ALLIANCE GLOBAL

ANNUAL REPORT 2014

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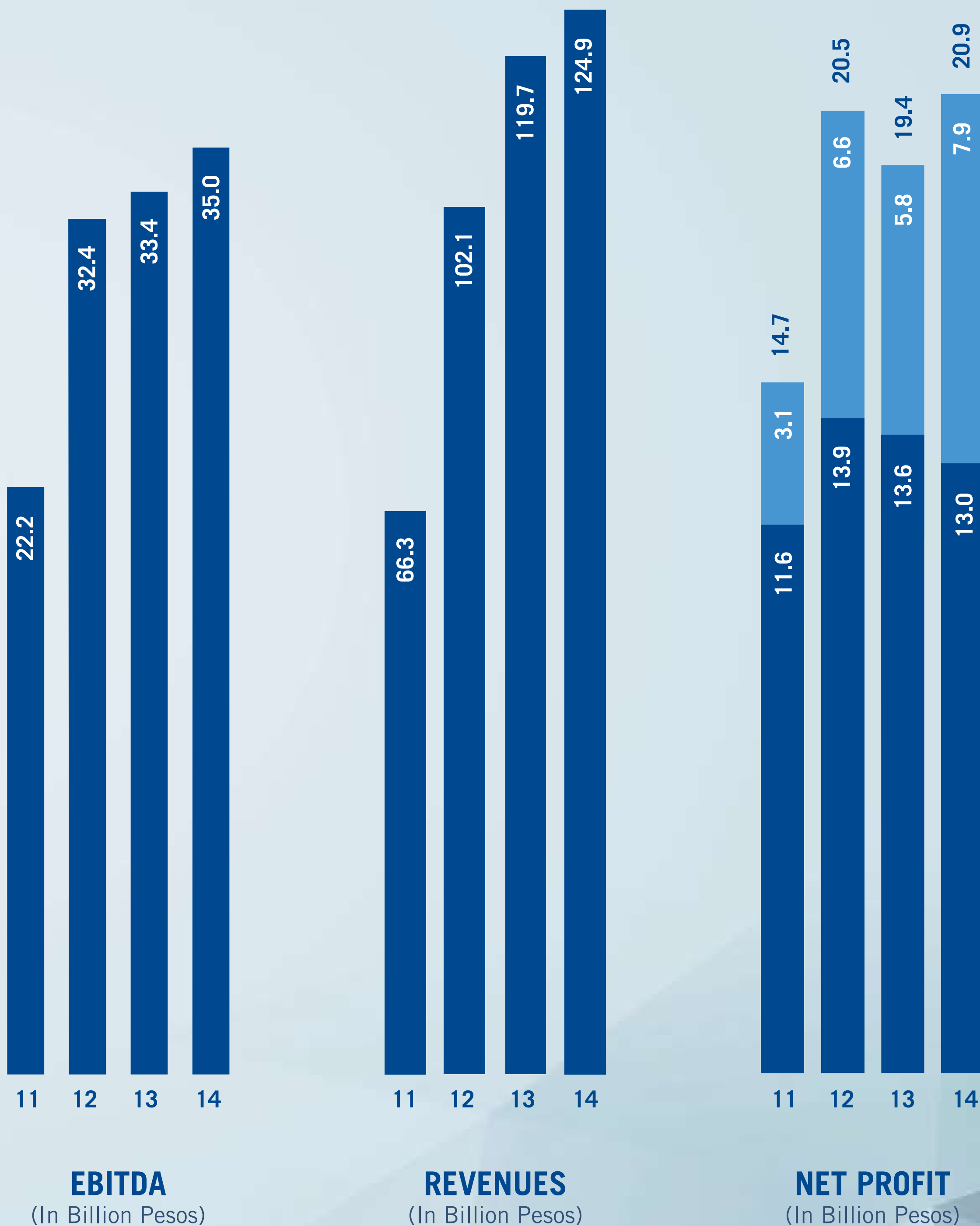
FINANCIAL HIGHLIGHTS



EBITDA
(In Billion Pesos)

REVENUES
(In Billion Pesos)

NET PROFIT
(In Billion Pesos)

Attributable to:
Non-controlling interest
Owners of AGI

EBITDA is profit before tax, interest expense, depreciation and amortization.
Non-recurring gains were excluded in 2013 and 2014 figures.

MESSAGE FROM THE CHAIRMAN

Since the beginning, we have always been guided by our long-established principles of integrity, hardwork, and quality service. They are the cornerstones of our creative team – our values in nurturing a growing company with a drive for constant innovation, leading to another great year for AGI.

AGI has come a long way in building a solid reputation in the property development, food and beverage manufacture and distribution, quick-service restaurants and integrated tourism development businesses. But everything that we have achieved carries with it a far greater responsibility to sustain its continuing growth, as profoundly exemplified by AGI and its subsidiaries.

In 2014, AGI's revenues grew by 1.6 percent to P125.4 billion from P123.4 billion a year ago. Excluding non-recurring gains, net income rose to a record high of P21.00 billion, an increase of 8 percent compared to that of 2013.

Megaworld turned in a stellar performance with consolidated revenues of P53.1 billion, a jump of 46.6 percent from P36.2 billion last year. This consists of real estate sales, rental income, hotel operations and other revenues. A substantial portion came from the sale of condominium units and residential lots, representing 46.3 percent of total revenues. Consolidated net profit increased by 138.6 percent to P21.6 billion inclusive of P12.2 billion non-recurring gains. Net income (excluding non-recurring gains) went up by 13.6 percent to P9.4 billion from P8.3 billion in the previous year.

The consolidation of Global-Estate Resorts, Inc. (GERI) under the Megaworld group in June 2014 forged a more structured organization that has substantially increased our land bank.

Travellers International, which operates Resorts World Manila, posted an impressive revenue in just five years of operation, with a compound annual growth rate of 67.3 percent from P2.4 billion in 2009 to P31.6 billion in 2014. The company has taken another step forward with the groundbreaking of its second integrated resort in Parañaque – the Westside City Resorts World in October 2014.

Emperador delivered another record-breaking performance in 2014 with P32 billion in revenues, 7 percent higher than that in 2013. Net income rose by 6 percent to P6.2 billion. 400 million bottles of Emperador brandy such as the iconic Emperador Light and Emperador Deluxe were produced to fill the growing demand here in the Philippines and in other countries.

In February 2014. Emperador signed a licensing agreement with global beverage maker Diageo, giving Emperador the right to manufacture and distribute another world-class brand in the Philippines – the Smirnoff Mule. The classic signature drink is an exciting addition to Emperador's portfolio.

Also in Emperador's portfolio, The BaR has become the number one flavored vodka in the Philippines, as well as Carlo Rossi, a brand under the Ernest and Julio Gallo wines, which is now the most popular wine brand in the country. And there is the iconic Pik-Nik brand which is fast-gaining leverage, riding on the success of its "Fun" campaigns.

Through its subsidiary Grupo Emperador Spain S.A., Emperador invested €60 million for 50 percent of Bodega Las Copas S.L. considered as the most modern vineyard in Spain and the largest vineyard in Europe. With this investment, Emperador has taken the initiative of setting a firm foothold in the global market.

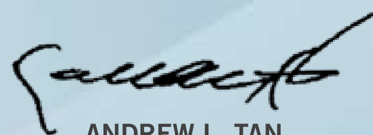
Expanding its global footprints, Emperador has also acquired 100 percent of Whyte and Mackay for a sum of £430 million. Whyte and Mackay is one of the largest makers of Scotch whiskies in the world. In its portfolio are world-famous brands such as The Dalmore Single Highland Malt, Jura Premium Single Malt and Whyte and Mackay Blended Scotch Whisky.

The introduction of Whyte and Mackay brand of whiskies in the country opens up a whole new opportunity for Emperador, as whisky is the second fastest-growing liquor segment in the world, next to brandy. Through Whyte and Mackay's international distribution channels, Emperador's product portfolio can find its way to more than 50 countries all over the globe. In turn, Whyte and Mackay can take advantage of Emperador's Asian Distribution network.

In the quick-service restaurant business, McDonald's achieved positive gains with total revenues growing by 17.3 percent, mainly on account of the opening of more than 50 new restaurants, reimaging of existing restaurants, and business extensions such as delivery service, drive-thru, and the introduction of new products. In 2014, McDonald's contributed 15 percent and 4 percent of AGI's consolidated revenues and net profit, respectively.

Where we are today is a solid testament of our unified efforts and achievements, with only the best of intentions to serve. On that note, I would like to express my deepest appreciation to all our employees and to the management team, and to our business partners for their unwavering dedication and support throughout these years.

We look forward with utmost confidence and optimism that the years ahead will bring us to a new level of growth on a global scale. We are leveraging on a significant measure of success to pursue greater goals, made more reassuring by a highly consumer-centric portfolio, contributing to the country's economy.



ANDREW L. TAN
Chairman & CEO

OPERATIONAL HIGHLIGHTS

MEGAWORLD

Megaworld continues to achieve sustained growth with its aggressive development and expansion projects, reaching a total of 15 integrated townships in 2014. Consolidated revenues rose to P53.1 billion compared to P36.2 billion in the previous year. Consolidated net profit jumped 138.6 percent to P21.6 billion, inclusive of P12.2 billion non-recurring gains. Megaworld plans to launch five more townships in 2015.

TRAVELLERS INTERNATIONAL

Travellers International Hotel Group, Inc. through its subsidiary, Westside City Resorts World Inc., broke ground for its second integrated resort in Parañaque, Westside City Resorts World. In its first five years of operation, the company posted a compound annual growth rate of 67.3 percent from P2.4 billion in 2009 to P31.5 billion in 2014.

EMPERADOR INC.

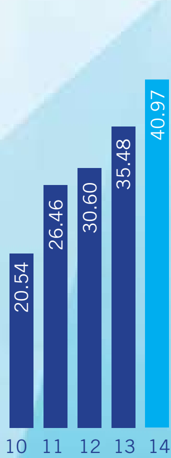
Emperador Inc. is strongly leveraging on the increasing demand for its Emperador Brandy, with 400 million bottles in record sales in 2014. On the back of its growing dominance in the global market, the company is setting new milestones with the acquisition of 50 percent of Bodega Las Copas S.L., one of the largest sherry, wine and brandy producers in Spain, and the acquisition of 100 percent of Whyte and Mackay, one of the largest makers of Scotch whisky in the world.

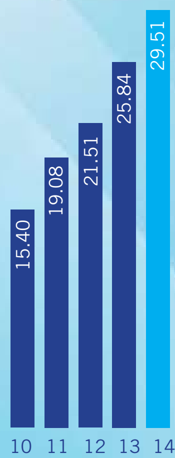
Golden Arches Development Corporation is gaining ground with the opening of more than 50 McDonald's restaurants in 2014. The company's growing patronage is mainly attributed to the reimaging of existing restaurants, new product offerings and other strategic initiatives, enhancing the company's competitive edge. Total revenues increased by P2.6 billion or 16.5 percent from P15.8 billion in 2013 to P18.4 billion in 2014. Net profit also increased by 1.2 percent compared to that of the previous year.

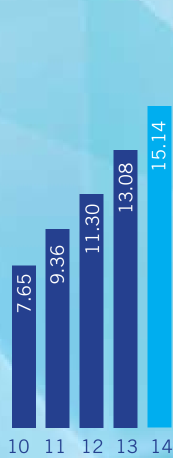
MEGAWORLD

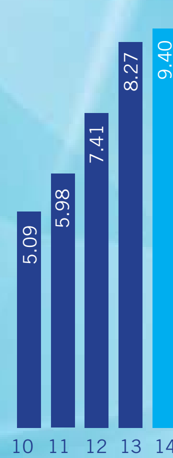
GROWING TOWNSHIPS

25 years ago, Megaworld marked the beginning of its success story. It began building visions with Eastwood City—laying the groundwork for a trend in real estate development that encapsulated a pioneering live-work-play-learn concept. The creation of the township signalled a turning point for Megaworld, a step in the right direction that propelled the company to the top of its game. Megaworld has gone on to develop a whole spectrum of world-class communities that are now shaping the landscape in a way unimaginable decades ago. Today, it is leveraging on the success of its townships as it continues to grow and expand, firmly establishing itself as the leading real estate developer in the country.


20.54
26.46
30.60
35.48
40.97
10 11 12 13 14
Consolidated
Revenues
(in Billion Pesos)


15.40
19.08
21.51
25.84
29.51
10 11 12 13 14
Real Estate
Revenues
(in Billion Pesos)


7.65
9.36
11.30
13.08
15.14
10 11 12 13 14
EBITDA
(in Billion Pesos)


5.09
5.98
7.41
8.27
9.40
10 11 12 13 14
Net Income
(in Billion Pesos)

In 2014, the company continued to achieve a sterling performance on the back of a growing demand for Megaworld properties that paved the way for expansion in a robust economy. Consolidated net profit jumped 138.6 percent to P21.6 billion, inclusive of P12.2 billion non-recurring gains. Net income, excluding the one-time gains, grew by 13.6 percent to P9.4 billion compared to P8.3 billion a year ago.

Consolidated revenues consisting of real estate sales, rental income, hotel operations and other revenues went up 46.6 percent to P53.1 billion from P36.2 billion the previous year. A substantial portion came from the sale of condominium units and residential lots, representing 46.3 percent of total revenues.

Real estate sales posted a 15.8 percent increase to P24.6 billion from P21.3 billion last year. Rental income rose by 17.1 percent to P7.1 billion versus P6 billion in 2013, contributing 13.3 percent to consolidated revenues. The growth in rental income was primarily driven by the increasing demand for state-of-the-art office spaces by BPO companies.

Megaworld and its subsidiaries plan to launch five more townships in 2015 to add to the 15 townships unveiled in 2014. The springboard of this undertaking is the consolidation of Global-Estate Resorts Inc. under the Megaworld group in June 2014. The launch of these new townships aims to utilize the entire group's 4,000-hectare land bank. By end-2015, the Megaworld group will have added 500 hectares for additional five townships in 2015 to its current township land area, amassing over 3,000 hectares for its signature live-work-play communities.

Eastwood City

EASTWOOD CITY

Just 16 years after it was launched, Eastwood City has grown in size and scale, encompassing 18.5 hectares with 20 luxury condominium towers—home to 25,000 residents. Ten office towers have been completed, hosting a 70,000-strong workforce in almost 60 companies. As the first cyber park in the Philippines, Eastwood City has played a major role in the phenomenal growth of the country's BPO and IT sectors. It has gained recognition as the top dollar earner among over 70 IT special economic zones that cater to BPO firms.

Another grand attraction in Eastwood City is its four-level Eastwood Mall, offering unique diversions from shopping and dining to recreation. It has been dubbed as the "Best Shopping Center" by the Philippine Retailers Association for the years 2010 and 2012.

When completed, Eastwood City will change the skyline with more than 21 high-rise residential towers, comprising a total of 9,136 condominium units. More than 270,000 square meters of the township have been dedicated to office spaces, and 60,000 square meters allotted to entertainment, commercial and retail areas.

McKINLEY HILL

The 50-hectare McKinley Hill is Megaworld's biggest township in Metro Manila to date, featuring a Spanish and Italian aesthetic. Carefully master-planned, it is set to host 36 residential condominium towers with more than 6,600 units, and a 10-hectare upscale village offering 470 premium lots. The residential block will be home to about 15,000 residents.

Like Eastwood City CyberPark, McKinley Hill CyberPark is an economic zone accredited by the Philippine Economic Zone Authority. With 300,000 square meters of office space in 17 buildings, it can accommodate up to 90 companies with approximately 60,000 employees. One of the buildings, 8 Campus Place, is recognized as the country's first LEED Gold-certified building for BPO companies.

Two world-class Venetian-inspired commercial destinations serve as the focal points of McKinley Hill's leisure scene. The fully operational Venice Piazza replicates some of Italy's most iconic landmarks. Set to open in 2015 is the 76,000-square-meter Venice Grand Canal Mall, an upscale retail center featuring a man-made canal and a bridgeway. The township offers over 90 restaurants and retail establishments.

International academic institutions such as the Chinese International School Manila, Enderun Colleges and the Korean International School Philippines have found a home in the township, as have the embassies of Great Britain, Korea and the United Arab Emirates. McKinley Hill has elevated the live-work-play-learn concept to new heights, adding an educational component to the township lifestyle.

McKinley Hill

Forbes Town Center

Located in the emerging central business district of Fort Bonifacio is Forbes Town Center, a 5-hectare township development catering to today's urban professionals. It is one of Megaworld's first townships to rise in the area. The 12 high-rise residential condominium projects in Forbes Town Center are composed of the three Bellagio towers, the six towers of Forbeswood Heights, the two Forbeswood Parklane towers and the 53-storey Eight Forbes Town Road Golf View Residences.

Serving as the township's centerpiece is Forbes Town Road, a retail strip hosting 37 restaurants and shops. Burgos Circle, one of the latest leisure centers to rise at Forbes Town Center, features a small park and commercial and dining establishments that address the diverse lifestyle needs of Forbes Town Center residents as well as employees working in several local and multinational companies in the nearby areas.

MCKINLEY WEST

Set near Forbes Park and the Manila Polo Club, the 34.5-hectare McKinley West is Megaworld's latest township offering at Fort Bonifacio, featuring upscale lifestyle that rivals its neighbours. The township's first residential offering is the McKinley West Village, where prime lots have appreciated in value by as much as 110 percent since the village was launched in 2010.

In the pipeline are the two clusters of St. Moritz Private Estate. The first cluster is a nine-storey residential address that pays homage to European luxury. Megaworld has partnered with the world's leading European architects and designers as well as the best home innovators to provide these residential estates with the finest interior furnishings, top-of-the-line security features and first-class amenities.

Modern and sustainable office buildings and a high-end commercial center, restaurant strips and outdoor recreational areas, complemented by wide, open spaces and lush greenery, are also part of the township's mixed-use character.

McKinley West

Uptown Bonifacio

UPTOWN BONIFACIO

A joint venture of Megaworld and the Bases Conversion Development Authority, Uptown Bonifacio is a 15.4-hectare master-planned township located in the northern part of Fort Bonifacio. Its residential condominiums include the 45-storey One Uptown Residences, the two-tower Uptown Parksuites rising 50 and 46 storeys, and the 45-storey, "all suites" Uptown Ritz.

The township's business district features state-of-the-art office towers in a defining architectural landscape. Among the first office buildings to rise here is set to be the future office address of Alliance Global Group Inc.

The Palace, dubbed as the ultimate nightlife destination in the country, is currently the centerpiece of Uptown Bonifacio's play scene. Meanwhile, the Uptown Place mall is slated for completion in 2015. It features world-class cinemas, retail attractions, a glass viewing deck, VIP lounge, chapel and sky deck.

NEWPORT CITY

Nearly a decade after its establishment, Newport City has sealed its reputation as a world-class tourist destination. This is because Newport City is known for its entertainment scene, anchored on Resorts World Manila. The 25-hectare integrated tourism estate is a joint project of Alliance Global Group Inc. subsidiary Travellers International Hotel Group Inc. and Genting Hong Kong. An upscale shopping mall, a state-of-the-art performing arts theatre and a first-class gaming center are all components of Resorts World Manila.

Luxury mid-rise condominiums make up Newport City's residential block. These include the 16 buildings of The Residential Resort, set on a sprawling 140,000-square-meter property, The Palmtree Villas and 101 Newport Boulevard with four clusters each, the six-cluster Eighty One Newport Boulevard and the three-cluster The Palmtree Villas Two, the 10-storey 150 Newport Boulevard, and the seven-cluster The Parkside Villas.

The Newport City CyberPark is a hub for multinational companies and BPO offices. Its anchor development is Star Cruises Centre, the headquarters of Megaworld affiliate Travellers International and Genting Hong Kong in Manila. Newport City CyberPark continues to be one of the choicest business addresses for BPO offices, cargo logistics services and other airline-related enterprises due to its proximity to the international airport.

Newport City

The Mactan Newtown

THE MACTAN NEWTOWN

Marking the beginning of the company's expansion to urban areas outside Luzon, The Mactan Newtown is Megaworld's first township venture outside Metro Manila, and the first to have its own beach. From an initial 16 hectares, The Mactan Newtown has expanded to 30 hectares. Set near the Mactan-Cebu International Airport, the township offers an ideal location suited to businessmen and leisure travellers.

The Mactan Newtown features 10 luxury condominium towers. These are the four-tower Eight Newtown Boulevard, the three-tower One Pacific Residences and the three-tower One Manchester Place. Megaworld's partnership with the Philippine Retirement Authority in 2011 afforded foreign retirees more convenient retirement in the Philippines through the issuance of the Special Resident Retiree's Visa.

Results Manila Inc. and EnfraUSA Solutions Inc. currently hold offices at the township's office block. Among the BPO buildings recently completed here are the five-level One World Center and the six-level Two World Center. Future projects include Pacific Garden Tower and Pacific World Tower. In 2012, the township was declared a special economic zone by PEZA.

Slated to be fully operational by 2015, the Newtown Alfresco is the township's core leisure scene. The covered food strip features Cebu's delicacies sold in Singapore-inspired hawker-type stalls. A lifestyle mall and a luxury hotel are among the township's upcoming developments.

On the learning front, The Newtown School of Excellence is set to provide premium education as a joint venture with the Lasallian Schools Supervision Office. It rises on a 7,700-square-meter property, showcasing first-rate facilities, open and covered courts, as well as lush greenery.

ILOILO BUSINESS PARK

The 72-hectare Iloilo Business Park is Megaworld's second township in the Visayas. The development is located at the old site of the Iloilo Airport in Mandurriao. It has launched three residential condominium developments to date: the three-tower, 10-storey One Madison Place Luxury Residence, the 14-storey Lafayette Park Square, and The Palladium, set to become the tallest building in the region at 22 storeys high.

Construction of Richmonde Tower, home of Richmonde Hotel Iloilo and a number of BPO offices, has been completed. Around 100,000 square meters of leasable floor space have been set aside for BPO and IT offices at the Iloilo Business Park. In three to five years, it is set to become one of the biggest cyber parks in the country.

Among the project's most anticipated attractions is the four-level Festive Walk Mall, Iloilo's first luxury shopping mall. The open-air Festive Walk hosts a mix of restaurants and designer shops. The company is also developing The Street of Festive Walk, a 1.1-kilometer-long retail strip inspired by outlet shops in America. The strip is currently the longest shop-and-dine street in development in the Philippines.

Anchoring the township is the Iloilo Convention Center, Iloilo Convention Center, a project of the national government. Situated on a 1.7-hectare property, the center aims to transform the region into a tourism, conventions, trade fairs and events venue upon its completion in 2015.

Iloilo Business Park

Boracay Newcoast

BORACAY NEWCOAST

Through its subsidiary, Global-Estate Resorts Inc. or GERI, Megaworld has grown its project portfolio by developing integrated, master-planned tourism estates. Among these estates is the 150-hectare Boracay Newcoast in Boracay. It is considered the single largest piece of property in the island, occupying 15 percent of its total land area.

Work is ongoing for residential projects such as Oceanway Residences, a mid-rise, four-cluster, modern Spanish-style condominium, and The Newcoast Village, an exclusive 10-hectare, Mediterranean-inspired community.

Among its leisure-driven offerings are the 4.59-hectare Shophouse District and the 9.39-hectare Boutique Hotel District, inspired by key tourist destinations around the world. Hotel construction is under way, with work on Savoy Hotel Boracay Newcoast and Boracay Belmont Hotel proceeding on schedule. This year, Phase 2 of the Boracay Belmont Hotel was launched.

The project's chief attractions are the kilometer-long coastline with three beach coves, a grand plaza called Newcoast Station, and the 18-hole Graham Marsh championship golf course of Fairways & Bluewater.

The Twin Lakes community in Laurel, Batangas is one of the flagship projects of Global-Estate Resorts Inc., a subsidiary of Megaworld. The 1,200-hectare tourism estate is dubbed as the first and only vineyard resort community in the country.

The Vineyard is among Twin Lakes' foremost developments, occupying a 69-hectare mixed-use phase that hosts the Shopping Village, the Vineyard Residences, a chateau and winery, and a hotel overlooking the famous Taal Lake.

The Vineyard Residences at Twin Lakes is composed of three low-rise residential condominiums named Merlot, Chardonnay and Shiraz. Shiraz is the third and final phase of Vineyard Residences scheduled for launch this year.

Another residential component within the township is the 33.79-hectare Domaine Le Jardin, a garden-themed subdivision offering premium subdivision lots to residents, with an option for terrace lots.

Twin Lakes

ArcoVia City

ArcoVia City

Megaworld's latest township development in Metro Manila is the 12.3-hectare ArcoVia City, located along the C-5 Road in Pasig City. Set to rise are two office towers to be designed by world-renowned architectural firm Skidmore, Owings and Merrill. These towers are located along the township's C-5 entrance. The first tower is slated for launch by early-2016.

In response to clients' increasing demand for sustainable office buildings, Megaworld is set to employ LEED (Leadership in Energy and Environmental Design) technology for ArcoVia City's registered office developments.

ArcoVia City offers diverse recreational experiences in its lifestyle mall, commercial and retail strips, and open parks. These destinations are all serviced by the township's very own transport hub.

DAVAO PARK DISTRICT

Envisioned to be a premier central business district in the region, Megaworld's Davao Park District is situated in Davao City's 11-hectare property along the S. P. Dakudao Loop in Lanang. Plans have been drawn up to transform the township into a center for BPO and IT in the next seven years.

Davao Park District offers One Lakeshore Drive, a themed residential condominium to be built by Suntrust Properties Inc., a wholly owned subsidiary of Megaworld. The township features its very own mall and commercial and retail strips, and a man-made lake which will serve as one of the township's key highlights.

Davao Park District

Suntrust Ecotown

Suntrust Ecotown is an industrial park in Tanza, Cavite, being developed by Megaworld, through Suntrust Properties Inc. It is programmed to be the next major business hub for world-class light to medium export-oriented industries. A 350-hectare property with a strategic location that brings it close to major airports, seaports and business districts, Suntrust Ecotown is billed as a fresh alternative for multinational locators.

The development is set to host the offices of the Philippine Economic Zone Authority and Bureau of Customs, making it more convenient for locator-partners to fast-track the processing of their business permits. An administration office, a fire station, parking for container vans, a guardhouse, and a transport terminal offering e-shuttle services are all part of the community.

Suntrust Ecotown offers residential developments that are suited to the character of the township. Among the lifestyle amenities in the community are a hotel, commercial and retail hubs, a driving range, mini golf course, putting greens, a swimming pool, jogging path and a basketball and badminton court.

SOUTHWOODS CITY

The 561-hectare Southwoods City is eyed as the next central business district south of Metro Manila. It is easily accessible via the South Luzon Expressway, offering cosmopolitan living in a sprawling master-planned setting amid a vibrant suburban location. Megaworld's subsidiary Global-Estate Resorts Inc. is set to develop a lifestyle hub that will serve as the township's centerpiece.

At present, Southwoods City has two residential developments: Holland Park and Pahara. Holland Park, a mid-rise, two-cluster residential condominium address inspired by the architecture and design of Copenhagen in Denmark, is the first development of its kind in the area. The project features 161 one- to three-bedroom units. Pahara, now sold out, is a 26-hectare upscale residential village. A cyber park, mall, open parks, leisure facilities and a weekend market also comprise the master plan of Southwoods City.

Southwoods City

Alabang West

Poised to be the next big development in the Alabang area, Alabang West is a 62-hectare development project of Global-Estate Resorts Inc. The township is strategically located at the heart of the city's high-end community, with access points that include the South Luzon Expressway and the upcoming Daang Hari Exit.

Alabang West Village features 785 prime lots and recreational amenities, including a clubhouse complex with basketball and badminton courts, function rooms, cabanas, a cafe and alfresco dining areas, a fitness center, pocket gardens, open parks and an infinity pool.

The township is home to a 1.1-kilometer-long retail row inspired by Hollywood's Rodeo Drive, complete with commercial and retail establishments.

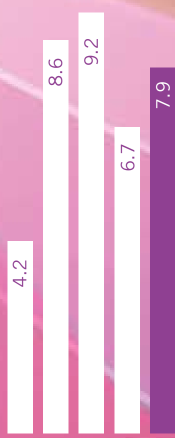
TRAVELLERS
INTERNATIONAL

TRAVELLERS INTERNATIONAL HOTEL GROUP, INC.

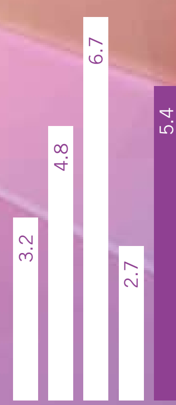
GREATEST PLEASURES IN GRANDEST PLACES

In just five years, Travellers International Hotel Group, Inc. is fast-changing the country's landscape with the rise of world-class, integrated entertainment and leisure resorts. Beginning with its flagship project, Resorts World Manila, with its portfolio of grand hotels that have already earned international recognition, the company has gained a solid reputation in the hotel and gaming industry. Achieving an unprecedented growth leading the way to expansion and new development projects, Travellers International is bringing the country into a new age of advancement in the world of tourism leading the way to expansion and new development projects.

Gross Revenues
(in Billion Pesos)



EBITDA
(in Billion Pesos)



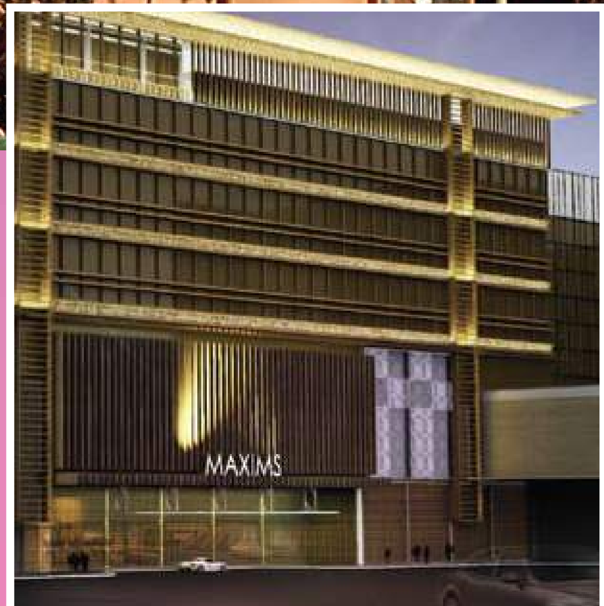
Net Income
(in Billion Pesos)

In 2009, Travellers International Hotel Group, Inc., now a publicly listed company wherein Alliance Global Group, Inc. (AGI) and Genting Hong Kong (GHK) are majority shareholders, established its flagship project, Resorts World Manila (RWM) in Newport City, Pasay.

In 2014, RWM reached an important milestone commemorating five memorable years of achieving a series of significant firsts. For one, RWM holds the distinction of being the first integrated resort in the country, offering a wide range of lifestyle and recreational options for guests, a concept virtually unheard of prior.

Five years earlier, when RWM first opened, its point of reference for guests was "RWM across from NAIA Terminal 3." Today, it has become an important, established landmark when people say "NAIA Terminal 3 across from RWM."

Also among the many notable milestones reached in its early years of operation was the opening of Maxims Hotel, the very first all-suite hotel in the country, providing a level of luxury for guests once only enjoyed abroad.



And most recently, in the food and beverage department, Impressions' executive chef Cyrille Soenen scored another first for the company by becoming the country's first chef to be inducted by the Maitres Cuisiniers de France, one of the highest culinary honors that all top chefs all over the world aspire for.

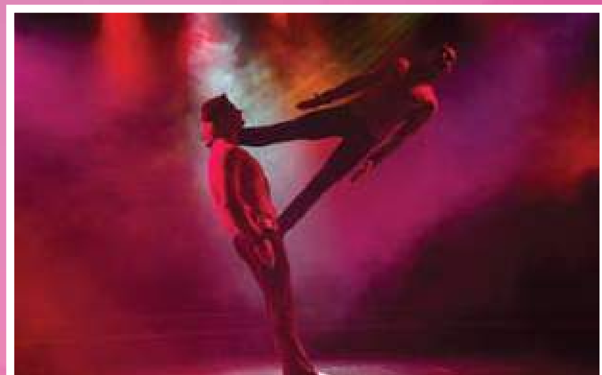
RWM's commitment to promote tourism, provide world-class entertainment and quality service continues to draw an influx of international visitors to the country, which in turn attracts potential investors paving the way to expansion.

The Marriott Grand Ballroom, one of RWM's Phase 2 projects, formally opened on July 1, 2015. The 3-storey state-of-the-art structure is the largest ballroom in the country with a capacity to accommodate 2,500 people for banquet functions and 4,000 people for a theater-style at any given time, is complete with two all-purpose halls ideal for that perfect white wedding.

The Phase 3 of the expansion project at the Newport City includes major additions to the property that are already in their respective construction phases in 2015, including an extension of Maxims Hotel, as well as the rise of two prominent international hotel brands Hilton Manila and Sheraton Manila Hotel, plus two Megaworld hotels, Savoy and Belmont. In the first quarter of 2016, the Marriott West Wing will be completed with an additional 228 rooms.

Present during the Westside City Resorts World groundbreaking rites at the Entertainment City in Parañaque were (from left) Travellers International Hotel Group, Inc. (TIHGI) President Kingson Sian, TIHGI Chairman David Chua, Parañaque Congressman Eric Olivarez, Resorts World Manila (RWM) Chief Operating Officer Stephen Reilly, Parañaque Mayor Edwin Olivarez, PAGCOR Chairman and CEO Cristino Naguiat Jr., Alliance Global Group, Inc. (AGGI) Chairman Dr. Andrew Tan, Genting Group Chairman and CEO Tan Sri Lim Kok Thai, and Nayong Pilipino Foundation Executive Director Atty. Apolonio Anota, Jr.

The groundbreaking of the company's second integrated resort in Parañaque, Westside City Resorts World, was held on the 1st of October 2014, and is projected to have at least 1,200 hotel rooms operated by international brands such as Westin Manila Bayshore; the Hotel Okura Manila; and signature hotels that include the Genting Grand and Crocksford Tower from the Genting Group.



In its pursuit to showcase the unparalleled talent of the Filipino to the rest of the world, RWM also ventured into large-scale musicals that feature homegrown talents. RWM's initial salvo, KAOS in 2010, combined the glitter of Broadway and the splendour of Las Vegas. This was followed by the record-setting THE SOUND OF MUSIC in 2011, THE KING AND I in 2012, and the classic tale of CINDERELLA in 2013. Last 2014, RWM featured a contemporary masterpiece, PRISCILLA, QUEEN OF THE DESERT.

Travellers focused on delivering quality earnings to its shareholders by channeling efforts to the growing core businesses and markets, while achieving operational efficiencies. In its first five years of operation, the company posted an impressive revenue with a compound annual growth rate (CAGR) of 67.3 percent from P2.4 billion in 2009 to P31.6 billion in 2014. As such, the company's financial condition is very strong with a net cash position of P4.4 billion as of December 31, 2014.

Not only did RWM perform well financially and exceed its targets in 2014, it was also the year when it bagged numerous awards to add to its already growing collection of accolades. Remington Hotel was recognized by online travel agents Booking.com, Expedia.com, and Agoda.com; while Maxims Manila Hotel and the Newport Performing Arts Theater were rated by Trip Advisor. In addition, RWM's culinary team took home top honors at the prestigious National Food Showdown for the three consecutive years.

Philippine Quill Award. March 9, 2015 at Crowne Plaza Manila
(from left) Corporate Social Responsibility Senior Associate Mark Julius Meneses, Chief Integrated Marketing Officer Martin Paz, Corporate Communication Director Owen Cammayo.

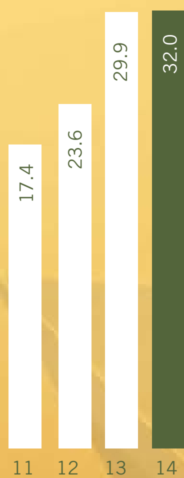
In line with its corporate social responsibility (CSR) to give back and make communities win, RWM has developed a number of corporate citizenship initiatives and successfully implemented them each year.
It launched the Livelihood and Employment Assistance Program (LEAP), which is its integrated learning program that aims to provide training opportunities for the less privileged members of the Pasay City community.
It was for LEAP that RWM bagged its first Philippine Quill Award. From the coveted Asia Responsible Entrepreneurship Awards (AREA) 2014 Southeast Asia, RWM also received the Social Empowerment Award for its LEAP initiatives.

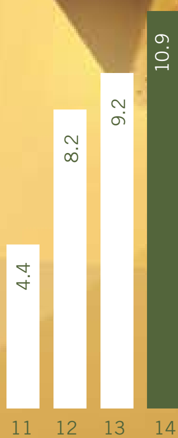
Like a breakthrough innovation, the whole concept of an integrated entertainment and leisure resort has made a distinctive mark, attracting foreign and local travellers and giving the tourism industry a big boost.
Recording a phenomenal growth spanning just five years, Travellers International Group is harnessing a perfect blend with the combination of life's greatest pleasures in grand places, bringing the country at the forefront as a global tourism destination.

