
Balance at December 31, 2016		**P800,915,503**	**P1,511,325**	**P1,509,813,675**	**P953,718**	**P219,045,144**	**P2,532,239,365**

See Notes to the Financial Statements.

PETRONAS ENERGY PHILIPPINES, INC.
[A Wholly-owned Subsidiary of PDB (Netherlands) B.V.]
STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	**2016**	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P177,416,569**	P16,131,299
Adjustments for:			
Depreciation and amortization	*8, 15*	**241,234,064**	235,078,974
Impairment losses on:			
Trade receivables	*5*	**64,077,377**	2,050,000
Inventories	*6*	**32,125,477**	46,806,654
Interest expense and bank charges	*12*	**24,438,429**	34,122,689
Loss on assets written-off/disposed	*8, 11*	**12,429,474**	9,371,013
Retirement benefits cost	*16*	**6,356,817**	7,562,909
Interest income	*4, 5*	**(5,955,587)**	(13,111,861)
Unrealized foreign exchange gain (loss)		**265,993**	(1,236,411)
Operating income before working capital changes		**552,388,613**	336,775,266
Decrease (increase) in:			
Receivables - net	*5*	**396,263,869**	389,711,912
Inventories	*6*	**60,861,142**	48,324,263
Prepaid expenses and other current assets	*7*	**85,215,102**	(14,953,445)
Due from related parties	*14*	**28,155,419**	(7,192,418)
Long-term receivables	*5, 19*	**102,063,568**	(109,495,503)
Other noncurrent assets	*9*	**(6,773,712)**	37,081,364
Increase (decrease) in:			
Accounts payable and accrued expenses	*10*	**(304,435,102)**	(938,272,938)
Due to related parties	*14*	**(10,292,517)**	16,282,042
Customers' deposits	*11*	**16,741,434**	42,566,908
Cash generated from (used for) operations		**920,187,816**	(199,172,549)
Interest received		**5,005,731**	5,239,194
Contribution to the plan assets	*16*	**(15,805,431)**	(25,000,000)
Interest paid		**(28,330,323)**	(31,897,287)
Net cash provided by (used in) operating activities		**881,057,793**	(250,830,642)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from assets disposal	*8*	**11,377,988**	11,776,039
Additions to property, plant and equipment	*8*	**(83,788,604)**	(129,976,881)
Net cash used in investing activities		**(72,410,616)**	(118,200,842)

Forward

		Years Ended December 31	
	Note	**2016**	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of bank loans	*12*	**(P820,000,000)**	(P190,000,000)
Proceeds from availment of bank loans	*12*	**-**	460,000,000
Net cash provided by (used in) financing activities		**(820,000,000)**	270,000,000
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(11,352,823)**	(99,031,484)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**147,304,112**	246,335,596
CASH AND CASH EQUIVALENTS AT END OF YEAR	*4*	**P135,951,289**	P147,304,112

See Notes to the Financial Statements.

1. Reporting Entity

Petronas Energy Philippines, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 20, 1995. The Company's primary purpose is to engage in the buying, selling, storing, distributing, and marketing at wholesale of all kinds of goods, including but not limited to liquefied petroleum gas (LPG) and other petroleum products. The address of the Company's registered office is at LPG Import Terminal and Bottling Plant, Matab-ang, Dalipuga, Iligan City.

The Company's ultimate parent is Petroliam Nasional Berhad (PETRONAS), an entity incorporated under the Laws of Malaysia.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The accompanying financial statements were authorized for issuance by the Board of Directors (BOD) on February 24, 2017.

Basis of Measurement
The financial statements have been prepared using the historical cost basis of accounting, except for retirement benefits liability which are measured at present value of the defined benefits obligation less fair value of the plan assets.

Functional and Presentation Currency
The financial statements are presented in Philippine peso, which is also the Company's functional currency. All financial information presented in Philippine peso has been rounded off to the nearest peso, unless otherwise indicated.

Use of Judgments and Estimates
The preparation of financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounted of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period when the estimates is revised and if the revision affects only that period or in the period of the revision and future period when revision affects both current and future periods.

<u>*Judgments*</u>
In the process of applying the Company's accounting policies, management has made the following judgments, and apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the sales price of goods and the cost of providing these goods.

Classifying Financial Instruments
The Company exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

Financial assets are classified as financial assets at fair value through profit or loss (FVPL), held-to-maturity (HTM) investments, loans and receivables, and available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities. The Company determines the classification at initial recognition and re-evaluates the classification at every reporting date.

Determining the Fair Value of Financial Instruments
Where fair values of financial assets and financial liabilities recognized in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Company uses judgments to select from a variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value. Fair values of the Company's financial instruments are disclosed in Note 20 to the financial statement.

Determining Lease Agreements
<u>Operating Lease - The Company as a Lessee</u>
The Company has entered into various lease arrangements for its office premises, lubricant warehouses and the land where its plants are located. The Company has determined that all significant risks and rewards of ownership of these spaces remain with the lessors due to the following:

a. the ownership of the asset does not transfer at the end of the lease term;

b. the Company has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised; and

c. the lease term is not for the major part of the economic life of the asset even if title is not transferred.

Rent expense amounted to P14.57 million and P29.91 million in 2016 and 2015, respectively (Note 17).

Assessment of Impairment Indicators on Nonfinancial Assets
The Company assesses whether or not there are impairment indicators affecting its property, plant and equipment and other nonfinancial assets that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

Management assessed that there were no indicators affecting the Company's property, plant and equipment and other nonfinancial assets (Notes 8 and 9).

Estimates
The key estimates and assumptions used in the financial statements are based on management's evaluation of relevant facts and circumstances of the date of the Company's financial statements. Actual results could differ from such estimates.

Allowance for Impairment Losses on Receivables
The Company reviews the collectibility of its receivables maintaining an allowance for impairment losses at a level considered adequate to provide for uncollectible receivables. The Company performs regular review of the age and status of these accounts designed to identify accounts with objective evidence of impairment and provides these with appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Company. The amount and timing of unrecorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase recorded operating expenses and decrease current assets.

The Company's allowance for impairment losses and the carrying values of receivables are disclosed in Note 5 to the financial statements.

Allowance to Reduce Inventories to Net Realizable Value (NRV)
The Company carries inventories at NRV whenever the utility of inventories become lower than cost due to physical deterioration, changes in price levels or other causes. The estimate of the NRV is reviewed regularly. The Company wrote down inventory to its NRV amounting to P32.13 million and P46.81 million as at December 31, 2016 and 2015, respectively (Note 6). Carrying values of inventories are disclosed in Note 6 to the financial statements.

Allowance for Unrecoverable Taxes and Duties
The Company assesses the need to maintain an allowance for unrecoverable claims for taxes and duties at a level considered adequate to provide for the potential uncollectible portion of these claims in the form of tax credit certificates (TCCs) from the Philippine Bureau of Customs (BOC). Management, on the basis of factors that affect the collectibility of the claims, evaluates the level of this allowance. A review of the status of the claims, designed to identify claims to be provided with allowance, is made by the Company on a continuing basis. When such claims are collected from the BOC through the issuance of TCC, the net amount received is recorded as tax credits and the unrecovered portion is recorded as reduction of the related allowance.

The receivable from BOC is fully provided with allowance for impairment loss amounting to P7.90 million as at December 31, 2016 and 2015 (Note 7). Carrying values of receivable from BOC are disclosed in Note 7 to the financial statements.

Estimated Useful Lives (EUL) of Property, Plant and Equipment
The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The EUL are reviewed periodically and are revised if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the Company's assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the EUL of property, plant and equipment would increase recorded expenses and decrease noncurrent assets. There are no changes in the EUL of property, plant and equipment.

The carrying amount of the Company's property, plant and equipment amounted to P2.44 billion and P2.72 billion as at December 31, 2016 and 2015, respectively (Note 8).

Estimating Retirement Benefits
The determination of the Company's retirement benefits liability and retirement benefits cost is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 16 to the financial statements and include, among others, discount rates, interest rates and average annual salary increase rate. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect retirement benefit cost and liability.

The Company determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of the estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligations.

Other key assumptions for the retirement benefits liability are based in part on market conditions.

Retirement benefits cost amounted to P6.36 million and P7.56 million in 2016 and 2015, respectively. The Company's retirement benefits liability amounted to P21.07 million and P15.81 million as at December 31, 2016 and 2015, respectively (Note 16).

Estimating Recoverability of Deferred Tax Assets
The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact of deferred tax accordingly. The Company's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of the realizability of deferred tax assets and may lead to future addition to deferred tax expense.

The Company recognized deferred tax assets amounting to P63.93 million and P71.67 million as at December 31, 2016 and 2015, respectively (Note 18). No deferred tax assets were recognized on NOLCO amounting to P216.81 million and MCIT amounting to P21.41 million as at December 31, 2016.

Realizability of Input Value Added Tax (VAT)
The Company reviews the realizability of its input tax at each reporting date. The Company reduces the input tax to an amount it expects to realize in the future based on conditions existing as at the reporting date. Changes in such conditions could have a material impact on the financial position and performance of the Company.

The Company assessed that all its input VAT are realizable as at December 31, 2016 (Notes 7 and 9). Carrying values of input VAT are disclose in Note 7 and 9 to the financial statements.

Provisions
Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates. Those estimates are based on consultations with independent outside parties, historical experiences and other available data. While management believes that the bases of these estimates are reasonable and appropriate, significant differences in actual experience or in assumption may materially affect the recorded provision.

Contingencies
The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based on an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible; however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, and have been applied consistently by the Company, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following amendments to standards starting January 1, 2016 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new amendments to standard did not have any significant impact on the Company's financial statements.

- Disclosure Initiative *(Amendments to PAS 1).* Addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1, *Presentation of Financial Statements.* The amendments clarify that:

    - Information should not be obscured by aggregating or by providing immaterial information.

    - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

    - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

    - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

    The amendments are to be applied retrospectively. Early adoption is permitted.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016. However, the Company has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

Effective January 1, 2017

- *Disclosure initiative (Amendments to PAS 7).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

    The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12)*. The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

Effective January 1, 2018

- PFRS 9 (2014). PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The new standard is to be applied retrospectively with early adoption permitted.

  The Company is assessing the potential impact on its financial statements resulting from the application of PFRS 9.

Effective January 1, 2019

- PFRS 16, *Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 Revenue from Contracts with Customers at or before the date of initial application of PFRS 16. The Company is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- PFRS 15. PFRS 15 replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

<u>Nonderivative Financial Instruments</u>
Nonderivative financial instruments comprise cash and cash equivalents, receivables, due from related parties, accounts payable and accrued expenses, due to related parties, loans payable and customers' deposits.

Date of Recognition. The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

The Company classifies its financial assets in the following categories: HTM investments, AFS financial assets, financial assets at FVPL, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets are acquired and financial liabilities are incurred and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Company has no HTM investments, AFS financial assets, and financial assets and financial liabilities at FVPL as at December 31, 2016 and 2015.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial asset at FVPL. Loans and receivables are carried at cost or amortized cost, less any allowance for impairment losses. Amortization is determined using the effective interest rate method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through amortization process.

The Company's cash and cash equivalents, receivables - net, due from related parties, long-term receivables and security deposits are included in this category.

Cash in bank is stated at its face value. 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 and that are subject to an insignificant risk of change in value.

Other Financial Liabilities. This category pertains to nonderivative financial liabilities that are not held for trading or not designated as at FVPL at the inception of the liability. They are initially measured at fair value plus transaction costs. Subsequently, these are measured at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

The Company's accounts payable and accrued expenses, due to related parties, customers' deposits and loans payable are included in this category.

Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and nonfinancial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, when necessary, based on the market values, being the estimated amount for which assets could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of fair value of financial instruments carried at fair value, by valuation method have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

<u>Offsetting Financial Assets and Liabilities</u>
Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements. Thus, the related assets and liabilities are presented gross in the statements of financial position.

<u>Impairment of Financial Assets</u>
The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that the loss event (or events) has an impact on the estimated future cash flows of that financial asset or that group of financial asset that can be reliably estimated.

Assets Carried at Amortized Cost. For assets carried at amortized cost such as loans and receivables, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed accounts whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses this for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of such credit risk characteristics as type of borrower, credit and payment status and term. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows from the asset. The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. Any impairment loss is recognized in profit or loss.

The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed to profit or loss, to the extent that the resulting carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognized.

<u>Derecognition of Financial Instruments</u>
Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company'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 Company could be required to pay.

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

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

Inventories
Inventories are measured at the lower of cost and NRV. The cost of inventories is based on the moving average cost method and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. NRV of inventories is the estimated selling price in the ordinary course of business, less estimated costs to sell.

