

A S 0 9 3 - 7 9 4 6

S.E.C. Registration Number

A L L I A N C E G L O B A L
G R O U P , I N C .

(Company's Full Name)

7 / F 1 8 8 0 E A S T W O O D A V E N U E
E A S T W O O D C I T Y C Y B E R P A R K
B A G U N B A Y A N Q U E Z O N C I T Y

(Business Address: No. Street City/ Town/ Province)

DINA INTING

Contact Person

709-2038 to 41

Company Telephone Number

1 2 3 1

Month Day

Fiscal Year

S E C F O R M 2 0 - I S

FORM TYPE

09

Month

3rd Tues.

Day

Certificate of Permit to Offer Securities for Sale

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

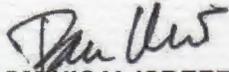
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**TO ALL STOCKHOLDERS:**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Alliance Global Group, Inc. will be held on **18 SEPTEMBER 2018** at **9:00 a.m.** at the Grand Ballroom, Eastwood Richmond Hotel, Orchard Road, Eastwood City, Bagumbayan, Quezon City, Philippines, with the following agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Meeting of Stockholders held on 19 September 2017
4. Report of Management for Year 2017
5. Amendment of By-Laws to change the date of annual meeting of stockholders
6. Appointment of Independent Auditors
7. Ratification of Acts of the Board of Directors, Board Committees, and Officers
8. Election of Directors
9. Other matters
10. Adjournment

Stockholders of record as of 10 August 2018 will be entitled to notice of, and to vote at, the Annual Meeting.

Taguig City, Metro Manila, Philippines, 15 August 2018.



DOMINIC V. ISBERTO
Corporate Secretary

Alliance Global Group, Inc.

7/F 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Bagumbayan 1110, Quezon City, Metro Manila
Tel. Nos: (632) 709-2038 to 41 | Fax: (632) 709-1966

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:
 Preliminary Information Statement
 Definitive Information Statement
2. Name of Registrant as specified in its charter: **ALLIANCE GLOBAL GROUP, INC.**
3. Province, country or other jurisdiction of incorporation or organization:
METRO MANILA, PHILIPPINES
4. SEC Identification Number: **ASO93-7946**
5. BIR Tax Identification Code: **003-831-302-000**
6. Address of Principal Office:
**7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez Jr. Avenue,
Bagumbayan, Quezon City, Metro Manila, Philippines**
7. Registrant's telephone number, including area code: **(632) 709-2038 to 41**
8. Date, time and place of the meeting of security holders:
**18 September 2018, 9:00 AM
Grand Ballroom, Eastwood Richmond Hotel, 17 Orchard Road
Eastwood City Bagumbayan, Quezon City, Philippines**
9. Approximate date on which the Information Statement is first to be sent or given to security holders: **20 August 2018**
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding
Common	10,065,034,979
Treasury	204,793,000

11. Are any or all of registrant's securities listed in a Stock Exchange?
Yes

Disclose the name of such Stock Exchange: **Philippine Stock Exchange**

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED TO SEND US A PROXY

SAMPLE ONLY

PROXY

The undersigned shareholder(s) of **ALLIANCE GLOBAL GROUP, INC.** (the "Company") hereby appoint/s _____ or in his absence, the Chairman of the Annual Shareholders' Meeting, as proxy of the undersigned shareholder(s) at the Annual Meeting of Shareholders scheduled on 18 September 2018 at 9:00 in the morning at the Grand Ballroom, Eastwood Richmond Hotel, Orchard Road, Eastwood City, Bagumbayan, Quezon City and/or at any postponement or adjournment thereof, and/or any annual shareholders' meeting of the Company, which appointment shall not exceed five (5) years from date hereof.

The undersigned shareholder(s) hereby direct/s the said proxy to vote all shares on the agenda items set forth below as expressly indicated by marking the same with [✓] or [X]:

ITEM NO.	SUBJECT	ACTION		
		FOR	AGAINST	ABSTAIN
3	Approval of the Minutes of the Annual Meeting of Stockholders held on 19 September 2017			
5	Amendment of By-Laws to change the date of annual meeting of stockholders			
6	Appointment of Independent Auditors			
7	Ratification of Acts of the Board of Directors, Board Committees and Officers			
8	Election of Directors			
	Andrew L. Tan			
	Kevin Andrew L. Tan			
	Kingson U. Sian			
	Katherine L. Tan			
	Winston S. Co			
	Sergio R. Ortiz-Luis, Jr. - Independent Director			
	Alejo L. Villanueva, Jr. - Independent Director			

PRINTED NAME OF
SHAREHOLDER

SIGNATURE OF
SHAREHOLDER/
AUTHORIZED SIGNATORY

NUMBER OF SHARES
TO BE
REPRESENTED

DATE

This proxy should be received by the Corporate Secretary not later than **13 September 2018**.