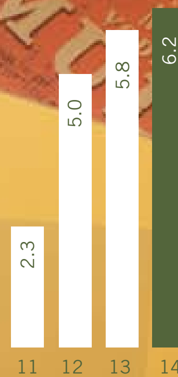
EMPERADOR INC.

REACHING NEW HORIZONS

Emperador has continued to enjoy a growing patronage for its iconic Emperador Brandy and its popular variants that have gone global. Today, through a strategic and well-structured integration of internationally renowned wine and liquor brands, Emperador is asserting its growing dominance in the global market, setting a strong foothold in more than 50 countries on a grand scale.


17.4
23.6
29.9
32.0
11
12
13
14
Revenues
(in Million Pesos)


4.4
8.2
9.2
10.9
11
12
13
14
Gross Profit
(in Million Pesos)


2.3
5.0
5.8
6.2
11
12
13
14
Net Profit
(in Million Pesos)

Emperador Light is continuing to enjoy a growing preference among new generation of brandy drinkers. In 2014, some 400 million bottles of the spirit were produced for brandy lovers in the Philippines and in different parts of the world. In the country alone, about one million bottles are being sold daily.

The company is moving forward headstrong by forging partnerships that will pave the way to greater opportunities. In 2014, Emperador Inc. subsidiary Grupo Emperador Spain S. A. and Gonzales Byass S.A. reached an agreement for Grupo Emperador to invest €60 million for 50 percent participation in Bodega Las Copas S.L., a company owned by Gonzales Byass. Formed in 1835, Gonzales Byass is one of the largest sherry, wine and brandy producers in Spain. By joining hands, Grupo Emperador and Gonzales Byass combine more than two centuries of experience in brandy and wine-making.

Bodega Las Copas near Toledo is not only considered the most modern vineyard in Spain, it is also the largest vineyard in Europe, growing the finest grapes for brandy distillation. Emperador is continuously looking to acquire more vineyard land in Spain, expecting its vineyard property to reach 2,000 hectares by 2016.

Carefully blended and bottled in Spain at the heart of the Andalusian province of Jerez, each drop of Emperador Deluxe carries with it the brandy-making expertise of Bodega San Bruno. Using the latest Precision Viticulture technology and meticulously aged in sherry-oak casks, it's a world-class Emperador of exceptional quality, the pride and joy of Grupo Emperador Spain, S.A.

Emperador continues to improve its product offering as part of its marketing strategies. Early in 2014, Emperador signed a licensing agreement with global beverage maker Diageo allowing Emperador to produce and distribute another world-class brand–the Smirnoff Mule, a classic vodka-ginger beer mix, offering a unique drinking experience because of its refreshing ginger kick. It is a reformulation of the old Mule introduced in the Philippines a decade ago but at a more affordable price, which gives this new product a wider market.

Emperador has made another breakthrough, creating a wider selection of its product portfolio. Establishing the now-popular choices of flavorful beverages like the Apple Vodka and Strawberry Vodka, The BaR has certainly added more cheers to the Filipinos' drinking pleasure. The launch of its next generation The BaR ready-to-serve cocktail through The BaR Margarita makes the brand revolutionary. More exciting next generation cocktails are in the pipeline for the number one flavored vodka in the country – The BaR.

In 2014, Emperador Distillers, Inc. (EDI) achieved a record performance in the wine business, posting a compound annual growth rate (CAGR) of 12 percent, the highest in the last five years. To a large extent, the success of E&J Gallo Wines is attributable to Carlo Rossi, now the number one wine brand in the country. With this resounding success, the company is poised to undertake on-premise sales through the EDI wine program, which will also make E&J Gallo fine wines available in major hotels and fine dining establishments.

Like the high energy of youth, Pik-Nik snacks soared in 2014, riding on the success of its "Fun" campaigns and programs focused on "tweens" and teenagers. These campaigns were conceived based on the observations that for these target markets, snacking is a constant activity, communication is constant, a significant amount of time is spent on gadgets and social networks, and hanging out with friends is their idea of "fun."

With all these in mind, the Pik-Nik brand executed the campaign "#Pik-Nik=Fun," in order to bring the brand and its products to activities that included school fairs, concerts and festivals, movie screenings and film fests. For this year, more fun and youth-oriented activities are scheduled to help bind this growing relationship with the youth and make the brand aggressively competitive.

On October 31, 2014, Emperador's 100 percent acquisition of Whyte and Mackay was completed for a sum of £430 million. Backed by 170 years of experience, Whyte and Mackay is one of the largest makers of Scotch whisky in the world with five distillers and one bottling plant in Scotland. In its portfolio are iconic brands such as The Dalmore Single Highland Malt, Jura Premium Single Malt and Whyte & Mackay Blended Scotch whiskies.

With its acquisition of Whyte and Mackay, the network of Emperador has expanded significantly, allowing it access to more than 50 of Whyte and Mackay's markets all over the globe.

Whyte and Mackay offers a diverse range of Scotch whiskies that cater to different target consumers called the three A's ("Apex," "Accessible," and "Always"). To the discerning ultra high networth individuals, The Dalmore is the contemporary British luxury brand and the "Apex" of single malt scotch whiskies. To the scotch drinker who wants to venture into single malt, Jura is the way into the "Accessible" category. To the individual who wants to be a part of the scotch culture, Whyte & Mackay Special is the brand for "Always."

Leveraging on an economy of scale and the sharing of best practices, the synergies between Emperador and Whyte and Mackay are indeed far-reaching. Emperador and Whyte and Mackay's use of complementary route-to-market channels is beneficial to both companies.

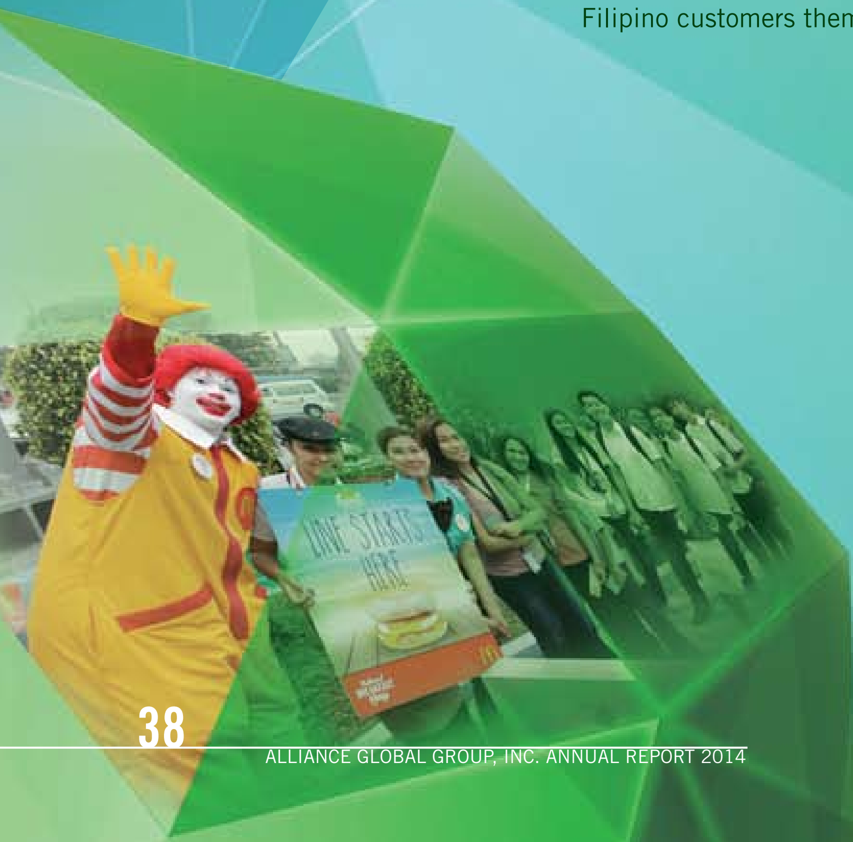
The same may be said, in turn, for Whyte and Mackay with respect to Emperador's Asian distribution channels, where Emperador can give Filipinos and other Asian liquor connoisseurs a taste of Whyte and Mackay's famous drinks. The introduction of a "Scotch whisky culture" to Filipinos presents even more growth opportunities for Emperador, as whisky has emerged as the second fastest-growing spirits segment in the world, next to brandy.

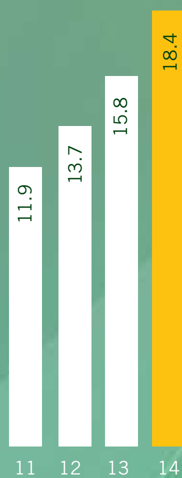
Asserting its growing dominance in the global market, Emperador is reaching new horizons, bringing the exciting tastes of iconic spirits brands for all the world to enjoy.

GOLDEN ARCHES DEVELOPMENT CORPORATION

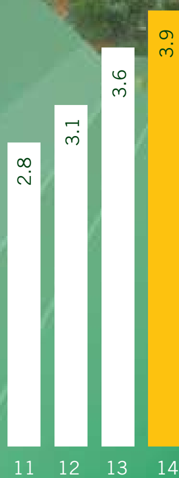
CRAFTING A BIG YEAR FOR McDONALD'S

Through 33 years, McDonald's has become a symbol of happiness, with all the fun and joy of great-tasting food that grows even more delightful with every experience. Now with almost 460 restaurants all over the country, the growth of the company has been truly phenomenal. And if there is one thing that says it all about the success of McDonald's, it comes from the Filipino customers themselves: "Love ko 'to!"

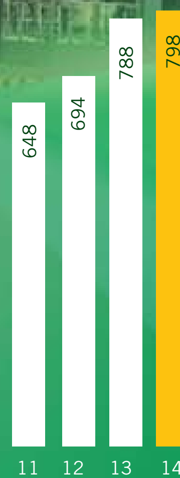




Revenues
Rendering of Services
(in Million Pesos)



Gross Profit
(in Million Pesos)



Net Profit
(in Million Pesos)

Since opening its first restaurant in Morayta, Manila in 1981, McDonald's has become one of the most successful quick-service restaurants in the country, delighting millions of customers by providing them great-tasting food, convenient services, and a memorable experience every time.

It was in 2005 when McDonald's Philippines, under the name Golden Arches Development Corporation (GADC), became a 100 percent Filipino-owned company, headed by its Chairman and Founder Dr. George T. Yang with Andrew L. Tan as his partner.

500 in the making

The Big Mac and World Famous Fries are enjoyed in close to 460 stores all over the Philippines, as GADC opened more than 50 new McDonald's restaurants in 2014. For the first time, McDonald's opened its doors in San Jose, Nueva Ecija; Daet, Camarines Norte; Candelaria, Quezon and Lingayen in Luzon; Moalboal, Cebu and Tubigon, Bohol in the Visayas; and Koronadal City and Valencia City in Mindanao.

2014 also saw the re-opening of McDonald's Tacloban, which was destroyed during Typhoon Yolanda, and the renovation of McDonald's Katipunan, a customer favorite, which now boasts of the new 'family recipe palette' restaurant design. With its growth, McDonald's Philippines strengthens its commitment in providing quality favorites, prepared and served by highly trained crew members in stylish and modern interiors, making customers feel at home.

Core menu improvement and innovations

Along with its expansion in 2014, McDonald's delighted its customers with new menu items and improved favorites. The much-loved, specially-seasoned, golden, crispy Twister Fries returned for a limited time, to once again excite customers. #TwisterFries became a trending topic on Twitter just minutes after the announcement and generated much online buzz, as Filipino fans of the epic Twister Fries knew that indeed, '*minsan lang 'to*'.

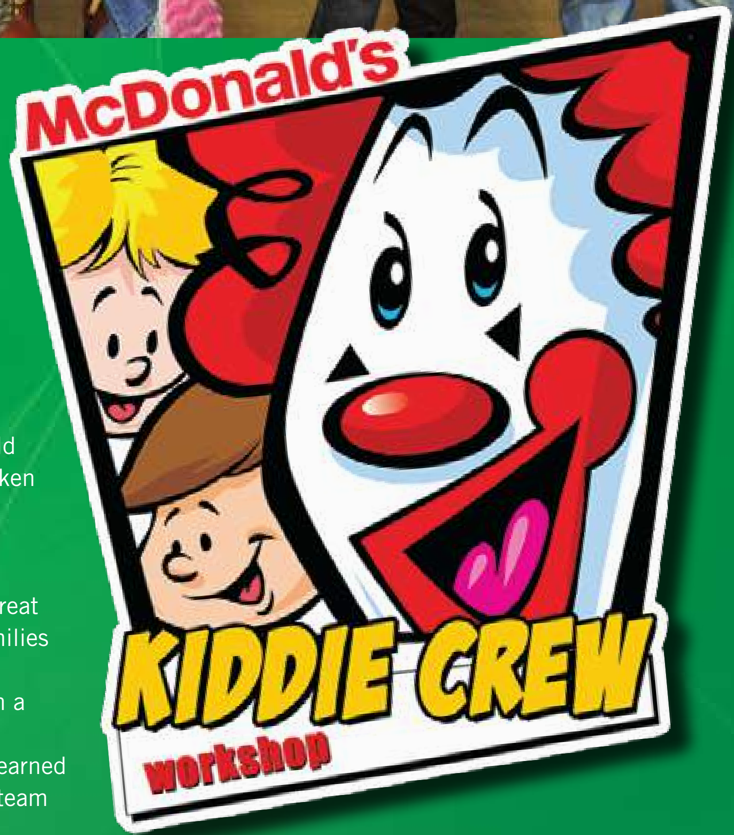
Catering to Filipinos' love for bacon, McDonald's gave their signature Cheeseburger some new crunch, with the new Bacon Cheeseburger and Bacon Cheeseburger Deluxe, perfect for pairing with Twister Fries. Another much loved staple of Filipinos' is fried chicken and in 2014, McDonald's improved the taste of its bestselling Chicken McDo, thrilling chicken lovers everywhere even more, including celebrity sisters and newest McDonald's endorsers Toni and Alex Gonzaga, claiming that the new Chicken McDo was truly mc-mc-mc-*masarap*!

Getting more for what you pay for
In addition to new menu items and improved favorites for customers to enjoy, McDonald's also focused on providing great-tasting food at great value, with complete meals, exciting promotions, and group bundles, all at affordable prices.

Prior to launching its new and improved taste, the Chicken McDo was offered with side dish and Regular Coke in the Chicken McDo Plus Meals. Customers could choose from Mac 'N' Cheese, Mashed Potatoes or Regular Fries for a more filling meal.

The realization that more connections are happening in the digital world than the real one gave birth to #BetterTogether, a campaign in partnership with Coca-Cola, inviting people to enjoy real-world connections, by being physically together, over McDonald's meals and Coca-Cola drinks. For these genuine moments, the BFF Bundles were introduced, allowing groups of three or four to customize bundled offers.

With the BFF Burger Bundle, customers can choose from seven McDonald's Burgers—Big Mac, Quarter Pounder with Cheese, McDouble Deluxe, Filet-O-Fish, McChicken, McSpicy and the McDouble, and enjoy them with the new BFF Fries, big enough to share with the entire gang, and a refreshingly ice-cold Regular Coca-Cola drink for each one. The BFF Chicken Bundle and the BFF Mix Bundle are also available.



Family-focused

Along with its commitment to serving good food at great value, McDonald's continues to provide kids and families with a fun and memorable restaurant experience. On its 22nd year, the Kiddie Crew Workshop has been a heritage program unique to McDonald's Philippines. In 2014, close to 50,000 joined the activities and learned important values, such as responsibility, hard work, team work, discipline and this year's addition—sharing.

Kids, through their parents or guardians were encouraged to share their blessings by contributing to the Kiddie Crew Coin Bank wherein proceeds went to the construction of Ronald McDonald Bahay Bulilit daycare centers for less fortunate kids in Tacloban, Leyte and Tubigon. Ronald McDonald Bahay Bulilit is a flagship program under McDonald's charity of choice, Ronald McDonald House Charities (RMHC), in partnership with the Department of Social Welfare and Development (DSWD).

Embracing technology

McDonald's also addresses the changing lifestyle of its consumers, and with the fast-paced environment we live in, McDelivery makes it possible for everyone to experience more uninterrupted moments with the things they love by letting customers enjoy their meals anytime, anywhere.

It was in 2014 when McDelivery was made even more accessible with the launch of the McDo PH App, giving customers another way to have their McDonald's favorites delivered. Aside from McDelivery, the McDo PH App also allows you to locate stores and stay updated on the latest offers from McDonald's.

Available for both iOS and Android phones, the McDo PH App garnered over 1 million downloads in just two months after it launched. The McDo PH App completes McDelivery's range of access points–phone, via 86-2-36; web, via mcdelivery.com.ph; and now, mobile–allowing for a convenient experience every time.

A strong finish

The year's successful initiatives allowed McDonald's to garner good results at the end of the year. Total revenues increased by P2.6 billion or 16.4 percent from P15.8 billion in 2013 to P18.4 in 2014. The company also enjoyed a positive net profit increase of 1.20 percent versus the previous year. Sales from company-owned restaurants rose by 16.3 percent, while revenue from franchisees increased by 19.1 percent. McDonald's share of the market also continues to be on an upward trend, finishing at 25 percent at the end of 2014, proof that everyone is, indeed lovin' it.

BOARD OF DIRECTORS

ANDREW L. TAN
Chairman & Chief Executive Officer

Mr. Tan has served as Chairman of the Board since September 2006 and as Vice-Chairman of the Board from August 2003 to September 2006. Mr. Tan is concurrently the Chairman of the Board and President of Megaworld Corporation, Megaworld Land, Inc., Richmonde Hotel Group International Limited, and Yorkshire Holdings, Inc. He is also Chairman of Emperador Inc., Global-Estate Resorts, Inc., Emperador Distillers, Inc., Alliance Global Brands, Inc., Consolidated Distillers of the Far East, Inc., Eastwood Cyber One Corporation, Empire East Land Holdings, Inc., Megaworld Central Properties, Inc., Megaworld Foundation, Inc., Townsquare Development Inc., and Adams Properties, Inc. He also serves as Vice-Chairman and Treasurer of Golden Arches Development Corporation; Golden Arches Realty Corporation. He sits in the boards of Andresons Global, Inc., Travellers International Hotel Group, Inc., and Twin Lakes Corporation. He pioneered the live-work-play-learn model in the real estate development through the Megaworld Corporation's integrated township communities, fueling the growth of the business process outsourcing ("BPO") industry, food and beverage, and quick service restaurants industries. Mr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

SERGIO R. ORTIZ-LUIS, JR.
Vice-Chairman/Independent Director

Mr. Ortiz-Luis has served as Independent Director and Vice-Chairman of the Board since September 2007. He is the President of the Philippine Exporters Confederation, Inc. (PHILEXPORT) and Honorary Chairman and Treasurer of the Philippine Chamber of Commerce & Industry. He is also Honorary Chairman of Integrated Concepts & Solutions, Inc. and Vice-Chairman of Export Development Council. He is a Director of Waterfront Philippines, Inc., Philippine Estate Corporation, B.A. Securities, Manila Exposition Complex, Inc., and Forum Pacific Inc. (FPI Philippines). He is also an Independent Director of AB Capital, Waterfront Philippines, Inc.

KINGSON U. SIAN
Director & President

Mr. Sian has served as Director and President since February 20, 2007. He is also the President of Travellers International Hotel Group Inc. and Executive Director of Megaworld Corporation and Chairman and President of Asia Finest Hotels & Resorts, Inc., Megaworld Resort Estates, Inc., Prestige Hotels & Resorts, Inc., and Manila Bayshore Property Holdings, Inc. He is also a Director of Emperador Inc. and Asia E-Commerce, Inc. Mr. Sian graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Masters Degree in Business Administration for Finance and Business Policy from the University of Chicago.

KATHERINE L. TAN
Director & Treasurer

Ms. Tan has served as Director and Treasurer since February 2007. She is the Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc. She is also Director/President of Consolidated Distillers of the Far East, Inc., Raffles and Company, Inc., and The Andresons Group, Inc. She is the Director/Treasurer of Emperador Inc., Alliance Global Brands, Inc., Emperador Brandy, Inc., Emperador Distillers, Inc., and Yorkshire Holdings, Inc. She is also Director of Emperador International Limited, Kenrich Corporation, McKesterPik-Nik International Limited, Megaworld Corporation, Megaworld Cayman Islands, Inc., Venezia Universal Limited, and The Bar Beverage, Inc. She is the Treasurer of Newtown Land Partners, Inc. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

BOARD OF DIRECTORS

WINSTON S. CO
Director

Mr. Co has served as Director of Alliance Global Group, Inc. since 1998 where he previously was Vice Chairman of the Board from November 1999 to August 2003 and Chairman from June 1998 to October 1999. He is the Chairman and President of New Town Land Partners, Inc., Chairman of Anglo Watsons Glass, Inc. and Director/President of Emperador Inc. and Emperador Distillers, Inc. He sits in the boards of Alliance Global Brands, Inc., Forbes Town Properties & Holdings, Inc., McKester Pik-Nik International Limited, Raffles & Company, Incorporated, and The Bar Beverage, Inc. He is also Senior Vice President of The Andresons Group, Inc. Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce.

KEVIN ANDREW L. TAN
Director

Mr. Tan has served as Director since April 20, 2012. He is a Director of Global-Estate Resorts, Inc. and Empire East Land Holdings, Inc. He is also concurrently a Director of Emperador Distillers, Inc., Alliance Global Brands, Inc., Anglo Watsons Glass, Inc., Yorkshire Holdings, Inc., The Bar Beverage, Inc., Emperador Brandy, Inc., and New Town Land Partners, Inc. He has over 11 years of experience in retail leasing, marketing and operations. He currently heads the Commercial Division of Megaworld Corporation, which markets and operates the Megaworld Lifestyle Malls, including Eastwood Mall and The Clubhouse at Corinthian Hills in Quezon City, Venice Piazza at McKinley Hill and Burgos Circle at Forbestown Center, both in Fort Bonifacio, California Garden Square in Mandaluyong City, Newport Mall at Resorts World Manila in Pasay City, and Lucky Chinatown Mall in Binondo, Manila. Mr. Tan holds a Bachelor of Science Business Administration degree, major in Management, from the University of Asia and the Pacific.

ALEJO A. VILLANUEVA, JR.
Independent Director

Mr. Villanueva has served as Independent Director since August 2001. He is the Chairman of Ruru Courier Systems, Inc. and Vice Chairman of Public Relations Counsellors Foundation of the Philippines, Inc. He is concurrently an Independent Director of Emperador Inc., Empire East Land Holdings, Inc., and Suntrust Home Developers, Inc. He is also Director of First Capital Condominium Corporation, a non-stock non-profit corporation. He is a professional consultant who has more than twenty years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse (BOT program, a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, summa cum laude. He has a master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

CORPORATE GOVERNANCE

In 2002, the Company adopted a Manual on Corporate Governance in order to institutionalize the rules and principles of good corporate governance in the entire organization in accordance with the Code of Corporate Governance promulgated by SEC. A Revised Manual was adopted by the Company on July 30, 2014 pursuant to SEC Memorandum Circular No. 6, Series of 2009, as further amended by SEC Memorandum Circular No. 9, Series of 2014.

Audit Committee
The Company's Audit Committee is responsible for ensuring that all financial reports comply with internal financial management and accounting standards, performing oversight financial management functions, pre-approving all audit plans, scope and frequency and performing direct interface functions with internal and external auditors. This Committee has three members, two of whom are independent directors. An independent director serves as the head of the committee.

Compensation and Remuneration Committee
The Company's Compensation and Remuneration Committee is responsible for establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, as well as providing oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Company's culture, strategy and control environment. This Committee consists of three members, including at least one independent director.

Nomination Committee
The Company's Nomination Committee pre-screens and shortlists all candidates nominated to become a member of the Board of Directors in accordance with qualifications prescribed by law and the Company's Manual of Corporate Governance. This Committee has three voting members, including at least one independent director.

Compliance
In 2014, the directors of the Company were required to take a Corporate Governance Orientation course and are encouraged to undergo further training in corporate governance.

The Company likewise complies with its Manual on Corporate Governance requirement that it rotate its external auditor or change the handling partner every five (5) years or earlier.

Evaluation System
The Company has designated a Compliance Officer who is tasked with monitoring compliance with the provisions of its Manual of Corporate Governance. The Compliance Officer, who is directly reporting to the Chairman of the Board, has established an evaluation system to measure or determine the level of compliance by the Company with its Manual. A Self-Rating System on Corporate Governance was implemented and submitted to SEC and PSE in July 2003.

Deviations from Manual and Sanctions Imposed
In 2014, the Company substantially complied with its Manual of Corporate Governance and did not materially deviate from its provisions. No sanctions have been imposed on any director, officer or employee on account of non-compliance.

Plan to Improve Corporate Governance
Pursuant to SEC Memorandum Circular No. 6, Series of 2009 and as amended by SEC Memorandum Circular No. 9, Series of 2014, the Company has revised its Manual of Corporate Governance to make its provision complaint with the Revised Code of Corporate Governance.

Among the measures undertaken by the Company in order to fully comply with the provisions of the leading practices on good corporate governance adopted in its Manual on Corporate Governance are monitoring and evaluation of the internal control system for corporate governance. The Company likewise maintains an active website where its Annual Reports, Quarterly Reports, Financial Statements and other disclosures are uploaded for easy access and reference by the investing public. The Company is committed to good corporate governance and continues to improve and enhance the evaluation system for purposes of determining the level of compliance by the Company with its Manual on Corporate Governance.

MANAGEMENT'S DICUSSION AND ANALYSIS

a. Key Performance Indicators

Presented below are the top five (5) key performance indicators of the Company and subsidiaries:

				Growth	
In Million Pesos	2014	2013	2012	*2014*	*2013*
REVENUES[1]	**125,405**	**123,379**	**102,134**	1.6%	20.8%
Non-recurring Gain	525	3,669			
Before Non-recurring Gain	124,880	119,710	102,134	4.3%	17.2%
NET PROFIT[1]	**21,110**	**23,055**	**20,494**	-8.4%	12.5%
Non-recurring Gain	215	3,653			
Before Non-recurring Gain	20,895	19,402	20,494	7.7%	-5.3%
NET PROFIT TO OWNERS OF AGI[1]	**13,246**	**17,218**	**13,910**	-23.1%	23.8%
Non-recurring Gain	215	3,653			
Before Non-recurring Gain	13,031	13,565	13,910	-3.9%	-2.5%
TOTAL ASSETS	409,619	332,400	272,211	23.2%	22.1%
CURRENT ASSETS	220,869	197,690	152,316	11.7%	29.8%
CURRENT LIABILITIES	92,541	50,585	45,196	82.9%	11.9%
Net profit rate	16.8%	18.7%	20.1%		
Recurring NP rate	16.7%	16.2%			
NP Attributable to parent	10.6%	14.0%	13.6%		
Recurring NP attributable to parent	10.4%	11.3%			
Return on investment/assets	5.2%	6.9%	7.5%		
Current ratio	2.39x	3.91x	3.37x		
Quick ratio	1.40x	2.62x	2.15x		

[1]Non-recurring gains in 2013 refer to the P764 million gain from acquisition of a realty corporation by MEG and the P2,905 million income realized by AGI from the offering of EMP shares, or P2,889 million net of P16 million stock transaction tax. In 2014, these refer to P520.2 million gain from acquisition and deconsolidation of subsidiaries of MEG and P4.6 million from acquisitions of GADC, with P310.0 million one-time expenses on acquisition by EMP.

- o Revenue growth – measures the percentage change in revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- o Net profit growth – measures the percentage change in net profit over a designated period of time.
- o Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs.
- o Return on asset investment [or capital employed]– the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income.
- o Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash,marketable securities, accounts receivables] is divided by current liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

b. Discussion And Analysis Of Operation

The following discussion and analysis must be read in conjunction with the submitted audited consolidated financial statements and the related notes thereto.

b.1. Results Of Operations

By Subsidiary groups:

	MEG	EMP	RWM	GADC	GERI	Others	TOTAL
2014							
Revenues	53,029	31,950	31,713	18,748			
Interco	-12,213	0	-41	0			
Consolidated	**40,816**	**31,950**	**31,672**	**18,748**		**2,219**	**125,405**
% contribution	32.5%	25.5%	25.3%	14.9%		1.8%	100.0%
Costs and expenses	28,354	23,842	26,192	17,640			
Interco	-9	-18	-81	0			
Consolidated	**28,345**	**23,824**	**26,111**	**17,640**		**2,849**	**98,769**
Net profit	21,555	6,204	5,445	798			
Interco	-12,205	18	40	0			
Consolidated	**9,350**	**6,222**	**5,485**	**798**		**-745**	**21,110**
% contribution	44.3%	29.5%	26.0%	3.8%		-3.5%	100.0%
Net profit to owners	**5,941**	**5,072**	**2,596**	**389**		**-752**	**13,246,**
% contribution	44.9%	38.3%	19.6%	2.9%		-5.7%	100.0%
2013							
Revenues	35,348	29,865	32,913	15,977	1,759		
Interco	-230	0	0	0	0		
Consolidated	**35,118**	**29,865**	**32,913**	**15,977**	**1,759**	**7,747**	**123,379**
% contribution	28.5%	24.2%	26.7%	12.9%	1.4%	6.3%	100%
Costs and expenses	23,748	21,960	30,107	14,744	1,305		
Interco	412	-17	-33	0	-14		
Consolidated	**24,160**	**21,943**	**30,074**	**14,744**	**1,291**	**2,755**	**94,967**
Net profit	9,035	5,831	2,740	788	341		
Interco	-649	16	33	0	14		
Consolidated	**8,386**	**5,847**	**2,773**	**788**	**355**	**4,906**	**23,055**
% contribution	36.4%	25.4%	12.0%	3.4%	1.5%	21.3%	100%
Net profit to owners	**5,254**	**5,271**	**1,178**	**387**	**224**	**4,904**	**17,218**
% contribution	30.5%	30.6%	6.8%	2.3%	1.3%	28.5%	100%

~Forward~

	MEG	EMP	RWM	GADC	GERI	Others	TOTAL
2012							
Revenues	30,551	23,594	31,850	13,924	1,384		
Interco	-3,012	0	0	0	0		
Consolidated	**27,539**	**23,594**	**31,850**	**13,924**	**1,384**	**3,843**	**102,134**
% contribution	27.0%	23.1%	31.2%	13.6%	1.4%	3.7%	100%
Costs and expenses	20,887	16,765	25,047	12,899	1,066		
Interco	-2,105	-13	-103	0	0		
Consolidated	**18,782**	**16,752**	**24,944**	**12,899**	**1,066**	**2,574**	**77,017**
Net profit	7,412	5,000	6,734	694	264		
Interco	-908	13	103	0	0		
Consolidated	**6,504**	**5,013**	**6,837**	**694**	**264**	**1,182**	**20,494**
% contribution	31.7%	24.5%	33.4%	3.4%	1.3%	5.7%	100%
Net profit to owners	**3,722**	**5,013**	**3,470**	**336**	**188**	**1,181**	**13,910**
% contribution	26.8%	36.0%	25.0%	2.4%	1.3%	8.5%	100%
Year-on-year Change							
2014							
Revenues	16.2%	7.0%	-3.8%	17.3%		-71.4%	1.6%
Costs and expenses	17.3%	8.6%	-13.2%	19.6%		3.4%	4.0%
Net profit	11.5%	6.4%	97.8%	1.2%		115.2%	-8.4%
Net profit to owners	13.1%	-3.8%	120.4%	0.6%		-115.3%	-23.1%
2013							
Revenues	27.5%	26.6%	3.3%	14.7%	27.1%	101.6%	20.8%
Costs and expenses	28.6%	31.0%	20.6%	14.3%	21.1%	7.0%	23.3%
Net profit	28.9%	16.6%	-59.5%	13.5%	34.5%	315.1%	12.5%
Net profit to owners	41.2%	5.2%	-66.1%	15.2%	19.1%	315.2%	23.8%

Amounts are in million Pesos. Numbers may not add up due to rounding off. The above follows grouping of accounts at AGI consolidated level, so revenues may not tally the totals separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs at AGI consolidated level.
GERI was deconsolidated in 2014 at AGI level as it is now consolidated under MEG group.

These strong performances are reflected in the profit and loss accounts, as follows:

	2014	2013	2012	2014 Vs 2013	2013 Vs 2012
REVENUES					
Sale of goods	62,036	56,519	44,083	9.8%	28.2%
Consumer goods	32,529	29,588	23,703	9.9%	24.8%
Revenues from real estate (RE) sales	29,507	26,931	20,380	9.6%	32.1%
RE sales	24,607	22,159	16,757	11.0%	32.2%
Realized gross profit on RE sales	3,229	3,235	2,295	-0.2%	40.9%
Interest income on RE sales	1,671	1,537	1,328	8.7%	15.8%
Rendering of services	58,559	56,687	50,523	3.3%	12.2%
Gaming	28,377	30,004	28,058	-5.4%	6.9%
Sales by company-operated quick-service restaurants	16,921	14,554	12,622	16.3%	15.3%
Franchise revenues	1,496	1,256	1,033	19.1%	21.5%
Rental income	7,463	6,396	5,351	16.7%	19.5%
Hotel operations	2,987	3,284	2,732	-9.0%	20.2%
Other services	1,315	1,193	727	10.2%	64.2%
Share in net profits of associates and joint ventures	123	0	118	n/m	n/m
Finance and other income	4,687	10,173	7,410	-53.9%	37.3%
TOTAL	125,405	123,379	102,134	1.6%	20.8%
COSTS AND EXPENSES					
Cost of goods sold	40,277	37,597	28,341	7.1%	32.7%
Consumer goods sold	21,375	20,136	15,214	6.2%	32.4%
RE sales	14,364	13,015	9,655	10.4%	34.8%
Deferred gross profit on RE sales	4,538	4,446	3,472	2.1%	28.1%
Cost of services	28,095	27,337	22,652	2.8%	20.7%
Gaming-license fees, promo allowances	8,706	9,040	7,873	-3.7%	14.8%
Services	19,389	18,297	14,779	6.0%	23.8%
Other operating expenses	25,942	25,011	21,772	3.7%	14.9%
Selling and marketing	12,498	13,163	11,449	-5.1%	15.0%
General and administrative	13,443	11,848	10,323	13.5%	14.8%
Share in net losses of associates and joint ventures – net	0	14	0	n/m	n/m
Finance costs and other charges	4,456	5,009	4,252	-11.0%	17.8%
TOTAL	98,769	94,967	77,017	4.0%	23.3%

Amounts in million pesos; numbers may not add up due to rounding off.
n/m-not meaningful.

For the Year Ended December 31, 2014 vs. 2013

The year 2014 was a year of expansion and realignments for the Group, activities which have started in 2013. From these transactions, the Group realized P525 million and P3,669 million gains in revenues in 2014 and 2013, respectively, which correspondingly beefed up net profit by P215 million and P3,653 million in the said years. Without these non-recurring items, net profit climbed 7.7% to P20.9 billion from P19.4 billion a year ago as all subsidiary groups registered commanding results from their core businesses.

Megaworld's performance is driven by both real estate sales and rental income, as the group realized 11.0% and 17.1% respective growth in these accounts from a year ago. During the year, Megaworld brought into its fold new subsidiaries, which included GERI (it acquired from AGI), mostly because of the properties these companies own, and deconsolidated one which became an associate. The Group launched five townships during the year, namely, Woodside City in Pasig City (12.3ha), Alabang West in Las Pinas City (62ha), Suntrust Ecotown in Cavite (350ha), Southwoods City in the boundaries of Cavite and Laguna (561ha) and Davao Park District in Davao City (11ha), or a total of about 1,000ha of land. The Group has completed 16 residential projects and 5 BPO office towers with retail components during the year. Gross leasable area at end-2014 totaled 621,000sqm and 240,000sqm for office and commercial spaces, respectively. The group ended the year with P9.4 billion net profit before one-time gains, up 13.6% from a year ago. The group turned in 32% and 44% of AGI's consolidated revenues and net profit, respectively.

Emperador's offshore expansion augmented its already formidable homegrown base. With the inclusion of two-month results from Whyte and Mackay and the share in net profit of Bodegas Las Copas, the group's revenues and net profit climbed 7.0% and 6.4%, respectively, with product sales growing by 10.0%. Brandy sales maintained its record-breaking volume from a year ago; its costs during the year improved by about 10.0% due to cost efficiencies attributed substantially to the good retrieval of recycled bottles. Meanwhile, about P310 million were expensed during the year in connection with the acquisition of Whyte and Mackay. Excluding these one-time expenses, net profit increased by 11.7%. Even with such expenditures tucked in, the group contributed 26% and 30% of AGI's consolidated revenues and net profit, respectively.