Inventories are derecognized upon sale or when there are no expected future benefits from its disposal and are recognized under "Cost of sales" account in profit or loss.

Spare Parts and Supplies
Spare parts and supplies, which are used for the repair and maintenance of the Company's machineries, are carried at cost which is its purchase price. These are subsequently charged to expense when used.

Property, Plant and Equipment
Property, plant and equipment are carried at cost less accumulated depreciation and amortization and impairment losses, if any.

Initially, an item of property, plant and equipment is measured at its cost, which consists of purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures (including costs of replacing a part of an item of property, plant and equipment) that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the assets, in excess of the originally assessed standard of performance, will flow to the Company. All other subsequent expenditures are recognized as an expense in the period in which these are incurred.

Depreciation is computed using the straight-line method based on the EUL of assets. The EUL are as follows:

	Number of Years
Buildings and plant facilities	30
Gas cylinder tanks	30
Transportation equipment	5
Furniture, fixtures and equipment	5
Machinery and equipment	5

Construction in progress, which represents costs incurred for the construction of buildings, is stated at cost. Depreciation is computed when the relevant asset is completed and used in operations at which time it is reclassified to appropriate property, plant and equipment account.

The assets' existence, residual values, useful lives and depreciation method are reviewed annually to ensure that the computation, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs: (a) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (b) is suspended during extended periods in which active development, improvement and construction of the assets are interrupted; and (c) ceases when substantially all the activities necessary to prepare the assets are complete. These costs are amortized using the straight-line method over the estimated useful lives of the related property, plant and equipment to which it is capitalized. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Impairment of Nonfinancial Assets

The carrying amounts of the Company's nonfinancial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU, while fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGUs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss in which it arises.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Capital Stock and Additional Paid-in Capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Preferred Shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the option of the Company, and any dividends thereon is discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the statements of comprehensive income as accrued.

Additional Paid-in Capital
Additional paid-in capital includes any premium received on the initial issuance of the capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid in capital, net of any related income tax benefits.

Retained Earnings
Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments.

Revenue Recognition
Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably, which is normally upon delivery.

Interest income on deposits with banks and receivables are recognized when it is determined that such income will accrue to the Company. The amounts included in profit or losses are presented net of final tax withheld, if any.

Cost and Expense Recognition
Costs and expenses are recognized upon sale of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

Foreign Currency Transactions
Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or 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 specific asset; or

(d) there is a substantial change to the asset.

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

Operating Leases
Leases where the lessor retains substantially all the risks and benefits or ownership of the asset are classified as operating leases. Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term.
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Retirement Benefits
The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior period; that benefit is discounted to determine its present value. Any unrecognized past service cost and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on the Company's credit related government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation of defined benefit obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

<u>Taxes</u>
Income tax in profit or loss for the year comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or other comprehensive income.

Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted at the reporting date.

Deferred Tax
Deferred tax assets and liabilities is recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes and the carry forward tax benefits of the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT). Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carry forward benefits of unused NOLCO and MCIT can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that is has become probable that future taxable income will allow the deferred tax assets to be recognized

Value-added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on purchase of assets or services are not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and accrued expenses" accounts in the statements of financial position.

<u>Related Parties</u>
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 party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

<u>Provisions</u>
Provisions are recognized when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; (c) and 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

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

<u>Events After the Reporting Date</u>
Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are recognized in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Cash and Cash Equivalents

This account consists of:

	Note	2016	2015
Cash on hand		**P120,023**	P162,802
Cash in banks	11	**135,831,266**	135,259,290
Time deposits		**-**	11,882,020
	20	**P135,951,289**	P147,304,112

Cash in banks generally earn interest based on prevailing bank deposit rates. Time deposits mature in less than three (3) months and earn interest ranging from 0.25% to 1.125% per annum and 0.25% to 0.65% per annum for the years ended December 31, 2016 and 2015, respectively. Total interest earned on cash in banks and time deposits amounted to P0.39 million and P0.52 million in 2016 and 2015, respectively.

5. Receivables - Net

This account consists of:

	Note	2016	2015
Trade receivables	19	**P506,780,819**	P1,002,792,884
Less allowance for impairment losses		**138,814,967**	74,737,590
Trade receivables - net		**367,965,852**	928,055,294
Advances to employees		**74,589**	626,523
Others		**308,887**	1,122,469
Total receivables		**368,349,328**	929,804,286
Less noncurrent portion	19, 20	**5,317,754**	107,381,322
Current portion of receivables	19, 20	**P363,031,574**	P822,422,964

Trade receivables are non-interest bearing and are generally on a 30 to 60-day credit terms for the LPG products while almost all on cash on delivery basis for lubricants.

The Company entered into deferred payment agreement with certain customers who are unable to pay their due and outstanding payables to the Company. The Company agreed to collect the amount due, inclusive of interest, through installments as stated in the terms and conditions of the agreement. Details of the balances are disclosed in Note 19. Interest income from these agreements amounted to P4.05 million and P4.90 million in 2016 and 2015, respectively.

The movements in the allowance for impairment losses on trade receivables are as follows:

	2016	2015
Balance at beginning of year	**P74,737,590**	P73,864,314
Impairment losses for the year	**64,077,377**	2,050,000
Bad debts written off during the year	**-**	(1,176,724)
Balance at end of year	**P138,814,967**	P74,737,590

6. Inventories

This account consists of:

	Note	**2016**	2015
LPG - at cost		**P77,656,877**	P89,991,266
Regulators and stoves - at cost		**19,658,293**	52,984,673
Lubricants - at NRV		**-**	39,074,125
	15	**P97,315,170**	P182,050,064

The Company wrote down lubricants with a total cost of P30.71 million and P123.8 million to NRV as at December 31, 2016 and 2015, respectively. Inventories charged to cost of sales amounted to P2.03 billion and P2.72 billion in 2016 and 2015, respectively (Note 15).

The movements in the allowance to reduce inventories to NRV are as follows:

	2016	2015
Balance at beginning of year	**P84,730,693**	P62,362,049
Write down of inventories to its NRV	**32,125,477**	46,806,654
Sales at NRV during the year	**(86,148,314)**	(24,438,010)
Balance at end of year	**P30,707,856**	P84,730,693

7. Prepaid Expenses and Other Current Assets

This account consists of:

	Note	**2016**	2015
Input VAT - net		**P21,840,366**	P93,327,032
Prepaid taxes		**23,466,784**	26,109,763
Prepaid insurance		**3,170,468**	2,712,302
Spare parts and supplies		**1,147,296**	24,478,155
Security deposits	*20*	**2,564,800**	2,684,603
Receivable from Bureau of Customs (BOC) - net of allowance for impairment losses amounting to P7,901,012 in 2016 and 2015		**-**	-
		P52,189,714	P149,311,855

Input VAT - net consists of current and deferred input VAT from purchases of goods and services (net of output VAT) as at December 31, 2016 and 2015.

Prepaid taxes consist of:

	2016	2015
Excess creditable withholding taxes	**P16,566,369**	P16,719,154
Prepaid real property tax and other taxes and licenses	**6,900,415**	9,390,609
	P23,466,784	P26,109,763

Receivable from BOC represents the Company's various claims for refund of custom duties paid on the importation of LPG. As at December 31, 2016 and 2015, the Company provides allowance for impairment losses amounting to P7.90 million.

8. Property, Plant and Equipment - Net

This account consists of:

	Buildings and Plant Facilities	Gas Cylinder Tanks	Transportation Equipment	Furniture, Fixtures and Equipment	Machinery and Equipment	Construction in Progress	Total
Cost							
January 1, 2015	P1,441,995,601	P1,885,152,342	P20,718,042	P37,495,995	P846,596,565	P19,242,564	P4,251,201,109
Additions	7,380,449	92,470,943	152,340	529,873	12,646,983	16,796,293	129,976,881
Disposals	-	(30,290,660)	(3,459,206)	(1,126,943)	(20,673,907)	(654,241)	(56,204,957)
Reclassifications	3,944,187	-	-	75,000	4,779,348	(8,798,535)	-
December 31, 2015	**1,453,320,237**	**1,947,332,625**	**17,411,176**	**36,973,925**	**843,348,989**	**26,586,081**	**4,324,973,033**
Additions	11,931,668	73,133,569	-	2,195,050	27,331,980	11,978,375	126,570,642
Disposals and write-off	(4,007,031)	(272,328,112)	(795,201)	(20,456,260)	(365,369,836)	-	(662,956,440)
Usage	-	(8,251,724)	-	-	-	-	(8,251,724)
Reclassifications	12,103,785	-	4,247,058	952,323	9,819,084	(27,122,250)	-
December 31, 2016	**1,473,348,659**	**1,739,886,358**	**20,863,033**	**19,665,038**	**515,130,217**	**11,442,206**	**3,780,335,511**
Less Accumulated Depreciation							
January 1, 2015	361,448,218	479,306,325	12,388,925	22,849,074	529,939,221	-	1,405,931,763
Depreciation	54,678,216	71,497,966	3,312,446	4,624,249	100,966,097	-	235,078,974
Disposals	-	(12,286,136)	(2,891,093)	(1,118,683)	(18,761,993)	-	(35,057,905)
December 31, 2015	**416,126,434**	**538,518,155**	**12,810,278**	**26,354,640**	**612,143,325**	-	**1,605,952,832**
Depreciation	57,238,567	80,253,552	2,957,909	7,747,073	93,036,963	-	241,234,064
Disposals and write-off	(4,007,031)	(117,219,471)	(785,322)	(20,433,780)	(364,758,648)	-	(507,204,252)
December 31, 2016	**469,357,970**	**501,552,236**	**14,982,865**	**13,667,933**	**340,421,640**	-	**1,339,982,644**
Carrying Amount							
December 31, 2015	P1,037,193,803	P1,408,814,470	P4,600,898	P10,619,285	P231,205,664	P26,586,081	P2,719,020,201
December 31, 2016	**P1,003,990,689**	**P1,238,334,122**	**P5,880,168**	**P5,997,105**	**P174,708,577**	**P11,442,206**	**P2,440,352,867**

In 2016 and 2015, the Company has made significant disposals and write-offs of property, plant and equipment due to termination of dealership agreement, change in business direction, obsolescence, losses and wear and tear. Details of the significant write-offs and disposals are as follows:

a. In 2016, the Company's major dealer in Luzon has fully settled its long overdue obligations with the Company using the proceeds from sale of its LPG facilities to a third party. Subsequently, its dealership agreement with the Company is terminated. As a result, the Company wrote off the related unrecoverable gas cylinders with cost and net book value of P197.89 million and P135.02 million, respectively. The related customer deposits was also charged to profit or loss (Note 11).

b. In December 2016, the BOD of the Company approved its exit from the Lubricant business due to change in business direction rendering property, plant and equipment with cost of P31.23 million and net book value of nil obsolete and have no further use.

c. In 2016, the Company wrote off fully depreciated property, plant and equipment pertaining to assets that were determined to be obsolete or no longer existing. These included LPG conversion kits, computer equipment, LPG facilities, cylinders and 50kg LPG manifold with cost amounting to P195.80 million, P14.24 million, P35.97 million, P50.18 million and P42.61 million, respectively.

d. In 2016 and 2015, the Company made several disposals of property, plant and equipment with total net book value amounting to P2.90 million and P21.15 million, respectively. Proceeds from the disposals amounted to P11.38 million and P11.78 million in 2016 and 2015, respectively, resulting in a loss from disposals amounting to P9.35 million in 2016 and P9.37 million in 2015.

Depreciation are recognized in profit or loss as follows:

	Note	**2016**	2015
Operating expenses		**P160,980,512**	P163,581,008
Cost of sales	*15*	**80,253,552**	71,497,966
		P241,234,064	P235,078,974

9. Other Noncurrent Assets

Other noncurrent assets represent the noncurrent portion of input VAT on capital expenditures amounting to P67.02 million and P60.24 million as at December 31, 2016 and 2015, respectively. The portion available for use in the next 12 months is included in "Input VAT - net" under "Prepaid expenses and other current assets" account in the statements of financial position (Note 7).

In 2014, the Company provides allowance for non-recoverability of input VAT amounting to P8.91 million and subsequently reversed the allowance in 2015. As at December 31, 2016, the Company assessed that all of its input VAT are realizable.

10. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**2016**	2015
Trade payables:			
Related parties	*14*	**P5,228,376**	P215,385,007
Third parties		**15,205,694**	34,060,283
Accrued expenses		**174,103,222**	178,717,420
Nontrade payables		**24,620,140**	43,946,682
Others		**12,673,120**	25,000,123
	20	**P231,830,552**	P497,109,515

Trade payables are non-interest bearing payable to suppliers with an average credit period of 30 days.