This proxy when properly executed will be voted in the manner as directed herein by the shareholder. If no direction is made, the proxy will be voted for the election of all nominees and for the approval of all matters stated above and for such other matters as may properly come before the meeting in the manner described in the information statement.

A shareholder giving a proxy has the power to revoke it at any time before the right granted is exercised. A proxy is also considered revoked if the shareholder attends the meeting in person and expressed his intention to vote in person.

This proxy does not need to be notarized. (Partnerships, Corporations and Associations must attach certified resolutions thereof designating Proxy/Representative and Authorized Signatories.)

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED TO SEND US A PROXY

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of annual meeting of security holders.

Date & time: 18 September 2018, 9:00 AM
Place: Grand Ballroom, Eastwood Richmond Hotel, 17 Orchard Road,
Eastwood City, Bagumbayan, Quezon City, Philippines
Principal office: 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez
Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines 1110

Approximate date on which the Information Statement is first to be sent or given: 20 August 2018

The Company is not soliciting proxies. We are not asking for a proxy. Neither are you required to send us a proxy.

Item 2. Dissenter's Right of Appraisal

There are no matters to be acted upon or proposed corporate action in the agenda for the annual meeting of stockholders that may give rise to possible exercise by a dissenting stockholder of its appraisal rights under Title X of the Corporation Code of the Philippines.

Any stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in the following instances: (1) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (2) in case the Company decides to invest funds in another corporation or business or for any purpose outside of the primary purpose for which it was organized; (3) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; and (4) in case of merger or consolidation.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action by making a written demand on the Company within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares. A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. Failure to make the demand within the 30-day period shall be deemed a waiver of the appraisal right. From the time of the demand until either the abandonment of the corporate action in question or the purchase of the dissenting shares by the Company, all rights accruing to the dissenting shares shall be suspended, except the stockholder's right to receive payment of the fair value thereof. If the proposed corporate action is implemented or effected, the Company shall pay to such stockholder, upon surrender of the stock certificate(s) representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If the fair value is not determined within sixty (60) days from the date the corporate action was approved by the stockholders, it will be determined by three (3) disinterested persons (one chosen by the Company, another chosen by the dissenting stockholder and the third to be chosen jointly by the Company and the stockholder). The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. Upon payment by the Company of the awarded price, the dissenting stockholder shall forthwith transfer his shares to the Company.

No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a) No officer or director at any time since the beginning of last fiscal year, or nominee for election as director, or associate of any of these persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.

(b) No director has informed the Company in writing of his/her intention to oppose any matter to be acted upon at the Annual Stockholders' Meeting ("Meeting").

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) Each of the 10,065,034,979 common shares outstanding as of 10 August 2018 shall be entitled to one vote with respect to all matters to be taken up during the Meeting.

(b) All stockholders of record as of 10 August 2018 are entitled to notice of, and to vote at, the Meeting either in person or by proxy. The Company is not soliciting your proxy.

(c) All stockholders shall have cumulative voting rights with respect to the election of the members of the board of directors of the Company. Cumulative voting entitles each stockholder to cumulate his shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or distribute them on the same principle among as many nominees as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(d) Security Ownership of Certain Record and Beneficial Owners and Management:

Security Ownership of Holders of more than 5% of the Company's Voting Securities as of 30 June 2018:

<u>Title Of Class</u>	<u>Name and Address of Record Owner & Relationship w/ Issuer</u>	<u>Beneficial Owner & Relationship w/ Record Owner</u>	<u>Citizenship</u>	<u>No. of Shares</u>	<u>Percent Owned</u>
Common	THE ANDRESONS GROUP, INC. 6 th Floor The World Centre Building, 330 Sen. Gil Puyat Ave., Makati City It is solely a stockholder of issuer.	Andrew L. Tan, Chairman of the Board, is authorized to appoint proxy to vote for the shares	Filipino	4,033,178,294	40.02%
Common	THE HONGKONG AND SHANGHAI BANKING CORP LTD. 30/F Discovery Suites, ADB Avenue, Ortigas Center, Pasig City No relationship with issuer.	Rose Tantoco, SVP, or Nilo Dicen, VP, of Securities Services is authorized to appoint proxy to vote for the shares	Non-Filipino	1,623,904,607	16.11%
Common	YORKSHIRE HOLDINGS, INC. 18F Alliance Global Tower, 36 th Street cor. 11 th Avenue, Uptown Bonifacio, Taguig City It is solely a stockholder of issuer.	Andrew L. Tan, Chairman of the Board, is authorized to appoint proxy to vote for the shares	Filipino	1,583,459,842	15.42%
Common	DEUTSCHE BANK AG MANILA BRANCH – Clients A/C 26/F Ayala Tower One, Ayala Ave., Makati City No relationship with issuer.	Soledad Velasco, Head – Securities and Custody Operations, or Carlos Dela Torre, Deputy Head, is authorized to appoint proxy to vote for the shares.	Non-Filipino	839,834,890	8.33%