Travellers doubled its net profit to P5.5 billion on revenues of P31.7 billion and P26.2 billion costs and expenses. There were 296 gaming tables, 1,868 slot machines and 210 ETG machines deployed on the average. Travellers focused on growing core customer base, which resulted in 5.1% rise in drops volume for the mass segment and 7.4% contraction for the VIP segment. There was also deliberate move in holding less tournaments during the year. All hotels registered higher occupancy rates of 83%-91% as compared to 65%-81% a year ago but complimentary and promo rooms accounted for more than 50% of occupancy during the year as compared to less than 50% a year ago. While revenues declined, belt-tightening on costs and expenses gave good results. The group accounted for 25% and 26% of AGI's consolidated revenues and net profit, respectively.

GADC's total revenues grew by 17.3% primarily due to the opening of 53 (37 in 2013) new restaurants (QSRs), reimaging of 35 (36 in 2013) existing restaurants, expansion of business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of new products (BFF Mix Bundles, New Chicken McDo Plus Meals, Bacon Burgers), Limited Time Offer products (Shake Shake Fries, Twister Fries, Dessert Campaigns), product relaunch (Cheeseburger Deluxe and McSpicy Burgers) and aggressive advertising/ promotional campaigns to support Everyday McSavers (Float, Sundae and Fries), McSaver Meals, Desserts and Breakfast. Average sales per restaurant increased by 3%, with 2% growth in sales per company-owned restaurant and 5% for sales per franchised restaurant. Business extensions provided the biggest growth rate of 19%, with Drive-thru boosting total revenues by 11%. Value pricing strategy is adopted in order to drive more guest count and price adjustments are strategically implemented to mitigate the increase in cost of raw materials and to maintain the level of product quality. This is however outspaced by the increases in prices of imported raw materials and product mix shift and costs of utilities and crew labor. As a result, net profit increased by 1.2% year-on-year. GADC's results accounted for 15% and 4% of AGI's consolidated revenues and net profit, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues before the one-time gains**,** thus, as a result of the foregoing, grew by 4.3% year-on-year. With the one-time gains included, revenues went up by 1.6% from a year ago. Sale of goods increased by 9.8%, which is attributed to 9.9% and 11.0% growth in sale of consumer goods (distilled spirits, beverages and snacks) and real estate. Rendering of services (gaming, hotels, restaurants, rentals) expanded by 3.3%, which is attributed to 16.3%, 19.1% and 16.7% growths in revenues from company-operated QSRs, franchised QSRs and rentals of office and retail spaces which compensated for the 5 .4% dip in gaming and other service revenues at RWM.

Costs and expenses went up by 4.0% year-on-year. Costs of goods sold and services rendered expanded by 7.1% and 2.8%, respectively, as a result of revenue growth. Other operating expenses increased by 3.7% due to increases in salaries and employee benefits, taxes and licenses, royalties, professional fees and outside services which were countered by a sharp decline in advertising and promotions. These five accounts comprised 60.0% and 61.5% of other operating expenses in 2014 and 2013, respectively. The increase in professional fees and outside services is attributed to the one-time expenses incurred in the acquisition of Whyte and Mackay while the decrease in advertising and promotions is attributed to the contraction in RWM's general marketing expenditures.

Share in net profits of associates and joint ventures rebounded year-on-year due to take-up of share in net profit of associates and joint venture of MEG, EMP and GADC.

Finance and other income included one-time gains of P525 million in 2014 and P3.7 billion in 2013, from acquisitions and divestments. In 2014, these consisted of P520 million that Megaworld gained from several acquisitions and one divestment plus the P4.6 million that GADC gained from two such acquisitions. In 2013, Megaworld gained P764 million on acquisition of a subsidiary while AGI realized P2.9 billion on divestment of its interest on EMP through a share offering. Interest income slipped due to lower interest rates and reduced cash positions. Also, foreign currency gains reported a year ago were not replicated this year. All these combined caused finance and other income to dip by 53.9% year-on-year.

Finance costs and other charges decreased by 11.0% due to reversal in unrealized fair values of mark-to-market financial assets this year, which was reported at a loss in 2013.

Tax expense totaled P5.5 billion from P5.4 billion, up 3.2% from a year ago as a result of higher taxable income tax for Megaworld which is offset by lower income taxes of EMP and GADC.

Net profit attributable to owners tumbled 23.1%, or 3.9% before non-recurring gains, because of the dilution in EMP by about 7% due to the entry of Arran, a new minority investor.

For the Year Ended December 31, 2013 vs. 2012

Net profit for the year went up by 12.5% to P23.1 billion from P20.5 billion a year ago while the portion attributable to owners of the parent company grew by 23.8% to P17.2 billion from P13.9 billion a year ago, as driven by the strong revenues from all subsidiary groups.

Megaworld's performance is buoyed on its stronger residential sales and higher leasing income from its office and retail portfolio. It launched a total of 18 projects in 2013 – 10 for Megaworld (One Eastwood Avenue Tower 2 in Eastwood, Uptown Parksuites in Uptown Bonifacio, The Florence Tower 1 in McKinley Hill, Manhattan Plaza Tower 1 in Araneta Center, Bayshore Residential Resort Phase 2 in Pasay City, One Manchester Place Tower 1 in The Mactan Newtown Cebu, One Madison Place Tower 1,2,3 as well as commercial lots in Iloilo Business Park in Iloilo City), 5 for Empire East (San Lorenzo Place Tower 3 in Makati, Kasara Urban Residences Tower 3 and

The Rochester Tower 6 in Pasig City, and Cambridge Clusters 32, 33 in Pasig City and Cainta, Rizal) and 3 for Suntrust (Suntrust Kirana in Pasig City, Suntrust Rivabella and Suntrust Ecotown in Cavite). The group posted a record P68.2 billion in reservation sales in 2013 from the 18 projects launched. Real estate sales were reported 16.9% higher than a year ago while rental income from office developments and lifestyle malls were up 20.9% from a year ago. It also realized P763.8 million gain on acquisition of a wholly-owned subsidiary, Woodside Greentown Properties, Inc., in 2013. Further, its acquisition of cinema operations this year added P226 million in revenues.

Emperador' strong performance is anchored on its higher sales volume, with 33 million cases sold this year as compared to 31 million cases a year ago. Emperador also increased selling prices at the start of the year to cushion the effect of the new excise tax which took effect in January 2013. The introduction of Emperador Deluxe in March 2013 also contributed incremental revenues. Product sales were reportedly up 25.4% from a year ago.

Travellers reported gaming and non-gaming revenues (net of promotional allowances) up 5.0% from a year ago. It experienced a low VIP hold in the fourth quarter which dragged revenue. VIP volume showed strong growth year-on-year while mass volume held steady. Revenues from hotel, food and beverage reportedly improved by 17.0% as all hotels registered higher occupancy rates as the company made full use of the facilities to drive gaming patronage. Its total revenues and net profit, however, compressed as it recorded P2.0 billion finance costs including marked-to-market losses on foreign exchange related to its $300 million bond.

GADC's performance growth is primarily due to the opening of 37 new restaurants, reimaging of 36 existing restaurants, expansion of business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of a new product (McSpicy chicken burger and rice meal), and aggressive advertising/promotional campaigns to support Fries, Summer Desserts, McSavers (coffee and sundae), McDelivery, McSaver meals, and Breakfast. Average sales per restaurant grew by 5.8% for company-owned restaurants and by 4.8% for franchise and joint-venture restaurants while revenues from business extensions grew by 15.6%. Value pricing strategy is adopted in order to drive more guest count and price increases are strategically implemented to mitigate rising costs and to maintain the level of product quality.

GERI improved on its real estate sales and hotel operations by 32.3% and 151.9%, respectively. Real estate sales came from the sale of residential subdivision lots in Newcoast Shophouse District and Boutique Hotel in Malay, Aklan, Sta. Barbara Heights in Iloilo City, and Twin Lakes Domaine Le Jardin in Laurel, Batangas.

Revenues, thus, as a result of the foregoing, grew by 20.8% year-on-year. Sales of real estate and consumer goods (alcoholic beverages and snack products) leaped 32.2% and 24.8%, respectively, while gaming revenues increased by 6.9%. Sales from company-owned restaurants expanded by 15.3% while franchised revenues increased by 21.5%. Rental income went up by 19.5% from the additional office spaces and retail spaces of Megaworld, RWM and GERI. Other service revenues this year included hotel operations of these three groups which also grew by 20.2% because of increased patronages, plus the combined cinema operations which contributed P378 million to this year's total.

Pik-Nik also continued its sales growth with an increase of 7.8% year-on-year as it penetrated new territories in Puerto Rico, Panama, Uruguay and other Latin American countries plus new distributorship in the United Arab Emirates. Midwest USA remains the strongest market for stick potatoes in the USA.

Costs and expenses went up by 23.3% year-on-year. Costs of goods sold and services expanded by 32.7% and 20.7%, respectively, as a result of revenue growth. Other operating expenses went up by 14.9% due to increases in advertising and promotions, salaries and employee benefits, and depreciation and amortization which comprised 63.3% and 62.2% of other operating expenses in 2013 and 2012, respectively.

Share in net profits of associates and joint ventures reversed 1.1 times year-on-year due to losses reported by associates and joint ventures.

Finance and other income included the P2.9 billion gain realized by AGI on divestment of its interest on EMP through a share offering and the P764 million gain realized by MEG on acquisition of a subsidiary. Interest income, however, contracted by P823 million due to lower interest rates during the year.

Finance costs and other charges increased by 17.8% due to additional finance cost incurred by Megaworld on its 2013 bond issuance and by Travellers due to devaluation of Philippine peso. There is also a turnaround in unrealized fair values of mark-to-market financial assets this year, which is offset by the effect of foreign currency gains realized during the year.

Tax expense totaled P5.4 billion from P4.6 billion a year ago as a result of higher taxable income.

Financial Condition
December 31, 2014 vs 2013

Total assets amounted to P409.6 billion at end of the 2014 from P332.4 billion at beginning of year, up 23.2% primarily due to the assets consolidated from newly-acquired subsidiaries of Megaworld, Emperador and GADC. The Group is strongly liquid with **current assets** exceeding **current liabilities** 2.4times. Current assets amounted to P220.9 billion while current liabilities amounted to P92.5 billion at end of the current year.

For most of the balance sheet accounts, there is a corresponding note found in the audited consolidated financial statements where details, breakdown or composition of the accounts are presented. Please refer to those notes accompanying the consolidated financial statements. In summary:

Cash and cash equivalents dipped by P12.9 billion or 13.6% to end at P82.1 billion from P95.0 billion at the beginning of the year, primarily due to the business expansions and developments activities during the current year. Travellers made loan payments and development advances while Megaworld, Emperador and GADC had capital expenditures and business expansion activities. While Emperador's offshore expansion required huge cash outlay, such was partially replaced by the fresh investment put in by Arran in December. Cash flows from operating, financing and investing activities during the period were presented in the consolidated statements of cash flows.

Financial assets at fair value through profit or loss were reduced by 41.0% or P3.0 billion due to disposal of investments in marketable securities to fund expansion activities.

Current trade and other receivables rose up P12.6 billion or 42% primarily due to higher real estate sales, customer receivables in the UK subsidiary, and the additional advances paid by Megaworld, Travellers and Emperador to their suppliers and contractors in connection with the ongoing expansion works.

Noncurrent trade and other receivables went up by P4.3 billion or 17.5% due to higher real estate reservations/sales booked during the year.

Inventories swelled by P24.6 billion or 50% due primarily to additional real estate lots, condominium units and resort shares completed and put up for sale, and the whisky inventories of cased stock, maturing stock and other materials.

Available-for-sale financial assets were up by P1.2 billion or 25.5% from marketable securities acquired at Megaworld level. These are carried at market values and the gain on the appreciation in market prices is shown under Equity portion of the statement of financial position.

Investments in and advances to associates and other related parties surged by P3.1 billion or 60.0% due primarily to the acquisition of 50% equity in an Spanish joint venture by Emperador and the divestment of share in an associate by GERI while advances dropped by about 11.0% year-on-year.

Property, plant and equipment enlarged by P12.6 billion or 30.1% due to construction works at RWM and Emperador, capital expenditures at GADC, and properties of newly consolidated subsidiaries. Construction works at RWM which doubled from a year ago were for Phase 2 (expansion of Marriott Hotel and Marriott West Wing) and Phase 3 (extension of Maxims Hotel, new Hilton Hotel and Sheraton Hotel Manila) of RWM project. Added to the property portfolio are the five distillery plants in Scotland, vineyard land in Spain, and new distillery plant in progress in Batangas.

Investment property went up by P10.4 billion or 38.3% from completed constructions of leasable property and equipment of Megaworld group.

Intangible assets swelled 169.2% or P18.7 billion from trademarks, distribution rights and goodwill brought about by the acquisition of Whyte and Mackay.

Land for future development increased by 5.5% or P688 million due to land acquired during the year for real estate business.

Deferred tax assets were up 6.5% or P47million and **deferred tax liabilities** up 41.6% or P3.0 billion, due to timing differences at MEG, EMP, Travellers, FCI and GADC. A substantial portion of these liabilities were attributable to the UK group.

Other current assets escalated 34.2% or P1.4 billion due to prepayments (such as insurance, taxes, rentals, advertising, benefits, among others), input vat and deposits. **Other non-current assets** leaped 135.8% or P3.0 billion due to advances for future investment made by Travellers to PAGCOR, which included P0.6 billion upfront cash. Refundable deposits and deferred input vat increased as well from a year ago.

Trade and other payables went up by 51.6% or P12.8 billion as trade payables, accrued expenses, retentions, gaming license fees, withholding taxes and output vat payables increase. This is due to the aggressive real estate development, construction works at Travellers, and advances obtained and unpaid at yearend.

Current interest-bearing loans surged 602.4% or P22.9 billion while **non-current interest-bearing loans** decreased by 12.9% or P1.2 billion, for a net increase of P21.7 billion which is attributed to loans obtained during the year by Emperador, Megaworld and GADC for their acquisition and expansion activities. On the other hand, Travellers made loan settlements such that it has no more currently maturing loan payable while AGI pre-terminated its loan payable.

Income tax payable increased by 17.6% or P137 million due to higher taxable profit in the fourth quarter for MEG, EMP and GADC.

Advances from related parties rose up by 155.1% or P549 million which is attributed to advances obtained by Megaworld group.

Retirement benefit obligation climbed 91.6% or P1.3 billion which is attributed significantly to the additional incurrences for the plans of Megaworld and Emperador, which include the balance in Whyte and Mackay, which was consolidated at year-end.

Other current liabilities went up by 5.4% or P1.1 billion and **other non-current liabilities** rose 60.0% or P9.0 billion from increases in reserve for property development, customers' deposits, deferred income on real estate sales which are reflective of aggressive real estate development and pre-selling activities, and equity-linked debt securities which EMP issued to Arran for its debt investment in EMP. The reserve pertains to costs to complete the development of various projects while the deferred income represents unearned revenue.

The changes in **equity components** are presented in detail in the consolidated statements of changes in equity. The equity attributable to owners of AGI increased by P18.8 billion or 17.5% from net profit for the year and dilution gain on acquisitions of new or additional shares in subsidiaries. The equity attributable to non-controlling interest increased by P8.5 billion or 10.2% from net profit and minority in new subsidiaries.

b.2. Liquidity and Capital Resources

The consolidated balance sheets showed strong financial position and liquidity. Current assets as at December 31, 2014, 2013 and 2012 amounted to P220.87 billion, P197.7 billion and P152.3 billion, respectively, while current liabilities for the same respective years-end remained low at P92.5 billion, P50.6 billion and P45.2 billion, respectively. Thus, current ratios were at 2.4:1, 3.9:1, and 3.4:1 as at respective year-ends. Total-liabilities-to-equity ratios were at 0.9:1, 0.7:1, and 0.9:1 at the end of 2014, 2013 and 2012, respectively, while interest-bearing-debt-to-controlling-equity ratios were correspondingly at 0.76:1, 0.65:1, and 0.76:1.

The Group expects to meet its working capital and investment requirements for the ensuing year primarily from available funds, in addition to cash flows from operations. It may also from time to time seek other sources of funding, if necessary, which may include debt or equity financing, depending on its financing needs and market conditions.

Amounts in Million Pesos	December 31, 2014	December 31, 2013	December 31, 2012
Cash and equivalents	82,059	94,977	67,965
Interest-bearing debt –current	31,661	3,796	3,796
Interest-bearing debt –non-current*	64,980	65,708	60,285
Net cash (debt)	(14,582)	25,473	3,884
Cash and cash equivalents to interest-bearing debt	85%	137%	106%
Interest-bearing debt to total equity	44%	36%	45%

*Include Equity-linked debt securities which is presented under Other non-current liabilities.

b.3. Prospects for the future

AGI has a proven track record of creating value over time and is confident in its ability to deliver sustainable profitable growth and value for its stakeholders. AGI remains vigilant on delivering its business goals and intends to continue to adopt prudent measures to ensure financial sustainability. It is always on the lookout for new opportunities that will enhance the overall profitability of the group while maintaining established markets.

In 2015, all the business segments are expected to sustain their growth trajectory, capitalizing on the strong and positive economy.

b.4. Others

There are no other known material events subsequent to the end of the year that would have a material impact on the current year.

There are no other known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way. The Group does not have nor anticipate having any cash flow or liquidity problems within the next twelve months. AGI and its subsidiaries are not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no other known events that will trigger direct or contingent financial obligation that is currently considered material to the Group, including any default or acceleration of an obligation.

There are no other material off-balance sheet transactions, arrangements, obligations, and other relationships with unconsolidated entities or other persons created during the reporting period.

There are no other known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. There are also no known events that will cause material change in the relationship between costs and revenues.

There are no other significant elements of income or loss that did not arise from continuing operations.

There were no other material issuances, repurchases or repayments of debt and equity securities.

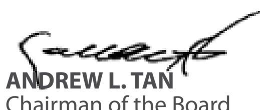
The business has no seasonal aspects that had a material effect on the financial condition and results ofoperations of the Group.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of *Alliance Global Group, Inc.* is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements, including the additional components attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.



ANDREW L. TAN
Chairman of the Board

KINGSON U. SIAN
President

DINA D.R. INTING
First Vice President for Finance
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this April 23, 2015, affiants exhibiting to me their Passport/SSS No., as follows:

Names	PassportNo./SSS No.	Date	Place of Issue
Andrew L. Tan	EB1964603	February 23, 2011 to 2016	Manila
Kingson U. Sian	EB7369260	February 12, 2013 to 2018	Manila
Dina D.R. Inting	SSS 03-5204775-3		

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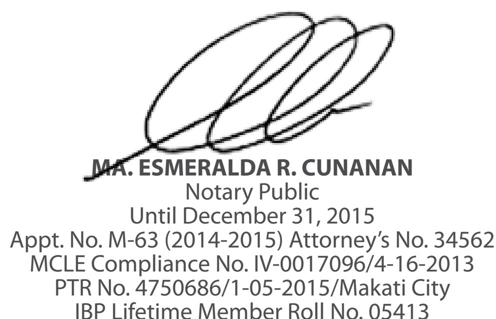
Book No. XIII
Series of 2015



MA. ESMERALDA R. CUNANAN
Notary Public
Until December 31, 2015
Appt. No. M-63 (2014-2015) Attorney's No. 34562
MCLE Compliance No. IV-0017096/4-16-2013
PTR No. 4750686/1-05-2015/Makati City
IBP Lifetime Member Roll No. 05413

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders
Alliance Global Group, Inc. and Subsidiaries
7th Floor, 1880 Eastwood Avenue
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

We have audited the accompanying consolidated financial statements of Alliance Global Group, Inc. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alliance Global Group, Inc. and subsidiaries as at December 31, 2014 and 2013, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Mailene Sigue-Bisnar
Partner

CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 4748310, January 5, 2015, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug. 8, 2015)
Firm - No. 0002-FR-3 (until Apr. 30, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 14, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	P 82,058,836,647	P 94,977,525,445
Trade and other receivables - net	6	42,708,285,496	30,074,787,370
Financial assets at fair value through profit or loss	7	4,351,221,441	7,375,742,967
Inventories - net	8	73,706,121,918	49,075,369,433
Property development costs	2	12,390,474,097	11,974,519,471
Other current assets	9	5,653,565,184	4,212,007,912
Total Current Assets		220,868,504,783	197,689,952,598
NON-CURRENT ASSETS			
Trade and other receivables - net	6	28,914,555,021	24,609,462,917
Advances to landowners and joint ventures	10	4,823,705,981	4,787,412,854
Available-for-sale financial assets	11	5,972,087,128	4,758,892,191
Land for future development	2	13,212,623,684	12,524,387,842
Investments in and advances to associates and other related parties	12	8,157,122,260	5,099,102,903
Property, plant and equipment - net	13	54,218,737,647	41,661,804,726
Investment property - net	14	37,742,292,122	27,290,428,438
Intangible assets - net	15	29,744,925,357	11,049,976,130
Deferred tax assets	28	775,835,966	728,559,662
Other non-current assets	9	5,188,534,145	2,200,429,265
Total Non-current Assets		188,750,419,311	134,710,456,928
TOTAL ASSETS		P 409,618,924,094	P 332,400,409,526
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	16	P 37,631,587,475	P 24,830,784,627
Interest-bearing loans	17	26,660,576,448	3,795,792,269
Bonds payable	18	5,000,000,000	-
Income tax payable		916,910,601	779,445,751
Other current liabilities	20	22,331,619,569	21,178,560,896
Total Current Liabilities		92,540,694,093	50,584,583,543
NON-CURRENT LIABILITIES			
Interest-bearing loans	17	8,038,681,649	9,228,584,192
Bonds payable	18	51,687,525,333	56,479,746,306
Advances from related parties	29	903,152,243	354,107,249
Retirement benefit obligation	27	2,736,675,951	1,428,092,675
Redeemable preferred shares	19	1,854,419,622	1,786,120,902
Deferred tax liabilities - net	28	10,259,066,064	7,242,479,378
Other non-current liabilities	20	24,115,293,267	15,075,049,649
Total Non-current Liabilities		99,594,814,129	91,594,180,351
Total Liabilities		192,135,508,222	142,178,763,894
EQUITY			
Equity attributable to owners of the parent company	21	126,497,113,102	107,692,727,038
Non-controlling interest		90,986,302,770	82,528,918,594
Total Equity		217,483,415,872	190,221,645,632
TOTAL LIABILITIES AND EQUITY		P 409,618,924,094	P 332,400,409,526

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012
(Amounts in Philippine Pesos)

	Notes	2014	2013	2012
REVENUES				
Sale of goods	23	P **62,035,977,237**	P 56,518,969,704	P 44,082,631,026
Rendering of services	23	**58,558,856,300**	56,686,982,449	50,522,901,266
Share in net profits of associates and joint ventures - net	12	**122,737,983**	-	118,461,046
Finance and other income	26	**4,687,588,254**	10,173,373,850	7,409,979,346
		125,405,159,774	123,379,326,003	102,133,972,684
COSTS AND EXPENSES				
Cost of goods sold	24	**40,276,896,555**	37,597,032,036	28,341,151,467
Cost of services	24	**28,094,670,463**	27,336,872,088	22,652,109,438
Other operating expenses	25	**25,941,548,864**	25,010,802,514	21,771,795,107
Share in net losses of associates and joint ventures - net	12	-	13,602,687	-
Finance costs and other charges	26	**4,455,909,712**	5,008,779,695	4,251,781,543
		98,769,025,594	94,967,089,020	77,016,837,555
PROFIT BEFORE TAX		**26,636,134,180**	28,412,236,983	25,117,135,129
TAX EXPENSE	28	**5,526,445,051**	5,356,757,097	4,623,478,952
NET PROFIT		**21,109,689,129**	23,055,479,886	20,493,656,177
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains (losses) on remeasurement of retirement benefit obligation		**(403,052,742)**	27,752,419	(41,307,696)
Tax income (expense)	28	**83,482,783**	(6,932,192)	12,392,308
		(319,569,959)	20,820,227	(28,915,388)
Items that will be reclassified subsequently to profit or loss				
Net unrealized fair value gains (losses) on available-for-sale financial assets	11	**620,309,706**	(146,071,389)	608,331,390
Translation adjustments	2	**(819,063,669)**	14,675,041	(581,994,181)
Share in other comprehensive income of associates and joint ventures	12	-	4,714,129	1,092,535
Addition in revaluation reserves due to available-for-sale financial assets of a consolidated subsidiary		-	-	15,916,350
Increase (decrease) in revaluation reserves due to available-for-sale financial assets sold by subsidiaries		**(214,810,937)**	(682,818)	152,322,657
Deferred tax income (expense) relating to components of other comprehensive income	28	**30,684,518**	(15,271,852)	70,795,068
		(382,880,382)	(142,636,889)	266,463,819
TOTAL COMPREHENSIVE INCOME		P **20,407,238,788**	P 22,933,663,224	P 20,731,204,608
Net profit attributable to:				
Owners of the parent company		P **13,246,243,353**	P 17,218,460,867	P 13,909,991,638
Non-controlling interest		**7,863,445,776**	5,837,019,019	6,583,664,539
		P **21,109,689,129**	P 23,055,479,886	P 20,493,656,177
Total comprehensive income attributable to:				
Owners of the parent company		P **12,497,528,540**	P 17,121,679,879	P 14,148,094,589
Non-controlling interest		**7,909,710,248**	5,811,983,345	6,583,110,019
		P **20,407,238,788**	P 22,933,663,224	P 20,731,204,608
Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company:	22			
Basic		P **1.3065**	P 1.7031	P 1.3760
Diluted		P **1.2999**	P 1.6954	P 1.3751

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012
(Amounts in Philippine Pesos)

	Notes	2014	2013	2012
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY				
Capital Stock	21	**P 10,269,827,979**	P 10,269,827,979	P 10,269,827,979
Additional Paid-in Capital	2			
Balance at beginning of year		**33,611,840,432**	33,501,908,751	33,501,908,751
Sale of treasury shares		**783,540,547**	109,931,681	-
Balance at end of year		**34,395,380,979**	33,611,840,432	33,501,908,751
Treasury Shares - at cost	21			
Balance at beginning of year		**(955,217,410)**	(984,512,637)	(1,018,752,369)
Sale of treasury shares		**19,060,336**	29,295,227	-
Reduction representing the shares held by a consolidated subsidiary		**-**	-	34,239,732
Balance at end of year		**(936,157,074)**	(955,217,410)	(984,512,637)
Net Actuarial Gains (Losses) on Retirement Benefit Plan				
Balance at beginning of year		**(207,484,076)**	(240,822,140)	(215,576,680)
Actuarial gains (losses) for the year, net of tax		**(319,569,959)**	33,338,064	(28,360,874)
Additions due to consolidation of new subsidiary		**4,006,419**	-	-
Recognition of actuarial losses previously recognized in retained earnings, net of tax		**-**	-	3,115,414
Balance at end of year		**(523,047,616)**	(207,484,076)	(240,822,140)
Net Unrealized Gains (Losses) on Available-for-Sale Financial Assets				
Balance at beginning of year		**(906,447,446)**	(764,407,369)	(1,542,070,301)
Net unrealized fair value gains (losses) on available-for-sale financial assets	11	**620,305,626**	(146,071,389)	608,331,390
Increase (decrease) in revaluation reserves due to available-for-sale financial assets sold by subsidiaries		**(214,810,937)**	(682,818)	168,239,007
Share in other comprehensive income of associates and joint venture	12	**-**	4,714,130	1,092,535
Derecognition of share in other comprehensive income of associates		**(6,159,298)**	-	-
Balance at end of year		**(507,112,055)**	(906,447,446)	(764,407,369)
Accumulated Translation Adjustments	2			
Balance at beginning of year		**(903,939,309)**	(903,342,498)	(392,143,385)
Currency translation adjustments during the year, net of tax		**(788,375,071)**	(596,811)	(511,199,113)
Balance at end of year		**(1,692,314,380)**	(903,939,309)	(903,342,498)
Balance carried forward		**P 41,006,577,833**	P 40,908,580,170	P 40,878,652,086

	Note	2014	2013	2012
Balance brought forward		**P 41,006,577,833**	P 40,908,580,170	P 40,878,652,086
Dilution Gain	21			
Balance at beginning of year		**10,974,217,660**	1,277,846,433	1,289,847,712
Dilution gain (loss) recognized during the year		**9,006,185,024**	9,696,371,227	(12,001,279)
Balance at end of year		**19,980,402,684**	10,974,217,660	1,277,846,433
Share Options	21			
Balance at beginning of year		**264,469,448**	107,652,616	1,890,149
Share-based compensation expense recognized during the year		**313,343,832**	156,816,832	105,762,467
Balance at end of year		**577,813,280**	264,469,448	107,652,616
Retained Earnings				
Appropriated				
Balance at beginning of year		**2,145,000,000**	1,400,000,000	300,000,000
Appropriation during the year	21	**1,225,000,000**	2,145,000,000	1,400,000,000
Reversal of appropriation during the year	21	**(2,145,000,000)**	(1,400,000,000)	(300,000,000)
Balance at end of year		**1,225,000,000**	2,145,000,000	1,400,000,000
Unappropriated				
Balance at beginning of year		**53,400,459,760**	40,244,157,373	31,073,589,543
Cash dividends declared during the year	21	**(3,855,808,236)**	(3,841,614,020)	(3,639,423,808)
Net profit for the year		**13,246,243,353**	17,218,460,867	13,909,991,638
Effect of change in percentage ownership		**(3,575,572)**	524,455,540	-
Appropriation during the year	21	**(1,225,000,000)**	(2,145,000,000)	(1,400,000,000)
Reversal of appropriation during the year	21	**2,145,000,000**	1,400,000,000	300,000,000
Balance at end of year		**63,707,319,305**	53,400,459,760	40,244,157,373
Total Retained Earnings		**64,932,319,305**	55,545,459,760	41,644,157,373
Total		**126,497,113,102**	107,692,727,038	83,908,308,508
NON-CONTROLLING INTEREST				
Balance at beginning of year		**82,528,918,594**	59,847,731,853	52,512,979,650
Non-controlling interest in additional investments		**2,026,766,246**	20,234,493,741	1,112,716,720
Share in consolidated comprehensive income		**7,909,710,248**	5,811,983,345	6,583,110,019
Dividend from investee		**(1,479,092,318)**	(3,365,290,345)	(361,074,536)
Balance at end of year		**90,986,302,770**	82,528,918,594	59,847,731,853
TOTAL EQUITY		**P 217,483,415,872**	P 190,221,645,632	P 143,756,040,361

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012
(Amounts in Philippine Pesos)

	Notes	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 26,636,134,180	P 28,412,236,983	P 25,117,135,129
Adjustments for:				
Depreciation and amortization	24, 25	4,293,318,046	4,319,478,840	3,537,287,488
Interest expense	26	4,281,446,845	4,285,500,975	3,751,269,989
Interest income	26	(2,589,097,758)	(3,099,675,804)	(3,922,992,079)
Income from acquisition and deconsolidation of subsidiaries	26	(524,766,704)	(763,834,597)	-
Stock option benefit expense	27	313,343,832	156,816,832	105,762,467
Impairment and other losses	6, 8, 25	287,425,470	8,011,392	87,978,652
Share in net losses (profits) of associates and joint ventures	12	(122,737,983)	13,602,687	(118,461,046)
Gain on reversal of liability	26	(121,428,571)	(160,666,483)	-
Loss (gain) on disposal of property, plant and equipment, investment property and intangible assets		(69,298,776)	37,781,242	17,061,461
Unrealized foreign currency losses (gains)		57,235,428	795,207,832	(931,404,433)
Gain on sale of investment in available-for-sale financial assets	26	(41,859,502)	(128,177,128)	(272,103,283)
Unrealized loss on interest rate swap	26	36,405,850	112,842,001	368,646,466
Dividend income	26	(20,278,117)	(14,178,074)	(10,515,804)
Preacquisition income	26	(9,150,638)	6,315,710)	-
Fair value losses (gains) - net	26	(8,363,512)	429,371,099	(1,433,951,500)
Gain on reversal of impairment loss of property and equipment	13	-	(18,616,806)	-
Gain on divestment of interest in a subsidiary	26	-	(2,905,304,542)	-
Operating income before working capital changes		32,398,328,090	31,474,080,739	26,295,713,507
Decrease (increase) in trade and other receivables		(13,540,274,090)	(7,644,846,317)	1,386,106,750
Decrease (increase) in financial assets at fair value through profit or loss		2,889,305,941	(2,151,807,864)	5,868,022,905
Increase in inventories		(13,207,753,710)	(6,544,122,145)	(11,851,290,019)
Decrease (increase) in property development costs		(1,950,203,880)	(1,524,928,568)	134,546,223
Increase in other current assets		(1,721,938,963)	(515,868,047)	(474,121,923)
Increase in trade and other payables		10,623,483,673	381,820,259	1,759,806,831
Increase in other current liabilities		1,114,963,317	3,984,087,152	957,885,382
Increase in retirement benefit obligation		205,550,332	252,951,839	253,724,563
Increase (decrease) in other non-current liabilities		8,598,925,379	1,418,478,507	(4,312,782,895)
Cash generated from operations		25,410,386,089	19,129,845,555	20,017,611,324
Cash paid for taxes		(4,283,611,063)	(5,133,836,925)	(3,867,431,339)
Net Cash From Operating Activities		21,126,775,026	13,996,008,630	16,150,179,985
Balance carried forward		P 21,126,775,026	P 13,996,008,630	P 16,150,179,985

	Notes	2014	2013	2012
Balance brought forward		P 21,126,775,026	P 13,996,008,630	P 16,150,179,985
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Shares of stock of subsidiary and associates	12	(25,804,429,496)	(4,963,837,458)	(1,046,175,670)
Investment property	14	(8,727,663,262)	(8,717,447,629)	(4,965,225,000)
Property, plant and equipment	13	(9,891,036,964)	(10,085,811,085)	(8,385,882,540)
Other non-current assets		(2,908,143,881)	(185,433,990)	(321,797,031)
Available-for-sale financial assets	11	(1,687,722,424)	(676,652,582)	(28,180,480)
Intangible assets	15	(1,158,446,571)	(16,153,915)	-
Land for future development	2	(4,097,181,884)	(1,884,635,990)	(67,767,847)
Proceeds from:				
Sale of available-for-sale financial assets		1,553,703,097	1,181,312,255	1,071,492,234
Collections of advances from associates and other related parties	12	1,258,582,989	58,995,675	284,441,050
Disposal of property, plant and equipment		937,649,618	302,249,551	45,496,000
Disposal of investment property		455,094,610	763,937,936	34,057,859
Disposal of intangible assets		1,219,545	-	102,672
Collections from landowners and joint ventures		-	61,781,123	27,273,705
Interest received		2,460,586,253	2,965,071,202	3,850,837,500
Additional advances granted to associates and other related parties		(996,006,650)	(903,799,948)	-
Cash dividends received		20,278,117	14,178,074	10,515,804
Net Cash Used in Investing Activities		(48,583,516,903)	(22,086,246,781)	(9,490,811,744)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Interest-bearing loans and bonds		26,897,068,225	10,489,117,497	3,730,000,000
Issuance of Equity-linked debt securities		5,253,600,000	-	-
Sale of treasury shares		802,600,883	139,226,908	-
Issuance of shares of subsidiaries		-	36,225,725,199	-
Payment of interest-bearing loans		(9,632,098,450)	(5,066,372,454)	(1,846,231,922)
Interest paid		(4,409,911,861)	(2,822,046,298)	(4,832,441,604)
Dividends paid	21	(3,855,808,236)	(3,841,614,020)	(3,639,423,808)
Advances granted and paid to related parties	29	(2,362,902,237)	(1,239,356,652)	(365,112,518)
Advances collected and received from related parties	29	1,617,259,882	1,101,348,707	1,010,001,151
Payment of derivative liability		(318,270,188)	-	(206,587,264)
Net Cash From (Used in) Financing Activities		13,991,538,018	34,986,028,887	(6,149,795,965)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(13,465,203,859)	26,895,790,736	509,572,276
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		94,977,525,445	67,965,116,707	49,147,857,784
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARIES		387,730,871	117,016,208	18,307,686,647
PREACQUISITION CHANGES IN CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		158,784,190	(398,206)	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 82,058,836,647	P 94,977,525,445	P 67,965,116,707

Supplemental Information on Non-cash Investing and Financing Activities:

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate and other assets. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Property as the property goes through its various stages of development, and acquisitions of various Property, Plant and Equipment on account.

See Notes to Consolidated Financial Statements.