Accrued expenses consist of:

	Note	**2016**	2015
Contractors' billings in progress		**P116,347,987**	P81,517,105
Dealers' support and incentives		**28,479,832**	63,027,929
Interest	*12*	**11,764,377**	15,656,271
Rent	*17*	**9,068,717**	8,935,411
Contracted services		**3,994,175**	4,117,094
Freight and handling		**2,241,480**	2,780,889
Advertising and promotions		**378,915**	630,388
Others		**1,827,739**	2,052,333
		P174,103,222	P178,717,420

Nontrade payables are non-interest bearing payable to suppliers of telecommunications, maintenance and other services not in the ordinary course of business with an average credit period of 30 days.

Others represents statutory liabilities and performance incentives.

11. Customers' Deposits

This account consists of:

	Note	**2016**	2015
Deposits for cylinders		**P155,343,101**	P321,365,123
Less: amortization of cylinder deposits		**43,230,865**	91,941,089
Deposits for cylinders		**112,112,236**	229,424,034
Cash bond deposits	*4*	**26,763,842**	24,655,336
	20	**P138,876,078**	P254,079,370

Customers' cylinder deposits represent the net amounts received for LPG cylinders loaned out to various dealers/customers. These deposits are non-interest bearing and refunded to the dealers upon return of the cylinders. In 2016 and 2015, there were no refunds made to the dealers.

In 2016, the Company derecognized customer's deposits amounting to P131.94 million which pertains to terminated dealers/customers (Note 8).

Cash bond deposits account pertains to cash received from dealers/customers upon entering into dealership agreement with the Company. This serves as a bond or security in case of payment defaults and will be returned to the dealer/customer upon termination of the agreement.

12. Loans Payable

This account consists of the following loans obtained from local banks:

	Note	**2016**	2015
Unsecured short-term loans	*12a, 12b, 12c, 12d, 12e*	**P70,000,000**	P780,000,000
Secured long-term loans	*12f*	**302,500,000**	412,500,000
Less noncurrent portion		**192,500,000**	302,500,000
Current portion of secured loans		**110,000,000**	110,000,000
Total current portion of loans payable		**P180,000,000**	P890,000,000

<u>Unsecured Loans</u>

a. On September 27 2012, the Company obtained an unsecured short-term loan amounting to P100 million. On September 17, 2014, the Company renewed the loan with an interest rate of 2.50% per annum that matured on March 16, 2015. On September 11, 2015, the loan was renewed again with an interest rate of 2.75% per annum and maturity date of on March 9, 2016.

   On March 9, 2016 and May 31, 2016, the Company made partial payments amounting to P30 million each date and fully paid the remaining balance of this loan on June 9, 2016.

   Outstanding balance of the loan amounted to nil and P100 million as at December 31, 2016 and 2015, respectively.

b. On February 15 and February 26, 2013, the Company obtained unsecured short-term loans amounting to P50 million and P150 million, respectively, for a term of 6 months. Both loans bear an interest rate of 3.50%.

   On maturity date, the loans were renewed with 2.50% interest rates per annum and maturity date of February 4 and February 10, 2015, respectively. Loans were renewed again on maturity dates bearing 2.75% interest rates per annum and maturity date of January 29, 2016 and February 3, 2016, respectively.

   On January 29, 2016, the Company made a partial payment amounting to P20 million and fully paid the remaining balance of P30 million on February 29, 2016 and P150 million on June 9, 2016.

   Total outstanding balance of the loans amounted to nil and P200 million as at December 31, 2016 and 2015, respectively.

c. On September 30, 2014, the Company obtained unsecured short term loan with Metropolitan Bank & Trust Company amounting to P100 million with interest rate of 2.50% per annum for a term of 1 year. On maturity date, the loan was renewed with 2.80% interest rate per annum for 3 months. It was renewed on October 23, 2015 with interest rate of 2.70% per annum up to August 18, 2016. On August 11, 2016, the loan was renewed with interest rate of 2.50% per annum for 3 months and another 3 months with maturity date on February 7, 2017.

On December 29, 2016, the Company made partial payment amounting to P30 million. Outstanding balance of the loan as at December 31, 2016 and 2015 amounted to P70 million and P100 million, respectively.

d. On April 22, 2015 and May 6, 2015, the Company obtained unsecured short term loans with Bank of Philippine Islands amounting to P150 million and P50 million, respectively, for a term of 6 months. Both loans bear an interest rate of 2.55% per annum. On October 19, 2015 and November 2, 2015, loans were renewed with an interest rate of 2.75% per annum which will mature on April 15, 2016 and April 29, 2016, respectively.

   On April 29, 2016, the Company made a partial payment amounting to 30 million and fully paid the remaining balance of P20 million on May 31, 2016 and P150 million on June 9, 2016.

   Total outstanding balance of the loans amounted to nil and P200 million as at December 31, 2016 and 2015, respectively.

e. On May 11, 2015 and August 28, 2015, the Company obtained unsecured short term loans with Metropolitan Bank & Trust Company amounting to P60 million and P200 million, with interest rates of 2.75% and 2.90% per annum, respectively. The P60 million was renewed for another 6 months which matured on May 5, 2016 with an interest rate of 2.75% per annum. The P200 million loan was paid monthly of P20 million starting September 2015 and the remaining balance of P120 million was renewed with an interest rate of 2.75% per annum and matured on January 26, 2016.

   The loan balance was renewed until fully paid with interest rate of 2.70% per annum.

   On June 27, 2016 and July 26, 2016, the Company made partial payments of P40 million each date and fully paid the remaining balance of P40 million on August 22, 2016 and P60 million on September 28, 2016.

   Total outstanding balance of the loans amounted to nil and P180 million as at December 31, 2016 and 2015, respectively.

<u>Secured Loans</u>

f. On July 23, 2012, the Company obtained a seven-year loan from a local bank amounting to P550 million with principal repayment of 60 equal monthly installments starting October 23, 2014. On April 1, 2015, PDST-F ceased to exist. With the demise of PDST-F, the bank used the Substitute Interest Rate as the Interest Rate pursuant to the provisions of Section 2.07(b) of the Omnibus Agreement. Substitute Interest Rate shall mean the BSP Overnight Reverse Repurchase Agreement (RRP) Rate plus Gross Receipt Tax (GRT) which is 4.04% effective interest due on April 23, 2015.

   On June 23, 2016, the BSP Monetary Board decided to maintain Overnight RRP rate of 3.0%. Interest rate is computed based on the said BSP RRP plus 5% GRT which is equivalent to 3.1579% effective October 23, 2016.

This loan is used by the Company to finance the construction of a new refilling plant. The assets of Duta Inc., an associate of PDB (Netherlands) B.V. (PDBN), are used as collaterals for this loan. 100% capitalization rate was used to determine the amount of borrowing cost to be capitalized. The loan balance with interest rate of 3.1579% per annum amounted to P302.50 million and P412.50 million as at December 31, 2016 and 2015, respectively.

In 2014, the construction of the new refilling plant in Naga, Cebu has been completed and the related interest expense related to this loan amounting to P13.22 million and P17.37 million was recognized in profit or loss for the years ended December 31, 2016 and 2015, respectively.

The debt agreements contain, among others, covenants relating to the usage of proceeds, voluntarily suspend or discontinue its entire or a substantial portion of its business operations, significant change in the nature of the business, restrictions on loans and guarantees, disposal of a substantial portion of assets, merger and consolidation, and declaration and payment of dividend. The debt agreements also include maintenance of financial ratios in which the Company's debt-to-equity ratio and current ratio cannot exceed 3:1 and 1:1, respectively. The Company is in compliance with the covenants of the loan as at December 31, 2016 and 2015.

Interest expense from these bank loans recognized in profit or loss amounted to P24.35 million and P33.98 million in 2016 and 2015, respectively.

13. Capital Stock

The Company's capital stock, at P1 par value, consists of the following:

	2016	2015
Common stock		
Authorized - 1,100,000,000		
Subscribed - 1,092,500,000 (net of subscriptions receivable of P291,584,497 in 2016 and 2015)	**P800,915,503**	P800,915,503
Preferred stock		
Authorized - 2,000,000		
Subscribed - 1,511,325	**1,511,325**	1,511,325
	P802,426,828	P802,426,828

On May 3, 2010, the BOD of the Company approved the assumption by Petronas International Corporation Limited (PICL) through Petronas Philippines, Inc. (PPI) certain long-outstanding trade payables of the Company to Petronas Trading Corporation Sdn. Bhd. (PETCO) amounting to US$23.67 million or equivalent to P1.10 billion (assumed liability). The assumed liability was converted into 1,099,800 preferred shares of the Company. The conversion resulted in an additional paid-in capital amounting to P1,098,700,200.

In 2012, PPI transferred its ownership interest in the Company to PDBN, immediate parent company, an entity incorporated under the Laws of the Netherlands.

On February 20, 2014, PDBN subscribed 411,525 shares of the Company's Redeemable Convertible Preferred Stocks (RCPSs) with P1 par value. On April 7, 2014, PDBN made a capital infusion into the Company amounting to P411,525,000 representing the subscribed amount of 411,525 RCPS at P1 par value and the excess of P999 over the par value per shares was recognized as additional paid-in capital.

The preferred stock is non-voting and redeemable at the option of the Company. The holder of the preferred stock is entitled to receive fixed dividend based on the preferred stock's par value and additional paid-in capital, payable semi-annually every June and December of each year. The dividend on the preferred stock shall be cumulative at 11% per annum, unless the BOD fixed a higher or lower yield, for any given year. The holder of preferred stock in good standing may, at any time five years after the issuance, convert such preferred stock into common stock. The conversion shall be one share of preferred stock for one share of common stock.

The Company has unrecognized cumulative dividends on preferred stock amounting P666.35 million and P500.11 million as at December 31, 2016 and 2015, respectively.

14. Related Party Transactions

The Company, in the normal course of business, has significant transactions with its related parties which are summarized as follows:

Category/Transaction	Year	Note	Amount of Transaction	Outstanding Balances: Due from Related Parties	Outstanding Balances: Due to Related Parties	Outstanding Balances: Accounts Payable and Accrued Expenses	Terms	Conditions
Parent Company								
PDBN								
Purchase of LPGs	**2016**	*14a*	P -	P -	P -	P -	Due and demandable; noninterest-bearing	Unsecured
	2015		-	-	-	52,364,381		
Reimbursement of expenses	**2016**		**658,000**	**776,077**	**3,095,632**	-	Due and demandable; noninterest-bearing	Unsecured; unimpaired
	2015		331,030	331,030	-	-		
Under Common Control								
Petronas Trading Corporation SDN BHD (PETCO)								
Purchase of LPGs	**2016**	*14b*	**1,680,351,411**	-	**585,164**	-	30-day credit term; noninterest-bearing	Unsecured; unimpaired
	2015		1,958,572,499	1,014,340	-	161,772,537		
Petronas Lubricants Inc. (PLI)								
Purchase of lubricants	**2016**	*14c*	**11,120,035**	-	-	**5,228,376**	Due and demandable; noninterest-bearing	Unsecured
	2015		40,163,933	-	-	1,248,089		
Petronas Lubricant Marketing SDN (PLMM)								
Sale of lubricants	**2016**	*14d*	-	-	-	-	90-day credit term; noninterest-bearing	Unsecured
	2015		4,499,260	-	-	-		
Petronas Chemicals Marketing SDN (PCMSDN)								
Reimbursement of expenses	**2016**	*14e*	-	**182,832**	-	-	Due and demandable; noninterest-bearing	Unsecured; unimpaired
	2015		-	134,862	-	-		
PPI								
Reimbursement of expenses	**2016**	*14i*	-	-	-	-	Due and demandable; noninterest-bearing	Unsecured; unimpaired
	2015		-	81,717	-	-		
Petronas International Corporation Limited (PICL)								
Reimbursement of expenses	**2016**	*14i*	-	-	-	-	Due and demandable; noninterest-bearing	Unsecured
	2015		-	-	5,083	-		
Associate of PDBN								
Duta Inc								
Lease of land and security services	**2016**	*14f*	**8,214,122**	-	**2,454,883**	-	Due and demandable; noninterest-bearing	Unsecured
	2015		21,669,968	-	16,432,042	-		
Advances	**2016**	*14g*	**1,508,577**	**61,860,021**	-	-	Due and demandable; noninterest-bearing	Unsecured; unimpaired
	2015		7,872,667	89,609,065	-	-		
Subsidiary of Duta Inc.								
Kaparangan Inc.								
Lease of land	**2016**	*14f*	**53,572**	-	**8,929**	-	Due and demandable; noninterest-bearing	Unsecured
	2015		53,572	-	-	-		
Advances for acquisition of land	**2016**	*14h*	-	**14,737,623**	-	-	Due and demandable; noninterest-bearing	Unsecured; unimpaired
	2015		-	14,540,958	-	-		
	2016			**P77,556,553**	**P6,144,608**	**P5,228,376**		
	2015			P105,711,972	P16,437,125	P215,385,007		