1. CORPORATE INFORMATION

Alliance Global Group, Inc. (the Company, Parent Company, or AGI) was registered with the Philippine Securities and Exchange Commission (SEC) on October 12, 1993 and began operations in 1994 as a glass-container manufacturer. On March 12, 1999, it obtained approval from the SEC to broaden its primary business into that of a holding company. Given a wider scope of business, AGI immediately diversified its investment holdings and on April 19, 1999, AGI listed its shares in the Philippine Stock Exchange (PSE). Currently, the Company and its subsidiaries and associates (collectively referred to as the Group) operate businesses in real estate development, tourism-entertainment and gaming, food and beverage, and quick service restaurant under the following entities (see Notes 4 and 12):

Subsidiaries/Associates/ Jointly Controlled Entities	Short Name	Notes	Percentage of Effective Ownership of AGI 2014	2013	2012
Subsidiaries					
Megaworld and subsidiaries					
Megaworld Corporation	Megaworld	(a)	**67%**	65%	63%
Megaworld Resort Estates, Inc.		(b)	**83%**	82%	81%
Sonoma Premiere Land, Inc.		(c)	**73%**	62%	70%
Megaworld Land, Inc.			**67%**	65%	63%
Prestige Hotels and Resorts, Inc.			**67%**	65%	63%
Mactan Oceanview Properties and Holdings, Inc.			**67%**	65%	63%
Megaworld Cayman Islands, Inc.		(d)	**67%**	65%	63%
Richmonde Hotel Group International Ltd.	RHGI	(e)	**67%**	65%	63%
Eastwood Cyber One Corporation	ECOC		**67%**	65%	63%
Megaworld Cebu Properties, Inc.			**67%**	65%	63%
Megaworld Newport Property Holdings, Inc.			**67%**	65%	63%
Oceantown Properties, Inc.			**67%**	65%	63%
Piedmont Property Ventures, Inc.			**67%**	65%	63%
Stonehaven Land, Inc.			**67%**	65%	63%
Streamwood Property, Inc.			**67%**	65%	63%
Suntrust Properties, Inc.	SPI		**67%**	65%	56%
Lucky Chinatown Cinemas, Inc.			**67%**	65%	-
Luxury Global Hotels and Leisures, Inc.			**67%**	65%	-
Suntrust Ecotown Developers, Inc.	SEDI		**67%**	65%	-
Woodside Greentown Properties, Inc.	WGPI		**67%**	65%	-
Citywalk Building Administration, Inc.		(f)	**67%**	-	-
Forbestown Commercial Center Administration, Inc.		(f)	**67%**	-	-
Paseo Center Building Administration, Inc.		(f)	**67%**	-	-
Uptown Commercial Center Administration, Inc.		(f)	**67%**	-	-
Global One Integrated Business Services, Inc.		(f)	**67%**	-	-
Luxury Global Malls, Inc.		(f)	**67%**	-	-
Davao Park District Holdings Inc.	DPDHI	(f)	**67%**	-	-
Governor's Hills Science School, Inc.		(f)	**67%**	-	-
Sunrays Properties Management, Inc.		(f)	**67%**	-	-
Suntrust One Shanata, Inc.		(f)	**67%**	-	-
Suntrust Two Shanata, Inc.		(f)	**67%**	-	-
Megaworld Global-Estate, Inc.		(g)	**59%**	65%	63%
Manila Bayshore Property Holdings, Inc.		(h)	**57%**	52%	55%
Empire East Land Holdings, Inc.	EELHI		**55%**	53%	50%
Valle Verde Properties, Inc.		(i)	**55%**	53%	50%
Empire East Communities, Inc.		(i)	**55%**	53%	50%
Sherman Oak Holdings, Inc.		(i)	**55%**	53%	50%
Eastwood Property Holdings, Inc.		(i)	**55%**	53%	50%
Global-Estate Resorts, Inc.	GERI	(j)	**54%**	65%	64%
Fil-Estate Properties, Inc.	FEPI		**54%**	65%	64%
Aklan Holdings Inc.			**54%**	65%	64%
Blu Sky Airways, Inc.			**54%**	65%	64%
Fil-Estate Subic Development Corp.			**54%**	65%	64%
Fil-Power Construction Equipment Leasing Corp.			**54%**	65%	64%
Golden Sun Airways, Inc.			**54%**	65%	64%
La Compaña De Sta. Barbara, Inc.			**54%**	65%	64%
MCX Corporation			**54%**	65%	64%
Pioneer L-5 Realty Corp.			**54%**	65%	64%
Prime Airways, Inc.			**54%**	65%	64%
Sto. Domingo Place Development Corp.			**54%**	65%	64%
Fil-Power Concrete Blocks Corp.			**54%**	65%	64%
Fil-Estate Golf and Development, Inc			**54%**	65%	64%
Golforce, Inc.			**54%**	65%	64%
Fil-Estate Urban Development Corp.			**54%**	65%	64%
Novo Sierra Holdings Corp.			**54%**	65%	64%
Southwood Mall Inc.			**54%**	-	-
Global Homes and Communities, Inc.			**54%**	-	-

Subsidiaries/Associates/ Jointly Controlled Entities	Short Name	Notes	Percentage of Effective Ownership of AGI 2014	2013	2012
Subsidiaries					
Megaworld and subsidiaries					
Megaworld Central Properties, Inc.			**51%**	50%	48%
Townsquare Development, Inc.			**50%**	49%	49%
Golden Panda-ATI Realty Corporation		(f)	**50%**	-	-
Twin Lakes Corp.	TLC		**45%**	45%	44%
La Fuerza, Inc.	LFI	(f), 12.4	**45%**	-	-
Fil-Estate Industrial Park, Inc.			**43%**	51%	51%
Megaworld-Daewoo Corporation	MDC		**40%**	39%	38%
Laguna Bel-Air School, Inc.		(i)	**40%**	38%	36%
Eastwood Cinema 2000, Inc.			**37%**	35%	-
Gilmore Property Marketing Associates Inc.	GPMAI		**35%**	47%	45%
Megaworld Globus Asia, Inc.			**34%**	33%	32%
Philippine International Properties, Inc.			**34%**	32%	32%
Sherwood Hills Development Inc.			**30%**	36%	35%
Fil-Estate Ecocentrum Corp.			**30%**	36%	36%
Philippine Aquatic Leisure Corp.			**30%**	36%	36%
Oceanfront Properties, Inc.	OFPI		**27%**	32%	32%
Boracay Newcoast Hotel Group, Inc.	BNHGI	(k), 12.7	-	65%	64%
Emperador and subsidiaries					
Emperador Inc.	EMP or Emperador	(l)	**81%**	88%	-
Emperador Distillers, Inc.	EDI		**81%**	88%	100%
Emperador International Ltd.	EIL	(e)	**81%**	88%	100%
Anglo Watsons Glass, Inc.	AWGI		**81%**	88%	100%
The Bar Beverage, Inc.			**81%**	88%	100%
Bodega San Bruno, SL	BSB	(m)	**81%**	88%	-
Emperador Europe SARL	EES	(m)	**81%**	88%	-
Emperador Asia Pte Ltd.	EA	(m)	**81%**	-	-
Grupo Emperador Spain, S.A.	GES	(m)	**81%**	-	-
Emperador Holdings (GB) Limited.	EGB	(m)	**81%**	-	-
Emperador UK Limited	EUK	(m)	**81%**	-	-
Whyte and Mackay Group Limited	WMG	(m)	**81%**	-	-
Whyte and Mackay Limited	WML	(m)	**81%**	-	-
Whyte and Mackay Warehousing Ltd.		(n)	**81%**	-	-
GADC and subsidiaries					
Golden Arches Development Corporation	GADC		**49%**	49%	49%
Golden Arches Realty Corporation			**49%**	49%	49%
Clark Mac Enterprises, Inc.			**49%**	49%	49%
Advance Food Concepts Manufacturing, Inc.	AFCMI		**46%**	46%	37%
Golden Laoag Foods Corporation			**38%**	38%	38%
Davao City Food Industries, Inc.			**37%**	37%	37%
First Golden Laoag Ventures			**34%**	34%	34%
Retiro Golden Foods, Inc.			**34%**	34%	34%
Red Asian Food Solutions			**37%**	34%	-
McDonald's Anonas City Center		(o)	**34%**	34%	-
McDonald's Puregold Taguig		(o)	**29%**	29%	29%
Golden City Food Industries, Inc.	GCFII	(o), 12.8	**29%**	25%	24%
McDonald's Bench Building		(o)	**27%**	27%	27%
Molino First Golden Foods, Inc.	MFGFI	(p)	**26%**	-	-
GY Alliance Concepts, Inc.	GYACI	(p)	**19%**	-	-
Travellers and subsidiaries					
Travellers International Hotel Group, Inc.	Travellers	(q)	**47%**	42%	46%
APEC Assets Limited	APEC		**47%**	42%	46%
Bright Leisure Management, Inc.			**47%**	42%	46%
Deluxe Hotels and Recreation, Inc.			**47%**	42%	46%
Entertainment City Integrated Resorts & Leisure, Inc.			**47%**	42%	46%
Grand Integrated Hotels and Recreation, Inc.			**47%**	42%	46%
Grand Services, Inc.			**47%**	42%	46%
Grand Venture Management Services, Inc.			**47%**	42%	46%
Lucky Star Hotels and Recreation, Inc.			**47%**	42%	46%
Majestic Sunrise Leisure & Recreation, Inc.			**47%**	42%	46%
Net Deals, Inc.			**47%**	42%	46%
Newport Star Lifestyle, Inc.			**47%**	42%	46%
Royal Bayshore Hotels & Amusement, Inc.			**47%**	42%	46%
FHTC Entertainment & Production, Inc.			**47%**	42%	-

Subsidiaries/Associates/ Jointly Controlled Entities	Short Name	Notes	Percentage of Effective Ownership of AGI 2014	2013	2012
Subsidiaries					
Travellers and subsidiaries					
Bright Pelican Leisure and Production, Inc.			**47%**	42%	-
Golden Peak Leisure and Recreation, Inc. (formerly Yellow Warbler Leisure and Recreation, Inc.)			**47%**	42%	-
Resorts World Bayshore City, Inc.	RWBCI	(r)	**47%**	45%	-
Purple Flamingos Amusement and Leisure Corporation		(s)	**47%**	45%	-
Red Falcon Amusement and Leisure Corporation		(s)	**47%**	45%	-
Corporate and Others					
New Town Land Partners, Inc.	NTLPI		**100%**	100%	100%
Tradewind Estates, Inc.			**100%**	100%	100%
Great American Foods, Inc.		(t)	**100%**	100%	100%
McKester America, Inc.		(t)	**100%**	100%	100%
Alliance Global Brands, Inc.			**100%**	100%	100%
McKester Pik-nik International Limited	MPIL	(e)	**100%**	100%	100%
Venezia Universal Ltd.		(e)	**100%**	100%	100%
Travellers Group Ltd.		(e)	**100%**	100%	100%
Alliance Global Group Cayman Islands, Inc.	AG Cayman	(d)	**100%**	100%	100%
Greenspring Investment Holdings Properties Ltd.	Greenspring	(e)	**100%**	100%	100%
Shiok Success International, Ltd.		(e)	**100%**	100%	-
Dew Dreams International, Ltd.		(e)	**100%**	100%	-
First Centro, Inc.	FCI		**100%**	75%	100%
Oceanic Realty Group International, Inc.		(u)	**100%**	75%	100%
ERA Real Estate Exchange, Inc.		(u)	**100%**	75%	100%
Global One Real Estate Spain, SAU		(v)	**100%**	-	-
Adams Properties, Inc.	Adams	(q)	**60%**	60%	60%
Associates					
BNHGI		(k), 12.7	**32%**	-	-
Bonifacio West Development Corporation	BWDC	12.6	**31%**	-	-
Suntrust Home Developers, Inc.	SHDI	12.5	**29%**	27%	27%
First Oceanic Property Management, Inc.		(w)	**29%**	27%	27%
Citylink Coach Services, Inc.		(w)	**29%**	27%	27%
Palm Tree Holdings and Development Corporation	PTHDC		**27%**	26%	25%
Fil-Estate Network, Inc.	FENI	(x)	**11%**	13%	13%
Fil-Estate Sales, Inc.	FESI	(x)	**11%**	13%	13%
Fil-Estate Realty and Sales Associates, Inc.	FERSAI	(x)	**11%**	13%	13%
Fil-Estate Realty Corp.	FERC	(x)	**11%**	13%	13%
Nasugbu Properties, Inc.	NPI	(x)	**8%**	9%	9%
LFI		12.4	**-**	32%	-
Genting-Star Tourism Academy, Inc.	GSTAI	29.11	**-**	20%	23%
Alliance Global Properties, Ltd.	AGPL	(y), 12.3	**-**	-	30%
Jointly Controlled Entities					
Bodegas Las Copas, SL	BLC	(z), 12.7	**41%**	-	-
GCFII		(p), 12.8	**-**	25%	24%

Explanatory notes:

(a) AGI's effective ownership interest is derived from its 44% direct ownership and 3% direct holdings of FCI, 18% direct holdings of NTLPI and 2% holdings of other subsidiaries.
(b) AGI and Megaworld directly owns 49% and 51%, respectively.
(c) A subsidiary of AGI through 60% and 40% direct ownership of EELHI and FCI, respectively.
(d) Foreign subsidiaries operating under the laws of the Cayman Islands
(e) Foreign subsidiaries operating under the Business Companies Act of the British Virgin Islands (BVI)
(f) Newly acquired subsidiaries of Megaworld in 2014
(g) A subsidiary of AGI through 60% and 40% direct ownership of GERI and Megaworld, respectively.
(h) A subsidiary of AGI through 50/50 ownership of Travellers and Megaworld.
(i) Subsidiaries of EELHI
(j) In 2014, AGI's effective ownership interest represents its indirect holdings through Megaworld, which owns 80% of GERI, and no direct holdings. In 2013, AGI's effective ownership interest is composed of 49% direct ownership and 16% indirect ownership through Megaworld.

(k) In 2013, FEPI owns 100% ownership interest over BNHGI. In 2014, FEPI disposed 40% of its ownership interest over BNHGI. FEPI lost its control over BNHGI thereby reclassifying it as an associate.
(l) In 2014, AGI's effective ownership over EMP decreased as a result of issuance of capital stock of EMP.
(m) New subsidiaries of EMP. EA is operating under the laws of Singapore while GES and BSB are operating under the laws of Spain. EES is operating under the laws of Luxembourg. EGB is operating under the laws of England and Wales. EUK, WMG and WML are operating under the laws of Scotland.
(n) Subsidiary of WML operating under the laws of Scotland
(o) Unincorporated joint ventures of GADC
(p) Newly acquired subsidiaries of GADC in 2014
(q) In 2013, Travellers became listed with the PSE and new shares were issued to the public. At end of 2013, Travellers' common shares are directly owned 11% by AGI, 3% by FCI, 6% by Megaworld, 46% by Adams, 24% by Genting Hongkong Limited (GHL) and 10% by the public. In 2014, AGI increased its common stock ownership to 25% while Megaworld decreased to 2% due to acquisition of Travellers' shares from Megaworld.
(r) Incorporated in 2013. Effective ownership in 2013 is through 20% direct ownership, 6% through 10% ownership of Megaworld, 4% through 5% ownership of FCI and 15% through 25% ownership of Adams. In 2014, Travellers subscribed to the increase in authorized capital stock of RWBCI resulting to 95% direct ownership. AGI direct ownership decreased to 1%.
(s) Wholly owned subsidiaries of RWBCI
(t) Subsidiaries of MPIL operating under the laws of United States of America
(u) Subsidiaries of FCI
(v) Newly acquired subsidiary of MPIL operating under the laws of Spain
(w) Subsidiaries of SHDI, an associate of Megaworld
(x) Associates of GERI
(y) A foreign associate operating in the BVI; AGPL was disposed in 2013
(z) A foreign jointly controlled entity under GES and operating under the laws of Spain

The Company, its subsidiaries and associates are incorporated and operating in the Philippines, except for such foreign subsidiaries and associates as identified in the preceding table (see explanatory notes d, e, m, n, t, v, y and z in the preceding page).

AGI's shares of stock and those of Megaworld, EMP, Travellers, GERI, EELHI and SHDI are listed in and traded through the PSE.

The principal activities of the Group are further described in Note 4.

The Company's registered office and primary place of business is located at 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City.

The Board of Directors (BOD) approved on April 14, 2015, the release of the consolidated financial statements of the Group as at and for the year ended December 31, 2014 (including the comparative financial statements as at and for the years ended December 31, 2013 and 2012).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy (BOA).

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS 1), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single consolidated statement of comprehensive income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

Certain accounts in the 2013 and 2012 consolidated statements of comprehensive income were reclassified to conform to the current year presentation, which did not have a material impact on the Group's consolidated financial statements.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Company's functional currency (see Note 2.18). Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Basis of Consolidation

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as enumerated in Note 1 after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses, dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

In addition, shares of stock of the Company acquired by any of its subsidiaries are recognized as treasury shares and these are presented as deduction in the consolidated statement of changes in equity at cost. Any changes in their market values as recognized separately by the subsidiaries are likewise eliminated in full. Gain or loss on the sale of these treasury shares is presented as addition to or deduction from additional paid-in capital (APIC).

The financial statements of subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting principles. Financial statements of entities in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

The Group accounts for its investments in subsidiaries and associates, interests in joint ventures, and transactions with non-controlling interest as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are consolidated from the date the Group obtains control until such time that such control ceases. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated in the preceding page. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries (see Note 2.10). This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities, including contingent liabilities, assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquired entity, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.10).

(b) *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method of accounting. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in an associate. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Share in Net Profits (Losses) of Associates and Joint Ventures account in the consolidated statement of comprehensive income. These changes include subsequent depreciation, amortization and impairment of the fair value adjustments of the associate's assets and liabilities.

Impairment loss is provided when there is objective evidence that the investment in associates will not be recovered (see Note 2.19).

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associates' equity, for example, resulting from the associates' accounting for available-for-sale (AFS) financial assets, are recognized in the consolidated other comprehensive income or equity of the Group, as applicable. Any non-income related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associates' shareholders are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments in behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeded the accumulated share of losses that has previously not been recognized. Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Interests in Joint Ventures

For interest in a jointly-controlled operation, the Group recognizes in its consolidated financial statements its share of the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. No adjustments or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint venture are recognized in the separate financial statements of the venturers.

For interest in a jointly-controlled entity, the Group recognizes in its consolidated financial statements its interest using the equity method. Under the equity method, the interest in a jointly-controlled entity is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share in the profit or loss of the joint venture after the date of acquisition. Unrealized gains arising from transactions with jointly-controlled entity are eliminated to the extent of the Group's interest in joint venture against the related investment. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

(d) Transactions with Non-controlling Interest

The Group's transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity.

Disposals of equity investments to non-controlling interest that result in gains and losses for the Group are also recognized in consolidated equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in consolidated profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in consolidated other comprehensive income are reclassified to consolidated profit or loss.

The Parent Company holds beneficial interests in various subsidiaries and associates as presented in Notes 1 and 12.

2.3 Adoption of New and Amended PFRS

(a) Effective in 2014 that are Relevant to the Group

In 2014, the Group adopted for the first time the following amendments and interpretation to PFRS that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
PFRS 10, 12 and PAS 27 (Amendments)	:	Consolidated Financial Statements, Disclosures of Interests in Other Entities and Separate Financial Statements – Exemption from Consolidation for Investment Entities
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

Discussed below are the relevant information about these amended standards and interpretation.

(i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The Group's existing offsetting and settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on the Group's consolidated financial statements for any periods presented.

(ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the consolidated financial statements since the recoverable amounts of the Group's property, plant and equipment where impairment losses have been recognized were determined based on value-in-use which have been adequately disclosed in accordance with PAS 36 (see Note 13).

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into novation transactions involving its derivative instruments nor does it apply hedge accounting, the amendment did not have any impact on the Group's consolidated financial statements.

(iv) PFRS 10, 12 and PAS 27 (Amendments), *Consolidated Financial Statements, Disclosure of Interests in Other Entities, Separate Financial Statements – Exemption from Consolidation for Investment Entities*. The amendments define the term "investment entity" and provide to such an investment entity an exemption from the consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, both in its consolidated or separate financial statements, as the case maybe. The amendments also require additional disclosures about the details of the entity's unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. The Group has evaluated the various facts and circumstances related to its interests in other entities and it has determined that the adoption of the foregoing amendments had no material impact to the Group's consolidated financial statements. None of its subsidiaries qualify as an investment entity.

(v) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Group's consolidated financial statements.

(b) Effective Subsequent to 2014 but are not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2014 which are adopted by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements in accordance with their transitional provisions, and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.

(ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(iii) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iv) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 41 (Amendment), *Agriculture – Bearer Plants* (effective from January 1, 2016). The amendment defines a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendment further clarifies that produce growing on bearer plants remains within the scope of PAS 41.

(v) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9, *Financial Instruments*. As of the end of the reporting period, the Parent Company has no plan to change the accounting policy for its investments in its subsidiaries.

(vi) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(vii) PFRS 10 (Amendment), *Consolidated Financial Statements* and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(viii) PFRS 11 (Amendment), *Joint Arrangements* (effective from January 1, 2016). The amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(ix) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL) which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the outstanding principal. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, do not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Group does not expect to implement and adopt PFRS 9 (2014) until its effective date. In addition, management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(x) PFRS 15, *Revenue from Contract with Customers*. This standard will replace PAS 18 *Revenue* and PAS 11 *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15 *Arrangements for Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2017. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard has not yet been adopted in the Philippines; however, management is currently assessing the impact of this standard on the Group's consolidated financial statements in preparation for the adoption of this standard in the Philippines.

(xi) Philippine IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and SEC after giving due considerations on various application issues and in anticipation of the implications of IFRS 15, *Revenue from Contract with Customers* which will eventually supersede this interpretation when adopted in the Philippines. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage of completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at completion upon or after delivery.

(xii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets.* The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(c) PFRS 2 (Amendment), *Share-based Payment*. The amendment clarifies the definitions of "vesting condition" and "market condition" and defines a "performance condition" and a "service condition."

(d) PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.

(e) PFRS 8 (Amendment), *Operating Segments.* The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

(f) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

(b) PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangement*, in the financial statements of the joint arrangement itself.

(c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

Annual Improvements to PFRS (2012-2014 Cycle)

(a) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the corporate bonds or government bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligation.

(b) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(c) PFRS 7 (Amendment), *Financial Instruments: Disclosures*. The amendment clarifies that the additional disclosure required by the recent amendments to PFRS 7 related to offsetting financial assets and financial liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with PAS 34, *Interim Financial Reporting,* when its inclusion would be necessary in order to meet the general principles of PAS 34.

(d) PAS 34 (Amendment), *Interim Financial Reporting*. The amendment clarifies the meaning of disclosure of information "elsewhere in the interim financial report" and requires the inclusion of a cross-reference from the interim financial statements to the location of this referenced information. The amendment also specifies that this information must be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time, otherwise the interim financial statements will be incomplete.

2.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

The financial asset categories currently relevant to the Group are financial assets at FVTPL, loans and receivables and AFS financial assets. A more detailed description of these financial assets is as follows:

(a) *Financial Assets at FVTPL*

This category includes financial assets that are either classified as held-for-trading or that meets certain conditions and are designated by the entity to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in consolidated profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group's financial assets included in this category consist mainly of investments in marketable debt and equity securities, and derivative assets.

(b) *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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances to contractors and suppliers), Advances to associates and other related parties (included under Investments in and Advances to Associates and Other Related Parties account), Time deposits (included under Other Current Assets account) and Refundable security deposits (included under Other Non-current Assets account). Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

(c) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets classification in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months after the end of the reporting period. All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Net Unrealized Gains (Losses) on Available-for-sale Financial Assets account in consolidated equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in Net Unrealized Gains (Losses) on Available-for-sale Financial Assets is reclassified from consolidated equity to consolidated profit or loss and is presented as reclassification adjustment within consolidated other comprehensive income.

Reversal of impairment losses on AFS equity instruments is not recognized through the consolidated profit or loss. On the other hand, if in a subsequent period the fair value of an AFS financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through consolidated profit or loss.

The Group's AFS financial assets include investments in marketable equity securities where the Group held no significant influence and shares that are not listed in the stock exchange and investments in marketable debt securities designated as AFS by management at initial recognition.

All income and expenses, including impairment loss, relating to financial assets that are recognized in profit or loss are presented as part of Finance and Other Income and Finance Cost and Other Charges in the consolidated statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

2.5 Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using weighted average method, except for food, supplies and other consumables which use the first-in, first-out method. Finished goods and work-in-process include the cost of raw materials, direct labor and a proportion of manufacturing overhead (including an element of depreciation) based on normal operating capacity. The cost of raw materials include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. NRV of raw materials, spare parts and other operating supplies is the current replacement cost.

Real estate for sale are carried at the lower of cost and NRV. Cost includes costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction (see Note 2.16). Accounting policies for real estate development transactions are discussed in more detail in Note 2.6.

2.6 Real Estate Transactions

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to the Land for Future Development account. These costs are reclassified to Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs on certain loans, if any, incurred during the development of the real estate properties are also capitalized by the Group as part of Property Development Costs (see Note 2.16). Once a revenue transaction occurs on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Real Estate for Sale classified under Inventories account (see Note 2.5) in the consolidated statement of financial position.

The cost of real estate property sold before completion of the development, if any, is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined by the project engineers, are presented as part of Cost of Goods Sold in the consolidated statement of comprehensive income with a corresponding credit to the liability account, Reserve for property development account under Other Liabilities account in the consolidated statement of financial position (see Note 20).

Costs of properties and projects accounted for as Land for Future Development, Property Development Costs and Real Estate for Sale are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and NRV.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any impairment loss from a real estate project is charged to operations during the period in which the loss is determined.

2.7 Other Assets

Other assets presented either under current or non-current assets classification in the consolidated statement of financial position pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), such assets are classified as non-current assets.

2.8 Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. As no finite useful life for land can be determined, the related carrying amount is not depreciated. Land held for use in production or administration is stated at cost less any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use, including borrowing costs (see Note 2.16) and asset retirement obligation (ARO) relating to property and equipment installed/ constructed on leased properties [see Note 3.2(k)]. GADC is legally required under various lease agreements to dismantle the installations and restore the leased sites at the end of the lease term. It is also a Group's policy to remove permanent improvements or additions which contain designs and configurations inherent to GADC's business signs, trademarks, trade names, patent and other similar intellectual property rights belonging to McDonald's Corporation (McDonald's) upon the termination or expiration of lease contract. The present value of ARO is recognized as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The outstanding ARO as at the end of the reporting period is presented as part of Other Non-current Liabilities account in the consolidated statements of financial position.

Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and land improvements	5 to 50 years
Condominium units	10 to 25 years
Machinery and equipment	2 to 12 years
Fixtures and other equipment	3 to 10 years
Transportation equipment	3 to 10 years

Leasehold improvements are amortized over the life of the assets of 5 to 40 years or the term of the lease, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.16) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

The residual values, estimated useful lives and method of depreciation of property, plant and equipment are reviewed, and adjusted if appropriate, at each reporting period.

An item of property, plant and equipment, including the related accumulated depreciation, amortization and impairment losses, is derecognized upon sale or disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in consolidated profit or loss in the year the item is derecognized.

2.9 Investment Property

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property and are carried at cost less accumulated depreciation and any impairment in value, except for land which is not subjected to depreciation (see Note 2.19).

Cost capitalization, depreciation, impairment loss and asset derecognition are recorded in the same manner as in Property, Plant and Equipment (see Note 2.8). Depreciation of investment property (excluding land) is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years.

Transfers to, or from, investment property shall be made when and only when there is a change in use or purpose for such property.

2.10 Business Combinations

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

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at the date of acquisition.

Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in consolidated profit or loss or to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

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

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of the related goodwill (see Note 2.11).

2.11 Intangible Assets

Intangible assets include goodwill, trademarks, leasehold rights and computer software. Except goodwill and some specific trademarks, all other intangible assets have finite lives and are carried at cost less accumulated amortization and any impairment in value. Goodwill and certain trademarks are not amortized, but are reviewed for impairment at least annually.

Goodwill represents the excess of the cost of investment in shares of stocks over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any impairment loss is recognized immediately in consolidated profit or loss and is not subsequently reversed (see Note 2.19).

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is recognized directly to income. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the consolidated profit or loss on disposal.

The cost of trademarks, leasehold rights and computer software includes the acquisition price and other direct costs. Capitalized costs are amortized on a straight-line basis over the estimated useful life of 10 and 3 years, for trademarks [except specific trademarks with indefinite useful lives (see Note 15)] and computer software, respectively, and over the term of the lease for leasehold rights. Capitalized costs for trademarks with indefinite useful lives are not amortized. In addition, these assets are subject to impairment testing as described in Note 2.19. When these assets are retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

Costs associated with maintaining computer software and any costs associated with research activities are recognized as expense in consolidated profit or loss as incurred.

2.12 Financial Liabilities

The categories of financial liabilities relevant to the Group are more fully described below.

(a) *Financial Liabilities at FVTPL*

Financial liabilities are classified in this category if they are held-for-trading or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group occasionally uses derivative financial instruments, such as foreign exchange forward contracts and interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative, which are presented under the Other Assets or Other Liabilities (current and non-current) account in the consolidated statement of financial position.

The Group's derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

(b) *Financial Liabilities at Amortized Costs*

This category pertains to financial liabilities that are not held-for-trading or not designated as FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities, which include Interest-bearing Loans, Bonds Payable, Trade and Other Payables (except tax-related payables), Advances from Related Parties, Equity-linked debt securities (presented as part of Other Non-current Liabilities), Redeemable Preferred Shares, Guarantee Deposits and Payable to McDonald's Restaurant Operations, Inc. (MRO) under Stock Option Plan are recognized when the Group becomes a party to the contractual agreements of the instrument.

All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs and Other Charges in the consolidated statement of comprehensive income.

Interest-bearing Loans, Bonds Payable and Equity-linked debt securities are raised for support of long-term funding of operations. These are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to consolidated profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and Other Payables, Advances from Related Parties, Guarantee Deposits and Payable to MRO under Stock Option Plan are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Redeemable Preferred Shares of GADC and TLC which are mandatorily redeemable at the option of the holder, are recognized at fair value, net of transaction costs, on inception date and presented as liability in the consolidated statement of financial position; the liability is subsequently measured at amortized cost. The corresponding accretion of the liability and the dividends paid on those shares are charged as part of Interest expense under Finance Costs and Other Charges account in the consolidated statement of comprehensive income.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.13 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.14 Equity

Capital stock represents the nominal value of shares that have been issued.

APIC includes any premiums received on the issuance or reissuance of capital stock. Any transaction costs associated with such issuances of shares are deducted from APIC, net of any related income tax benefits. Excess of proceeds over acquisition cost of treasury shares is also added to APIC.

Treasury shares are AGI shares reacquired by the Company but not cancelled or AGI shares held by subsidiaries for investment purposes. These are carried at cost of reacquiring such shares (see also Note 2.2).

Net actuarial gains or losses on retirement benefit plan pertain to actuarial gains or losses from remeasurement of retirement benefit obligation.

Net unrealized fair value gains or losses on AFS financial assets pertains to cumulative mark-to-market valuations on such securities [see Note 2.4(c)].

Accumulated translation adjustments represent the translation adjustments resulting from the conversion of foreign currency denominated financial statements of certain subsidiaries into the Group's presentation currency (see Note 2.18).

Dilution gain or loss arises when and investor or the Group exercises its pre-emptive rights to maintain its ownership interest in an investee. This represents the difference between the book value per share in an investee versus the Group's offer price at the time the rights are exercised. This also includes the Group's share in previous period's profit (loss) as a result of the current increase (decrease) in equity ownership over its subsidiaries. Dilution gain or loss is recognized on investments of which the Group continues to exercise control.

Share options represent the value of share options during vesting period upon recognition of share-based remuneration expense in profit or loss [see Note 2.20(d)].

Retained earnings, the appropriated portion of which is not available for dividend declaration, represent all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income, reduced by the amount of dividends declared.

2.15 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured by reference to the fair value of consideration received or receivable by the Group; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Sale of goods* – Revenue, net of rebates and trade discounts, is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer acknowledged delivery of goods.

(b) *Sale of residential and condominium units [included under Real Estate (RE) Sales]* – For financial reporting purposes, revenues from transactions covering sales of residential and condominium units are recognized under the percentage-of-completion method. Under this method, realization of gross profit is recognized by reference to the stage of development of the properties (i.e., revenue is recognized in the period in which the work is performed). The unrealized gross profit on a year's sales is presented as Deferred gross profit on RE sales (under Cost of Goods Sold account) in the consolidated statement of comprehensive income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred income on real estate sales (under Other Current and Non-current Liabilities) in the consolidated statement of financial position.

The sale is recognized when a certain percentage of the total contract price has already been collected. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyer are initially recorded as Customers' deposits and presented as part of Other Liabilities (current and non-current) in the consolidated statement of financial position. Revenues and costs relative to forfeited or back out sales are reversed in the current year.

For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from real estate sales is used by the Group.

(c) *Interest income on real estate sales* –considered in the determination of total revenue for real estate sales (see Note 23). It is recognized when interest accrues taking into account the underlying sale of real estate under installment method through in-house financing (not through externally financed home loans obtained by customers).

(d) *Sale of undeveloped land and golf and resort shares (included under RE Sales)* – Revenues on sale of undeveloped land and golf and resort shares for sale are recognized using the full accrual method. Under the full accrual method, revenue is recognized when the risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

(e) *Construction contracts* – Revenue is recognized when the performance of contractually agreed tasks have been substantially rendered using the cost recovery and percentage-of-completion methods. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

(f) *Gaming revenues* – Revenue is recognized from net wins from gaming activities which represent the difference between coins and currencies deposited into the gaming machines and the payments to customers and, for other games, the difference between gaming wins and losses.

(g) *Revenue from hotel operations* – Revenue from hotel operations is recognized when services are rendered. This is presented under Revenue from Rendering of Services (see Note 23).

(h) *Sales from Company-operated quick-service restaurants* – Revenue from restaurant sales operations are recognized when the services are rendered, that is, food and beverage products or promotional items purchased by customers have been delivered and accepted by the customers.

(i) *Franchise revenues* – Revenue from franchised McDonald's restaurants (including the restaurant operated by a joint venture) includes continuing rental, royalty and management fees. These are recognized in the period earned.

(j) *Rentals* – Rental income is recognized on a straight-line basis over the duration of the lease terms. For tax purposes, rental income is recognized based on the contractual terms of the lease. Advance rentals and refundable rental deposits, if any, are recorded as deferred rental. Deferred rental, specifically the refundable rental deposit, is measured at amortized cost using the effective interest rate method.

(k) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(l) *Dividends* – Revenue is recognized when the right to receive the payment is established.

Revenue and expenses are recognized excluding the amount of value-added tax (VAT).

The Group provides a membership card for its gaming patrons (i.e., of Travellers). Members earn points on gaming activity and such points are redeemable for complimentary goods and services such as rooms, food, beverages and others.

Members may also earn special coupons or awards as determined during marketing promotions. The Group records revenue for the original transaction and a provision (and a corresponding recognition of promotional allowances in profit or loss) for the value of the points earned by members by reference to the relative fair values of the complimentary goods or services.

Costs of residential and condominium units sold before completion of the projects include the acquisition cost of the land, development costs incurred to date, applicable borrowing costs (see Note 2.16) and estimated costs to complete the project, determined based on estimates made by the project engineers (see Note 2.6).

Cost and expenses (other than cost of real estate sales) are recognized in profit or loss upon utilization of the services or receipt of the goods or at the date they are incurred.

All finance costs are reported in consolidated profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.16).

2.16 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

2.17 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in consolidated profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in consolidated profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) *Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in consolidated profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes 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.

2.18 Foreign Currency Transactions and Translation

(a) Transactions and Balances

Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

(b) Translation of Financial Statements of Foreign Subsidiaries

The operating results and financial position of foreign subsidiaries (see Note 1) which are measured using the United States (U.S.) dollars, British pound sterling and European Union euro, their functional currencies, are translated to Philippine pesos, the Group's functional currency as follows:

(i) Monetary assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Non-monetary assets and liabilities for each statement of financial position presented, which are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities which are measured at fair value are translated using the exchange rates at the date when the fair value was determined;

(iii) Income and expenses for each profit or loss account are translated at the average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iv) All resulting exchange differences are recognized in consolidated other comprehensive income and in a separate component of consolidated equity under Accumulated Translation Adjustments account.

When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

The translation of the financial statements into Philippine peso should not be construed as a representation that the foreign currency amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.19 Impairment of Non-financial Assets

The Group's Investments in Associates and Joint Ventures, Intangible Assets, Investment Property, Property, Plant and Equipment and other non-financial assets are subject to impairment testing. Intangible assets with an infinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.20 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee of three significant subsidiaries.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in consolidated other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance and Other Income or Finance Cost and Other Charges account in the consolidated statement of comprehensive income.

Past-service costs are recognized immediately in consolidated profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Contribution Plan

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Share-based Employee Remuneration

Certain employees of GADC received remuneration in the form of stock options on the shares of McDonald's. The cost of the stock options was measured by reference to the fair value of the stock options, which was the compensation charged by McDonald's for participating in the plan on the date of grant.

The cost of the stock options is recognized as employee benefits in consolidated profit or loss, with a corresponding increase in liability, over a period beginning on the date of grant and ending on the date on which the qualified employees become fully entitled to the award (vesting date). The cumulative expense recognized for the stock options at each reporting date until the vesting date reflects the extent to which the vesting period has expired, without regard to the number of awards that will ultimately vest.

In addition, the Parent Company, Megaworld and GERI also grant share options to key executive officers and employees eligible under each stock option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in profit or loss and the corresponding share option is presented as Share Options account in the equity section of the consolidated statement of financial position.

The expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number that ultimately vested on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as APIC, and the cost of the stock option under Share Options account is reclassified to APIC.

(e) Bonus Plans

The Group recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the Group's profits after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(f) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.21 Income Taxes

Tax expense recognized in consolidated profit or loss comprises the sum of deferred tax and current tax not recognized in consolidated other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in consolidated profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in consolidated profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in consolidated other comprehensive income or directly in consolidated equity, respectively.

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

2.22 Earnings per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares (e.g. vested share options – see Note 21.5).

2.23 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally considers the Group's major subsidiaries as disclosed in Note 4, which represent the main products and services provided by the Group and the line of business in which the Group operates.

Each of these operating segments, which represent the major subsidiaries within the Group, is managed separately by each respective officers and management. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments,* are the same as those used in its financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.24 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Group and close members of the family of any such individual; and, (d) certain funded retirement plans, administered by trustee banks, of three significant subsidiaries.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.25 *Events After the End of the Reporting Period*

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 *Critical Management Judgments in Applying Accounting Policies*

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

(a) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(b) Distinguishing Investment Properties, Owner-Occupied Properties and Land for Future Development

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Investment property comprise of properties held to earn rental or for capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process while Land for Future Development are properties intended solely for future development. The Group considers each property separately in making its judgment.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the Group's main line of business or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the Group's main line of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(c) Distinguishing Operating and Finance Leases

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(d) Classification of Preferred Shares as Financial Liability

The Group determines the classification of preferred shares based on the substance of the contractual agreement and the definitions of a financial liability or an equity instrument (see Note 19).

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and disclosures on relevant provisions and contingencies are presented in Note 30.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Revenue Recognition Using the Percentage-of-Completion Method

The Group uses the percentage-of-completion method in accounting for its realized gross profit on real estate sales. The use of the percentage-of-completion method requires the Group to estimate the portion completed using relevant information such as costs incurred to date as a proportion of the total budgeted cost of the project and estimates by engineers and other experts [see Note 2.15(b)]. Should the proportion of the percentage of completed projects differ by 5% from management's estimates, the effect on the amount of revenue recognized is not significant.

There were no changes in the assumptions or basis for estimation during the year. The realized gross profit on real estate sales recognized in 2014, 2013 and 2012 is disclosed in Note 23.

(b) Impairment of Trade and Other Receivables

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

(c) Valuation of Inventories and Real Estate Properties

In determining the net realizable values of inventories and real estate properties, management takes into account the most reliable evidence available at the dates the estimates are made. Net realizable value is one of the key variables used in analyzing property development costs, residential and condominium units for sale, golf and resort shares for sale and land for future development for possible impairment. The Group's core business is subject to changes in market factors that directly affect the demand for inventories and real estate properties such as purchasing power of consumers, degree of competition, and other market-related factors. Future realization of the carrying amounts of these assets is also affected by price changes in the costs incurred necessary to make a sale. Changes in the sources of estimation may cause significant adjustments to the Group's inventories and real estate properties within the next financial reporting period.

The amounts of allowance for inventory obsolescence made by management are based on, among others, age and status of inventories and the Group's past experience. The net realizable value of inventories and an analysis of allowance for inventory write-down are presented in Note 8.

Considering the Group's pricing policy, the net realizable values of certain real estate properties are higher than their related costs.

(d) Fair Valuation of Financial Assets Other than Trade and Other Receivables

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect consolidated profit and loss and consolidated other comprehensive income.

Management estimates the fair value of financial instruments where active market quotes are not available based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying amounts of financial assets at FVTPL and AFS financial assets are disclosed in Notes 7 and 11, respectively.

(e) Fair Valuation of Investment Properties

Investment property are measured using the cost model. The fair value disclosed in Note 14 to the consolidated financial statements were estimated either by: (i) using the fair value of similar properties in the same location and condition; or, (ii) using the discounted cash flows valuation technique since the information on current or recent prices of certain investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(f) Fair Valuation of Stock Options

The Group estimates the fair value of the Executive Stock Option (the Options) by applying an option valuation model, considering the terms and conditions on which the executive stock option were granted. The estimates and assumptions used are presented in Note 21.5 which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the share price (i.e., the Parent Company, Megaworld, GERI and McDonalds) and fair value of the specific common shares. Changes in these factors can affect the fair value of stock options at grant date.

The fair value of the Options recognized as part of Salaries and employee benefits is shown under Other Operating Expenses account in the consolidated statement of comprehensive income (see Note 25). A corresponding credit to Share Options Outstanding for options related to the Group is presented in the equity portion of the consolidated statement of financial position (see Note 21).

(g) Estimating Useful Lives of Property, Plant and Equipment, Investment Property and Intangible Assets with Finite Lives

The Group estimates the useful lives of property, plant and equipment, investment property and intangible assets with finite lives based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and intangible assets are reviewed periodically and are updated 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 assets.

The carrying amounts of property, plant and equipment, investment property and intangible assets are analyzed in Notes 13, 14 and 15, respectively. Actual results, however, may vary due to changes in factors mentioned above.

Based on management assessment, no change in the estimated useful lives of property, plant and equipment, investment property and intangible assets is necessary in 2014 and 2013.

(h) Impairment of Non-financial Assets

Goodwill is reviewed annually for impairment. An impairment review on all other non-financial assets is performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment loss recognized on Property, Plant and Equipment is discussed in Note 13. There is no impairment loss recognized on the Group's investment properties, intangible assets and other non-financial assets based on management's evaluation for the years ended December 31, 2014, 2013 and 2012.

(i) Determining Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. An analysis of the carrying amount of deferred tax assets, which management assessed to be fully utilizable in the coming years, is presented in Note 28.1.

(j) Valuation of Post-employment Defined Benefit Obligation

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 27.2.

(k) Provision for Restoration of Leased Property

Property, plant and equipment includes the estimated cost of dismantling and restoring leased properties (building and leasehold improvements) to their original condition for which GADC is liable, or ARO (see Note 2.8). The estimated cost was initially based on a recent cost to dismantle facilities. This was adjusted to consider estimated incremental annual cost up to the end of the lease term. The estimated dismantling cost was discounted using the prevailing market rate at the inception of the lease for an instrument with maturity similar to the term of the lease. The estimated provision for dilapidation for the cost of leased properties of WML is also determined in the same manner.

The carrying amount of ARO and provision for dilapidation are presented as part of Other Non-current Liabilities account in the consolidated statements of financial position (see Note 20).

(l) *Provision for Onerous Lease*

The Group determines the provision for leasehold properties which are no longer used in the business for which the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease using discounted cash flows and assumptions relating to future sublet income expectations. A significant change in the credit-adjusted risk-free rate used in discounting the estimated cost and sublet assumptions would result in a significant change in the amount of provision recognized with a corresponding effect on profit or loss.

(m) *Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in consolidated profit or loss in the subsequent period.

4. SEGMENT INFORMATION

4.1 Business Segments

The Group is organized into major business segments, which are the major subsidiaries of the Group. These represent the main products and services provided by the Group and the line of business in which the Group operates (see Note 2.23). Presented below is the basis of the Group in reporting its primary segment information.

(a) The *Megaworld* segment consists of development of real estate, integrated resorts, leasing of properties and hotel operations business which is primarily undertaken by Megaworld Corporation and subsidiaries, the Group's forerunner in the real estate industry. In 2014, the *GERI* segment was consolidated in this segment as part of the Group's plan to align all its real estate business and to capture the growth in the tourism sector through GERI.

(b) The *Travellers* segment relates to tourism-oriented business that integrates entertainment, hospitality and leisure, including gaming, as that of Resorts World Manila, which is operated by Travellers International Hotel Group, Inc. and subsidiaries.

(c) The *GADC* segment refers to operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement between GADC and McDonald's Corporation, USA.

(d) The *Emperador* segment refers to the manufacture and distribution of distilled spirits, including the production of glass containers, which is undertaken by Emperador Inc. and subsidiaries.

(e) The *GERI* segment relates to development of integrated tourism estates, leisure-related properties and mixed used towers which is primarily undertaken by Global Estate Resorts, Inc. and subsidiaries. This segment is consolidated with *Megaworld* segment in 2014; hence, *GERI* is no longer presented as a separate business segment beginning 2014.

4.2 Segment Assets and Liabilities

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash and cash equivalents, trade and other receivables, inventories, property, plant and equipment, intangible assets and investment properties. Segment liabilities include all operating liabilities and consist principally of trade and other payables, interest-bearing loans and bonds payable. Segment assets and liabilities do not include deferred taxes.

4.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

4.4 Analysis of Segment Information

Segment information can be analyzed as follows for the years ended December 31, 2014, 2013 and 2012:

	2014					
	Megaworld	Travellers	GADC	Emperador	GERI	Total
REVENUES						
Sales to external customers	P 38,037,325,483	P 31,557,796,008	P 18,416,598,616	P 31,461,270,278	P -	P119,472,990,385
Intersegment sales	12,213,404,741	40,887,560	-	-	-	12,254,292,301
Finance and other revenues	2,778,519,577	114,569,512	331,435,577	489,170,118	-	3,713,694,784
Segment revenues	53,029,249,801	31,713,253,080	18,748,034,193	31,950,440,396	-	135,509,985,632
Cost of sales and expenses excluding depreciation and amortization	(25,452,945,290)	(23,568,121,238)	(16,541,609,442)	(23,316,371,477)	-	(88,879,047,447)
	27,576,304,511	8,145,131,842	2,206,424,751	8,634,068,919	-	46,561,930,023
Depreciation and amortization	(1,300,385,226)	(1,516,728,535)	(919,497,248)	(404,805,804)	-	(4,141,416,813)
Finance cost and other charges	(1,591,978,535)	(1,026,706,225)	(178,478,645)	(102,935,717)	-	(2,900,099,122)
Profit before tax	24,683,940,750	5,601,697,082	1,108,448,858	8,126,327,398		39,520,414,088
Tax expense	(3,120,330,226)	(75,568,162)	(310,494,049)	(1,904,172,008)	-	(5,410,564,445)
SEGMENT PROFIT	**P21,563,610,524**	**P 5,526,128,920**	**P 797,954,809**	**P 6,222,155,390**	**P -**	**P34,109,849,643**
SEGMENT ASSETS AND LIABILITIES						
Segment assets	P222,696,668,271	P 62,704,306,464	P 12,260,171,563	P 96,183,811,446	P -	P393,844,957,744
Segment liabilities	80,666,774,428	23,106,167,980	7,980,931,664	44,775,107,154	-	156,528,981,226

	2013					
	Megaworld	Travellers	GADC	Emperador	GERI	Total
REVENUES						
Sales to external customers	P 32,653,375,912	P 33,381,657,306	P 15,810,204,165	P 28,780,897,351	P 1,596,411,020	P112,222,545,754
Intersegment sales	230,471,593	-	-	-	-	230,471,593
Finance and other revenues	2,464,375,443	(468,166,961)	166,496,688	1,083,847,491	162,304,229	3,408,856,890
Segment revenues	35,348,222,948	32,913,490,345	15,976,700,853	29,864,744,842	1,758,715,249	115,861,874,237
Cost of sales and expenses excluding depreciation and amortization	(21,825,015,956)	(26,630,377,258)	(13,828,636,701)	(21,263,217,401)	(1,134,896,150)	(84,682,143,467)
	13,523,206,992	6,283,113,087	2,148,064,152	8,601,527,441	623,819,099	31,179,730,770
Depreciation and amortization	(956,774,624)	(2,100,495,592)	(758,029,439)	(417,026,367)	(49,185,167)	(4,281,377,258)
Finance cost and other charges	(1,378,661,171)	(1,342,812,133)	(157,527,053)	(263,092,696)	(107,055,577)	(3,249,148,630)
Profit before tax	11,187,771,197	2,839,805,362	1,232,507,660	7,921,408,378	467,578,355	23,649,070,952
Tax expense	(2,571,452,012)	(66,665,186)	(444,026,455)	(2,074,293,503)	(112,364,600)	(5,268,801,756)
SEGMENT PROFIT	P 8,616,319,185	P 2,773,140,176	P 788,481,205	P 5,847,114,875	P 355,213,755	P 18,380,269,196
SEGMENT ASSETS AND LIABILITIES						
Segment assets	P169,461,257,482	P 60,758,944,954	P 13,202,719,956	P 35,201,294,060	P31,238,285,371	P309,862,501,823
Segment liabilities	68,494,968,424	26,448,067,054	7,983,040,586	3,187,496,148	7,566,385,608	113,679,957,820

	2012					
	Megaworld	Travellers	GADC	Emperador	GERI	Total
REVENUES						
Sales to external customers	P 24,978,901,509	P 31,077,193,397	P 13,655,826,010	P 22,812,319,912	P 1,190,764,053	P 93,715,004,881
Intersegment sales	3,012,151,675	-	-	-	-	3,012,151,675
Finance and other revenues	2,560,375,097	772,741,044	267,944,216	781,970,417	193,564,790	4,576,595,564
Segment revenues	30,551,428,281	31,849,934,441	13,923,770,226	23,594,290,329	1,384,328,843	101,303,752,120
Cost of sales and expenses excluding depreciation and amortization	(16,955,606,995)	(21,863,214,717)	(12,115,607,504)	(16,380,766,074)	(918,668,639)	(68,233,863,929)
	13,595,821,286	9,986,719,724	1,808,162,722	7,213,524,255	465,660,204	33,069,888,191
Depreciation and amortization	(752,581,923)	(1,709,967,602)	(658,984,536)	(329,739,387)	(40,550,406)	(3,491,823,854)
Finance cost and other charges	(1,074,095,505)	(1,370,935,195)	(124,448,117)	(6,722,845)	(106,344,069)	(2,682,545,731)
Profit before tax	11,769,143,858	6,905,816,927	1,024,730,069	6,877,062,023	318,765,729	26,895,518,606
Tax expense	(2,252,723,420)	(68,154,087)	(331,072,521)	(1,829,878,637)	(54,395,877)	(4,536,224,542)
SEGMENT PROFIT	P 9,516,420,438	P 6,837,662,840	P 693,657,548	P 5,047,183,386	P 264,369,852	P 22,359,294,064
SEGMENT ASSETS AND LIABILITIES						
Segment assets	P144,741,789,488	P 47,669,993,170	P 10,760,048,035	P 12,808,719,356	P24,997,149,139	P240,977,699,188
Segment liabilities	61,439,939,898	25,562,806,500	6,311,772,206	2,854,727,780	6,778,219,741	102,947,466,125

4.4 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2014	2013	2012
Revenues			
Total segment revenues	P 135,509,985,632	P 115,861,874,237	P 101,303,752,120
Unallocated corporate revenue	2,218,474,605	7,747,923,359	3,842,372,239
Elimination of intersegment revenues	(12,254,292,301)	(230,471,593)	(3,012,151,675)
Revenues as reported in consolidated profit or loss	P 125,405,159,774	P 123,379,326,003	P 102,133,972,684
Profit or loss			
Segment operating profit	P 34,109,849,643	P 18,380,269,196	P 22,359,294,064
Unallocated corporate profit (loss)	(745,868,213)	4,905,682,283	1,146,513,784
Elimination of intersegment revenues	(12,254,292,301)	(230,471,593)	(3,012,151,671)
Profit as reported in consolidated profit or loss	P 21,109,689,129	P 23,055,479,886	P 20,493,656,177
Assets			
Segment assets	P 393,844,957,744	P 309,862,501,823	P 240,977,699,188
Unallocated corporate assets	15,773,966,350	22,537,907,703	31,233,323,839
Total assets reported in the consolidated statements of financial position	P 409,618,924,094	P 332,400,409,526	P 272,211,023,027
Liabilities			
Segment liabilities	P 156,528,981,226	P 113,679,957,820	P 102,947,466,125
Unallocated corporate liabilities	35,606,526,996	28,498,806,074	25,507,516,541
Total liabilities reported in the consolidated statements of financial position	P 192,135,508,222	P 142,178,763,894	P 128,454,982,666

Concentration of revenue is considered when at least 10% of total segment revenue is generated from a single customer. There is no concentration of the Group's revenue in a single customer as the 10% threshold has not been met in any of the years presented.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	Note	2014	2013
Cash on hand and in banks		P 36,443,189,515	P 27,965,296,671
Short-term placements	30.3(a)	45,615,647,132	67,012,228,774
		P 82,058,836,647	P 94,977,525,445

Cash in banks generally earn interest at rates based on daily bank deposit rates (see Note 26).

Short-term placements are made for varying periods between 15 to 91 days and earn effective interest per annum ranging from 1.10% to 4.00% in 2014, 0.50% to 4.90% in 2013 and 3.0% to 5.0% in 2012. Placements amounting to P113.5 million and P111.4 million as at December 31, 2014 and 2013, respectively, which earns effective interest of 1.25% in 2014 and 3.5% in 2013, and have a term of 360 days, for both years, are shown under Other Current Assets account in the consolidated statements of financial position (see Note 9).

Certain financial assets and financial liabilities are subject to offsetting and similar agreements. In 2013, a portion of the short-term placements with a foreign bank is partially offset by the amount of bank loan granted by the same foreign bank, with Philippine peso equivalent of P799.4 million. No similar transaction occurred in 2014.

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

	Notes	2014	2013
Current:			
Trade receivables	17(d, m), 29.4, 29.7	P 32,445,573,616	P 23,737,469,759
Advances to contractors and suppliers		7,860,189,579	3,840,435,633
Due from employees and related parties	29.9	1,833,047,421	1,239,264,958
Accrued interest receivable		325,553,619	319,639,080
Others		957,634,649	1,597,606,926
		43,421,998,884	30,734,416,356
Allowance for impairment		(713,713,388)	(659,628,986)
		42,708,285,496	30,074,787,370
Non-current:			
Trade receivables	29.4	28,921,208,725	24,577,022,253
Others		5,571,232	44,665,600
		28,926,779,957	24,621,687,853
Allowance for impairment		(12,224,936)	(12,224,936)
		28,914,555,021	24,609,462,917
		P 71,622,840,517	P 54,684,250,287

Most receivables from trade customers, particularly those relating to real estate sales, are covered by postdated checks. In 2014 and 2013, certain trade receivables amounting to P136.5 million and P220.0 million, respectively, have been discounted on a with-recourse basis to a local bank to partially cover a bank loan with outstanding balance of P136.5 million and P219.7 million, respectively [see Note 17(m)]. Further, additional portion of certain trade receivables were assigned on a with-recourse basis with certain local banks to cover the loan with outstanding balance of P1,304.7 million and P779.2 million as at December 31, 2014 and 2013, respectively [see Note 17(d)].

The installment period of real estate sales contracts averages from one to five years. These trade receivables are noninterest-bearing and are remeasured at amortized cost using the effective interest rate of 10%. Interest income from amortization amounted to P1,671.1 million, P1,537.1 million and P1,327.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. These amounts are presented as Interest income on real estate sales under Revenue from Sale of Goods account in the consolidated statements of comprehensive income (see Note 23).

Advances to contractors and suppliers pertain to noninterest-bearing and unsecured advances to the Group's contractors and suppliers as initial payment or mobilization funds for services to be rendered and goods to be delivered to the Group. These are reduced proportionately upon receipt of progress billings from said suppliers.

Due from employees and related parties pertain to noninterest-bearing, unsecured and immediately demandable advances, settlement of which is generally made in cash, or through deduction from employees' salary or employees' liquidation of business related expenses (see Note 29.9).

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer as the titles to the real estate properties remain with the Group until the receivables are fully collected.

A reconciliation of the allowance for impairment at the beginning and end of the reporting periods is shown below.

	Notes	2014	2013
Balance at beginning of year		P 671,853,922	P 663,842,530
Additions due to consolidation of new subsidiaries		50,771,885	-
Impairment losses during the year	25, 26	55,457,139	8,011,392
Write-off of trade receivables previously provided with allowance		(52,144,622)	-
Balance at end of year		P 725,938,324	P 671,853,922

Impairment losses are presented as part of Other Operating Expenses (see Note 25) and Finance Cost and Other Charges (see Note 26).

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to Trade and Other Receivables as the amounts recognized consist of a large number of receivables from various customers.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of foreign investments, held for trading, as follows:

	2014	2013
Marketable debt securities	P 2,121,449,412	P 5,082,096,910
Equity securities - quoted	2,229,772,029	2,280,961,689
Derivative assets	-	12,684,368
	P 4,351,221,441	P 7,375,742,967

Marketable debt securities, which bear interest ranging from 2.8% to 11.1%, 3.3% to 10.6% and 4.6% to 8.9% per annum as at December 31, 2014, 2013 and 2012, respectively, are measured at their fair values determined directly by reference to published prices quoted in an active market. The net changes in fair values of these financial assets are presented as part of either Fair value gains – net or Fair value losses – net under Finance and Other Income or Finance Cost and Other Charges, respectively, in the consolidated statements of comprehensive income (see Note 26). Interest income amounting to P995.1 million, P890.0 million and P808.5 million for 2014, 2013 and 2012, respectively, is shown as part of Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

A portion of marketable debt securities placed with certain foreign banks is covered by a set-off provision. The loans set-off against marketable debt securities amounted to U.S.$127.6 million (P5,691.8 million) and U.S.$53.4 million (P2,368.6 million) as at December 31, 2014 and 2013, respectively.

Derivative assets represent the fair market value gain of foreign currency forward option contracts with certain banks maturing with certain currencies against the U.S. dollar. The derivative asset is valued at U.S.$0.29 million (P12.7 million) as at December 31, 2013. However, in 2014, the fair market value of the contracts declined; hence the net amount is presented as part of Derivative liability under Other Current Liabilities section of the 2014 consolidated statements of financial position (see Note 20). Changes in foreign currency value arising from such investments are taken up in profit or loss and are recorded as part of Fair value gains – net under Finance and Other Income account in the consolidated statement of comprehensive income (see Note 26).

8. INVENTORIES

The details of inventories are shown below.

	Notes	2014	2013
At cost:			
Real estate for sale	17(m)	P 54,703,177,133	P 42,172,338,080
At net realizable value:			
Raw and in process goods	29.3	12,778,572,718	2,188,104,273
Finished goods		2,160,508,984	1,038,348,332
Golf and resort shares for sale		2,306,759,944	2,177,560,905
Food, supplies and other consumables		2,041,084,025	1,631,688,061
		19,286,925,671	7,035,701,571
Allowance for inventory write-down	2.5	(283,980,886)	(132,670,218)
		19,002,944,785	6,903,031,353
		P 73,706,121,918	P 49,075,369,433

Real estate for sale mainly pertains to the accumulated costs incurred in developing residential houses, lots and condominium units for sale. Total borrowing costs capitalized amounts to P445.8 million and P119.6 million for the years ended December 31, 2014 and 2013, respectively.

Golf and resort shares for sale comprise of proprietary or membership shares (landowner shares and founders' shares) that are of various types and costs. The cost of the landowner resort shares is based on the acquisition and development costs of the land and the project. The cost of the founders' shares is based on the par value of the resort shares which is P100.

Food, supplies and other consumables include paper and packaging, promotional materials, membership program items, operating supplies, spare parts, fuel and lubricants. These are stated at NRV which is equal or lower than their cost.

A reconciliation of the allowance for inventory write-down at the beginning and end of the reporting periods is shown below.

	Notes	2014	2013
Balance at beginning of year		**P 132,670,218**	P 140,357,186
Allowance for inventory write-down from newly acquired subsidiary		**129,337,459**	-
Additional losses during the year	25	**21,973,209**	-
Reversals of write-down	26	**-**	(7,686,968)
Balance at end of year		**P 283,980,886**	P 132,670,218

Allowance for inventory write-down amounting to P129.3 million pertains to the allowance for raw and in process goods and finished goods in Scotland.

The additional losses on inventories amounting to P22.0 million in 2014 and P28.0 million in 2012 were recognized to reduce the promotional materials and supplies to their net realizable values. There were no additional provisions recognized in 2013. The reversals of inventory write-down amounting to P7.7 million in 2013 were recognized upon disposal to third parties of previously written down items. The additional losses are shown as Write-down of inventories under Other Operating Expenses account (see Note 25) in the consolidated statements of comprehensive income. The reversals of write-down are shown as part of Miscellaneous under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

9. OTHER ASSETS

The composition of this account is shown below.

	Note	2014	2013
Current:			
Input VAT		**P 2,641,981,181**	P 1,899,168,556
Prepayments		**1,663,687,288**	560,485,995
Creditable withholding tax		**600,935,738**	588,641,046
Time deposits	5	**113,450,465**	111,438,992
Refundable deposits		**58,383,843**	14,294,652
Deferred commission		**56,484,103**	58,335,362
Advances to suppliers		**12,935,293**	528,865,387
Others		**505,707,273**	450,777,922
		5,653,565,184	4,212,007,912
Non-current:			
Advances for future investment		**2,588,235,294**	-
Refundable deposits		**1,096,222,700**	953,536,851
Deferred input VAT		**427,420,020**	282,471,655
Claims for tax refund		**112,282,175**	112,861,333
Accumulated jackpot seed money		**85,625,000**	57,125,000
Deferred costs		**3,106,428**	97,320,104
Advance payments on assets purchased		**506,119,266**	453,493,738
Rental receivable		**33,296,444**	33,323,876
Loans receivable		**20,000,000**	25,000,000
Front-end payment for credit facility		**71,545,250**	71,545,250
Others		**244,681,568**	113,751,458
		5,188,534,145	2,200,429,265
		P 10,842,099,329	P 6,412,437,177

Prepayments include operating and office supplies, prepaid flight hours, taxes, insurance, rentals, benefits and advertising which are expected to be realized in the next reporting period.

Advances for future investment pertain to the advances made by Travellers in 2014 to PAGCOR in connection with the development of Site A of the Entertainment City Project in accordance with the Provisional License Agreement with PAGCOR (see Note 30.3). The amount paid by Travellers consists of advance payment amounting to P2.0 billion and upfront cash of P0.6 billion to fulfill the future investment. Also in 2014, Travellers accepted the turnover and delivery of possession of the property from PAGCOR [see Note 30.3(c)]. Management remains committed to fulfill the investment as at December 31, 2014.

10. ADVANCES TO LANDOWNERS AND JOINT VENTURES

The Group enters into numerous joint venture agreements for the joint development of various real estate projects. The joint venture (JV) agreements stipulate that the Group's joint venturer shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of condominium to be constructed on the properties. Costs incurred for these projects are recorded under the Property Development Costs account in the consolidated statements of financial position (see Note 2.6).

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint ventures under the JV agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the JV agreements, the Group, in addition to providing specified portion of total project development costs, also commits to advance mutually agreed-upon amounts to the landowners to be used for pre-development expenses such as the relocation of existing occupants.

Repayments of these advances shall be made upon completion of the project development either in the form of the developed lots corresponding to the owner's share in saleable lots or in the form of cash to be derived from the sales of the landowner's share in the saleable lots and residential and condominium units.

The total amount of advances made by the Group, less repayments and unearned discount and interest, is presented as part of the Advances to Landowners and Joint Ventures account in the consolidated statements of financial position.

The net commitment for construction expenditures of the Group amounts to:

	2014	2013
Total commitment for construction expenditures	**P 21,523,901,115**	P 14,156,183,501
Total expenditures incurred	**(15,356,899,341)**	(11,272,848,341)
Net commitment	**P 6,167,001,774**	P 2,883,335,160

The Group's interests in jointly-controlled operations and projects, ranging from 50% to 95% in 2014 and 73% to 95% in 2013, are as follows:

Megaworld:
- McKinley Hills
- McKinley West
- Newport City
- Manhatan Garden City
- The Noble Place
- Uptown Bonifacio

SPI:
- Adriatico Gardens
- Capitol Plaza
- Governor's Hill
- Mandara
- Sta. Rosa Heights
- Sta. Rose Hills
- Sentosa
- Asmara
- Gibraltar
- One Lakeshore
- Riva Bella
- Solana
- Gentri Heights

EELHI:
- Pioneer Woodlands
- San Lorenzo Place
- Various Metro Manila and Calabarzon projects

GERI:
- Caliraya Spring
- Forest Hills
- Kingsborough
- Monte Cielo de Peñafrancia
- Mountain Meadows
- Newport Hills
- Alabang West
- Southwoods Peak
- Pahara at Southwoods
- Sta. Barbara Heights Phase 2 & 3

The aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 related to the Group's interest in joint ventures, presented above, are not presented or disclosed as the joint ventures in which the Group is involved are not jointly-controlled entities (see Note 2.2).

As at December 31, 2014 and 2013, the Group has no other contingent liabilities with regard to these joint ventures or has assessed that the probability of loss that may arise from contingent liabilities is remote.

All of the Group's advances have been reviewed for indications of impairment. Based on management's evaluation, no impairment loss is required to be recognized for the years ended December 31, 2014, 2013 and 2012.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following:

	2014	2013
Marketable debt securities - quoted	**P 3,717,359,428**	P 4,399,906,888
Equity securities:		
Quoted	**2,087,530,210**	117,218,306
Unquoted	**170,455,430**	245,024,937
Allowance for impairment	**(3,257,940)**	(3,257,940)
	167,197,490	241,766,997
	2,254,727,700	358,985,303
	P 5,972,087,128	P 4,758,892,191

The securities can be further analyzed as follows:

	2014	2013
Local	**P 2,257,985,640**	P 362,243,243
Allowance for impairment	**(3,257,940)**	(3,257,940)
	2,254,727,700	358,985,303
Foreign	**3,717,359,428**	4,399,906,888
	P 5,972,087,128	P 4,758,892,191

The reconciliation of the carrying amounts of AFS financial assets are as follows:

	2014	2013
Balance at beginning of year	**P 4,758,892,191**	P 5,281,446,125
AFS financial assets of newly acquired subsidiary	**10,002,122**	-
Additions	**1,687,722,424**	676,652,582
Disposals	**(905,627,289)**	(1,053,135,127)
Reclassification due to consolidation of a subsidiary	**(199,212,026)**	-
Fair value gains (losses)	**620,309,706**	(146,071,389)
Balance at end of year	**P 5,972,087,128**	P 4,758,892,191

In 2014 and 2013, marketable debt securities bear interests ranging from 5.4% to 11.0% and 5.4% to 10.4% per annum, respectively. As at December 31, 2014 and 2013, there were no permanent decline in value on these securities; therefore, no losses are transferred from equity to profit or loss.

Equity securities consist of local shares of stock and various club shares which are denominated in Philippine pesos. Golf club shares are proprietary membership shares.

The fair values of quoted AFS financial assets have been determined by reference to published prices in an active market. The changes in the fair value arising from these AFS financial assets amounted to P620.3 million gain in 2014, P146.1 million loss in 2013 and P608.3 million gain in 2012 and are presented as part of Net Unrealized Fair Value Gains (Losses) on AFS Financial Assets in the consolidated statements of comprehensive income.

Upon disposal of various AFS financial assets, the Group realized gains amounting to P41.9 million, P128.2 million and P272.1 million in 2014, 2013 and 2012, respectively, and is presented as Gain on sale of investment in AFS financial assets under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

12. INVESTMENTS IN AND ADVANCES TO ASSOCIATES AND OTHER RELATED PARTIES

12.1 Breakdown of Carrying Values

The details of investments in and advances to associates and other related parties and interest in joint ventures, which are carried at equity method, are as follows:

	Notes	2014	2013
Investments of Megaworld in associates –			
Acquisition costs:			
SHDI	12.5	**P 875,445,000**	P 875,445,000
BWDC	12.6	**199,212,026**	-
PTHDC		**64,665,000**	64,665,000
LFI	12.4	**-**	1,442,492,819
		1,139,322,026	2,382,602,819
Accumulated share in net profits (loss):			
Balance at beginning of year		**(751,667,494)**	(394,889,263)
Share in net profits (losses) for the year		**85,271,000**	(10,267,088)
Reversal resulting from consolidation of subsidiaries	12.2, 12.4	**11,501,809**	47,770,162
Reversal resulting from disposal of AGPL		**-**	(394,281,305)
Balance at end of year		**(654,894,685)**	(751,667,494)
Share in other comprehensive income		**-**	5,807,663
		484,427,341	1,636,742,988
Investments of GERI in associates – *(effectively associates of Megaworld in 2014)*			
Acquisition costs:			
BNHGI	12.7	**775,419,297**	-
NPI		**734,396,528**	734,396,528
FERC		**28,000,000**	28,000,000
FENI		**10,000,003**	10,000,003
FESI		**7,808,360**	7,808,360
FERSAI		**4,000,000**	4,000,000
		1,559,624,188	784,204,891
Accumulated share in net losses:			
Balance beginning of year		**(44,081,651)**	(43,352,825)
Share in net losses for the year		**(1,160,444)**	(728,826)
Balance at end of year		**(45,242,095)**	(44,081,651)
		1,998,809,434	740,123,240
Investment of AG Cayman in AGPL	12.3		
Acquisition cost		**-**	-
Accumulated share in net profits:			
Balance at beginning of year		**-**	16,208,169
Derecognition due to disposal of investment in associate		**-**	(16,208,169)
Balance at end of year		**-**	-
		-	-
Investment of EMP in BLC	12.8		
Acquisition cost		**3,703,721,965**	-
Share in net profits for the year		**39,534,826**	-
		3,743,256,791	-
Investment of GADC in GCFII, a joint venture – acquisition cost	12.9	**-**	10,000,000
Accumulated share in net profits:			
Balance at beginning of year		**(1,688,826)**	10,917,947
Share in net losses for the year		**(907,399)**	(2,606,773)
Reversal resulting from consolidation of subsidiary		**2,596,225**	-
Dividends received		**-**	(10,000,000)
Balance at end of year		**-**	(1,688,826)
		-	8,311,174
		5,742,066,225	2,385,177,402
Advances to associates and other related parties	29.8	**2,415,056,035**	2,713,925,501
		P 8,157,122,260	P 5,099,102,903

The total share in net profits amounts to P122.7 million and P118.5 million for the years ended December 31, 2014 and 2012, respectively, while total share in net loss amounts to P13.6 million for the year ended December 31, 2013. These amounts are shown as Share in Net Profits (Losses) of Associates and Joint Ventures – Net account in the consolidated statements of comprehensive income.

The carrying costs of Investments in Associates is lower than the book values of such investments; hence, management has assessed that recognition of impairment losses in 2014, 2013 and 2012 is not necessary.

12.2 GPMAI

In 2013, as a result of Megaworld's increase in ownership interest in EELHI, its ownership interest over GPMAI also increased. Also, Megaworld retains control of GPMAI's BOD as all members of the BOD or GPMAI are also members of Megaworld's BOD. Hence, control was re-established and GPMAI becomes a subsidiary of Megaworld (see Note1).

12.3 AGPL

In 2013, RHGI, a wholly owned subsidiary of Megaworld sold its entire ownership interest in AGPL to a third party. On the same year, AG Cayman also sold its entire ownership interest in AGPL. Due to such disposals, AGPL ceased to be an associate of the Group.

12.4 LFI

In 2013, Megaworld acquired 50% ownership over LFI which is engaged in leasing of real estate properties. Megaworld has not yet established control over LFI; hence, the latter was considered an associate only as at December 31, 2013. On January 21, 2014, Megaworld acquired additional 16.67% ownership interest for P536.8 million in LFI increasing Megaworld's total ownership interest to 66.67%; thereby, obtaining control.

12.5 SHDI

The shares of stock of SHDI are listed in the PSE. The total quoted or market value of investments in this associate amounted to P1.1 billion and P850.7 million as at December 31, 2014 and 2013, respectively.

12.6 BWDC

In 2014, the Group reclassified its ownership interest in BWDC from AFS financial assets to investment in associate after gaining significant influence over the operating and financial policies through 5 out of 11 BOD representations.

12.7 BNHGI

In December 2014, FEPI sold 40% of its equity interest in its subsidiary, BNHGI. Management assessed that the Group has lost control over BNHGI due to the loss of the Group's ability to direct the relevant activities of BNHGI. The fair value of the new interest of the Group in BNHGI amounting to P775.4 million was recognized as the deemed cost of the new investment in associate. Accordingly, a gain from sale amounting to P377.5 million was recognized which is presented as part of Gain on acquisitions and deconsolidation of subsidiaries under Finance and Other Income account in the 2014 consolidated statement of comprehensive income (see Note 26).