Details are as follows:

a. The Company purchased LPG products from PDBN amounting to nil in 2016 and 2015. Outstanding payable from purchases to PDBN amounted to nil and P52.36 million as at December 31, 2016 and 2015, respectively, and is reported as part of "Trade payables" under "Accounts payable and accrued expenses" account in the statements of financial position. These payables have a 180-day credit terms and are noninterest bearing.

b. The Company purchased LPG products from PETCO amounting to P1.68 billion and P1.96 billion in 2016 and 2015, respectively. Outstanding payable to PETCO from this purchase amounted to nil and P161.77 million as at December 31, 2016 and 2015, respectively, and is reported as part of "Trade payables" under "Accounts payable and accrued expenses" account in the statements of financial position. These payables have a 30-day credit terms and are noninterest bearing.

c. The Company purchased lubricant products from PLI, an entity under common control, amounting to P11.12 million and P40.16 million in 2016 and 2015, respectively. Outstanding payables from this purchase to such related party amounted to P5.23 million and P1.25 million as at December 31, 2016 and 2015, respectively, and are reported as part of "Trade payables" under "Accounts payable and accrued expenses" account in the statements of financial position.

d. The Company sold lubricant products to PLMM, an entity under common control, amounting to nil and P4.50 million in 2016 and 2015, respectively.

e. The Company has receivable from PCMSDN, an entity under common control, for payment of office rental on its behalf which amounted to P182,832 and P134,862 as at December 31, 2016 and 2015, respectively.

f. The Company leases certain parcels of land from Duta Inc. and Kaparangan Inc. (Note 17).

g. In 2011, the Company made certain payments on behalf of Duta Inc. for the purchase of land located in Cebu amounting to P138 million. Principal and interest payments made by Duta Inc. amounted to P56.65 million, P1.35 million, P0.3 million and P27.73 million in 2011, 2012, 2015 and 2016, respectively. Various other advances amounted to P0.5 million and P2.1 million in 2016 and 2015, respectively. The outstanding balance amounted to P61.86 million and P89.61 million, as at December 31, 2016 and 2015 respectively. Interest income earned for the advances amounted to P1.51 million and P7.87 million in 2016 and 2015, respectively.

h. In 2011, the Company made certain advances to Kaparangan, Inc. for the purchase of three (3) parcels of land located in Cebu, Gensan and Negros Occidental. The outstanding balance amounted to P14.74 million and P14.54 million as at December 31, 2016 and 2015 respectively.

i. The Company made certain payments on behalf of PPI for various expenses and also owes PICL certain expenses.

Other related party transactions which are not included in the table are payments of remuneration to key management personnel pertaining mainly to short-term benefits amounting to P34.10 million and P31.20 million for the years ended December 31, 2016 and 2015, respectively.

15. Cost of Sales

This account consists of:

	Note	**2016**	2015
Inventories		**P2,026,694,687**	P2,717,365,864
Depreciation and amortization	*8*	**80,253,552**	71,497,966
Freight and handling		**57,812,768**	63,598,253
		P2,164,761,007	P2,852,462,083

16. Retirement Benefits Plan

The Company has funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. It provides a retirement benefit equal to one hundred fifty percent (150%) of plan salary for every year of credited service. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The latest actuarial valuation of the Company is dated October 14, 2016.

In accordance with the provisions of the Bureau of Internal Revenue Regulations No. 1-68, it is required that a formal retirement plan be trusteed; that there must be no discrimination in benefits; that forfeitures shall be retained in the retirement fund and be used as soon as possible to reduce future contributions; and that no part of the corpus or income of the retirement fund shall be used for, or diverted to, any purpose other than for the exclusive benefit of the plan members.

The Retirement Plan Trustee (RPT), as appointed by the Company in the trust agreement executed between the Company and the duly appointed RPT, is responsible for the general administration of the retirement plan and the management of the retirement fund. The RPT may seek the advice of counsel and appoint an investment manager or managers to manage the retirement fund, an independent accountant to audit the fund and an actuary to value the retirement fund.

The RPT has no specific matching strategy between the plan assets and the plan liabilities.

The following table shows reconciliation from the opening balances to the closing balances for net defined benefit liability and its components.

	Defined Benefit Obligation		Fair Value of Plan Assets		Net Defined Benefit Liability	
	2016	2015	**2016**	2015	**2016**	2015
Balance at January 1	**P70,711,048**	P72,861,315	**P54,905,617**	P29,394,902	**P15,805,431**	P43,466,413
Included in profit or loss						
Current service cost	**5,277,826**	6,097,638	**-**	-	**5,277,826**	6,097,638
Interest cost	**3,768,899**	3,402,623	**2,689,908**	1,937,352	**1,078,991**	1,465,271
	9,046,725	9,500,261	**2,689,908**	1,937,352	**6,356,817**	7,562,909
Included in other comprehensive income						
Remeasurements losses	**-**	-	**(1,117,142)**	(606,938)	**1,117,142**	606,938
Actuarial losses (gains) arising from:						
Financial assumptions	**13,406,215**	(4,884,057)	**-**	-	**13,406,215**	(4,884,057)
Experience adjustment	**189,417**	(4,180,943)	**-**	-	**189,417**	(4,180,943)
	13,595,632	(9,065,000)	**(1,117,142)**	(606,938)	**14,712,774**	(8,458,062)
Others						
Contributions	**-**	-	**15,805,431**	25,000,000	**(15,805,431)**	(25,000,000)
Benefits paid	**(24,682,049)**	(819,699)	**(24,682,049)**	(819,699)	**-**	-
Benefits paid directly from book reserve	**-**	(1,765,829)	**-**	-	**-**	(1,765,829)
	(24,682,049)	(2,585,528)	**(8,876,618)**	24,180,301	**(15,805,431)**	(26,765,829)
Balance at December 31	**P68,671,356**	P70,711,048	**P47,601,765**	P54,905,617	**P21,069,591**	P15,805,431

The remeasurements of defined benefit plan, before deferred income taxes, taken up under "Other comprehensive income" in the statements of comprehensive income and statements of changes in equity are as follows:

	2016	2015
Cumulative actuarial gains at the beginning of year	**(P16,075,229)**	(P7,617,167)
Recognized losses (gains) during the year:		
Actuarial losses (gains) due to increase (decrease) in defined benefit obligation	**13,595,632**	(9,065,000)
Remeasurements losses on plan assets	**1,117,142**	606,938
Cumulative actuarial gain at the end of year	**(P1,362,455)**	(P16,075,229)

The remeasurements of defined benefit plan, net of deferred tax liability, amounted to P0.95 million and P11.25 million as at December 31, 2016 and 2015, respectively, as presented in the statements of changes in equity.

There was no plan amendment, curtailment, or settlement in 2016 and 2015.

The Company's plan assets are in the form of trust maintained in a local bank. The carrying amount of the plan assets amounted to P47.60 million and P54.91 million, which approximates its fair value, as at December 31, 2016 and 2015, respectively.

The plan assets expressed in percentages consist of the following:

	2016	2015
Investments in government securities	**57%**	35%
Cash and cash equivalents	**43%**	65%
	100%	100%

The actual return on plan assets amounted to P1.57 million and P1.33 million in 2016 and 2015, respectively. The Company does not have any transaction or outstanding receivables and payables with the plan assets and, the plan assets do not have any investment in the Company.

The retirement benefits cost recognized as part of "Operating expenses" in the statements of comprehensive income consists of:

	2016	2015
Current service cost	**P5,277,826**	P6,097,638
Interest cost	**3,768,899**	3,402,623
Interest income	**(2,689,908)**	(1,937,352)
	P6,356,817	P7,562,909

The principal actuarial assumptions are as follows:

	2016	2015
Discount rate	**4.67%**	5.33%
Future salary increase rate	**6.00%**	5.00%

The mortality rates used by the actuary were taken from "The 2001 CSO Table - Generational (Scale AA, Society of Actuaries)".

Sensitivity Analysis
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	2016		2015	
	Increase	**Decrease**	Increase	Decrease
Discount rate (1% movement)	**P10,655,394**	**P8,827,842**	P7,650,664	P6,338,976
Future salary increase rate (1% movement)	**9,749,853**	**8,313,473**	7,132,641	6,066,894

The changes are assumed to be reasonably possible at the valuation date and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

These defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

Maturity analysis of the benefit payments:

	2016				
	Carrying Amount	**Contractual Cash Flows**	**Less than 5 Years**	**5 Years but Less than 10 Years**	**More than 10 Years**
Retirement benefits liability	**P21,069,591**	**P21,965,980**	**P10,398,203**	**P1,320,980**	**P10,246,797**

	2015				
	Carrying Amount	Contractual Cash Flows	Less than 5 Years	5 Years but Less than 10 Years	More than 10 Years
Retirement benefits liability	P15,805,431	P34,857,483	P25,633,575	P1,526,477	P7,697,431

There are no unusual or significant risks to which the plan exposes the Company. However, in the event a benefit claim arises under the retirement plan and the retirement fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from the Company to the retirement fund.

The Company expects to contribute P21.07 million to the retirement plan in 2017.

17. Lease Agreements

The significant lease agreements entered into by the Company are as follows:

a. The Company has entered into operating lease agreements with related parties, Duta Inc. and Kaparangan Inc., covering certain parcels of land for commercial and industrial purposes. The lease is for a period of 25 years until May 31, 2021 for Duta Inc. and 10 years until July 31, 2015 for Kaparangan Inc., and can be renewed upon the mutual agreement of both parties. The lease agreements are subject to escalation annually.

   On September 8, 2016, the lease agreement with Duta was amended to revise the rental fees and the term of the lease to July 1, 2016 until termination or expiry of the Contract of Lease 1996 or Contract of Lease 2011.

   Rent expense pertaining to these long-term leases amounted to P12.17 million and P25.94 million in 2016 and 2015, respectively (Note 14).

b. The Company has various operating lease agreements for parcels of land with third parties for periods of 1 to 15 years starting February 2004. These leases are subject to a 10% escalation rate every three (3) years. Rent expense recognized in profit or loss pertaining to these lease agreements amounted to P1.38 million and P1.51 million in 2016 and 2015, respectively.

c. The Company has operating lease agreement for an office space in Makati for a period of one (1) year and is renewable at the option of both parties. Rent expense recognized pertaining to this lease agreement amounted to P0.74 million and P2.02 million in 2016 and 2015, respectively.

Future minimum lease payments on the above lease agreements are as follows:

	2016	2015
Within one year	**P16,219,292**	P8,320,343
More than one year but not more than five years	**58,101,026**	39,873,481
More than five years	**100,365,605**	79,471,859
	P174,685,923	P127,665,683

Total rental expense in 2016 and 2015 amounted to P14.57 million and P29.91 million, respectively.

Total security deposits paid related to these agreements are presented under "Prepaid expenses and other current assets" account in the statements of financial position (Note 7).

18. Income Taxes

Income tax expense consists of:

	2016	2015
Current	**P11,907,038**	P5,779,623
Deferred	**12,152,220**	30,368,685
	P24,059,258	P36,148,308

The current income tax expense represents MCIT for the years ended December 31, 2016 and 2015, respectively.