12.8 BLC

In February 2014, GES entered into a joint venture agreement with Gonzales Byass, S.A. for the joint control of BLC with 50% equity interest for each venturer. BLC's primary business consists of the planting and growing of grapes and the exploitation of vineyards, the production, ageing and preparation of wines and vinegars; the production of alcohol; the production, preparation and ageing of brandy, aguardientes, compounds, liquors and in general, all kinds of spirits.

12.9 GCFII

In March 2014, GADC made an additional subscription to GCFII's capital stock. The additional subscription resulted to the increase in GADC's controlling interest from 50% to 60% and the reclassification of the investment as a subsidiary of GADC.

12.10 Summarized Financial Information

The aggregated amounts of assets, liabilities, revenues and net profit (loss) of the associates and jointly controlled entities are as follows as at December 31(in thousands):

	2014			
	Assets	**Liabilities**	**Revenues**	**Net Profit (Loss)**
NPI	P 5,675,419	P 1,316,986	P -	(P 256)
BNHGI	1,799,730	194,220	-	(212)
PTHDC	1,136,372	1,005,581	5	(557)
SHDI	484,173	335,452	307,264	30,983
FERC	277,875	209,509	1,493	(1,568)
FERSAI	157,909	173,014	5,703	(2,939)
FESI	126,676	31,356	20,219	(1,296)
FENI	98,511	931,113	-	-
BWDC	3,701,916	3,108,438	316,443	160,291
BLC	4,729,500	1,237,624	5,353,564	79,070
	P 18,188,081	**P 8,543,293**	**P 6,004,691**	**P 263,516**

	2013			
	Assets	Liabilities	Revenues	Net Profit (Loss)
NPI	P 5,675,695	P 1,317,007	P 35	(P 85)
PTHDC	1,136,149	1,004,802	18	(451)
LFI	750,624	112,988	198,185	53,399
SHDI	398,645	273,169	282,888	17,497
FERC	297,085	227,151	248	(4,747)
FERSAI	157,130	169,296	4,000	(4,706)
FESI	126,533	29,917	22,420	(2,066)
FENI	98,511	93,113	20,314	7,960
GCFII	34,939	18,316	50,453	(5,214)
	P 8,675,311	P 3,245,759	P 578,561	P 61,587

13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of property, plant and equipment at the beginning and end of the reporting periods are shown below.

	Land and Land Improvements	**Buildings and Leasehold Improvements**	**Machinery and Equipment**	**Transportation Equipment**	**Condominium Units, Fixtures and Other Equipment**	**Construction in Progress**	**Total**
December 31, 2014							
Cost	P 9,744,801,843	P27,023,462,781	P 17,273,114,250	P 835,103,164	P 6,543,083,196	P12,542,167,037	P73,961,732,271
Accumulated depreciation, amortization and impairment	(125,913,465)	(6,264,369,660)	(8,878,835,010)	(426,226,366)	(4,047,650,123)	-	(19,742,994,624)
Net carrying amount	**P9,618,888,378**	**P20,759,093,121**	**P8,394,279,240**	**P 408,876,798**	**P 2,495,433,073**	**P 12,542,167,037**	**P 54,218,737,647**
December 31, 2013							
Cost	P8,848,556,818	P23,253,269,427	P9,846,633,145	P2,248,791,013	P4,694,838,385	P5,871,064,336	P 54,763,153,124
Accumulated depreciation, amortization and impairment	(115,976,822)	(4,412,550,788)	(4,588,156,757)	(1,003,810,893)	(2,980,853,138)	-	(13,101,348,398)
Net carrying amount	P8,732,579,996	P18,840,718,639	P5,258,476,388	P1,244,980,120	P1,713,985,247	P5,871,064,336	P 41,661,804,726
January 1, 2013							
Cost	P7,676,126,272	P22,161,584,959	P7,870,985,788	P2,010,380,647	P4,023,148,565	P1,218,336,017	P 44,960,562,248
Accumulated depreciation, amortization and impairment	(97,063,452)	(3,649,628,504)	(3,296,604,704)	(787,488,093)	(2,241,506,240)	-	(10,072,290,993)
Net carrying amount	P7,579,062,820	P18,511,956,455	P4,574,381,084	P1,222,892,554	P1,781,642,325	P1,218,336,017	P 34,888,271,255

A reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the reporting periods is shown below.

	Land and Land Improvements	Buildings and Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Condominium Units, Fixtures and Other Equipment	Construction in Progress	Total
Balance at January 1, 2014 net of accumulated depreciation, amortization and impairment	P 8,732,579,996	P18,840,718,639	P 5,258,476,388	P 1,244,980,120	P 1,713,985,247	P 5,871,064,336	P41,661,804,726
Property, plant and equipment of newly acquired subsidiaries	360,000,376	2,037,060,673	2,894,371,436	970,334	994,379,835	-	6,286,782,654
Additions	536,244,649	806,037,186	1,222,061,129	112,352,644	426,435,906	7,316,951,606	10,420,083,120
Disposals – net	-	(118,352,115)	(118,683,379)	(748,233,051)	(8,750,069)	(3,782,485)	(997,801,099)
Reclassifications – net		487,277,065	160,275,998	2	(3,701,327)	(642,066,420)	1,785,318
Impairment loss	-	(205,095,122)	(4,900,000)	-	-	-	(209,995,122)
Depreciation and amortization charges for the year	(9,936,643)	(1,088,553,205)	(1,017,322,332)	(201,193,251)	(626,916,519)	-	(2,943,921,950)
Balance at December 31, 2014 net of accumulated depreciation, amortization and impairment	**P9,618,888,378**	**P20,759,093,121**	**P 8,394,279,240**	**P 408,876,798**	**P 2,495,433,073**	**P12,542,167,037**	**P54,218,737,647**
Balance at January 1, 2013 net of accumulated depreciation amortization and impairment	P7,579,062,820	P18,511,956,455	P4,574,381,084	P1,222,892,554	P1,781,642,325	P1,218,336,017	P34,888,271,255
Property, plant and equipment of newly acquired subsidiaries	-	-	-	-	63,000,110	-	63,000,110
Additions	1,172,374,746	1,246,880,141	1,739,847,576	285,778,028	630,523,072	5,479,407,519	10,554,811,085
Disposals – net	-	(24,128,152)	(46,716,241)	(29,451,243)	(397,838)	(235,567,190)	(336,260,664)
Reclassifications – net	55,800	314,962,222	85,924,221	-	5,530,654	(591,112,010)	(184,639,113)
Impairment loss – reversal	-	15,000,000	3,616,806	-	-	-	18,616,806
Depreciation and amortization charges for the year	(18,913,370)	(1,223,952,030)	(1,098,577,058)	(234,239,219)	(766,313,076)	-	(3,341,994,753)
Balance at December 31, 2013 net of accumulated depreciation, amortization and impairment	P8,732,579,996	P18,840,718,639	P5,258,476,388	P1,244,980,120	P1,713,985,247	P5,871,064,336	P41,661,804,726

Construction in progress includes accumulated costs incurred on the casino and hotel sites, retail spaces and parking decks being constructed as part of Travellers' investment commitment in accordance with its Provisional License Agreement with PAGCOR [see Note 30.3(a)]. In 2013, Travellers transferred certain potion of construction in progress at cost of P235.5 million to RWBCI. RWBCI became a co-licensee of Travellers with respect to the development of Site A of the integrated tourism project covered by the Provisional License Agreement with PAGCOR (see Note 30.3).

The amount of construction in progress includes capitalized borrowing costs amounting to P348.5 million and P222.4 million in 2014 and 2013, respectively, representing the actual borrowing costs, net of related investment income, incurred on loans obtained to fund the construction project [see Note 17(j)].

In 2014 and 2012, GADC recognized impairment loss of P210.0 million and P30.6 million, respectively, to write down to recoverable amount certain property and equipment. In 2013, GADC recognized gain on reversal of impairment losses amounting to P18.6 million. Impairment loss is presented as Impairment of property, plant and equipment under Other Operating Expenses in the consolidated statements of comprehensive income (see Note 25), while the gain on reversal of the impairment losses are presented as part of Miscellaneous under Finance and Other Income account in the 2013 consolidated statements of comprehensive income (see Note 26). The value in use was computed using GADC's weighted average cost of capital of 18%, 11% and 12% in 2014, 2013 and 2012, respectively.

The Group recognized a net gain on disposal of various property, plant and equipment totaling P69.3 million in 2014, P25.7 million in 2013 and P0.2 million in 2012, which is presented as part of Miscellaneous under Finance and Other Income account in the 2014 and 2013 consolidated statements of comprehensive income (see Note 26).

In 2014, the Group authorized the sale of aircraft held by Travellers which was sold to a third party in the same year for the net proceeds of P640.6 million. The loss on sale amounting to P81.1 million from this transaction is presented as part of Miscellaneous under Finance and Other Income account in the 2014 consolidated statement of comprehensive income (see Note 26). The aircraft was held as collateral for a certain interest-bearing loan. Such loan was fully paid in the first quarter of 2014 [see Note 17(t)].

The amount of depreciation is presented as part of Depreciation and Amortization which is presented under cost of goods sold, cost of services and other operating expenses (see Notes 24 and 25). In 2014, depreciation expense amounting to P30.3 million was capitalized to form part of the work-in-process inventory. Such capitalized amount represents depreciation expense on barrels and warehouse buildings wherein the maturing bulk stocks of whisky are held.

Land and building amounting to P130.0 million is collateralized by GADC to a local bank. As at December 31, 2014 and 2013, the carrying values of the land and building amounted to P112.1 million and P44.9 million, respectively [see Note 17(n)].

The carrying amounts of property, plant and equipment also increased in both years due to the consolidation of property, plant and equipment of newly acquired subsidiaries (see Note 1).

As at December 31, 2014 and 2013, total cost of fully depreciated assets that are still being used in operations amounted to P3.4 billion and P1.5 billion, respectively.

14. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land, buildings and improvements which are held for investment purposes only, either to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of the reporting periods are shown below.

	Land and Land Improvements	Buildings and Improvements	Total
December 31, 2014			
Cost	P 9,568,371,898	P 33,106,007,625	P 42,674,379,523
Accumulated depreciation	(136,338,719)	(4,795,748,682)	(4,932,087,401)
Net carrying amount	**P 9,432,033,179**	**P 28,310,258,943**	**P 37,742,292,122**
December 31, 2013			
Cost	P 6,982,896,809	P 24,397,702,795	P 31,380,599,604
Accumulated depreciation	(134,409,248)	(3,955,761,918)	(4,090,171,166)
Net carrying amount	P 6,848,487,561	P 20,441,940,877	P 27,290,428,438
January 1, 2013			
Cost	P 1,942,749,214	P 20,033,495,416	P 21,976,244,630
Accumulated depreciation	(134,409,248)	(3,092,429,182)	(4,090,171,166)
Net carrying amount	P 1,810,269,436	P 16,941,066,234	P 18,751,335,670

A reconciliation of the carrying amounts of investment property at the beginning and end of the reporting periods is shown below.

	Land and Land Improvements	Buildings and Improvements	Total
Balance at January 1, 2014, net of accumulated depreciation	P 6,848,487,561	P 20,441,940,877	P 27,290,428,438
Investment properties of newly acquired subsidiaries	2,932,084,985	391,632,748	3,323,717,733
Additions	13,145,142	8,726,306,159	8,739,451,301
Disposals	(359,755,039)	(7,685,142)	(367,440,181)
Reclassifications – net	-	(1,785,318)	(1,785,318)
Depreciation charges for the year	(1,929,470)	(1,240,150,381)	(1,242,079,851)
Balance at December 31, 2014, net of accumulated depreciation	**P 9,432,033,179**	**P 28,310,258,943**	**P 37,742,292,122**
Balance at January 1, 2013, net of accumulated depreciation	P 1,810,269,436	P 16,941,066,234	P 18,751,335,670
Investment properties of newly acquired subsidiaries	5,020,588,055	-	5,020,588,055
Additions	19,559,540	3,677,300,034	3,696,859,574
Disposals	-	(3,873,468)	(3,873,468)
Reclassifications – net	-	695,129,708	695,129,708
Depreciation charges for the year	(1,929,470)	(867,681,631)	(869,611,101)
Balance at December 31, 2013, net of accumulated depreciation	P 6,848,487,561	P 20,441,940,877	P 27,290,428,438

Rental income earned from the investment property amounted to P7.6 billion, P6.4 billion and P5.4 billion for the years ended December 31, 2014, 2013 and 2012, respectively, and shown as Rental income under Rendering of Services in the consolidated statements of comprehensive income (see Note 23). The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property amounted to P471.7 million, P368.8 million and P186.4 million in 2014, 2013 and 2012, respectively, are presented as part of Cost of Services in the consolidated statements of comprehensive income (see Note 24). The operating lease commitments of the Group as a lessor are fully disclosed in Note 30.1.

Depreciation charges are presented as part of Depreciation and amortization under Cost of Services account in the consolidated statements of comprehensive income (see Note 24).

As at December 31, 2014, none of the Group's investment properties were held as collateral.

The fair values of these properties amounted to P173.1 billion and P123.6 billion as of December 31, 2014 and 2013, respectively. These are estimated either by reference to current prices for similar properties or by calculation of the present value of the estimated cash inflows anticipated until the end of the life of the investment property.

15. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of the reporting periods are shown below (see Note 2.11).

	Goodwill	Trademarks	Leasehold Rights	Computer Software	Total
December 31, 2014					
Cost	P 18,385,690,018	P 11,000,870,823	P 1,194,058,929	P 29,633,358	P30,610,253,128
Accumulated amortization	-	(802,540,987)	(38,104,221)	(24,682,563)	(865,327,771)
Net carrying amount	**P 18,385,690,018**	**P 10,198,329,836**	**P 1,155,954,708**	**P 4,950,795**	**P29,744,925,357**
December 31, 2013					
Cost	P 10,700,039,578	P 1,028,726,681	P 57,960,616	P 23,247,259	P11,809,974,134
Accumulated amortization	-	(699,668,319)	(37,082,426)	(23,247,259)	(759,998,004)
Net carrying amount	P 10,700,039,578	P 329,058,362	P 20,878,190	P -	P11,049,976,130
January 1, 2013					
Cost	P 10,700,039,578	P 1,012,572,767	P 58,835,616	P 23,247,261	P11,794,695,222
Accumulated amortization	-	(597,334,115)	(35,001,673)	(20,664,232)	(653,000,020)
Net carrying amount	P 10,700,039,578	P 415,238,652	P 23,833,943	P 2,583,029	P11,141,695,202

A reconciliation of the carrying amounts at the beginning and end of the reporting periods of intangible assets is shown below.

	Goodwill	Trademarks	Leasehold Rights	Computer Software	Total
Balance at January 1, 2014, net of accumulated amortization	P 10,700,039,578	P 329,058,362	P 20,878,190	P -	P11,049,976,130
Additions due to consolidation of subsidiaries	7,685,650,440	9,972,144,142	-	-	17,657,794,582
Additions	-	-	1,139,304,336	6,386,098	1,145,690,434
Disposals	-	-	(1,219,544)	-	(1,219,544)
Amortization for the year	-	(102,872,668)	(3,008,274)	(1,435,303)	(107,316,245)
Balance at December 31, 2014, net of accumulated amortization	**P 18,385,690,018**	**P 10,198,329,836**	**P 1,155,954,708**	**P 4,950,795**	**P29,744,925,357**
Balance at January 1, 2013, net of accumulated amortization	P 10,700,039,578	P 415,238,652	P 23,833,943	P 2,583,029	P11,141,695,202
Additions	-	16,153,914	-	-	16,153,914
Amortization for the year	-	(102,334,204)	(2,955,753)	(2,583,029)	(107,872,986)
Balance at December 31, 2013, net of accumulated amortization	P 10,700,039,578	P 329,058,362	P 20,878,190	P -	P 11,049,976,130

In 2014, the Group recognized P7.7 billion goodwill in relation to EMP's acquisition of WML during the year. The amount of goodwill represents excess of the fair value of cash consideration given up, amounting to P30.3 billion, over the fair value of net identifiable assets acquired, amounting to P22.6 billion, which is composed of P21.7 tangible assets, P10.0 billion intangible assets and P9.1 billion assumed liabilities. In addition, a P12.8 million goodwill was recognized in 2014 in relation to GADC's acquisition of GCFII.

Trademarks include brand names "Emperador Brandy", "Generoso Brandy" and "The BaR" which were acquired up to 2008. In 2013, the Group registered another trademark under the new brand name "Emperador Deluxe." In 2014, from the Group's acquisition of WML, the trademarks "Jura" and "The Dalmore" were also recorded; both trademarks were assessed to have indefinite useful lives.

The amortization of trademarks with finite useful lives amounted to P102.9 million, P102.3 million and P101.3 million for the years ended December 31, 2014, 2013 and 2012, respectively, and are shown as part of Depreciation and Amortization under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

The remaining useful lives, as at December 31, of the trademarks with finite useful lives are as follows:

	2014	2013
Emperador Brandy	**2 years**	3 years
Generoso Brandy	**2 years**	3 years
The BaR	**3.5 years**	4.5 years
Emperador Deluxe	**8.5 years**	9.5 years

In 2014, RWBCI entered into a lease agreement with Nayong Pilipino Foundation (NPF) covering certain parcels of land located at the Manila Bay Reclamation Area in Parañaque City for a period of 25 years, renewable for another 25 years under the terms mutually acceptable to the parties. Upon effectivity of the lease agreement, RWBCI has paid NPF an advance rental amounting to P1.0 billion covering the first 20 years of the lease. There was no amortization recognized in 2014 as the lease agreement entered by RWBCI is close to the end of the reporting period and the amount of amortization is not significant during such year. The Group will amortize the leasehold right starting 2015 until 2034.

Based on the Group's assessment, no impairment loss is required to be recognized on the carrying value of the Group's trademarks as the products that carry such brands are fast moving consumer products. Further, no impairment loss is required to be recognized on the carrying value of the other intangible assets (goodwill, leasehold rights and computer software) as at December 31, 2014, 2013 and 2012.

As at December 31, 2014, the Group has no contractual commitments for the acquisition of any additional trademarks, leasehold rights and computer software.

16. TRADE AND OTHER PAYABLES

The breakdown of this account follows:

	Notes	2014	2013
Trade payables	29.1, 29.4	**P 21,666,230,749**	P 12,973,517,898
Accrued expenses	18, 29.2, 29.5	**7,138,848,344**	4,933,423,387
Retention payable		**2,861,426,165**	2,352,554,274
Gaming license fee payable	30.3(b)	**2,188,749,650**	578,926,247
Due to related parties	29.9	**834,952,605**	1,295,411,359
Liabilities for land acquisition		**588,282,285**	586,320,028
Output VAT payable		**538,194,137**	254,809,111
Unredeemed gaming points		**330,516,956**	590,043,790
Withholding tax payable		**264,383,225**	183,775,425
Others		**1,220,003,359**	1,082,003,108
		P 37,631,587,475	P 24,830,784,627

Trade payables significantly comprise of obligations to subcontractors and suppliers of construction materials for the Group's projects and suppliers of inventories. These also include unredeemed gaming chips determined as the difference between total gaming chips placed in service and the actual inventory of gaming chips under control and custody.

Accrued expenses include accruals for interest, salaries and other benefits, utilities, local and overseas travel, training and recruitment, dues and subscription, advertising, rentals and other operating expenses of the Group.

Retention payable pertains to amount withheld from payments made to contractors for construction works performed to ensure compliance and completion of contracted projects. Upon completion of the contracted projects, the retained amounts are returned to the contractors. Liabilities for land acquisition represent the unpaid portion of land for future development acquired by the Group.

The unredeemed gaming points liability represents the estimated costs of unredeemed casino gaming points issued, which are redeemable for complimentary goods or services of the Group (see Note 2.15).

Others include accrued construction costs, unearned rentals, payables to government and other regulatory agencies, and various unreleased checks which are reverted back to liability.

17. INTEREST-BEARING LOANS

The composition of the Group's outstanding bank loans is shown below.

	2014	2013
Current:		
Local	**P 12,016,123,866**	P 3,653,667,469
Foreign	**14,644,452,582**	142,124,800
	26,660,576,448	3,795,792,269
Non-current:		
Local	**8,038,681,649**	8,695,859,471
Foreign	-	532,724,721
	8,038,681,649	9,228,584,192
	P 34,699,258,097	P 13,024,376,461

The summarized terms and conditions of each availed loan as at December 31, 2014 and 2013 are as follows:

Outstanding Principal Balance *(in Millions of Philippine Pesos)* 2014	2013	Explanatory Notes	Interest Rate	Security	Maturity date
P 14,575.3	P -	(a)	Variable based on LIBOR plus spread	Unsecured	2015
9,251.9	-	(b)	Fixed at 1.38%	Unsecured	2015
5,000.0	-	(c)	Fixed at 5.125%	Unsecured	2021
1,034.7	779.2	(d)	Variable prevailing market rate	Secured	Upon collection of related assigned trade receivables
952.4	1,000.0	(e)	Various rates	Unsecured	2016 to 2019
886.5	-	(f)	Fixed at range of 3.0% to 5.75%	Unsecured	2015
830.0	-	(g)	Fixed at range of 4.18% to 5.17%	Unsecured	2017
714.3	1,666.7	(h)	Variable based on PDSTF-R plus spread	Unsecured	2016
472.5	477.5	(i)	Variable based on PDSTF-R plus spread	Unsecured	2016
216.9	4,429.6	(j)	Floating at 2% + benchmark	Unsecured	2016
200.0	-	(k)	Variable at a minimum of 3.0%	Unsecured	2015
145.8	229.2	(l)	Fixed at 5.5%	Unsecured	2016
136.5	219.7	(m)	Fixed at range of 7.8% to 10.5% in 2013 and 7.8% to 9.6% in 2014	Secured	2015
120.0	120.0	(n)	Fixed at 5%	Secured	2021
93.3	186.7	(o)	Variable based on 91-day treasury bills	Secured	2016
69.2	-	(p)	Fixed at 0.76%	Unsecured	2015
-	3,000.0	(q)	Variable based on PDST-F plus spread	Secured	2017
-	532.7	(r)	Fixed at 10.0%	Unsecured	2025
-	241.0	(s)	Noninterest-bearing	Unsecured	30-90 days
-	142.1	(t)	Variable at a minimum of 3.0%	Secured	2014
P 34,699.3	P 13,024.4				

(a) Short-term interest-bearing loans denominated in foreign currency obtained by EIL from international financial institutions.

(b) Dollar-denominated short-term loan received by EDI from a local commercial bank.

(c) Loan obtained by Megaworld from a local bank payable for a term of seven years. The principal repayments on this loan will commence in August 2015 while interest is payable semi-annually.

(d) Loan balance of SPI arising from assignment of its trade receivables on a with-recourse basis with certain local banks (see Note 6).

(e) Loans drawn by GADC from a P1.0 billion credit facility granted by a local bank. As at December 31, 2014 and 2013, GADC has fully utilized its credit line with the bank. The loans bear an annual interest rate ranging from 3.85% to 5.15% and shall be payable in quarterly installments starting on various dates, earliest being March 2015. However, in 2014, GADC prepaid P47.6 million of these outstanding loans.

(f) Balance from short-term loan obtained by SPI from local banks with a total amount of P1.2 billion. Both principal and interest of the loans are payable on a monthly basis.

(g) Loans obtained by GADC from local bank with equal quarterly payments starting September 26, 2016.

(h) This is the unpaid balance from a P5.0 billion loan availed by Megaworld from a local bank in 2008 and 2009 to fund the development of its various real estate projects. The loan is payable in seven years with a grace period of two years, divided into 21 consecutive equal quarterly payments.

(i) This is the amount outstanding from a seven-year loan obtained by Megaworld from a local bank in May 2009; interest is payable semi-annually.

(j) The loan was drawn by Travellers in 2012 from a P11.0 billion loan facility with a local bank, to settle Travellers' secured loans from the same bank. Quarterly principal amortization at P375.0 million starts in March 2014. In 2014, Travellers prepaid P4.2 billion of the outstanding loan balance.

(k) Short-term loan obtained by OFPI from a local bank. Interest rate of the loan is subject to repricing every 30 to 180 days.

(l) Pertains to long-term loans availed by SPI in 2012 from a local bank for working capital requirements.

(m) The balance includes local bank loans arising from trade receivable discounted on a with-recourse basis amounting to P136.5 million and P219.7 million as at December 31, 2014 and 2013, respectively (see Note 6). Certain residential and condominium units for sale with carrying value of P497.8 million and P434.7 million as at December 31, 2014 and 2013, respectively, were used as collaterals for these bank loans (see Note 8).

(n) Balance from loan granted to GADC in December 2011 by Planters Development Bank for the purchase of land and building from the latter, payable monthly starting on the third year of the term of the loan. The acquired land and building served as collateral on the loan (see Note 13).

(o) These are the outstanding portions of ten-year loans obtained by Megaworld from a local bank in 2005 and 2006, with a three-year grace period on principal payments, payable quarterly thereafter. The loans are collateralized by certain investment properties of Megaworld with carrying value of P40.4 million as at December 31, 2013. The collateral over these investment properties were released as at December 31, 2014 (see Note 14).

(p) Euro-denominated short-term loan availed by RHGI from a foreign commercial bank amounting to €1.3 million or a peso equivalent of P69.2 million.

(q) Bank loans obtained by AGI and NTLPI to fund the acquisition of Megaworld shares through exercise of their Megaworld warrants. The loan is secured by 2.1 million Megaworld shares owned by NTLPI. In January 2014, AGI and NTLPI fully paid these bank loans.

(r) This is a U.S.$12.0 million loan of GADC from a related party. In 2014, GADC fully paid the outstanding principal and interest on the loan (see Note 29.2).

(s) Short-term loans acquired by SPI from various financial institutions for working capital purposes. The loans were fully paid as at December 31, 2014.

(t) This U.S.$3.2 million (P142.1 million) loan is secured by a mortgage over an aircraft, assignment of receivables and other income from the proposed block charter between Travellers and APEC, assignment of insurance over the aircraft and unconditional and irrevocable guarantee of Travellers (see Note 13). In this regard, Travellers entered into a guarantee contract with the creditor bank whereby it guarantees that the principal amount and related interest will be paid as the payment falls due. The loan was fully paid by Travellers in the first quarter of 2014.

As at December 31, 2014, the Group complied with related loan covenants, including maintaining certain financial ratios, at the reporting dates.

Total interest expense attributable to these loans, including amortization of capitalized transaction costs, amounted to P579.0 million, P583.6 million and P506.9 million for the years ended December 31, 2014, 2013 and 2012, respectively, and are presented as part of Finance Cost and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2014, 2013 and 2012 amounted to P391.5 million, P296.0 million and P465.8 million, respectively (see Note 13).

18. BONDS PAYABLE

This account consists of bonds payable of the Company's subsidiaries as follows:

	2014	2013
AG Cayman	**P 22,129,059,932**	P 21,976,374,674
Megaworld	**21,349,404,748**	21,408,153,620
Travellers	**13,209,060,653**	13,095,218,012
	P 56,687,525,333	P 56,479,746,306

The significant terms of the bonds are discussed below.

Face Amount	Outstanding Principal Balance 2014	Outstanding Principal Balance 2013	Explanatory Notes	Interest Rate	Nature	Maturity
$ 500.0 million	P 22.1 billion	P 22.0 billion	(a)	Fixed at 6.50%	Unsecured	2017
$ 300.0 million	13.2 billion	13.1 billion	(b)	Fixed at 6.90%	Unsecured	2017
$ 250.0 million	7.6 billion	7.6 billion	(c)	Fixed at 4.25%	Unsecured	2023
$ 200.0 million	8.8 billion	8.8 billion	(d)	Fixed at 6.75%	Unsecured	2018
P 5.0 billion	5.0 billion	5.0 billion	(e)	Fixed at 8.46%	Unsecured	2015
	P 56.7 billion	P 56.5 billion				

(a) On August 18, 2010, AG Cayman issued seven-year bonds with interest payable semi-annually in arrears on February 18 and August 18 of every year. The bonds are listed in the Singapore Exchange Securities Trading Limited. The net proceeds of the bonds are used to finance capital and project expenditures, refinance certain existing indebtedness of certain subsidiaries, and for general corporate purposes.

Subject to certain exceptions, the bonds may be redeemed by AG Cayman at their principal amount plus any accrued and unpaid interest. The bonds are unconditionally and irrevocably guaranteed by AGI which, together with certain subsidiaries, is required to comply with certain covenants.

(b) On November 3, 2010, Travellers issued seven-year bonds with interest payable semi-annually in arrears every May 3 and November 3 of each year. The bonds are listed in the Singapore Exchange Securities Trading Limited. The net proceeds of the bonds are intended to finance capital and project expenditures, to refinance certain existing indebtedness, and for general corporate purposes of Travellers.

Subject to certain exceptions, Travellers may, at its option, redeem the bonds (i) in full at a price of 100.0% of the principal if certain changes in laws, treaties, regulations or rulings affecting taxes would require Travellers to pay certain additional amount; and, (ii) at any time prior to November 3, 2014, up to 35.0% of the principal amount at a price of 106.9% of the principal amount with the net cash proceeds of an equity offering.

Also, Travellers is required to make an offer to purchase the bonds at a price of 101.0% of the principal amount following a change in control (e.g., a sale or other disposition of all or substantially all of the properties or assets of Travellers to any person or entity).

(c) On April 17, 2013, Megaworld issued 10-year term bonds with semi-annual interest payments every April 10 and October 10. The proceeds of the bond issuance is being used by Megaworld for general corporate purposes.

(d) On April 15, 2011, Megaworld issued seven-year term bonds with interest payable semi-annually in arrears every April 15 and October 15 each year. The proceeds received from this bond are also being used by Megaworld to finance its capital expenditures for its real estate projects.

(e) On November 18, 2009, Megaworld issued bonds with a term of five years and six months. The proceeds received were intended to finance Megaworld's capital expenditures related to real estate development projects for the years 2009 up to 2013.

Interest expense on the bonds payable, including amortization of capitalized transaction costs, amounted to P3.8 billion in 2014, P3.4 billion in 2013 and P3.0 billion in 2012. These amounts are presented as part of Interest expense under Finance and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized amounted to P515.9 million for 2014 and P423.0 million for 2013 and 2012. The amounts of outstanding interest payable as at December 31, 2014 and 2013 amounting to P726.3 million and P958.7 million, respectively, are presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

19. REDEEMABLE PREFERRED SHARES

The Group's redeemable preferred shares pertain to preferred shares issued by the following subsidiaries as follows:

19.1 GADC's Redeemable Preferred Shares

The shares were issued in March 2005 to MRO, a company incorporated in the U.S.A. and is a subsidiary of McDonald's. These preferred shares with par value per share of P61,066 each have the following features (in exact amounts):

Class	Voting	No. of Shares Authorized and Issued	Total Par Value (undiscounted)	Additional payment in the event of GADC's liquidation
A	No	778	P 47,509,348	U.S.$1,086 per share or the total peso equivalent of U.S.$845,061
B	No	25,000	1,526,650,000	U.S.$1,086 per share or the total peso equivalent of U.S.$27,154,927

Additional features of the preferred shares are as follows:

(a) Redeemable at the option of the holder after the beginning of the 19th year from the date of issuance for a total redemption price equivalent to the peso value on the date that the shares were issued;

(b) Has preference as to dividend declared by the BOD, but in no event shall the dividend exceed P1 per share; and,

(c) Further, the holder of preferred shares is entitled to be paid a certain amount of peso equivalent for each class of preferred shares, together with any unpaid dividends, in the event of liquidation, dissolution, receivership, bankruptcy or winding up of GADC.

The redeemable preferred shares are recognized at fair values on the date of issuance which were determined as the sum of all future cash payments, discounted using the prevailing market rates of interest as of the transaction date for similar instruments with similar term of 18 years.

The accretion of the GADC redeemable preferred shares in 2014, 2013 and 2012 amounted to P68.3 million, P58.0 million and P52.4 million, respectively, and is presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). As at December 31, 2014 and 2013, the carrying value of the GADC redeemable preferred shares amounted to P596.4 million and P528.1 million, respectively, shown as part of Redeemable Preferred Shares account in the consolidated statements of financial position. As at December 31, 2014 and 2013, the fair value of these shares amounted to P982.1 million and P947.4 million, respectively, as determined by discounting the sum of all future cash flows using prevailing market rates of interest for instrument with similar maturities at a discount rate of 2.91% and 3.59%, respectively.

19.2 TLC's Redeemable Preferred Shares

These were issued by TLC in September 2012 consisting of 1,258.0 million shares which are nonvoting, earns dividend at a fixed annual rate of 2.50% and subject to the existence of TLC's unrestricted retained earnings. These were issued in exchange for certain parcels of land with total fair value of P1,338.2 million. The issuance through the exchange of land was approved by SEC on April 17, 2013.

The preferred shares have a maturity of 10 years and shall be redeemed every anniversary date beginning on the sixth anniversary date until expiration of the 10-year period. Only 1/5 of the aggregate face value of preferred shares may be redeemed per year during such redemption period, with all remaining shares to be redeemed on the 10th anniversary date.

The accrued dividends on these preferred shares amounting to P60.2 million as at December 31, 2014 is presented as part of Other Non-current Liabilities account in the 2014 consolidated statement of financial position (see Note 20). The related interest expense recognized for the year ended December 31, 2014 amounted to P28.9 million is presented as part of Interest expense under Finance Cost and Other Charges account in the 2014 consolidated statement of comprehensive income (see Note 26).

The preferred shares are considered as financial liabilities. Accordingly, the redeemable preferred shares are recognized at fair value on the date of issuance and are classified as a non-current liability in the consolidated statements of financial position. The fair values of the redeemable preferred shares on the date of issuance approximate their par value.

20. OTHER LIABILITIES

The composition of this account is shown below.

	Notes	2014	2013
Current:			
Reserve for property development	2.6	P 7,063,089,278	P 6,940,686,751
Customers' deposits	2.15(b)	5,857,063,120	5,196,149,627
Deferred income on real estate sales	2.15(b)	5,340,188,412	4,509,945,768
Unearned revenues		1,831,092,740	1,802,882,065
Derivative liability	7	398,881,856	38,631,143
Deferred rental income	2.15(j)	391,139,056	150,792,198
Deposit for future stock subscription		5,750,000	423,940,006
Dividends payable		-	519,684,000
Others		1,444,415,107	1,595,849,338
		22,331,619,569	21,178,560,896
Non-current:			
Reserve for property development	2.6	8,302,500,433	6,096,852,718
Equity-linked debt securities		5,253,911,638	-
Deferred income on real estate sales	2.15(b)	4,518,013,829	3,857,401,017
Deferred rental income	2.15(j)	1,762,530,579	1,631,709,613
Customers' deposit	2.15(b)	1,396,448,740	1,393,589,785
Derivative liability		869,818,108	1,145,961,938
Provision for onerous lease		649,364,390	-
Provision for dilapidations		270,105,211	-
Guaranty deposits		191,011,385	148,218,346
Accrued rent		78,831,722	77,333,636
Asset retirement obligation	2.8	45,835,196	39,000,431
Others		776,922,036	684,982,165
		24,115,293,267	15,075,049,649
		P 46,446,912,836	P 36,253,610,545

The current derivative liability represents the reduction in fair market value as at December 31, 2014 of currency forward options contract entered into with certain foreign banks. On the other hand, the non-current derivative liability consists of the fair market value of the interest rate swap entered into by Travellers with a certain foreign bank at a notional amount of U.S.$250.0 million. Changes in the fair values of these current derivatives financial liabilities are presented as part of Fair value losses while those for non-current financial liability are presented under Unrealized loss on interest rate swap under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

Equity-linked debt securities (ELS) instrument arises from the subscription agreement between EMP and Arran Investment Private Limited for the issuance of additional common shares of EMP. The ELS may be converted into 480.0 million common shares (conversion shares) of EMP with a par value of P1.0 per share. The ELS bears a fixed annual interest rate of 5.0% and variable interest in an amount equal to the dividends that would be payable on the conversion shares if they were issued prior to the date that any dividend is declared by EMP. The fixed interest is payable either in cash or in new EMP shares (interest shares) on the conversion date, December 4, 2019, or December 4, 2021, as applicable. The variable interest is payable in cash on the date that the Issuer pays such dividends to its shareholders. Interest expense for 2014 amounted to P19.8 million and is presented as part of Interest expense under Finance Cost and Other Charges account in the 2014 consolidated statement of comprehensive income (see Note 26).

Provisions refer to the provisions of WML for onerous lease and dilapidations. WML has existing non-cancellable lease agreements on leasehold properties located in Glasgow and Edinburgh, Scotland, covering manufacturing plant facilities, buildings and parking spaces, which are vacant or sub-let at a discount. It also entered into a lease agreement which provides for tenant repairing clauses and requires WML to restore the leased properties to a specified condition at the end of the lease term in 2029.

Current Others include accounts payable to various parties including advances obtained by Travellers from Star Cruises Philippines Holdings B.V. amounting to P234.6 million and P157.3 million in 2014 and 2013, respectively, and liabilities on stocks purchases which amounted to P1.4 billion both in 2014 and 2013.

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2014	2013	2012	**2014**	2013	2012
Common shares – P1 par value						
Authorized	**12,950,000,000**	12,950,000,000	12,950,000,000	**P12,950,000,000**	P 12,950,000,000	P 12,950,000,000
Issued and outstanding:	**10,269,827,979**	10,269,827,979	10,269,827,979	**P10,269,827,979**	P 10,269,827,979	P 10,269,827,979
Treasury stock – at cost	**(122,964,200)**	(155,296,400)	(160,317,400)	**(936,157,074)**	(955,217,410)	(984,512,637)
Total outstanding	**10,146,863,779**	10,114,531,579	10,109,510,579	**P9,333,670,905**	P 9,314,610,569	P 9,285,315,342

On March 12, 1999, the SEC approved the initial public offering of the Company's 336.1 million shares (248.1 million then outstanding and 88.0 million new issues) at P1.27 per share. The shares were initially listed in the PSE on April 19, 1999.

A 10% stock dividend was approved by the SEC and listed in September 1999. Three private placements ensued up to January 2011, of which 1.5 billion shares were listed in 2006. Then, a 10% rights offering of 200.47 million shares and 1:1 stock rights of 2.2 billion shares were approved and listed in 2005 and 2007, respectively. In 2007, there were also a share-swap transaction and a follow-on international offering wherein 4.1 billion and 1.8 billion shares, respectively, were issued and listed.

As at December 31, 2014 and 2013, the quoted closing price per share was P22.6 and P25.8, respectively. There are 1,272 holders, which include nominees, of the Company's total issued and outstanding shares. The percentage of the Company's shares of stock owned by the public is 42.47% and 40.14% as at December 31, 2014 and 2013, respectively.

21.2 Additional Paid-in Capital

APIC consists mainly of P21.9 billion from the stock rights offering, share swap transaction and international offering in 2007. In 2014 and 2013, the Group reissued treasury shares, resulting to an increase in APIC by P783.5 million and P109.9 million, respectively.

21.3 Dilution Gain

The movement in dilution gain is a direct result of dilution in the Company's ownership interest in certain subsidiaries when such subsidiaries offer pre-emptive stock rights, underwent international stock offering, and acquire additional shares, in years prior to 2011.

In 2014 and 2013, the movement is due to changes in ownership interest in certain subsidiaries.

21.4 Dividends

On August 26, 2014 and August 23, 2013, the BOD approved the declaration of cash dividends of P0.38 per share. Total dividends amounting to P3,902.53 million in 2014, P3,902.53 million in 2013 and P3,697.1 million in 2012, were payable to stockholders of record as of September 8, 2014, September 9, 2013 and June 26, 2012, respectively. The said dividends were fully paid on September 22, 2014, September 24, 2013, and July 20, 2012, respectively. The amounts presented in the consolidated statements of changes in equity are net of dividends paid to subsidiaries.

21.5 Share Options

(a) Of the Company

On July 27, 2011, the BOD approved an Executive Stock Option Plan (ESOP) for the Company's key executive officers, which was subsequently ratified by the stockholders on September 20, 2011. Under the ESOP, the Company shall initially reserve for exercise of stock options up to 300.0 million common shares, or 3% of the outstanding capital stock, which may be issued out of the authorized but unissued shares. Stock options may be granted within 10 years from the adoption of the ESOP and continue to be exercisable in accordance with terms of issue.

The options shall vest within three years from date of grant (offer date) and the holder may exercise only a third of the option at the end of each year of the three-year vesting period. The vested option may be exercised within seven years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for nine months immediately preceding the date of grant.

On December 19, 2011, pursuant to this ESOP, the Company granted stock options to certain key executives to subscribe to 46.5 million common shares of the Company, at an exercise price of P9.175. As at December 31, 2014, all of the said options vested but none were exercised.

On March 14, 2013, the Company granted additional 59.1 million stock options to certain key executives at an exercise price of P12.9997. As at December 31, 2014, 19.7 million of the said additional options vested and none were exercised.

The fair values of the options granted were estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

		March 2013 Grant		December 2011 Grant
Option life		7 years		7 years
Share price at grant date	P	21.65	P	10.28
Exercise price at grant date	P	12.9997	P	9.175
Average fair value at grant date	P	9.18	P	2.70
Average standard deviation of share price returns		14.26%		16.8%
Average dividend yield		2.14%		2.07%
Average risk-free investment rate		2.92%		2.48%

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time within the life of the option.

(b) *Of Megaworld*

On April 26, 2012, Megaworld's BOD approved an ESOP for its key executive officers, and on June 15, 2012, the stockholders adopted it.

The options shall generally vest on the 60th birthday of the option holder and may be exercised until the date of his/her retirement from Megaworld. The exercise price shall be at a 15% discount from the volume weighted average closing price of Megaworld's shares for nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2012, Megaworld granted stock options to certain key executives to subscribe to 245.0 million of its common shares, at an exercise price of P1.77 per share. As at December 31, 2014, none of the said options vested and exercised.

In 2014, additional share options were granted to certain key executives to subscribe to 35.0 million common shares of the Company at an exercise price of P2.92 per share. As at December 31, 2014, none of the additional options vested and exercised.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Average option life		15.29 years
Average share price at grant date	P	2.92
Average exercise price at grant date	P	2.06
Average fair value at grant date	P	1.38
Average standard deviation of share price returns		9.42%
Average dividend yield		0.59%
Average risk-free investment rate		3.65%

The underlying expected volatility was determined by reference to historical date of Megaworld's shares over a period of time consistent with the option life.

(c) *Of GERI*

On September 23, 2011, the BOD of GERI approved an ESOP for its key executive officers. This was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the ESOP is to enable the key executives and senior officers of GERI, who are largely responsible for its further growth and development, to obtain an ownership interest and thereby encourage long-term commitment to GERI. The ESOP is being administered by the Executive Compensation Committee of GERI's BOD.

Under the ESOP, GERI shall initially reserve for exercise of stock options up to 500.0 million common shares of its outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within 10 years from the adoption of the ESOP and may be exercised within seven years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of GERI's shares for twelve months immediately preceding the date of grant. The options shall vest within three years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three-year period. GERI shall receive cash for the stock options.

Pursuant to this ESOP, on February 16, 2012, key executive officers were granted options to subscribe to 100.0 million GERI shares, at an exercise price of P1.93. An option holder may exercise in whole or in part his vested option provided, that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle. On February 16, 2014 and 2013, a total of 29.6 million and 16.4 million options, respectively, have vested but none of these have been exercised yet by any of the option holders as at December 31, 2014 and 2013, respectively.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Grant date		February 16, 2012
Vesting period ends		February 15, 2015
Average option life		7 years
Average share price at grant date	P	2.10
Average exercise price at grant date	P	1.93
Average fair value at grant date	P	2.27
Average standard deviation of share price returns		57.10%
Average risk-free investment rate		2.46%

The underlying expected volatility was determined by reference to historical date of GERI's shares over a period of time consistent with the option life.

A total of P313.3 million, P156.8 million and P105.8 million share-based executive compensation is recognized and presented as part of Salaries and employee benefits under Other Operating Expenses account in the consolidated statements of comprehensive income for the years 2014, 2013 and 2012, respectively (see Note 27), and correspondingly credited to Share Options account under equity.

21.6 Appropriated Retained Earnings

In December 2014, the BOD of GADC appropriated P2.5 billion for the continuing business expansion. Such business expansion projects include construction of new stores, renovation of existing stores and development of a meat processing plant. The construction and renovation projects are expected to be completed until the end of 2015 while the development of meat processing plant is projected to start by second quarter of 2015 and be completed within a period of 16 months.

The P2.1 billion and P1.4 billion appropriations made by GADC in December 2013 and 2012, respectively, which were for business expansion projects, have been fully utilized in 2014 and 2013, respectively. Meanwhile, the BOD of AWGI reversed in full the balance of its appropriation amounting to P300.0 million in 2012, since the planned capital expenditure was already completed.

21.7 Subsidiaries with Material Non-controlling Interest

The subsidiaries with material non-controlling interest (NCI) are shown below (in thousands).

	Proportion of Ownership Interest and Voting Rights Held by NCI		Subsidiary's Profit Allocated to NCI	
Name	**2014**	**2013**	**2014**	**2013**
Megaworld	**33%**	35%	**P 3,554,328**	P 3,139,732
Travellers	**54%**	58%	**2,889,420**	1,595,926
GADC	**51%**	51%	**408,816**	402,434
Emperador	**19%**	12%	**1,150,097**	575,723
GERI	-	35%	-	111,744

In 2014, GERI became a direct subsidiary of Megaworld (see Note 1).

Dividends paid to NCI amounted to P1.5 billion and P3.4 billion in 2014 and 2013, respectively.

The summarized financial information of the subsidiaries, before intragroup elimination, is shown below (in thousands).

	December 31, 2014				
	Megaworld	Travellers	GADC	GERI	Emperador
Non-current assets	P 98,949,337	P 40,802,539	P 7,753,258	P -	P 33,459,388
Current assets	122,090,504	23,078,934	4,978,865	-	66,099,164
Total assets	P 221,039,842	P 63,881,473	P 12,732,123	P -	P 99,558,552
Non-current liabilities	P 53,363,013	P 14,561,344	P 3,008,644	P -	P 9,376,432
Current liabilities	38,878,035	10,218,819	4,972,288	-	44,280,122
Total liabilities	P 92,241,048	P 24,780,163	P 7,980,932	P -	P 53,656,554
Revenue	P 53,130,758	P 29,060,300	P 18,416,599	P -	P 31,461,270
Profit for the year attributable to owners of Parent	P 18,000,387	P 2,555,653	P 389,139	P -	P 5,054,088
NCI	3,554,328	2,889,420	408,816	-	1,150,097
Profit for the year	21,554,715	5,445,073	797,955	-	6,204,185
Other comprehensive income (loss) attributable to owners of Parent	(1,393,219)	(7,374)	82,345	-	(1,108,103)
NCI	(7,772)	-	-	-	-
Other comprehensive income (loss) for the year	(1,400,991)	(7,374)	82,345	-	(1,108,103)
Total comprehensive income for the year	P 20,153,724	P 5,437,699	P 880,300	P -	P 5,096,082
Net cash from (used in) operating activities	P 1,732,689	P 9,101,516	P 769,965	P -	(P 12,065,480)
investing activities	(15,009,954)	(10,013,941)	(1,102,498)	-	(29,991,211)
financing activities	2,169,707	(7,094,773)	(10,061)	-	53,251,126
Net cash inflow (outflow)	(P 11,107,558)	(P 8,007,198)	(P 342,594)	P -	P 11,194,435

	December 31, 2013				
	Megaworld	Travellers	GADC	GERI	Emperador
Non-current assets	P 75,423,735	P 31,754,040	P 7,104,482	P 19,631,323	P 4,438,064
Current assets	98,458,370	29,471,695	4,804,080	11,682,223	30,787,298
Total assets	P 173,882,105	P 61,225,735	P 11,908,562	P 31,313,546	P 35,225,362
Non-current liabilities	P 46,032,567	P 17,415,154	P 2,907,259	P 3,408,638	P 87,780
Current liabilities	25,896,517	10,382,738	5,020,224	4,007,185	4,249,068
Total liabilities	P 71,929,084	P 27,797,892	P 7,927,483	P 7,415,823	P 4,336,848
Revenue	P 36,241,565	P 30,848,029	P 15,810,204	P 1,758,715	P 29,864,745
Profit for the year attributable to owners of Parent	P 5,895,252	P 1,143,590	P 386,047	P 229,123	P 5,255,087
NCI	3,139,732	1,595,926	402,434	111,744	575,723
Profit for the year	9,034,984	2,739,516	788,481	340,867	5,830,810
Other comprehensive income (loss) attributable to owners of Parent	1,159,054	36,216	(11,451)	(7,516)	121,211
NCI	(12,518)	-	-	-	-
Other comprehensive income for the year	1,146,536	36,216	(11,451)	(7,516)	121,211
Total comprehensive income for the year	P 10,181,520	P 2,775,732	P 777,030	P 333,351	P 5,952,021
Net cash from (used in) operating activities	P 1,845,528	P 7,470,544	P 1,125,424	(P 855,985)	P 4,876,249
investing activities	(13,117,959)	(5,373,649)	(1,203,029)	(292,818)	(15,445,831)
financing activities	16,081,003	6,482,573	485,615	5,151,745	29,953,326
Net cash inflow	P 4,808,572	P 8,579,468	P 408,010	P 4,002,942	P 19,383,744

22. EARNINGS PER SHARE

Earnings per share is computed as follows:

	2014	2013	2012
Basic:			
Net profit attributable to owners of the parent company	**P 13,246,243,353**	P 17,218,460,867	P 13,909,991,638
Divided by the weighted average number of outstanding common shares	**10,138,358,746**	10,109,928,996	10,109,214,787
	P 1.3065	P 1.7031	P 1.3760
Diluted:			
Net profit attributable to owners of the parent company	**P 13,246,243,353**	P 17,218,460,867	P 13,909,991,638
Divided by the weighted average number of outstanding common shares	**10,190,162,998**	10,155,705,560	10,115,754,423
	P 1.2999	P 1.6954	P 1.3751

As at December 31, 2014, 2013 and 2012, there are 66.2 million, 31.1 million and 20.8 million potentially dilutive shares, respectively, from the Company's ESOP (see Note 21.5). However, such number of dilutive shares has no significant effect on the weighted average number of outstanding common shares and, consequently, has little effect on the 2014, 2013 and 2012 diluted EPS.

23. REVENUES

The breakdown of revenues from sale of goods and rendering of services is presented below.

	Notes	2014	2013	2012
Sale of Goods:				
Real estate (RE) sales	2.15(b,d)	**P 24,606,554,437**	P 22,159,368,696	P 16,757,139,591
Realized gross profit on RE sales	2.15(b)	**3,229,266,841**	3,234,397,459	2,295,102,401
Interest income on RE sales	6	**1,671,138,097**	1,537,113,091	1,327,541,711
Revenues from RE sales		**29,506,959,375**	26,930,879,246	20,379,783,703
Sales of consumer goods	2.15(a)	**32,529,017,862**	29,588,090,458	23,702,847,323
		P 62,035,977,237	P 56,518,969,704	P 44,082,631,026
Rendering of Services:				
Gaming	2.15(f)	**P 28,376,733,234**	P 30,003,598,507	P 28,058,258,093
Sales by company-operated quick-service restaurants	2.15(h)	**16,921,020,974**	14,554,160,085	12,622,396,286
Rental income	14, 29.6	**7,462,668,868**	6,396,131,339	5,350,764,337
Hotel operations		**2,987,140,694**	3,284,305,541	2,731,838,785
Franchise revenues	2.15(i)	**1,495,577,642**	1,256,044,080	1,033,429,724
Others		**1,315,714,888**	1,192,742,897	726,214,041
		P 58,558,856,300	P 56,686,982,449	P 50,522,901,266

Individual sublicense arrangements granted to franchisees and joint venturers generally include a lease and a license to use the McDonald's system in the Philippines and, in certain cases, the use of restaurant facility, generally for a period of 3 to 20 years provided, however, that should GADC's license rights from McDonald's be terminated at an earlier date or not renewed for any reason whatsoever, these sublicense agreements shall thereupon also be terminated.

Others include income from commissions, construction, cinema operations, property management operations, parking, laundry, arcade, bingo and production shows.

24. COST OF GOODS SOLD AND SERVICES

The components of cost of goods sold and services are as follows:

	Notes	2014	2013	2012
Cost of Goods Sold:				
Cost of consumer goods sold:				
Direct materials used		**P 20,204,073,688**	P 17,585,816,770	P 12,509,118,839
Change in work in process and finished goods		**(876,607,490)**	1,014,637,574	1,850,911,570
Indirect materials and other consumables		**446,173,945**	322,508,207	187,538,112
Depreciation and amortization	13, 15	**370,375,806**	308,283,444	175,944,161
Outside services		**225,434,391**	154,489,851	47,590,561
Salaries and employee benefits	27.1	**253,613,904**	169,133,468	127,387,568
Utilities		**200,454,768**	190,111,741	60,476,664
Repairs and maintenance		**99,947,875**	85,629,818	60,788,205
Supplies		**99,277,030**	182,647,176	130,123,336
Taxes and licenses		**35,878,436**	25,303,245	15,922,445
Other direct and overhead costs		**316,186,224**	97,143,797	48,374,111
		21,374,808,577	20,135,705,091	15,214,175,572
Cost of RE sales:	2.15			
Actual construction costs		**8,343,453,682**	6,601,714,543	4,815,305,185
Estimated cost to complete sold units		**6,020,415,505**	6,412,937,323	4,839,575,364
		14,363,869,187	13,014,651,866	9,654,880,549
Deferred gross profit on RE sales	2.6	**4,538,218,791**	4,446,675,079	3,472,095,346
		P 40,276,896,555	P 37,597,032,036	P 28,341,151,467
Cost of Services:				
Food, supplies and other consumables		**P 8,254,659,729**	P 7,099,121,197	P 6,249,176,648
Gaming license fees	30.3(b)	**6,203,179,668**	6,506,213,809	6,185,726,261
Salaries and employee benefits	27.1	**4,318,125,264**	4,251,992,658	2,681,587,989
Rental		**3,090,990,551**	2,668,711,373	2,369,692,411
Promotional allowance	2.15	**2,502,976,854**	2,533,628,373	1,687,446,005
Depreciation and amortization	13, 14, 15	**1,312,901,467**	1,439,960,917	1,274,911,262
Outside services		**454,186,010**	755,934,220	279,367,492
Entertainment, amusement and recreation		**170,790,956**	472,324,723	279,287,919
Other direct and overhead costs		**1,786,859,964**	1,608,984,818	1,644,913,451
		P 28,094,670,463	P 27,336,872,088	P 22,652,109,438

Actual construction costs comprise of direct materials, labor and overhead costs, outside services and borrowing costs (see Note 2.6).

Deferred gross profit on real estate sales pertains to the unrealized portion of gross profit on a year's real estate sales.

Other direct and overhead costs include costs incurred for flight operations, air fare, hotel accommodation and operations and various other costs.

25. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

	Notes	2014	2013	2012
Advertising and promotions		**P 8,692,247,425**	P 9,827,324,537	P 8,203,105,082
Salaries and employee benefits	27.1	**3,906,405,251**	3,439,581,167	3,256,071,480
Depreciation and amortization	13, 15	**2,579,790,544**	2,571,234,479	2,086,428,665
Commissions		**1,097,461,661**	938,974,577	962,851,090
Professional fees and outside services		**1,084,037,742**	675,424,388	472,344,121
Taxes and licenses		**1,038,518,994**	684,837,466	578,274,271
Freight and handling		**914,947,142**	822,268,286	784,233,562
Rental		**895,129,897**	801,880,114	497,251,443
Royalty	29.9	**862,366,072**	743,892,966	646,450,272
Utilities		**765,238,642**	1,035,625,419	1,132,642,256
Transportation and travel		**565,420,089**	454,182,827	427,812,516
Repairs and maintenance		**429,023,839**	392,919,834	244,965,186
Management fees	29.5	**402,665,835**	615,688,637	685,417,587
Impairment of property, plant and equipment	13	**209,995,122**	-	30,593,000
Representation and entertainment		**132,407,764**	150,295,427	171,864,087
Impairment of receivables	6	**50,982,402**	1,852,173	36,626,512
Communication and office expenses		**50,135,251**	43,904,963	41,762,608
Write-down of inventories	8	**21,973,209**	-	28,008,639
Insurance		**5,456,659**	4,707,087	7,679,802
Miscellaneous		**2,237,345,326**	1,806,208,167	1,477,412,928
		P 25,941,548,864	P 25,010,802,514	P 21,771,795,107

These other operating expenses are classified by function as follows:

	2014	2013	2012
General and administrative expenses	P 13,443,087,618	P 11,848,194,095	P 10,323,046,693
Selling and marketing expenses	12,498,461,246	13,162,608,419	11,448,748,414
	P 25,941,548,864	P 25,010,802,514	P 21,771,795,107

Miscellaneous expenses include expenses incurred for security services, used materials, supplies and other consumables, donations, training and development, membership dues, and various other expenses.

26. OTHER INCOME AND CHARGES

Other income and charges provide details of Finance and Other Income account and Finance Costs and Other Charges account as presented in the statements of comprehensive income.

	Notes	2014	2013	2012
Finance income:				
Interest income on cash and cash equivalents and others	5, 7	P 2,589,097,758	P 3,099,675,804	P 3,922,992,079
Other income:				
Gain on acquisitions and deconsolidation of subsidiaries	12	524,766,704	763,834,597	-
Gain on reversal of liabilities		121,428,571	160,666,483	-
Gain on sale of investment in AFS financial assets	11	41,859,502	128,177,128	272,103,283
Dividend income		20,278,117	14,178,074	10,515,804
Preacquisition income		9,150,638	6,315,710	-
Fair value gains – net	7	8,363,512	-	1,433,951,500
Gain on divestment of interest in a subsidiary		-	2,905,304,542	-
Foreign currency gains – net		-	2,336,779,018	711,154,150
Gain on refunds		-	4,100,270	-
Miscellaneous – net	8, 13	1,372,643,452	754,342,224	1,059,262,530
		P 4,687,588,254	P 10,173,373,850	P 7,409,979,346
Finance costs and other charges:				
Interest expense	17, 18 19, 20, 28	P 4,281,446,845	P 4,285,500,975	P 3,751,269,989
Foreign currency losses – net		57,235,428	-	-
Unrealized loss on interest rate swap	20	36,405,850	112,842,001	368,646,466
Fair value losses – net	7, 20	-	429,371,099	-
Day-one loss on non-current installment contract receivable		-	49,995,897	-
Loss on write-off of property development costs		-	27,945,739	61,518,212
Miscellaneous	6	80,821,589	103,123,984	70,346,876
		P 4,455,909,712	P 5,008,779,695	P 4,251,781,543

In January 2014, Megaworld acquired additional 16.67% ownership in LFI, increasing its total ownership interest to 66.67%; thereby, obtaining control (see Note 12.4). The fair value of the identifiable net assets of P3.7 billion exceeded the acquisition cost of P3.6 billion; hence, a gain on acquisition (negative goodwill) of P77.6 million was recognized from the acquisition.

In December 2014, Megaworld also acquired 100% ownership in DPDHI to increase its landbank position in Davao City. The transaction was settled in cash amounting to P495.4 million and a gain on acquisition of P65.1 million was recognized.

In 2014, FEPI sold 40% of its ownership interest in BNHGI. The deconsolidation of BNHGI resulted in the recognition of gain on deconsolidation amounting to P377.5 million.

Also in 2014, AFCMI obtained control over MFGFI and GYACI which resulted to a gain on acquisition amounting to P3.6 million and P1.0 million, respectively.

In August 2013, Megaworld acquired 100% interest in WGPI. The transaction was settled in cash amounting to P3.3 billion, while fair value of the net identifiable assets acquired amounted to P4.1 billion, thereby resulting in a gain on acquisition of subsidiary amounting to P763.8 million.

Also in 2013, the Company sold 1,431.8 million EMP shares for P8.98 per share to third parties. The Company recognized P2,905.3 million gain, net of related costs, from divestment of its interest over EMP.

Miscellaneous income refers to gain on sale of non-current assets, fair value gains on FVTPL, marketing fees and other.

Miscellaneous expenses pertain to amortization of discounts on security deposits, bank charges, impairment loss on receivables and other related fees.

27. SALARIES AND EMPLOYEE BENEFITS

27.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	Notes	2014	2013	2012
Short-term employee benefits		**P 7,854,178,380**	P 7,437,580,212	P 5,762,362,586
Post-employment defined benefit	27.2	**310,622,207**	266,310,249	196,921,984
Stock option benefit expense	21.5,27.3 29.12	**313,343,832**	156,816,832	105,762,467
		P 8,478,144,419	P 7,860,707,293	P 6,065,047,037

These are classified in the consolidated statements of comprehensive income as follows:

	Notes	2014	2013	2012
Cost of goods sold	24	**P 253,613,904**	P 169,133,468	P 127,387,568
Cost of services	24	**4,318,125,264**	4,251,992,658	2,681,587,989
Other operating expenses	25	**3,906,405,251**	3,439,581,167	3,256,071,480
		P8,478,144,419	P 7,860,707,293	P 6,065,047,037

27.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

Except for Megaworld, GERI, GADC, EDI and WML, the Company and all other subsidiaries have no established corporate retirement plans. Travellers, AWGI and TEI compute its retirement obligation based on the provisions of Republic Act (R.A) No. 7641, *The Retirement Pay Law*. The amounts of retirement benefit expense and obligation were actuarially determined using the projected unit credit method for those with corporate retirement plans and those retirement plans following R.A. 7641. Whereas, the Company and the other subsidiaries within the Group have not accrued any post-employment benefit obligation as each entity has less than 10 employees, except for Travellers, AWGI, and TEI.

The Group's management believes that the non-accrual of the estimated post-employment benefits will not have any material effect on the Group's consolidated financial statements.

Megaworld, EDI and WML maintains a funded, tax-qualified, noncontributory retirement plan that is being administered by a trustee bank covering all regular and full-time employees. GERI has an unfunded, noncontributory defined benefit plan covering all regular employees. GERI's plan provides for a lump-sum benefit equal to 85% to 150% of the employees monthly salary for every year of qualified duration of service. GADC has a funded, defined contribution retirement plan covering all regular and full-time employees, which allows voluntary employee contribution. Actuarial valuations for Megaworld, GERI, GADC, EDI and WML are made annually to update the post-employment benefit costs and the amount of accruals.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation reports obtained from independent actuaries in 2014 and 2013.

The amounts of retirement benefit obligation as of the end of the reporting periods, presented as non-current liability in the consolidated statements of financial position, are determined as follows:

	2014	2013
Present value of the obligation	**P 13,636,601,974**	P 1,801,290,300
Fair value of plan assets	**(10,899,926,023)**	(373,197,625)
	P 2,736,675,951	P 1,428,092,675

The movements in the present value of retirement benefit obligation are as follows:

	2014	2013
Balance at beginning of year	**P 1,801,290,300**	P 1,555,909,468
Current service and interest costs	**425,414,798**	296,199,518
Additions due to consolidation of new subsidiary	**11,040,689,757**	37,021,024
Re-measurement gains (losses)	**418,216,168**	(57,123,176)
Effects of foreign currency adjustment	**34,463,804**	-
Effect of curtailment	**(44,002)**	-
Availment of sabbatical leave	**(3,224,060)**	-
Benefits paid by the plan	**(80,204,791)**	(30,716,534)
Balance at end of year	**P 13,636,601,974**	P 1,801,290,300

The movements in the fair value of plan assets of funded retirement plans of the Group are presented below.

	2014	2013
Balance at beginning of year	P **373,197,625**	P 347,280,123
Contributions paid into the plan	**85,932,306**	54,493,850
Actual return on plan assets	**464,969,512**	2,140,186
Actuarial gain	**5,186,056**	-
Additions due to consolidation of new subsidiary	**10,048,744,142**	-
Benefits paid by the plan	(**78,103,618**)	(30,716,534)
Balance at end of year	P **10,899,926,023**	P 373,197,625

The fair value of plan assets and present value of retirement benefit obligation of WML were included in the 2014 balance.

The plan assets of Megaworld pertaining only to cash and cash equivalents amounted to P114.1 million and P89.8 million as at December 31, 2014 and 2013, respectively. The plan assets of EMP and GADC in 2014 and of GADC in 2013 consist of the following:

	2014	2013
Investments in:		
Other securities and debt instruments	**65.87%**	27.20%
Long-term equity investments	**27.03%**	-
Unit investment trust fund	**1.72%**	72.00%
Cash and cash equivalents	**0.47%**	0.40%
Property	**4.90%**	-
Loans and receivables	**0.01%**	0.40%
	100.00%	100.00%

Actual returns in 2014 and 2012 amounted to P465.0 million and P31.5 million, respectively, while there is no return from GADC's plan assets in 2013.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for loans and receivables and property which are at Level 3.

The amounts of post-employment benefits expense recognized as part of Salaries and Employee Benefits (see Note 27.1) in the consolidated statements of comprehensive income are as follows:

	2014	2013	2012
Current service cost	P **325,213,109**	P 255,590,445	P 196,921,984
Remeasurement gain	(**14,546,900**)	-	-
Curtailment gain	(**44,002**)	-	-
Past service cost	-	10,719,804	-
	P **310,622,207**	P 266,310,249	P 196,921,984

In 2014, post-employment benefits expense amounting to P18.2 million was incurred for WML's defined contribution plan and thus will not be included in the current service cost presented under the movement of post-employment benefit obligation.

The amounts of post-employment benefit expense are allocated as follows:

	2014	2013	2012
Cost of goods sold and services	P **167,499,354**	P 148,721,619	P 91,051,139
Other operating expenses	**143,122,853**	117,588,630	105,870,845
	P **310,622,207**	P 266,310,249	P 196,921,984

In determining the post-employment benefit obligation, the following actuarial assumptions were used:

	2014	2013
Discount rates	**3.58% - 7.81%**	4.37% - 6.23%
Expected rates of salary increases	**4.00% - 10.00%**	3.00% - 7.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The discount rates assumed were based on the yields of long-term government bonds, as of the valuation dates. The applicable period used approximate the average years of remaining working lives of the Group's employees.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

Discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

(i) *Sensitivity Analysis*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

		Maximum Impact on Post-employment Obligation	
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2014			
Discount rate	+/-1% to +/-14%	(P 562,913,365)	P 608,116,030
Salary increase rate	+/-1% to +/-13%	176,595,591	(143,161,632)
December 31, 2013			
Discount rate	+/- 1% to +/- 11%	(P 547,000,764)	P 655,699,929
Salary increase rate	+/- 1% to +/- 10%	788,268,145	(655,699,929)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

The Group, through its BOD, envisions that the investment positions shall be managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This aims to match the plan assets to the retirement obligations by investing in equities and maintaining cash and cash equivalents that match the benefit payments as they fall due and in the appropriate currency.

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P2,736.7 million based on the Group's latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 23 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan as at December 31 are as follows:

	2014	2013
Within one year	P 352,312,483	P 47,698,754
More than one year to five years	1,228,723,006	79,432,185
More than five years to 10 years	1,253,781,185	572,089,311
More than ten years to 15 years	757,040,080	771,595,916
More than 15 years to 20 years	1,202,180,504	1,355,722,396
More than 20 years	24,886,513,583	30,934,762,708
	P 29,680,550,841	P 33,761,301,270

The Group expects to contribute in 2015, P5.0 million and P40.0 million to the retirement plan maintained for Megaworld and GADC, respectively. GERI has yet to decide the amount of future contributions to its existing unfunded retirement plan.

27.3 Stock Option Benefits

The Group's stock option benefit expense includes the amounts recognized by the Company, Megaworld and GERI over the vesting period of the options granted by them (see Note 21.5). Options for 95.8 million shares have vested as at December 31, 2014. Stock option benefits expense, included as part of Salaries and Employee Benefits amounted to P313.3 million in 2014, P156.8 million in 2013 and P105.8 million in 2012 (see Note 27.1).

28. TAXES

28.1 Current and Deferred Taxes

The tax expense (income) reported in the consolidated statements of comprehensive income for the years ended December 31 are as follows:

	2014	2013	2012
Reported in consolidated profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30% and 10%	P 3,923,667,182	P 4,030,414,576	P 3,536,607,270
Final tax at 20% and 7.5%	138,822,313	225,256,736	287,702,318
Minimum corporate income tax (MCIT) at 2%	164,745,654	29,429,810	26,568,346
Preferential tax rate at 5%	58,117,064	27,592,034	-
Others	138,327,833	75,941,268	74,566,986
	4,423,680,046	4,388,634,424	3,925,444,920
Deferred tax expense relating to origination and reversal of temporary differences	1,102,765,005	968,122,673	698,034,032
	P 5,526,445,051	P 5,356,757,097	P 4,623,478,952
Reported in consolidated other comprehensive income -			
Deferred tax income (expense) relating to origination and reversal of temporary differences	P 114,167,301	(P 22,204,044)	P 83,187,376

ECOC, SEDI and RWM are Philippine Economic Zone Authority - registered entities which are entitled to 5% preferential tax rate on gross income from registered activities in lieu of all local and national taxes and to other tax privileges.

In November 2011, the Board of Investments approved SPI's application for registration on a certain project. SPI is entitled to income tax holiday for three years from November 2011 or actual start of commercial operations/selling, whichever is earlier but in no case earlier than the date of registration, with certain terms.

The reconciliation of tax on consolidated pretax income computed at the applicable statutory rates to consolidated tax expense is as follows:

	2014	2013	2012
Tax on consolidated pretax income at 30%	P 8,124,328,441	P 8,523,671,095	P 7,535,140,539
Adjustment for income subjected to different tax rates	(2,450,052,961)	(1,598,765,848)	(845,041,085)
Tax effects of:			
Income not subject to RCIT	(6,453,316,654)	(9,233,947,881)	(9,979,739,392)
Nondeductible expenses	6,294,003,108	7,106,788,376	6,993,144,567
Tax benefit arising from unrecognized deferred tax asset	503,607,237	572,841,777	785,150,505
Additional deduction with the use of Optional Standard Deduction (OSD)	(488,708,892)	(38,707,207)	(20,338,447)
Others	(3,415,228)	24,876,785	155,162,265
Tax expense reported in consolidated profit or loss	P 5,526,445,051	P 5,356,757,097	P 4,623,478,952

The deferred tax assets and liabilities as at December 31 presented in the consolidated statements of financial position relate to the following:

	2014	2013	2012
Deferred tax assets:			
Retirement benefit obligation	**P 403,758,306**	P 389,030,740	P 314,796,003
MCIT	**146,272,494**	23,317,621	15,808,652
Allowance for impairment losses	**110,753,187**	177,764,052	181,298,846
Accrued rent	**36,213,490**	35,755,872	48,115,007
Allowance for inventory write-down	**19,724,387**	13,183,799	15,394,757
Net operating loss carry-over (NOLCO)	**9,874,627**	48,333,454	185,389,015
Unrealized income – net	**7,091,727**	4,635,851	3,304,102
Gross profit for tax purposes	-	-	17,446,954
Share based employee compensation	-	-	11,554,581
Unrealized foreign currency losses	-	-	127,032
Others	**42,147,748**	36,538,273	15,803,589
	P 775,835,966	P 728,559,662	P 809,038,538
Deferred tax liabilities – net:			
Uncollected gross profit	**P 7,617,315,708**	P 6,305,622,637	P 5,072,458,458
Brand valuation	**1,994,428,801**	-	-
Capitalized interest	**998,345,338**	1,160,842,521	1,135,379,776
Fair value adjustment	**426,376,168**	-	-
Unrealized foreign currency losses (gains)	**(323,118,182)**	262,572,657	52,847,842
Difference between the tax reporting base and financial reporting base of property, plant and equipment	**234,176,793**	198,812,638	200,166,619
Translation adjustments	**(117,693,665)**	(87,005,067)	(102,276,919)
Uncollected rental income	**29,427,068**	91,493,961	143,687,644
Accrued retirement cost for tax purposes	-	-	(188,131,869)
Others	**(600,191,965)**	(164,714,655)	19,971,460
	P 10,259,066,064	P 7,242,479,378	P 6,334,103,011

The deferred tax expense reported in the consolidated statements of comprehensive income is shown below.

	Consolidated Profit or Loss			**Consolidated Other Comprehensive Income**		
	2014	2013	2012	**2014**	2013	2012
Deferred tax expense (income):						
Uncollected gross profit	**P 1,694,029,381**	P 1,233,164,179	P 887,990,407	**P -**	P -	P -
NOLCO	**(38,458,827)**	(137,055,561)	(11,234,525)	-	-	-
Retirement benefit obligation	**(98,417,399)**	(104,000,889)	(95,703,655)	**83,482,783**	6,932,192	(12,392,308)
Capitalized interest	**(111,644,539)**	25,462,745	181,883,005	-	-	-
Uncollected rental income	**(69,636,728)**	52,193,683	47,073,401	-	-	-
Accrued rent	**(10,064,742)**	(12,359,135)	(8,718,115)	-	-	-
MCIT	**(122,954,873)**	(7,508,969)	(4,804,641)	-	-	-
Allowance for impairment losses	**(92,789,582)**	(3,534,794)	(24,035,326)	-	-	-
Difference between the tax reporting base and financial reporting base of property, plant and equipment	**35,364,155**	(1,353,981)	56,638,734	-	-	-
Unrealized foreign currency gains - net	**(60,343,457)**	(127,032)	11,789,742	-	-	-
Translation adjustments	-	-	-	**(30,688,598)**	15,211,852	(70,795,068)
Fair value adjustments on AFS	**(2,817,304)**	-	-	**4,080**	-	-
Others	**(19,501,080)**	(195,390,923)	(342,844,995)	-	-	-
Deferred tax expense (income)	**P 1,102,765,005**	P 968,122,673	P 698,034,032	**(P 114,167,301)**	P 22,204,044	(P 83,187,376)

The details of NOLCO, which can be claimed as deduction from the respective subsidiaries' future taxable income within three years from the year the loss was incurred, are shown below.