The reconciliation of income tax expense recognized in profit or loss is as follows:

	2016	2015
Income before income tax	**P177,416,569**	P16,131,299
Income tax expense computed at statutory income tax rate at 30%	**53,224,971**	4,839,390
Nondeductible expenses and losses	**47,849,310**	2,768,886
Unrecognized deferred tax assets	**(44,893,813)**	47,238,081
Net income under income tax holiday	**(31,958,696)**	(15,902,688)
Interest income subjected to final tax	**(162,514)**	(122,965)
Nontaxable income	**-**	(2,672,396)
	P24,059,258	P36,148,308

Deferred tax assets consist of:

	2016	2015
Items Recognized in Profit or Loss		
Allowance for impairment losses on trade receivables	**P39,047,583**	P22,302,146
Allowance to reduce inventories to NRV	**9,212,357**	25,419,208
Unamortized past service cost	**6,130,225**	63,421
Retirement benefits liability	**5,205,327**	4,422,170
Accrued rent	**1,700,641**	1,797,521
Unrealized foreign exchange loss	**739,064**	288,342
NOLCO	**-**	16,581,338
	62,035,197	70,874,146
Item Recognized in Other Comprehensive Income		
Remeasurements of defined benefit plan	**1,892,056**	791,495
	P63,927,253	P71,665,641

The movements of deferred tax assets are accounted for as follows:

	2016	2015
Amount charged to profit or loss	**(P8,838,949)**	(P30,368,684)
Amount charged to OCI relating to remeasurement of defined benefit liability	**1,100,561**	(2,537,419)
Decrease in deferred tax assets	**(P7,738,388)**	(P32,906,103)

The details of the Company's NOLCO, which are available for offsetting against future taxable income and RCIT, respectively, are as follows:

Year Incurred	Amount Incurred	Applied	Expired	Remaining Balance	Year of Expiration
2016	P -	P -	P -	P -	2019
2015	20,251,595	-	-	20,251,595	2018
2014	283,122,815	86,561,146	-	196,561,669	2017
2013	144,155,776	144,155,776	-	-	2016
	P447,530,186	P230,716,922	P -	P216,813,264	

The details of the Company's MCIT, which are available for offsetting against future taxable income and RCIT, respectively, are as follows:

Year Incurred	Amount Incurred	Applied	Expired	Remaining Balance	Year of Expiration
2016	P11,907,038	P -	P -	P11,907,038	2019
2015	5,779,623	-	-	5,779,623	2018
2014	3,725,698	-	-	3,725,698	2017
2013	6,464,677	-	6,464,677	-	2016
	P27,877,036	P -	P6,464,677	P21,412,359	

The Company did not recognize the deferred tax assets on MCIT amounting to P21.41 million and P15.97 million as at December 31, 2016 and 2015, respectively, and on NOLCO amounting to P216.81 million and P392.26 million as at December 31, 2016 and 2015, respectively. Management believes that it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

On March 7, 2013, the Company has registered with the Board of Investment under Registration No. 2013-060 in accordance with the provisions of the Omnibus Investments Code of 1987 as the Industry Participant with the new investment for the construction of New LPG Import Terminal and Lubricant Storage Facilities in Naga City, Cebu under the Oil Industry Deregulation Law (R.A. 8479). The Company's Naga Plant Site is entitled to avail the incentives which include, among others, Income Tax Holiday for a period of five (5) years without extension from March 2014 or date of registration whichever is earlier but in case earlier than the date of registration.

19. Significant Contracts and Agreements

The significant contracts and agreements entered into by the Company are as follows:

a. Deferred Payment Agreements with its customers
The Company entered into a Deferred Payment Agreements (DPAs) with customers who are unable to pay their due and outstanding payables (Note 5).

The parties have agreed to enter into the DPA for the full and final settlement of the debt subject to the following terms and conditions:

i) Customer promises to pay the Company through monthly installment payment and by way of post-dated checks;

ii) The Customer shall undertake to make full and final settlement of the remaining outstanding amount of the Debt in the event that the customer obtain any financial assistance from any banks and/or financial institutions to finance its business operation. The entire remaining outstanding amount of the Debt shall become immediately due without further demand, formal or informal advice in the event any of the monthly installments are not received by the Company on or before the due date;

iii) Should the Company be compelled to institute extra-judicial foreclosure of the collateral and/or judicial actions to foreclose or collect unpaid amounts, the customer shall be liable for the costs and fees incurred by the Company in the preparation, monitoring and enforcement of the DPA, as well as costs and fees incurred by the Company on account filing and prosecution and enforcement of any judicial foreclosures, extra-judicial foreclosures, and collection suits; and

iv) The Customer further agrees that in the event it fails to pay any of the monthly installments, then the Company shall be at liberty to recover the same through the process of court, in which event all costs and expenses incurred by the Company including the legal costs on a solicitor and client basis shall be solely borne by them.

Outstanding balances from these DPAs are as follows:

	Note	**2016**	2015
Receivables under DPA	*20*	**P68,675,064**	P127,954,380
Current portion	5	**(63,357,310)**	(20,573,058)
Noncurrent portion		**P5,317,754**	P107,381,322

b. MOAs with Taxi Operators
On July 16, 2006, the Company entered into MOAs with certain taxi operators ("Operators"), whereby the latter agreed to establish refueling stations for LPG in their respective locations and receive conversion kits, for the conversion of vehicles from gasoline to LPG, provided by the Company payable over the agreed term in the respective MOAs. Also, the Company provides equipment and facilities needed for the LPG refueling station. The parties have agreed that the Operators shall have at least 250 public utility vehicles each converted into LPG-run units, and the Operators warrant that they will exert all efforts to ensure the conversion of at least 250 public utility vehicles in their respective locations.

The MOA is effective for a period of 10 years from commencement date agreed by both parties and, thereafter, shall continue to be in force unless terminated by either party by giving not less than two (2) months written notice to the other party or until terminated in accordance with termination provisions provided in the MOA.

As at December 31, 2016, the MOAs with taxi operators are in the process of winding down.

20. Financial Risks and Capital Management

Financial Risk Management Objectives and Policies
The Company's nonderivative financial instruments include cash and cash equivalents, receivables, due from related parties, security deposits, accounts payable and accrued expenses, due to related parties, loans payable and customers' deposits. The main purpose of these financial instruments is to provide financing for the Company's operations. The Company does not engage in the trading of financial instruments or enter into speculative transactions. The main risks arising from the use of these financial instruments are credit risk, liquidity risk and market risk - interest rate risk and foreign exchange rate risks.

Credit Risk
Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit verification and monitoring procedures. It is the Company's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Company ensures that sales of products are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures.

The Company's maximum exposure to credit risk is equal to the carrying amount of these financial assets, without considering the value of collaterals, if any.

	2016	2015
Cash in banks and cash equivalents	**P135,831,266**	P147,141,310
Receivables - net*	**368,274,739**	929,177,763
Due from related parties	**77,556,553**	105,711,972
Security deposits	**2,564,800**	2,684,603
	P584,227,358	P1,184,715,648

**Excluding advances to employees amounting to P74,589 and P626,523 as at December 31, 2016 and 2015, respectively*

The top five (5) dealers in terms of trade receivables account for 24% and 51% of total receivables as at December 31, 2016 and 2015, respectively. The Company has no significant concentration of credit risk with any counterparty.

To cover for its credit risks, the Company holds from its customers' collaterals composed primarily of bank guarantees, letters of credit, and real estate mortgages amounting to P192.89 million and P341.56 million as at December 31, 2016 and 2015, respectively. Post-dated checks are also issued by customers to facilitate collection and appropriately cover outstanding trade receivable balances. Customers' post-dated checks on hand amounted P203.2 million and 561.6 million as at December 31, 2016 and 2015, respectively.

The following is the aging analysis per class of financial assets:

	December 31, 2016					
	Neither Past Due nor Impaired	Past Due but not Impaired: Less than 30 Days	31 to 180 Days	More than 180 Days	Impaired	Total
Loans and receivables						
Cash in banks and cash equivalents	P135,831,266	P -	P -	P -	P -	P135,831,266
Receivables*	312,692,812	30,154,223	753,524	24,674,180	138,814,967	507,089,706
Due from related parties	77,556,553	-	-	-	-	77,556,553
Security deposits	2,564,800	-	-	-	-	2,564,800
	P528,645,431	P30,154,223	P753,524	P24,674,180	P138,814,967	P723,042,325

**Excluding advances to employees amounting to P74,589*

	December 31, 2015					
	Neither Past Due nor Impaired	Past Due but not Impaired: Less than 30 Days	31 to 180 Days	More than 180 Days	Impaired	Total
Loans and Receivables						
Cash in banks and cash equivalents	P147,141,310	P -	P -	P -	P -	P147,141,310
Receivables*	456,370,179	41,053,412	28,511,956	403,242,216	74,737,590	1,003,915,353
Due from related parties	105,711,972	-	-	-	-	105,711,972
Security deposits	2,684,603	-	-	-	-	2,684,603
	P711,908,064	P41,053,412	P28,511,956	P403,242,216	P74,737,590	P1,259,453,238

**Excluding advances to employees amounting to P626,523*

Below is the classification of the Company's financial assets that are neither past due nor impaired:

	December 31, 2016		
	High Grade	Standard Grade	Total
Cash in banks and cash equivalents	P135,831,266	P -	P135,831,266
Receivables	-	312,692,812	312,692,812
Due from related parties	-	77,556,553	77,556,553
Security deposits	-	2,564,800	2,564,800
	P135,831,266	P392,814,165	P528,645,431

	December 31, 2015		
	High Grade	Standard Grade	Total
Cash in banks and cash equivalents	P147,141,310	P -	P147,141,310
Receivables	-	456,370,179	456,370,179
Due from related parties	-	105,711,972	105,711,972
Security deposits	-	2,684,603	2,684,603
	P147,141,310	P564,766,754	P711,908,064

The credit qualities of financial assets were determined as follow:

- Cash and cash equivalents are based on the Company's internal rating system.

- Receivables, due from related parties and security deposits are based on a combination of credit standing or rating of the customer or counterparty, historical experience and specific and collective credit risk assessment. High grade pertains to receivables that are secured or covered with collaterals; standard grade represents receivables that are unsecured but with good payment history.

Liquidity Risk
Liquidity risk arises from the possibility that the Company may encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objective is to maintain balance between continuity of funding and flexibility through the use of short-term bank loans.

The following are the contractual maturities of nonderivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	December 31, 2016			
	Carrying Amount	**Contractual Cash Flow**	**1 Year or Less**	**More than One Year**
Accounts payable and accrued expenses*	**P220,422,939**	**P220,422,939**	**P220,422,939**	**P -**
Due to related parties	**6,144,608**	**6,144,608**	**6,144,608**	**-**
Customers' deposits	**138,876,078**	**138,876,078**	**-**	**138,876,078**
Loans payable (current and long-term)	**372,500,000**	**386,411,993**	**188,785,888**	**197,626,105**
	P737,943,625	**P751,855,618**	**P415,353,435**	**P336,502,183**

**Excludes nonfinancial liabilities amounting to P11,407,613.*

	December 31, 2015			
	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than One Year
Accounts payable and accrued expenses*	P486,019,692	P486,019,692	P486,019,692	P -
Due to related parties	16,437,125	16,437,125	16,437,125	-
Customers' deposits	254,079,370	254,079,370	-	254,079,370
Loans payable (current and long-term)	1,192,500,000	1,257,422,917	909,094,167	348,328,750
	P1,949,036,187	P2,013,959,104	P1,411,550,984	P602,408,120

**Excludes nonfinancial liabilities amounting to P11,089,823.*

Financial assets, excluding noncurrent portion of receivables, amounting to P578,909,604 and P1,077,334,326 as at December 31, 2016 and 2015, respectively, are realizable within one year. Noncurrent portion of receivables are realizable for more than one year.

Market Risk
Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and other market prices, will affect the Company's financial performance or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

Interest Rate Risk
Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Company's exposure to changes in interest rates relates primarily to the Company's loans payable and cash and cash equivalents, excluding cash on hand. Investments or borrowings with fixed rates expose the Company to fair value interest rate risk. On the other hand, investment or borrowings issued at variable rates expose the Company to cash flow interest rate risk.

The Company manages its interest cost by using an optimal combination of fixed and variable rates loans. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks. The Company's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use. In managing interest rate risk, the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss

The interest rate profile of the Company's interest-bearing financial instruments is as follows:

	Note	**2016**	2015
Fixed Rate Instruments			
Cash in banks and cash equivalents		**P135,831,266**	P147,141,310
Unsecured short-term loans	*12*	**70,000,000**	780,000,000
Variable Rate Instruments			
Secured long-term loans	*12*	**302,500,000**	412,500,000

Sensitivity Analysis for Variable Rate Financial Liabilities
The sensitivity to a reasonably possible 1% increase in the interest rate of the loan with floating interest rate, with all other variables held constant, would have decreased the Company's income before income tax by P0.24 million in 2016 and increased the Company's loss before income tax by P4.67 million in 2015. A 1% decrease in the interest rate would have had the equal but opposite effect.

Foreign Exchange Rate Risk
In the normal course of business, the Company enters into transactions denominated in foreign currencies. As a result, the Company is subject to transaction and translation exposures resulting from currency exchange rate fluctuations. The Company regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize risks related to these foreign currency denominated assets and liabilities.