Year	**Original Amount**	**Applied**	**Expired Balance**	**Remaining Balance**	**Valid Until**
2014	P 1,493,075,399	P -	P -	P 1,493,075,399	2017
2013	2,698,274,684	(549,872,998)	-	2,148,401,686	2016
2012	1,852,489,020	(1,815,638,881)	-	36,850,139	2015
2011	415,740,232	(378,552,424)	(37,187,808)	-	2014
	P 6,558,254,359	**(P 2,744,064,303)**	**(P 37,187,808)**	**P 3,678,327,224**	

Some companies of the Group are subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations. The details of MCIT, which can be applied as deduction from the entities' respective future RCIT payable within three years from the year the MCIT was paid, are shown below.

Year Incurred	Original Amount	Expired	Remaining Balance	Valid Until
2014	P 162,563,013	P -	P 162,563,013	2017
2013	32,246,693	-	32,246,693	2016
2012	20,660,215	-	20,660,215	2015
2011	27,852,997	(27,852,997)	-	2014
	P 243,322,918	(P 27,852,997)	P 215,469,921	

The following summarizes the amount of NOLCO and other deductible temporary differences as at the end of 2014, 2013 and 2012 for which the related deferred tax assets (liabilities) – net have not been recognized by certain subsidiaries within the Group based on their assessments that the related tax benefits may not be realized within the prescriptive period.

	2014		2013		2012	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
NOLCO	**P3,575,943,355**	**P1,072,783,007**	P 4,961,352,403	P 1,488,405,721	P3,725,565,135	P 1,117,669,541
Unrealized loss on interest rate swap	**856,134,049**	**256,840,215**	1,137,998,386	341,399,516	1,325,831,385	397,749,416
Share-based compensation	**130,877,036**	**39,263,111**	264,469,448	79,340,834	20,174,162	6,052,249
MCIT	**55,859,616**	**16,757,885**	65,098,838	65,098,838	43,808,507	43,808,507
Retirement benefit obligation	**57,895,901**	**17,368,770**	49,435,000	14,830,500	32,448,290	9,734,487
Allowance for impairment	**-**	**-**	24,385,645	7,315,694	23,653,124	7,095,937
Unrealized foreign currency losses – net	**45,480,627**	**13,644,188**	(12,578,916)	(3,773,675)	(536,950,652)	(161,085,196)
Accrued rent	**-**	**-**	6,627,877	1,988,363	2,101,002	630,301
Allowance for inventory write-down	**483,969**	**145,191**	312,718	93,815	352,036	105,611
ARO	**-**	**-**	-	-	323,254	96,976
	P4,722,674,553	**P1,416,802,366**	P 6,497,101,399	P 1,994,699,606	P4,637,306,243	P 1,421,857,829

28.2 Optional Standard Deduction

Corporate taxpayers have an option to claim itemized deductions or OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for that particular taxable year.

In 2014, 2013 and 2012, the companies within the Group opted to continue claiming itemized deductions in computing for its income tax due except for EDI which opted to claim OSD in 2014, and AWGI and MDC for both 2014 and 2013.

28.3 Taxation of Casino Operations

Under the Provisional License Agreement with PAGCOR, Travellers is subject to 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues. The license fees are directly remitted by the Company to PAGCOR as required under the Provisional License Agreement.

In April 2013, however, the Bureau of Internal Revenue (BIR) issued RMC 33-2013 declaring that PAGCOR, its contractees and its licensees are no longer exempt from corporate income tax under the National Internal Revenue Code of 1997, as amended.

In May 2014, PAGCOR issued Guidelines for a 10% income tax allocation (ITA) measure whereby, effective April 1, 2014, the 25% and 15% license fees were effectively reduced to 15% and 5%, respectively, inasmuch as 10% of the license fees was allocated for income tax on gaming, subject to quarterly and annual true-up mechanisms obliging the licensees to remit to PAGCOR any savings from the excess of the 10% ITA over the actual income tax paid on the gaming revenues [see Note 30.3(c)].

29. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, associates, jointly controlled entities, the Group's key management personnel and retirement fund, and others as described below.

The summary of the Group's transactions with its related parties as of and for the years ended December 31, 2014, 2013 and 2012 are as follows:

Related Party Category	Notes	Amount of Transaction 2014	Amount of Transaction 2013	Amount of Transaction 2012	Outstanding Balance 2014	Outstanding Balance 2013
Parent Company and subsidiaries' stockholders:						
Loan payable	29.2	**P -**	P -	P -	**P -**	P 532,724,721
Redeemable preferred shares	19	**-**	-	-	**596,431,722**	528,133,002
Casino transactions	29.4	**7,941,612,756**	9,911,409,089	8,722,105,033	**289,395,342**	329,046,155
Incidental rebate charges	29.4	**1,946,203,700**	2,653,102,036	2,522,926,974	**168,093,697**	331,528,281
Management fees	29.5	**315,469,747**	562,848,779	631,335,697	**31,711,184**	23,996,555
Issuance of ELS	20	**5,280,000,000**	-	-	**5,280,000,000**	-
Accounts Payable		**114,474,692**	258,174,697	3,469,933	**369,170,512**	453,645,207
Related party under common ownership:						
Purchase of raw materials	29.1	**4,654,005,633**	418,361,736	7,820,858,350	**1,616,937,584**	451,648,340
Purchase of imported goods	29.1	**3,475,578**	146,501,368	488,803,326	**160,919**	35,270,647
Acquisition of assets	29.3	**-**	1,072,522,335	-	**-**	196,597,811
Rental income	29.6	**10,743,583**	6,345,773	3,320,328	**-**	-
Sales of investment	29.11	**5,000,000**	-	-	**-**	-
Advances granted	29.8	**(572,143,376)**	903,799,948	(319,061,097)	**1,137,274,126**	1,709,417,502
Associates:						
Rental income	29.6	**-**	747,495	1,174,635	**603,436**	603,436
Advances granted	29.8	**273,273,910**	(58,995,675)	40,350,374	**1,277,781,909**	1,004,507,999
Others:						
Rental income	29.6	**613,143**	1,443,364	134,018	**186,380**	171,104
Receivable from joint venture	29.7	**-**	22,797,613	32,822,342	**-**	17,711,146
Accounts receivable	29.9	**118,991,964**	43,939,262	178,057,833	**1,833,035,771**	1,239,264,958
Accounts payable	29.9	**(586,491,844)**	149,466,365	183,251,097	**225,324,311**	841,766,152
Advances from joint venture partners and others	29.10	**549,044,994**	(502,295,497)	632,225,121	**903,152,243**	354,107,249

29.1 Purchase of Goods

Emperador imports raw materials such as alcohol, flavorings and other items through Andresons Global, Inc. (AGL). There are also finished goods purchased from Consolidated Distillers, Inc. (Condis) and through AGL. These transactions are payable within 30 days.

Emperador also imports raw materials from Alcoholera dela Mancha Vinicola, S.L., a wholly owned subsidiary of BLC, now considered a related party under common control in 2014.

The outstanding liability related to these purchases is presented as part of Trade payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

29.2 Loan from MRO

GADC has a loan agreement with MRO. The principal amount of the loan of U.S.$12.0 million is payable in full up to March 17, 2025. Accrued interest payable as at December 31, 2013 is included as part of Accrued expenses under Trade and Other Payables account in the 2013 consolidated statement of financial position (see Note 16).

In October 2014, GADC fully paid the whole amount of loan including the accrued interest thereon (see Note 17).

29.3 Acquisition of Assets

In 2013, GADC acquired building and leasehold improvements from McDonald's Philippines Realty Corporation (MPRC), with outstanding liability amounting to P196.6 million as at December 31, 2013. The amount was settled in full in 2014.

In 2013, Emperador acquired and fully paid the distillery facilities of Condis, which include the following assets:

	Notes		
Property, plant and equipment	13	P	756,990,993
Inventories	8		140,578,342
		P	897,569,335

No similar transactions occurred in 2014.

29.4 International Marketing and Joint Co-operation Agreement with Genting Hongkong, Ltd. (GHL)

In 2009, Travellers entered into an international marketing agreement with GHL whereby GHL will handle the promotion of the Travellers' casinos and will bring in foreign patrons to play in its casinos. As a consideration for such service, Travellers shall pay GHL an amount equivalent to a certain percentage of gross gaming revenues recognized by Travellers from foreign patrons brought in by GHL.

In 2012, the Travellers and GHL terminated the international marketing agreement and executed a joint co-operation agreement to revise the consideration for the services of GHL to Travellers from a certain percentage of gross gaming revenues to a certain percentage of net turnovers.

Incidental rebate charges arising from this transaction are presented as part of Advertising and promotions under the Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding balances of payables are presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

Travellers also recognized outstanding receivables from GHL representing show money received by GHL from foreign patrons which GHL will later remit to the Travellers. The outstanding balances of receivables are presented as part of Trade receivables under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

29.5 Operations and Management Agreement with GHL

Some of Travellers' administrative functions are being handled by certain key officers and employees under the management of GHL as agreed by both parties under the Operations and Management Agreement. Management fees are presented as part of Management fees under the Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding liability arising from this transaction is presented as part of Accrued expenses in the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

29.6 Rental Income from Associates

GERI leases its investment property to certain related parties with rental payments mutually agreed before the commencement of the lease. The revenue earned from leases to related parties are included as part of Rental income under Rendering of Services account in the consolidated statements of comprehensive income (see Note 23). The outstanding receivable is short-term, unsecured, noninterest-bearing, and are generally settled in cash upon demand.

As at December 31, 2014 and 2013, based on management's assessment, the outstanding balance of rental income receivable from associates is not impaired; hence, no impairment losses were recognized.

29.7 Receivable from a Joint Venture

Receivables from GCFII are unsecured, interest free and normally settled in cash. These are included in Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

In 2014, GADC made additional investment in GCFII resulting to an increase in ownership interest from 50% to 60%, thus obtaining control. The outstanding amount of receivables from GCFII in 2014 was eliminated in full.

29.8 Advances to Associates and Other Related Parties

Entities within the Group grant advances to associates and other entities for working capital purposes. These advances to associates and other related parties are unsecured, noninterest-bearing and repayable upon demand. Settlement is generally made in cash or through offsetting arrangements. The outstanding balances of Advances to associates and other related parties, which are shown as part of Investments in and Advances to Associates and Other Related Parties account in the consolidated statements of financial position, are presented as follows (these mainly represent advances granted by Megaworld) [see Note 12.1]:

	2014	2013
Advances to:		
Associates	P 1,277,781,909	P 1,004,507,999
Other related parties	1,137,274,126	1,709,417,502
	P 2,415,056,035	P 2,713,925,501

The movements of the Advances to Associates and Other Related Parties account are as follows:

	2014	2013
Balance at beginning of year	P 2,713,925,501	P 1,869,121,228
Cash advances granted	959,713,523	903,799,948
Collections	(1,258,582,989)	(58,995,675)
Balance at end of year	P 2,415,056,035	P 2,713,925,501

As at December 31, 2014 and 2013, based on management's assessment, the outstanding balances of advances to associates and other related parties are not impaired; hence, no impairment losses were recognized.

29.9 Due from/to Related Parties

Transactions with related parties include the following: financing of opening of letters of credit and payment of progress billing, royalty fees, rentals, interest and certain expenses in behalf of the entities within Group or other related parties. The amounts due from and to related parties are unsecured, noninterest-bearing and due and demandable any time. Settlement is generally made in cash or through offsetting arrangements.

The outstanding balances of Due from/to Related Parties are presented under Trade and Other Receivables (see Note 6) and Trade and Other Payables (see Note 16) accounts, respectively, in the consolidated statements of financial position as follows:

	2014	2013
Due from Related Parties		
Officers and employees	P 135,041,717	P 270,968,418
Other related parties	1,697,994,054	968,296,540
	P 1,833,035,771	P 1,239,264,958
Due to Related Parties		
Stockholder	P 369,170,512	P 453,645,207
Other related parties	225,324,311	841,766,152
	P 594,494,823	P 1,295,411,359

The details of the due from/to related parties are as follows:

	2014	2013
Due from Related Parties		
Balance at beginning of year	P 1,239,264,958	P 1,195,324,696
Additions	1,658,605,190	567,998,203
Collections	(1,064,834,37)	(524,057,941)
Balance at end of year	P 1,833,035,771	P 1,239,264,958
Due to Related Parties		
Balance at beginning of year	P 1,295,411,359	P 887,770,297
Additions	3,380,511	577,290,766
Repayments	(704,297,047)	(169,649,704)
Balance at end of year	P 594,494,823	P 1,295,411,359

McDonald's granted GADC the nonexclusive right to adopt and use the McDonald's System in its restaurant operations in the Philippines. In March 2005, the license agreement was renewed for another 20 years, and provides for a royalty fee based on certain percentage of net sales from the operations of GADC's restaurants, including those operated by the franchisees. GADC recognized royalty expenses amounting to P822.1 million and P719.0 million for 2014 and 2013, respectively (see Note 25). The outstanding payable to McDonald's relating to royalty expenses amounted to P133.9 million and P120.8 million as at December 31, 2014 and 2013, respectively, and presented as part of Due to Related Parties under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

GADC leases a warehouse and nine restaurant premises from MPRC, a company owned by MRO. The lease terms are for periods which are co-terminus with the lease agreements entered into by GADC with the owners of the land where the warehouse and restaurants are located. Except for the warehouse for which a fixed annual rental of P10.0 million is charged, rentals charged by MPRC to GADC are based on agreed percentages of gross sales of each store. Rental charged to operations amounted to P1.8 million and P30.6 million in 2014 and 2013, respectively. The outstanding balance of this transaction amounted to P0.2 million as at December 31, 2014.

As at December 31, 2014 and 2013, based on management's assessment, the outstanding balances of Due from employees and related parties are not impaired, hence, no impairment losses were recognized.

29.10 Non-current Advances from Related Parties

Certain expenses of entities within the Group are paid for by other related parties. The advances are unsecured, noninterest-bearing, with no repayment terms, and generally payable on cash or through offsetting arrangements. Due to JV partners pertain to the share of JV partners in the proceeds from the sale in accordance with various JV agreements entered into by GERI. Total outstanding balance of the accounts is presented as Advances from Related Parties account in the consolidated statements of financial position.

Details of Advances from Related Parties are presented as follows:

	2014	2013
Advances from related parties	**P 578,860,332**	P 120,487,829
Advances from joint venture partners	**324,291,911**	233,619,420
	P 903,152,243	P 354,107,249

29.11 Sale of Investment in GSTAI

In 2014, Travellers sold its investment in GSTAI to a related party under common ownership. There is no outstanding receivable arising from this transaction in 2014.

29.12 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows (see Note 27.1):

	2014	2013	2012
Short-term employee benefits	**P 532,622,621**	P 625,867,278	P 548,585,664
Stock-option benefit expense	**313,343,832**	156,816,832	105,762,467
Retirement benefits expense	**44,186,742**	35,289,335	31,226,762
	P 890,153,195	P 817,973,445	P 685,574,893

29.13 Transactions with the Retirement Plans

The Group has a formal retirement plan established separately for each significant subsidiary, particularly Megaworld, GERI, GADC, EDI and WML. These plans are defined benefit post-employment plan maintained for qualified employees, administered and managed by trustee banks (except for GERI which is still an unfunded plan). The carrying amount and the composition of the plan assets as at December 31, 2014 and 2013 are shown in Note 27.2.

Unit investment trust fund and equity and debt securities, which are included as plan assets under the fund consist of investments in corporations listed in the PSE. The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also does not have any investments in the Group's shares of stock.

30. COMMITMENTS AND CONTINGENCIES

30.1 Operating Lease Commitments – Group as Lessor

The Group is a lessor under non-cancellable operating lease agreements covering certain office and commercial spaces. The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rate of 5% to 10%.

Future minimum lease receivables under these leases as of December 31 are as follows:

	2014	2013	2012
Within one year	**P 7,100,714,265**	P 6,158,808,873	P 5,547,717,964
After one year but not more than five years	**35,657,874,236**	30,278,029,365	26,563,815,242
More than five years	**11,299,924,365**	9,897,419,368	8,989,364,762
	P 54,058,512,866	P 46,334,257,606	P 41,100,897,968

30.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases covering condominium units for administrative use. The leases have terms ranging from 1 to 40 years, with renewal options, and include a 5% to 10% annual escalation rate.

The future minimum rental payables under these non-cancellable leases as of the end of the reporting periods are as follows:

	2014	2013	2012
Within one year	**P 151,425,413**	P 326,051,985	P 310,187,797
After one year but not more than five years	**367,182,124**	666,739,701	581,833,312
More than five years	**351,605,599**	440,589,644	299,994,297
	P 870,213,136	P 1,433,381,330	P 1,192,015,406

30.3 Provisional License Agreement of Travellers with PAGCOR

On June 2, 2008, PAGCOR issued a Provisional License (License) authorizing Travellers to participate in the integrated tourism development project in two sites and to establish and operate casinos, and engage in gaming activities in the two sites. The term of Travellers' License shall be co-terminus with PAGCOR's franchise which will expire on July 11, 2033, and shall be renewed subject to the terms of the PAGCOR Charter.

(a) Investment Commitments

Under the terms of the License, Travellers and RWBCI are required to complete its U.S.$1.3 billion (about P58.9 billion) investment commitment in phases, which amount is divided into Site A and Site B with the minimum investment of U.S.$1.1 billion (about P49.1 billion) and U.S.$216.0 million (about P9.6 billion), respectively (collectively, the Project).

Travellers and RWBCI are required to fully invest and utilize in the development of the Project at least 40% of the respective phases of the investment commitment for Site A and Site B within two years from Site Delivery.

As a requirement in developing the aforementioned Project, Travellers transferred U.S.$100.0 million (about P4.4 billion) to an escrow account with a local bank mutually agreed by PAGCOR and Travellers. At any given time, the escrow account shall have a maintaining balance of not lower than U.S.$50.0 million (about P2.2 billion) (see Note 5). For failure to comply with such maintaining balance requirement after a 15-day grace period, Travellers shall be charged by PAGCOR an amount equal to P2.5 million for every 15 calendar days until the noncompliance is corrected. All funds for the development of the Project shall pass through the escrow deposit and all drawdown therefrom must be applied to the Project.

As at December 31, 2014, Travellers has spent P40.4 billion for its casino projects pursuant to its investment commitment under the License. It has short-term placements amounting to U.S.$65.7 million (P2.9 billion) as at December 31, 2014 and 2013 to meet its requirements with PAGCOR in relation to this investment commitments (see Note 5).

(b) Requirement to Establish a Foundation

Travellers, in compliance with the requirement of PAGCOR to incorporate and register a foundation for the restoration of cultural heritage, incorporated Manila Bayshore Heritage Foundation, Inc. (or the Foundation) on September 7, 2011 primarily to engage in various activities for charitable, educational, cultural and artistic purposes, and to promote, perpetuate, preserve and encourage Filipino culture.

The Foundation shall be funded by Travellers by setting aside funds on a monthly basis. The funds set aside shall be remitted to the foundation on or before the 10th day of the succeeding month. Travellers has recognized accrual, based on 2% of total gross gaming revenues from non-junket tables.

As at December 31, 2014, Travellers remitted donations for the current and prior years. The Foundation has started to undertake certain construction and school projects in Pasay and Parañaque cities in partnership with the Philippine Department of Education, Culture and Sports. As at December 31, 2014, all three construction and school projects have not yet been completed.

(c) *Tax Contingencies of Casino Operations*

The PAGCOR Charter grants PAGCOR an exemption from taxes, income or otherwise, as well as exemption from any form of charges, fees, or levies, except for the 5% franchise tax on gross revenue or earnings derived by PAGCOR on its casino operations. On February 29, 2012, the BIR issued a circular which affirmed the nonexemption from corporate income taxation of PAGCOR by virtue of the amendment of R.A. 9337 of Section 27(c) of the National Internal Revenue Code of 1997.

Under the Travellers' License with the PAGCOR, Travellers is subject to the 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues. In May 2014, PAGCOR issued Guidelines for a 10% ITA measure whereby, effective April 1, 2014, the 25% and 15% license fees were effectively reduced to 15% and 5%, respectively. (See Note 28.3)

On December 10, 2014, the SC en banc issued a Decision in the case of PAGCOR v. BIR, *G.R. No. 215427*, confirming that income from gaming operations is subject only to 5% franchise tax, in lieu of all other taxes, under P.D. No. 1869, as amended. A similar case filed on behalf of a PAGCOR licensee is pending with the SC as at the audit report date. The Group awaits the final outcome of the said case.

Management is of the opinion that the similar case pending with the SC will result in a positive outcome, considering the unequivocal SC declaration in the PAGCOR v. BIR, *G.R. No. 215427* that income from gaming operations is subject only to 5% franchise tax, in lieu of all taxes. Upon finality of the resolution/decision of such case, the 10% ITA measure shall cease to be effective, and the license fees shall automatically revert to the original 25% and 15% rates as indicated in the Provisional License Agreement, in accordance with paragraphs (b) and/or (c) of the foregoing ITA measure.

In view of the foregoing, no provision has been recognized in the consolidated financial statements as at the end of the reporting periods for those periods not covered by the ITA measure.

30.4 Others

As at December 31, 2014, EELHI and Travellers have unused lines of credit from certain banks and financial institutions totaling to P7.2 billion.

There are other commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying consolidated financial statements. The management of the Group is of the opinion that losses, if any, from these items will not have any material effect on its consolidated financial statements.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, AFS financial assets, interest-bearing loans, bonds payable, trade receivables and payables and derivative asset and liabilities which arise directly from the Group's business operations. The financial debts were issued to raise funds for the Group's capital expenditures.

The Group does not actively engage in the trading of financial assets for speculative purposes.

The Group is exposed to a variety of financial risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

31.1 Market Risk

(a) *Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in the functional currencies of the individual subsidiaries making the transactions. The currency exchange risk arises from transactions carried out in currencies other than the functional currency of the subsidiaries.

Foreign currency denominated financial assets and liabilities, translated into Philippine pesos at period-end closing rate are as follows:

	2014		2013	
	U.S. Dollars	**HK Dollars**	U.S. Dollars	HK Dollars
Financial assets	**P 26,693,102,110**	**P 1,912,550,620**	P 34,766,824,958	P 1,347,307,562
Financial liabilities	**(68,385,830,251)**	**(671,284,910)**	(59,074,985,969)	(642,724,055)
	(P 41,692,728,141)	**P 1,241,265,710**	(P 24,308,161,011)	P 704,583,507

The sensitivity of the consolidated income before tax for the period with regard to the Group's financial assets and the U.S. dollar – Philippine peso exchange rate assumes +/- 18% and +/- 23% changes in exchange rate for the years ended December 31, 2014 and 2013, respectively. The HK dollar – Philippine peso exchange rate assumes +/- 18% and +/- 20% changes for the year ended December 31, 2014 and 2013. These percentages have been determined based on the average market volatility in exchange rates in the previous year and 12 months, respectively, estimated at 95% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting periods.

If the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, consolidated profit before tax would have increased by P7.8 billion and P5.5 billion for the years ended December 31, 2014 and 2013, respectively. If in 2014 and 2013, the Philippine peso had strengthened against the HK dollar, with all other variables held constant, consolidated profit before tax would have decreased by P0.2 billion and P0.1 billion, respectively.

However, if the Philippine peso had weakened against the U.S. dollar and the HK dollar by the same percentages; then consolidated income before tax would have changed at the opposite direction by the same amount.

The Group periodically reviews the trend of the foreign exchange rates and, as a practical move, increases its U.S. dollar-denominated time deposits in times when the Philippine peso is depreciating or decreases its U.S. dollar-denominated placements in times when the Philippine peso is appreciating.

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

(b) Interest Rate Sensitivity

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. At present, the Group is exposed to changes in market interest rates through bank borrowings and cash and cash equivalents, which are subject to variable interest rates. The Group maintains a debt portfolio unit of both fixed and variable interest rates. All other financial assets are subject to variable interest rates.

The sensitivity of the consolidated income before tax for the period to a reasonably possible change in interest rates of +/- 0.83% for Philippine peso and +/- 0.03% and U.S. dollar in 2014 and +/-1.44% for Philippine peso and +/-0.14% for U.S. dollar in 2013 with effect from the beginning of the period. These percentages have been determined based on the average market volatility in interest rates, using standard deviation, in the previous year and 12 months, respectively, estimated at 95% level of confidence.

The sensitivity analysis is based on the Group's financial instruments held as at December 31, 2014 and 2013, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P0.7 billion and P0.4 billion for the years ended December 31, 2014 and 2013, respectively. Conversely, if the interest rates decreased by the same percentage, consolidated income before tax would have been lower by the same amount.

31.2 Credit Risk

Generally, the Group's credit risk is attributable to trade and other receivable arising mainly from transactions with approved franchisees, installment receivables, rental receivables and other financial assets. The carrying values of these financial assets subject to credit risk are disclosed in Note 32.1.

The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Franchisees are subject to stringent financial, credit and legal verification process. In addition, accounts receivable are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant portion of sales, advance payments are received to mitigate credit risk.

With respect to credit risk arising from the other financial assets of the Group, composed of cash and cash equivalents, 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.

Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 per depositor per banking institution.

Trade and other receivables that are past due but not impaired are as follows:

	2014	2013
Not more than 30 days	**P 6,057,980,911**	P 549,092,678
31 to 60 days	**1,365,362,281**	2,289,013,027
Over 60 days	**1,075,817,654**	747,543,582
	P 8,499,160,846	P 3,585,649,287

31.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, bonds, and preferred shares.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets. In addition, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues.

As at December 31, 2014, the Group's financial liabilities have contractual maturities which are presented below.

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later than 5 Years
Trade and other payables	P 30,312,159,497	P 4,740,592,169	P -	P -
Interest-bearing loans	25,587,778,814	1,072,797,634	6,966,234,589	1,080,183,150
Bonds payable	5,461,785,950	461,785,950	44,245,200,955	7,505,468,158
Advances from related parties	-	-	384,565,490	-
Redeemable preferred shares	-	-	1,257,987,900	1,574,159,348
Security deposits	102,003,672	-	26,663,649	102,100,032
Derivative liability	233,751,463	-	-	-
Other liabilities	146,729,480	-	-	-
	P 62,055,708,876	**P 6,275,175,753**	**P 59,231,249,441**	**P 10,261,910,688**

As at December 31, 2013, the Group's financial liabilities have contractual maturities which are presented below.

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later than 5 Years
Trade and other payables	P 15,356,683,282	P 7,826,578,063	P -	P -
Interest-bearing loans	1,603,279,826	2,192,512,443	8,795,031,294	433,552,898
Bonds payable	1,181,347,400	1,181,347,400	55,449,496,930	7,625,297,602
Advances from related parties	-	-	354,107,249	-
Redeemable preferred shares	-	-	1,352,336,993	1,574,159,348
Security deposits	-	-	86,286,060	61,932,286
Derivative liability	38,631,143	-	-	1,145,961,938
Other liabilities	519,684,000	-	-	-
	P 18,699,625,651	P 11,200,437,906	P 66,037,258,526	P 10,840,904,072

The contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting period.

31.4 Other Price Risk Sensitivity

The Group's market price risk arises from its investments carried at fair value (financial assets classified as AFS financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Group's investments held at fair value and their impact on the equity as at December 31, 2014 and 2013 are summarized as follows:

	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
2014 - Investment in equity securities	**+20.82%**	**-20.82%**	**P 463,852,651**	**(P 463,852,651)**
2013 - Investment in equity securities	+18.12%	-18.12%	P 480,595,059	(P 480,595,059)

The maximum additional estimated loss in 2014 and 2013 is to the extent of the carrying value of the securities held as of these reporting dates with all other variables held constant. The estimated change in quoted market price is computed based on volatility of listed companies at the PSE for the past 12 months at 95% confidence level.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Group's favor.

32. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

	Notes	2014 Carrying Values	2014 Fair Values	2013 Carrying Values	2013 Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	**P82,058,836,647**	**P82,058,836,647**	P 94,977,525,445	P 94,977,525,445
Trade and other receivables	6	**63,663,499,864**	**63,663,499,864**	46,763,700,664	46,763,700,664
Other financial assets	9	**1,824,034,893**	**1,824,034,893**	1,322,462,800	1,322,462,800
		P 147,546,371,404	**P 147,546,371,404**	P 266,432,156,772	P 266,432,156,772
Financial assets at FVTPL:					
Marketable debt and equity securities	7	**P 4,351,221,441**	**P 4,351,221,441**	P 7,363,058,599	P 7,363,058,599
Derivative asset	7	-	-	12,684,368	12,684,368
		P 4,351,221,441	**P 4,351,221,441**	P 7,375,742,967	P 7,375,742,967
AFS Financial Assets:					
Debt securities	11	**P 3,717,359,428**	**P 3,717,359,428**	P 4,399,906,888	P 4,399,906,888
Equity securities	11	**2,254,727,700**	**2,254,727,700**	358,985,303	358,985,303
		P 5,972,087,128	**P 5,972,087,128**	P 4,758,892,191	P 4,758,892,191
Financial Liabilities					
Financial liabilities at FVTPL -					
Derivative liabilities	20	**P 1,268,699,964**	**P 1,268,699,964**	P 1,184,593,081	P 1,184,593,081
Financial liabilities at amortized cost:					
Current					
Trade and other payables	16	**P33,906,586,092**	**P33,906,586,092**	P 23,183,261,345	P 23,183,261,345
Interest-bearing loans	17	**26,660,576,448**	**26,660,576,448**	3,795,792,269	3,795,792,269
Bonds payable	18	**5,000,000,000**	**5,000,000,000**	-	-
Other current liabilities	20	**10,263,243,481**	**10,263,243,481**	2,113,418,300	2,113,418,300
		P 75,830,406,021	**P75,830,406,021**	P 29,092,471,914	P 29,092,471,914
Non-current					
Bonds payable	18	**P51,687,525,333**	**P51,687,525,333**	P 56,479,746,306	P 56,479,746,306
Interest-bearing loans	17	**8,038,681,649**	**8,038,681,649**	9,228,584,192	9,228,584,192
ELS	20	**5,253,911,638**	**5,253,911,638**	-	-
Redeemable preferred shares	19	**1,854,419,622**	**2,240,108,833**	1,786,120,902	2,205,377,961
Due to related parties	20	**903,152,243**	**903,152,243**	354,107,249	354,107,249
Security deposits	20	**294,947,826**	**294,947,826**	148,218,346	148,218,346
		P 68,032,638,311	**P68,418,327,522**	P 67,996,776,995	P 68,416,034,054

See Notes 2.4 and 2.12 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 31.

33. FAIR VALUE MEASUREMENT AND DISCLOSURES

33.1 Fair Value Hierarchy

The hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- 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 resource 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 level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value of Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

33.2 Financial Instruments Measurements at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as at December 31, 2014 and 2013.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets at FVTPL - Debt and equity securities	P 4,351,221,441	P -	P -	P 4,351,221,441
AFS financial assets:				
Debt securities	3,717,359,428	-	-	3,717,359,428
Equity securities	2,024,370,210	63,160,000	167,197,490	2,254,727,700
	P 10,092,951,079	**P 63,160,000**	**P 167,197,490**	**P 10,323,308,569**
Financial liability:				
Financial liability at FVTPL - Derivative liabilities	**P 1,268,699,964**	**P -**	**P -**	**P 1,268,699,964**

	2013			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL:				
Debt and equity securities	P 7,363,058,599	P -	P -	P 7,363,058,599
Derivative assets	12,684,368	-	-	12,684,368
AFS financial assets:				
Debt securities	4,399,906,888	-	-	4,399,906,888
Equity securities	117,218,306	49,880,000	191,886,997	358,985,303
	P 11,892,868,161	P 49,880,000	P 191,886,997	P 12,134,635,158
Financial liability:				
Financial liability at FVTPL - Derivative liabilities	P 1,184,593,081	P -	P -	P 1,184,593,081

Described below are the information about how the fair values of the Company's classes of financial assets are determined.

(a) Equity securities

As at December 31, 2014 and 2013, instruments included in Level 1 comprise equity securities classified as financial assets at FVTPL or AFS financial assets. These securities were valued based on their market prices quoted in various stock exchanges at the end of each reporting period.

Golf club shares classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, equity security held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management to consider the differences in corporate profile and historical performance of the entity.

(b) Debt securities

The fair value of the Group's debt securities which consist of corporate bonds is estimated by reference to quoted bid price in active market (i.e., Stock Exchange) at the end of the reporting period and is categorized within Level 1.

33.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The table below shows the fair value hierarchy of the Company's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as at December 31, 2014 and 2013.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Cash and cash equivalents	P 82,058,836,647	P -	P -	P 82,058,836,647
Trade and other receivables	-	-	63,663,499,864	63,663,499,864
	P 82,058,836,647	**P -**	**P 63,663,499,864**	**P145,722,336,511**
Financial liabilities:				
Current:				
Interest-bearing loans	P -	P -	P 26,660,576,448	P 26,660,576,448
Trade and other payables	-	-	33,906,586,092	33,906,586,092
Bonds payable	5,000,000,000	-	-	5,000,000,000
Other current liabilities	-	-	10,263,243,481	10,263,243,481
Non-current:				
Interest-bearing loans	-	-	8,038,681,649	8,038,681,649
Bonds payable	51,687,525,333	-	-	51,687,525,333
Equity-linked debt securities	-	-	5,253,911,638	5,253,911,638
Due to related parties	-	-	903,152,243	903,152,243
Redeemable preferred shares	-	-	1,854,419,622	1,854,419,622
Security deposits	-	-	294,947,826	294,947,826
	P 56,687,525,333	**P -**	**P 87,175,518,999**	**P 143,863,044,332**

	2013			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 94,977,525,445	P -	P -	P 94,977,525,445
Trade and other receivables	-	-	51,086,163,464	51,086,163,464
	P 94,977,525,445	P -	P 51,086,163,464	P146,063,688,909
Financial liabilities:				
Current:				
Interest-bearing loans	P -	P -	P 3,795,792,269	P 3,795,792,269
Trade and other payables	-	-	23,183,261,345	23,183,261,345
Other current liabilities	-	-	2,113,418,300	2,113,418,300
Non-current:				
Interest-bearing loans	-	-	9,228,584,192	9,228,584,192
Bonds payable	56,479,746,306	-	-	56,479,746,306
Due to related parties	-	-	354,107,249	354,107,249
Redeemable preferred shares	-	-	1,786,120,902	1,786,120,902
Security deposits	-	-	148,218,346	148,218,346
	P 56,479,746,306	P -	P 40,609,502,603	P 97,089,248,909

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

33.4 Investment Property Measured at Cost for which Fair Value is Disclosed

The fair value of the Megaworld's investment property, except for investment properties of WGPI, and GERI's building and improvements was determined by calculating the present value of the cash inflows anticipated until the life of the investment property using a discount rate of 10%. The fair value of WGPI was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Megaworld's investment property is their current use.

GERI's land developments and improvements were derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

As at December 31, 2014 and 2013, the fair value of the Group's investment property amounted to P172.9 billion and P123.6 billion, respectively (see Note 14) and is classified within Level 3 of the fair value hierarchy. The Level 3 fair value of the investment property was determined using the income approach which is performed with values derived using a discounted cash flow model. The income approach uses future free cash flow projections and discounts them to arrive at a present value. The discount rate is based on the level of risk of the business opportunity and costs of capital. The most significant inputs into this valuation approach are the estimated annual cash inflow and outgoing expenses, anticipated increase in market rental, discount rate and terminal capitalization rate.

Also, there were no transfers into or out of Level 3 fair value hierarchy in 2014.

34. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to ensure its ability to continue as a going concern; to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and to maintain strong and healthy financial position to support its current business operations and drive its expansion and growth in the future.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

It monitors capital using the debt to equity ratio as shown below.

	2014	2013
Total liabilities	**P 192,135,508,222**	P 142,178,763,894
Equity attributable to owners of the parent company	**126,497,113,102**	107,692,727,038
Debt-to-equity ratio	**P 1.52:1**	P 1.32:1

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for both periods.

CORPORATE INFORMATION

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