The Company's significant exposure to foreign currency risk based on notional amounts is as follows:

	2016	2015
Trade payables in United States (U.S.) Dollar ($)	**$105,156**	$4,586,222
Exchange rate	**49.720**	47.060
	P5,228,356	P215,827,607

The following significant exchange rates applied during the year:

	1 U.S. Dollar to Philippine Peso	
	Average Rate	Spot Rate
December 31, 2016	**49.816**	**49.720**
December 31, 2015	47.118	47.060

Sensitivity Analysis
A 2% and 10% strengthening of the Philippine peso against U.S. dollar as at December 31, 2016 and 2015, respectively, would have increased net income and equity by P0.07 million and P15.11 million, respectively.

A 2% and 10% weakening of the Philippine peso against U.S. dollar as at December 31, 2016 and 2015, respectively, would have had the equal but opposite effect, on the basis that all other variables remain constant.

This foreign currency risk sensitivity analysis is based on foreign exchange rate variances that the Company considered to be reasonably possible at the reporting date.

Capital Management
The objective of the Company's capital management is to maintain an optimal capital structure in order to support its business and maximize shareholders' value. As a subsidiary of PETRONAS, the Company's approach in managing capital is set out in the PETRONAS Group Corporate Financial Policies. The Company manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new shares, redeem or convert preference shares issued or adjust dividend payment to shareholders.

The Company monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt pertains to total current and noncurrent liabilities shown in the statements of financial position. Total equity comprises capital stock, additional paid-in capital, deposit for future stock subscription and retained earnings.

The debt-to-equity ratio is as follows:

	2016	2015
Total debt (a)	**P770,420,829**	P1,975,931,441
Total equity (b)	**2,532,239,365**	2,389,180,996
Debt-to-equity ratio (a/b)	**0.30:1**	0.83:1

There were no changes in the Company's approach to capital management during the current year (Note 13).

Fair Values and Classes of Financial Instruments
The fair values and classes of financial instruments, together with the carrying amounts as shown in the statements of financial position, are as follows:

	December 31, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Loans and Receivables:				
Cash in banks and cash equivalents	**P135,831,266**	**P135,831,266**	P147,141,310	P147,141,310
Receivables - net	**368,274,739**	**368,274,739**	929,177,763	929,177,763
Due from related parties	**77,556,553**	**77,556,553**	105,711,972	105,711,972
Security deposits	**2,564,800**	**2,564,800**	2,684,603	2,684,603
	P584,227,358	**P584,227,358**	P1,184,715,648	P1,184,715,648
Financial Liabilities				
Other Financial Liabilities:				
Accounts payable and accrued expenses*	**P220,422,939**	**P220,422,939**	P486,019,692	P486,019,692
Due to related parties	**6,144,608**	**6,144,608**	16,437,125	16,437,125
Customers' deposits	**138,876,078**	**138,876,078**	254,079,370	254,079,370
Loans payable (current and long-term)	**372,500,000**	**372,500,000**	1,192,500,000	1,192,500,000
	P737,943,625	**P737,943,625**	P1,949,036,187	P1,949,036,187

**Excludes nonfinancial liabilities amounting to P11,407,613 and P11,089,823 as at December 31, 2016 and 2015, respectively.*

The following summarizes the major methods and assumptions used in determining the fair value of financial instruments:

Cash and Cash Equivalents, Receivables, Due from Related Parties, Security Deposits, Accounts Payable and Accrued Expenses (excluding Nonfinancial Liabilities), Loans Payable and Due to Related Parties
Due to the short-term nature of these financial instruments, the carrying amounts approximate their fair values at the reporting date. Long-term receivables are reported at their net realizable values.

Customers' Deposits
The carrying amount of customers' deposits approximates fair value as the impact of discounting is not material.

Long-term Loans Payable
Long-term loans payable approximates its fair value due to re-pricing of interest rate.

21. Contingencies

The Company is a party to various claims and litigation arising from the ordinary course of business. The outcome of these claims and litigation cannot be presently determined. The Company's management and legal counsel believe that the eventual liabilities under these claims and litigation, if any, will not materially affect the Company's financial position.

22. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs. The following are the tax information required under Revenue Regulation No. 15-2010 for the year ended December 31, 2016:

Based on RR No. 15-2010

A. Value Added Tax (VAT)

	Amount
1. Output VAT	**P331,002,555**
Account title used:	
Basis of the Output VAT:	
Vatable sales	**P2,758,354,621**
Exempt sales	**-**
Zero rated sales	**64,506,096**
	P2,822,860,717
2. Input VAT	
Beginning of the year	**P153,572,067**
Current year's purchases:	
a. Goods for resale or manufacture	**209,305,925**
b. Goods other than for resale or manufacture	**21,846,135**
c. Capital goods subject to amortization	**7,610,843**
d. Capital goods not subject to amortization	**118,749**
e. Services lodged under other accounts	**27,404,217**
Balance at the end of the year	**P419,857,936**
3. Customs Duties and Tariff Fees:	
Landed cost of imports	**P1,744,216,042**
Customs duties paid or accrued	**692,109**
Tariff fees paid or accrued	**-**
	P1,744,908,151

B. Excise Taxes

	Amount
Locally produced excisable items	**P -**
Imported excisable items	**318,198**
	P318,198

C. Documentary Stamp Tax

	Amount
Loan instruments	**P1,897,034**

D. Withholding Taxes

	Amount
Tax on compensation and benefits	**P16,643,203**
Creditable withholding taxes	**9,565,603**
Final taxes (FBT)	**456,941**
Final taxes (interest income from banks)	**78,069**
	P26,743,816

E. All Other Taxes (Local and National)

	Amount
Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses	
Real estate taxes	**P7,673,812**
Licenses	**3,271,543**
	P10,945,355

F. Deficiency Tax Assessments

The Company has no pending deficiency tax assessment as at December 31, 2016 (protested or otherwise).

G. Tax Cases

The Company has no tax cases as at December 31, 2016.

DUTA, INC. AND A SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

COVER SHEET

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	0	9	4	-	1	0	1	7	3

COMPANY NAME

DUTA, INC. AND A SUBSIDIARY

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

15th Floor, Citibank Tower
Valero Street, Salcedo Village
Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
8		December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Evelyn T. Gerodias	ectaneo@petronas.com.ph	(063) 225-1214	

CONTACT PERSON's ADDRESS

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.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Duta, Inc. and a Subsidiary
15th Floor Citibank Tower
Valero Street, Salcedo Village, Makati City

Opinion

We have audited the consolidated financial statements of Duta, Inc. and a Subsidiary ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with 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.

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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

R.G. MANABAT & CO.

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-1, Group A, valid until April 30, 2017
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 5904936MD
Issued January 3, 2017 at Makati City

March 10, 2017
Makati City, Metro Manila

KPMG

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Duta, Inc. and a Subsidiary
15th Floor Citibank Tower
Valero Street, Salcedo Village, Makati City

Opinion

We have audited the consolidated financial statements of Duta, Inc. and a Subsidiary ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with 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.

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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

R.G. MANABAT & CO.

John Molina

JOHN MOLINA
Partner
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REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and Stockholders
Duta, Inc. and a Subsidiary
15th Floor Citibank Tower
Valero Street, Salcedo Village, Makati City

We have audited the accompanying consolidated financial statements of Duta, Inc. and a Subsidiary as at and for the year ended December 31, 2016, on which we have rendered our report thereon dated March 10, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said company has a total number of five (5) stockholders owning 100 or more shares each.

R.G. MANABAT & CO.

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-1, Group A, valid until April 30, 2017
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 5904936MD
Issued January 3, 2017 at Makati City

March 10, 2017
Makati City, Metro Manila

DUTA, INC. AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2016**	2015
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 11*	**P27,555,886**	P28,127,999
Installment contract receivables - current portion	*7, 11*	**3,289,546**	4,496,251
Interest receivable	*7, 11*	**326,219**	594,693
Due from a related party	*5, 11*	**2,463,811**	21,839,882
Prepaid expenses and other current assets	*9*	**10,324,082**	9,596,709
Total Current Assets		**43,959,544**	64,655,534
Noncurrent Assets			
Installment contract receivables - net of current portion	*7, 11*	**-**	157,497
Investment properties - net	*6*	**339,053,659**	355,141,344
Total Noncurrent Assets		**339,053,659**	355,298,841
		P383,013,203	P419,954,375
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*11*	**P558,931**	P350,438
Due to related parties	*5, 11*	**343,946,747**	368,893,155
Income tax payable		**578,143**	3,330,702
Deferred revenue	*7*	**242,439**	385,527
Total Current Liabilities		**345,326,260**	372,959,822
Noncurrent Liability			
Deferred tax liability	*10*	**2,938,267**	2,750,293
Total Liabilities		**348,264,527**	375,710,115
Equity			
Capital stock		**45,750,000**	45,750,000
Deficit		**(11,001,324)**	(1,505,740)
Total Equity		**34,748,676**	44,244,260
		P383,013,203	P419,954,375

See Notes to the Consolidated Financial Statements.

DUTA, INC. AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	**2016**	2015
REVENUES			
Rental	*6, 9*	**P13,912,772**	P25,987,230
Interest	*8*	**289,426**	765,088
Realized gain on sale under installment contract receivables	*7*	**100,570**	8,696
		14,302,768	26,761,014
EXPENSES			
Impairment losses on investment property - net of reversal	*6*	**15,387,608**	-
Professional fees	*5*	**1,397,066**	506,988
Taxes and licenses		**1,236,019**	1,822,711
Outside services		**790,322**	831,647
Depreciation	*6*	**700,077**	534,997
Repairs and maintenance		**98,000**	-
Others		**229,298**	20,446
		19,838,390	3,716,789
		(5,535,622)	23,044,225
INTEREST EXPENSE	*5*	**1,508,577**	7,872,667
INCOME (LOSS) BEFORE INCOME TAX		**(7,044,199)**	15,171,558
INCOME TAX EXPENSE	*10*	**2,451,385**	4,509,837
NET INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)		**(P9,495,584)**	P10,661,721

See Notes to the Consolidated Financial Statements.

DUTA, INC. AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31	
	2016	2015
CAPITAL STOCK - P100 par value Authorized - 510,000 shares Subscribed and issued - 457,500 shares	**P45,750,000**	P45,750,000
DEFICIT		
Balance at beginning of year	**(1,505,740)**	(12,167,461)
Net income (loss) for the year	**(9,495,584)**	10,661,721
Balance at end of year	**(11,001,324)**	(1,505,740)
	P34,748,676	P44,244,260

See Notes to the Consolidated Financial Statements.

DUTA, INC. AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2016	2015
		Years Ended December 31	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax		**(P7,044,199)**	P15,171,558
Adjustments for:			
Impairment losses on investment property	6	**16,629,608**	-
Interest expense	5	**1,508,577**	7,872,667
Reversal of impairment loss	6	**(1,242,000)**	-
Depreciation	6	**700,077**	534,997
Interest income	8	**(289,426)**	(765,088)
Realized gain on sale under installment contract receivables	7	**(100,570)**	(8,696)
Unrealized rent income		**(42,518)**	42,518
Operating income before working capital changes		**10,119,549**	22,847,956
Decrease (increase) in:			
Due from a related party	5	**19,376,070**	(21,839,882)
Prepaid expenses and other current assets		**(2,279,318)**	(2,424,774)
Increase (decrease) in:			
Accounts payable and accrued expenses		**208,493**	26,231
Due to related parties	5	**(18,930,529)**	(108,927)
Cash generated from (used for) operations		**8,494,265**	(1,499,396)
Interest received		**557,900**	522,728
Interest expense paid		**(7,524,456)**	(906,934)
Income taxes paid		**(3,464,024)**	(867,046)
Net cash used in operating activities		**(1,936,315)**	(2,750,648)
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of installment receivables	7	**1,364,202**	117,953
Additions to investment properties	6	**-**	(1,754,948)
Net cash provided by (used in) investing activities		**1,364,202**	(1,636,995)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(572,113)**	(4,387,643)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**28,127,999**	32,515,642
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**P27,555,886**	P28,127,999

See Notes to the Consolidated Financial Statements.

DUTA, INC. AND A SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

Duta, Inc. (the "Company") was incorporated and registered with the Securities and Exchange Commission (SEC) on November 9, 1994. The consolidated financial statements of the Group as at and for the years ended December 31, 2016 and 2015 comprise the financial statements of the Company and its subsidiary, Kaparangan, Inc., (collectively referred to as the "Group"). The Group is primarily engaged in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.

The Company is 40%-owned by PDB (Netherlands) B.V. (PDBN) and 30%-owned each by Masaligan, Inc. and The Alsons Group.

The Company has 100% ownership interest in Kaparangan, Inc. ("Kaparangan" or the "Subsidiary"). The Subsidiary was incorporated and registered with the SEC on January 21, 1994, primarily to engage in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.

The address of the Group's registered office is at 15th Floor Citibank Tower, Valero St., Salcedo Village, Makati City.

2. Basis of Preparation

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 10, 2017.

Basis of Measurement
The consolidated financial statements have been prepared on a historical cost basis.

Fair Value Measurement
A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy, described as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at reporting date;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values of financial instruments are discussed in Note 11 to the consolidated financial statements.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary.

A subsidiary is an entity controlled by the Group. Control exists when the Group it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of the subsidiary are included in the consolidated financial statements from the date when the Group obtains control and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Company, using uniform accounting policies for like transactions and other events in similar circumstances. Inter-group balances and transactions, including inter-group unrealized profits or losses, are eliminated in preparing the consolidated financial statements.

Noncontrolling interests, if any, represent the portion of profit or loss and net assets not held by the Group and are presented in the consolidated financial statements separately from equity attributable to equity holders of the Company.

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related noncontrolling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also the Company and its Subsidiary's functional currency. All financial information presented has been rounded off to the nearest peso, unless otherwise indicated.

Use of Estimates and Judgments

The preparation of consolidated financial statements in accordance with PFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the amounts reported in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period when the estimates are revised and if the revisions affect only that period or in the period of the revision and future period when the revisions affect both current and future periods.

Judgments

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

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Company and its Subsidiary, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the normal operations of the Company and its Subsidiary.

Classifying Financial Instruments

The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

Financial assets are classified as financial assets at fair value through profit or loss (FVPL), held-to-maturity (HTM) investments, loans and receivables and available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities. Classification of financial instruments are disclosed in Note 11 to the consolidated financial statements.

Determining the Fair Value of Financial Instruments

Where fair values of financial assets and financial liabilities recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from a variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value. Fair values of financial instruments are disclosed in Note 11 to the consolidated financial statements.

Evaluating Lease Agreements

The Group has entered into lease agreements as lessor. Management exercises judgment in determining whether all significant risks and rewards of ownership of the leased property are transferred to the lessee. Lease wherein the Group retains all significant risks and rewards of ownership of the lease property is accounted for as operating lease; otherwise it is accounted for as finance lease.

The Group has determined that all lease agreements qualify as operating leases, since the Group retains all significant risks and rewards of ownership of the leased property (Note 9).

Rental income amounted to P13,912,772 and P25,987,230 in 2016 and 2015, respectively (Note 9).

Assessment of Impairment Indicators on Nonfinancial Assets
The Group assesses whether or not there are impairment indicators affecting its investment property and other nonfinancial assets that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

As at December 31, 2016 and 2015, the balance of allowance for impairment losses on investment property amounted to P45,418,877 and P30,031,269, respectively (Note 6). Carrying values of investment properties are disclosed in Note 6 to the consolidated financial statements.

<u>Estimates</u>
The key estimates and assumptions used in the consolidated financial statements are based on the management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

Allowance for Impairment Losses on Receivables
The Group reviews the collectibility of its receivables and provides an allowance for impairment losses on receivables, if necessary, at a level considered adequate for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of 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. The amount and timing of recorded expenses for any period would differ if the Group made different judgments of utilized methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The Group assessed that due from related parties and rent receivables (included in "prepaid expenses and other current assets") are not impaired (Notes 5 and 9). Carrying values of receivables are disclosed in Note 5 to the consolidated financial statements.

Fair Value of Investment Properties
The fair value of investment properties presented for disclosure purposes is based on market value, being the estimated amount for which the property can be exchanged between a willing buyer and seller in an arm's length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated Useful Lives (EUL) of Investment Properties
The Group estimates the useful lives of investment properties based on the period over which the assets are expected to be available for use. The EUL are reviewed periodically and are revised if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the Group's assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the EUL of investment properties would increase recorded expenses and decrease noncurrent assets. There are no changes in the EUL of property, plant and equipment.

The carrying amount of the Group's investment properties as at December 31, 2016 and 2015, amounted to P339,053,659 and P355,141,344, respectively (Note 6).

Estimating Recoverability of Deferred Tax Assets
The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

The Group also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact of deferred tax accordingly. The Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses. While the Group believes that its assumptions may materially affect the assessment of the realizability of deferred tax assets and may lead to future addition to deferred tax expense.

Deferred tax assets as at December 31, 2016 and 2015 are disclosed in Note 10 to the consolidated financial statements.

Provisions and Contingencies
The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risks and uncertainties into account.

Management assessed that no provision or disclosure of contingencies is necessary as at December 31, 2016 and 2015.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Group has adopted the following amendments to standards starting January 1, 2016 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new amendments to standards did not have any significant impact on the Group's consolidated financial statements.

- Disclosure Initiative *(Amendments to PAS 1).* Addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1, *Presentation of Financial Statements.* The amendments clarify that:

  - Information should not be obscured by aggregating or by providing immaterial information.

  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

  - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

  The amendments are to be applied retrospectively. Early adoption is permitted.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016. However, the Company has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

Effective January 1, 2017

- *Disclosure initiative (Amendments to PAS 7).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

  The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12).* The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

Effective on January 1, 2018

- PFRS 9 (2014). PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduce significant improvements by aligning the accounting more closely with risk management. The new standard is to be applied retrospectively with early adoption permitted.

  The Group is assessing the potential impact on consolidated financial statements resulting from the application of PFRS 9.

- PFRS 15. PFRS 15 replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Effective on January 1, 2019

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15, *Revenue from Contracts with Customers*. The Company is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

Nonderivative Financial Instruments
Nonderivative financial instruments comprise cash and cash equivalents, installment receivables, interest receivable, due from a related party, accounts payable and accrued expenses and due to related parties.

Date of Recognition. The Group recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

The Group classifies its financial assets in the following categories: HTM investments, AFS financial assets, financial assets at FVPL, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets are acquired and financial liabilities are incurred and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no HTM investments, AFS financial assets, and financial assets and liabilities at FVPL as at December 31, 2016 and 2015.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Loans and receivables are carried at cost or amortized cost, less any allowance for impairment losses. Amortization is determined using the effective interest rate method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through amortization process.

The Group's cash and cash equivalents, installment receivables, interest receivable, and amounts due from a related party are included in this category.

Cash in bank is stated at its face value. 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 and that are subject to an insignificant risk of change in value.

Installment receivables represent selling price of investment property sold less collections received for the period. Since the collection period for installment sales is usually long and may involve large amounts of receivable balances, interest is charged to buyer to be paid concurrently with each installment payment. Each collection consists of amounts applied to the payment of the outstanding balance of the principal (installment receivable) and to the interest on installment receivables.

Other Financial Liabilities. This category pertains to nonderivative financial liabilities that are not held for trading or not designated as at FVPL at the inception of the liability. They are initially measured at fair value plus transaction costs. Subsequently, these are measured at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, or discount and any directly attributable transaction costs.

The Group's accounts payable and accrued expenses and amounts due to related parties are included in this category.

<u>Determination of Fair Value</u>
The Group measures financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value 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 most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

<u>Offsetting Financial Assets and Liabilities</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements. Thus, the related assets and liabilities are presented gross in the consolidated statements of financial position.

<u>Impairment of Financial Assets</u>
The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that the loss event (or events) has an impact on the estimated future cash flows of that financial asset or that group of financial asset that can be reliably estimated.

Assets Carried at Amortized Cost. For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed accounts whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses this for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of such credit risk characteristics as type of borrower, credit and payment status and term. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of the loan's carrying amount over its net realizable value, based on the present value of the estimated future cash flows from the asset. The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. Any impairment loss is recognized in profit or loss.

The carrying amount of an impaired loan is reduced to its net realizable value through the use of an allowance account. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed to profit or loss, to the extent that the resulting carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognized.

Derecognition of Financial Instruments

Financial Assets. 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;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, 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 pay.

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

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

Investment Properties

Investment properties consist of parcels of land held to earn rental income and/or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

A subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably.

An external independent appraiser, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the Group's investment properties. The fair values are based on market values, being the estimated amount for which properties could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the properties. A yield reflects the specific risks inherent in the cash flows that are applied to the net annual cash flows to arrive at the property valuation.

Valuation reflects, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee and the remaining economic life of the properties. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter notices, have been served validly and within the appropriate time.

The fair value of investment properties is determined for disclosure purposes.

Depreciation is computed on a straight-line method over the estimated useful lives of the related assets.

Depreciation which commences when the asset is available for its intended use, is computed over five years which is the estimated useful life of the asset.

Investment properties are derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

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

Impairment of Nonfinancial Assets
The carrying amounts of the Group's nonfinancial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU, while fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGUs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss in which it arises.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

<u>Capital Stock</u>
Capital stock is classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

<u>Deficit</u>
Deficit represents accumulated net income or loss net of any dividend distributions and any capital adjustments. Dividends on capital stock are recognized as a liability and deducted from equity when they are declared by the Group's BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, or associated costs. The following specific recognition criteria must also be met before revenue is recognized:

Rental Income. Payments received from rent under operating lease agreements are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted, if any, are considered an integral part of the minimum lease rental receivable over the term of the lease.

Installment Sales. The sales price of installment sales is the present value of the consideration, determined by discounting the installment receivable at the imputed rate of interest. The interest element is recognized as revenue, using the effective interest method.

Gain on Sale is recognized based on collection, regarded as partial recovery of cost and realization of profit.

Interest Income. Interest income from bank deposits is recognized on a time proportion basis that reflects the effective yield on the asset.

Other Revenues. Revenue from other sources is recognized when earned during the period.

Cost and Expenses Recognition

The consolidated financial statements are prepared on the accrual basis of accounting. Under this basis, cost and expenses are recognized when they occur and are reported in the consolidated financial statements in the periods to which they relate.

Leases

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

(a) there is a change in contractual terms, other than 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 specified asset; or

(d) there is a substantial change to the asset.

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

Leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified by the Group as operating leases. Collections received under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Taxes

Income tax in profit or loss for the year comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or other comprehensive income.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted at the reporting date.

Deferred Tax
Deferred tax is recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes and the carry forward tax benefits of the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT). Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized only to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carry forward benefits of unused NOLCO and MCIT can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized.

Deferred tax liabilities are recognized for all taxable temporary differences.

Value-added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on the purchase of assets or services are not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of prepaid expenses and other current assets or accounts payable and accrued expenses in the statements of financial position.

<u>Related Parties</u>
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

<u>Provisions</u>
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

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

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

4. Cash and Cash Equivalents

This account consists of:

	Note	**2016**	2015
Cash in banks		**P6,357,177**	P7,176,305
Time deposits		**21,198,709**	20,951,694
	11	**P27,555,886**	P28,127,999

Time deposit is a temporary deposit with maturity of three months or less and with insignificant risk of change in value and earns annual interest ranging from 0.75% to 0.88% in 2016 and 2015. Total interest earned on cash in banks and time deposit amounted to P187,291 and P153,496 in 2016 and 2015, respectively (Note 8).

5. Related Party Transactions

In the ordinary course of business, the Group has transactions with related parties as follows:

Category/ Transaction	Year	*Note*	Amount of the Transaction	Outstanding Balances: Due from a Related Party	Outstanding Balances: Due to Related Parties	Terms	Conditions
Other Related Parties							
Petronas Dagangan Berhad (PDB)							
Payables	**2016**	*a*	**P -**	**P -**	**P267,349,103**	**Due and demandable;**	**Unsecured**
	2015		-	-	267,349,103	noninterest-bearing	
PEPI							
Lease of Land	**2016**	*b*	**8,170,704**	**2,437,127**	**-**	**Due and demandable;**	**Unsecured;**
	2015		24,102,836	21,778,095	-	noninterest-bearing	Unimpaired
Security Services	**2016**	*c*	**96,990**	**26,684**	**-**	**Due and demandable;**	**Unsecured;**
	2015		61,787	61,787	-	noninterest-bearing	Unimpaired
Advances	**2016**	*d*	**1,508,577**	**-**	**76,597,644**	**Due and demandable;**	**Unsecured**
	2015		8,230,867	-	101,544,052	interest-bearing	
	2016	*11*		**P2,463,811**	**P343,946,747**		
	2015	*11*		P21,839,882	P368,893,155		

The Group does not provide allowance for impairment losses on related party accounts as these are fully collectible.

a. The obligation to PDB resulted from a share and purchase agreement between PDB and Petronas Philipines, Inc. (PPI), where the Group's obligation to PPI was transferred to PDB.

b. Land lease receivable from PEPI amounted to P2,437,127 in 2016 and P21,778,095 in 2015.

c. Security services paid by the Group on behalf of PEPI amounted to P26,684 in 2016 and P61,787 in 2015.

d. In 2011, the Group received interest-bearing advances at the rate of 90-day T-Bill plus 1 percentage point per year on the amount with maturity date on December 2020 amounting to P138,007,497 from PEPI for the purchase of land located in Cebu. Subsequently, the Group paid PEPI the principal and its interest of P19,600,000 and P8,131,123 in 2016, nil and P300,267 in 2015, P1,357,997 and nil in 2012 and P56,649,500 and nil in 2011, respectively. Moreover, PEPI paid various operating expenses on behalf of the Group amounting to P568,372 in 2016 and P1,950,561 in 2015.

   In 2013 and 2012, the Group made non-interest bearing advances from PEPI of P11,442,349 and P2,981,202, respectively, for the purchase of three (3) parcels of land located in General Santos, Negros Occidental and Cebu City (Notes 6). As a result, the outstanding balance of the advances is P76,597,644 in 2016 and P101,544,052 in 2015.

There is no payment for remuneration to key management personnel in 2016 and 2015 while administrative expenses charged by PEPI amounted to P240,000 for both in 2016 and 2015 which are recognized as part of "Professional fees" in the consolidated statements of comprehensive income.

6. Investment Properties

The movements and balances of this account are as follows:

	Land	Lot Improvements	Office Equipment	Total
Cost				
January 1, 2015	P382,236,824	P2,747,492	P174,800	P385,159,116
Additions	21,607	1,733,341	-	1,754,948
Disposal	-	(264,742)	(174,800)	(439,542)
December 31, 2015	382,258,431	4,216,091	-	386,474,522
December 31, 2016	**382,258,431**	**4,216,091**	**-**	**386,474,522**
Accumulated Depreciation and Impairment Losses				
January 1, 2015	30,031,269	1,031,654	P174,800	31,237,723
Depreciation	-	534,997	-	534,997
Disposal	-	(264,742)	(174,800)	(439,542)
December 31, 2015	30,031,269	1,301,909	-	31,333,178
Depreciation	-	700,077	-	700,077
Impairment	15,387,608	-	-	15,387,608
December 31, 2016	**45,418,877**	**2,001,986**	**-**	**47,420,863**
Carrying Amount				
December 31, 2015	P352,227,162	P2,914,182	P -	P355,141,344
December 31, 2016	**P336,839,554**	**P2,214,105**	**P -**	**P339,053,659**

This account consists of several parcels of land which are held by the Group for capital appreciation and to earn rental income (Note 9). One of these parcels of land particularly located in Naga, Cebu is lent by the Group to PEPI to be used as collateral in securing the latter's loan to finance construction of its new refilling plant in the said location. The Group in return was able to generate rental income from PEPI for the said land in addition to existing lands leased by PEPI. The total rental income generated in 2016 is P13,912,772 and P10,258,310 in 2015. In addition, in 2015, the Group made additional billings relating to 2011 to 2014 for total amount of P15,728,920 and were recognized under "Rental income".

The above parcels of land have been appraised by an independent appraiser having appropriate recognized professional qualifications and recent experience in the location and category of property being valued. The parcels of land are valued based on market value, which is the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Based on their issued valuation reports dated June and July 2016, the fair value of all parcels of land of P724,805,000 are higher than cost by 90% except for the parcels of land located in Cebu and Negros Occidental which are impaired by about 30% lower of its cost. This resulted in a recognition of additional impairment loss of P16,629,608 in 2016. Moreover, another one property located in Labangal, General Santos City which was impaired in 2014 amounting to P1,242,000 was appraised with value of about 204% of its cost. As such, the related impairment is reversed in 2016.

Lot improvements mainly include fences of some investment properties which are depreciated and recognized as expense in the consolidated statement of comprehensive income in 2016 and 2015. Depreciation amounted to P700,077 in 2016 and P534,997 in 2015.

Related real property taxes amounted to P500,754 and P689,955 for the years ended December 31, 2016 and 2015, respectively.

7. Installment Contract Receivables

This account consists of:

	Note	**2016**	2015
Current portion		**P3,289,546**	P4,496,251
Noncurrent portion		**-**	157,497
	11	**P3,289,546**	P4,653,748

In 2010, the Group entered into a contract to sell a certain parcel of land with carrying amount of P11,115,349 for P12,000,000 to a local business establishment, collectible on installment over seven (7) years. The 7-year installment plan is computed based on 10% interest rate per annum and with equal monthly amortization of P157,710 from February 2010. The title of the land will only be transferred upon full payment.

Deferred gain on sale is recognized as follows:

	2016	2015
Deferred gain on sale	**P884,651**	P884,651
Less realized gain on sale:		
Balance at beginning of the year	**541,642**	532,946
Realized during the year	**100,570**	8,696
Balance at the end of year	**642,212**	541,642
Balance of deferred gain on sale	**P242,439**	P343,009

The balance of deferred gain on sale is included as part of "Deferred revenue" account in the consolidated statements of financial position.

Total interest receivable relative to the installment contract amounted to P326,219 and P594,693 as at December 31, 2016 and 2015, respectively.

8. Interest Income

This account consists of:

	Note	**2016**	2015
Interest income on:			
Cash and cash equivalents	*4*	**P187,291**	P153,496
Installment sales	*7*	**102,135**	611,592
		P289,426	P765,088

9. Operating Lease Commitments

The Group has entered the following lease agreements:

a. Leases of certain parcels of land to PEPI for periods of ten (10) years up to July 31, 2015 and twenty-five (25) years up to May 31, 2021, renewable upon mutual agreement of the parties. Starting April 1, 2011, the lease is subject to escalation annually. Starting August 1, 2015, the Subsidiary has granted PEPI extension of lease from until revoked in writing by either party.

   On September 8, 2016, some of the lease contracts were amended to revise the rental fees and the term of the lease to July 1, 2016 until termination or expiry of the Contract of Lease 1996 or Contract of Lease 2011.

b. Leases of certain parcels of land to third parties for a period of up to five (5) and ten (10) years, renewable upon mutual agreement of both parties concerned.

c. The Subsidiary entered into an operating lease agreement with First Auto-LPG Gas Holdings Corporation (FAGHC) for the Subsidiary's land occupied by FAGHC gas stations. The lease shall be for be a period of ten (10) years up to May and September 2022 and may be extended under such terms and conditions that may be agreed upon by the parties. The lease is subject to 12% escalation starting on the third year from the date of the effectivity of the lease period, another 12% escalation on the sixth year, and another 12% on the ninth year until the expiration of the lease period. Rental receivable related from this escalation clause amounted to P1,296,260 and P1,444,521 as at December 31, 2016 and 2015, respectively.

   In June 2015, FAGHC assigned the contract of lease to a third party until the remaining period of the original lease term for areas located in Davao.

Rental income pertaining to the above lease agreements amounted to P12,032,104 and P24,121,495 in 2016 and 2015, respectively. Future minimum lease receivables (excluding taxes) are collectible as follows:

	2016	2015
Within one year	**P18,353,220**	P10,244,200
More than one year but not more than five years	**76,795,813**	47,550,178
More than five years	**106,657,167**	92,765,963
	P201,806,200	P150,560,341

10. Income Taxes

Income tax expense consists of:

	2016	2015
Current	**P2,263,410**	P3,840,008
Deferred	**187,975**	669,829
	P2,451,385	P4,509,837

The current income tax expense in 2016 and 2015 represents RCIT.

As at December 31, 2016 and 2015, the Group recognized deferred tax liability on the escalation of rent income based on lease agreement which is spread over the total lease term following PAS 19 amounting to P2,938,267 and P2,750,293, respectively.

Deferred tax assets amounting to P13,625,663 and P9,009,380 for impairment losses of P45,418,876 in 2016 and P30,031,270 in 2015 have not been recognized as it is unlikely that future taxable profit will be available against which the Group can utilize the benefits therefrom.

The reconciliation of income tax expense computed at RCIT rate of 30% to the actual income tax recognized in profit or loss is as follows:

	2016	2015
Income (loss) before income tax	**(P7,044,199)**	P15,171,558
Income tax expense (benefit) using the RCIT rate	**(P2,113,259)**	P4,551,467
Add (deduct) income tax effect of the following:		
Nondeductible interest expense	**4,550**	4,418
Interest income subjected to final tax	**(56,188)**	(46,049)
Changes in unrecognized deferred taxes affecting current year	**4,616,282**	-
	P2,451,385	4,509,836

11. Financial Risks and Capital Management

Financial Risk Management Objectives and Policies

The Group's nonderivative financial instruments include cash and cash equivalents, due from related parties, installment contract receivables, accounts payable and accrued expenses and due to related parties. The main purpose of these financial instruments is to provide financing for the Group's operations. The Group does not engage in the trading of financial instruments or enter into speculative transactions. The main risks arising from the use of these financial instruments are credit risk and liquidity risk.

Credit Risk

Credit risk represents the loss that the Group would incur if a counterparty failed to perform under its contractual obligations. The Group manages credit risk by transacting only with credit worthy counterparties.

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, without considering the value of collaterals, if any:

	Note	2016	2015
Loans and Receivables			
Cash and cash equivalents	*4*	**P27,555,886**	P28,127,999
Interest receivable		**326,219**	594,693
Due from a related party	*5*	**2,463,811**	21,839,882
Installment contract receivables	*7*	**3,289,546**	4,653,748
		P33,635,462	P55,216,322

Loan and receivables composed of cash and cash equivalents, interest receivable, due from a related party and installment contract receivables, with total amount of P33,635,462 and P55,216,322 as at December 31, 2016 and 2015, respectively, are neither past due nor impaired.

The table below shows the credit quality of the Group's loans and receivables as at December 31 based on their historical experience with the corresponding debtors:

	2016		
	High Grade	**Standard Grade**	**Total**
Cash and cash equivalents	**P27,555,886**	**P -**	**P27,555,886**
Installment receivables	**-**	**3,289,546**	**3,289,546**
Interest receivable	**-**	**326,219**	**326,219**
Due from a related party	**-**	**2,463,811**	**2,463,811**
	P27,555,886	**P6,079,576**	**P33,635,462**

	2015		
	High Grade	Standard Grade	Total
Cash and cash equivalents	P28,127,999	P -	P28,127,999
Installment receivables	-	4,653,748	4,653,748
Interest receivable	-	594,693	594,693
Due from a related party	-	21,839,882	21,839,882
	P28,127,999	P27,088,323	P55,216,322

The Group's financial assets are categorized based on the Group's collection experience.

High Grade
Settlements are made by the counterparty following the terms of the contracts without much collection effort.

The credit risk for these financial assets is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

Standard Grade
Some follow-up reminder is performed to obtain settlement from the counter party.

The credit risk for these financial assets is considered to be standard grade with satisfactory financial capability and credit standing but with some elements of risk where a certain measure of control is necessary in order to mitigate the risk of default.

Liquidity Risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. To ensure liquidity, the Group's policy is to maintain sufficient cash and obtain financial support from its related parties, if necessary.

The table below summarizes the contractual maturity of the Group's financial liabilities based on contractual undiscounted payments:

		2016	
	Carrying Amount	**Contractual Cash Flow**	**Within One Year**
Accounts payable and accrued expenses*	**P528,894**	**P528,894**	**P528,894**
Due to related parties	**343,946,747**	**343,946,747**	**343,946,747**
	P344,475,641	**P344,475,641**	**P344,475,641**

** Excludes nonfinancial liabilities amounting to P30,037.*

		2015	
	Carrying Amount	Contractual Cash Flow	Within One Year
Accounts payable and accrued expenses*	P348,448	P348,448	P348,448
Due to related parties	368,893,155	368,893,155	368,893,155
	P369,241,603	P369,241,603	P369,241,603

** Excludes nonfinancial liabilities amounting to P1,990.*

The Group manages its liquidity needs mainly by forecasting cash inflows and outflows due in its day-to-day operations. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis above. The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash and cash equivalents, receivables, due from a related party and installment contract receivables. Financial assets amounting to P33,635,462 and P55,216,322 as at December 31, 2016 and 2015, respectively, are realizable within one year.

Capital Management
The BOD's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board sets strategies for the Group with the objective of establishing a versatile and resourceful financial management and capital structure.

The Group defines capital as capital stock and deficit. There were no changes in the Group's approach to capital management during the current year.

The Group is not subject to externally-imposed capital requirements.

Fair Values
As at December 31, 2016 and 2015, the carrying amounts of the financial assets and liabilities, which include cash and cash equivalents, interest receivable, rental receivable, due from a related party, accounts payable and accrued expenses and due to related parties reasonably approximate fair values due to the short-term nature of these financial instruments.

Installments receivables which are interest-bearing and reported at present values also approximate the cash amount that would be fully settled as at reporting date. They are classified as current assets when they become collectible within twelve (12) months from the reporting date.