Common	CITIBANK N.A. % 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue, corner, Paseo de Roxas, Legazpi Village, Makati, 1226 Metro Manila No relationship with issuer.	The Board of Directors of CITIBANK N.A. has the right to appoint its proxy to vote for the shares.	Non-Filipino	586,890,471	5.82%
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Security Ownership of Directors and Management as of 30 June 2018:

Title of Class	Name of Beneficial Owner	Citizenship	Nature of Beneficial Ownership	Amount of Beneficial Ownership	Percent Owned
Common	Andrew L. Tan	Filipino	Direct	63,684,350	0.63%
Common	Kevin Andrew L. Tan	Filipino	Direct	1	0.00%
Common	Sergio R. Ortiz-Luis, Jr.	Filipino	Direct	1	0.00%
Common	Kingson U. Sian	Filipino	Direct	5,001,100	0.05%
Common	Winston S. Co	Filipino	Direct	2,728	0.00%
Common	Katherine L. Tan	Filipino	Direct	1	0.00%
Common	Alejo L. Villanueva, Jr.	Filipino	Direct	1	0.00%
Common	Dina D. Inting	Filipino	Direct	1,100	0.00%
			Indirect	1,658	0.00%
Common	Dominic V. Isberto	Filipino	Direct	0	0.00%
Common	Rolando D. Siatela	Filipino	Direct	0	0.00%
Directors and Executive Officers as a Group				68,690,940	0.68%

There are no indirect beneficial ownership of the named Directors and Officers, except for Ms. Dina D. Inting as indicated above.

Voting Trust Holders of 5% or More

The Company has no knowledge of persons holding more than 5% of its voting securities under a voting trust or similar agreement.

Change in Control

The Company has no knowledge of any arrangements among stockholders that may result in a change in control of the Company.

Item 5. Directors and Executive Officers

Incumbent

The following are the incumbent directors and executive officers of the Company:

Name	Age	Citizenship	Present Position
Andrew L. Tan	68	Filipino	Chairman of the Board
Sergio R. Ortiz-Luis, Jr.	75	Filipino	Vice-Chairman of the Board/Independent Director
Kevin Andrew L. Tan	38	Filipino	Chief Executive Officer
Kingson U. Sian	57	Filipino	President and Chief Operating Officer
Katherine L. Tan	66	Filipino	Director and Treasurer
Winston S. Co	60	Filipino	Director
Alejo L. Villanueva, Jr.	76	Filipino	Independent Director
Dina D. Inting	58	Filipino	Chief Financial Officer, Compliance Officer and Corporate Information Officer
Dominic V. Isberto	43	Filipino	Corporate Secretary
Rolando D. Siatela	57	Filipino	Asst. Corporate Secretary

There are seven (7) members of the Company's Board of Directors, two (2) of whom are independent directors. All incumbent directors were elected during the annual meeting of stockholders held on 19 September 2017 and will hold office for one (1) year and/or until their successors are elected and qualified.

Background

Andrew L. Tan

Mr. Tan, 68 years old, Filipino, has served as *Director* since 2003 and *Chairman of the Board* since September 2006. Previously, he was *CEO* from September 2006 to June 2018 and *Vice-Chairman of the Board* from August 2003 to September 2006. He pioneered the live-work-play-learn model in the real estate development through the Company's integrated township communities, fueling the growth of the business process outsourcing (BPO) industry, food and beverage, and quick service restaurants industries. He also holds positions in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/ Years
Emperador Inc.	Chairman	Aug 2013	May 21, 2018	5
Megaworld Corporation	Chairman, President and CEO	Aug 1989	June 15, 2018	29
Travellers International Hotel Group, Inc.	Director	July 2008	June 10, 2016	10
Global-Estate Resorts, Inc. (subsidiary of Megaworld)	Chairman	January 2011	June 28, 2018	7
Empire East Land Holdings, Inc. (subsidiary of Megaworld)	Chairman	July 1994	June 13, 2018	24

Mr. Tan is concurrently the Chairman of the Board and President of Megaworld Land, Inc., Megaworld Globus Asia, Inc., Megaworld Newport Property Holdings, Inc., Mactan Oceanview Properties and Holdings, Inc., Richmond Hotel Group International Limited, The Bar Beverage, Inc. and Yorkshire Holdings, Inc. He is also the Chairman of Alliance Global Group Cayman Islands, Inc., Alliance Global Brands, Inc., Emperador Distillers, Inc., Suntrust Properties, Inc., Adams Properties, Inc., Consolidated Distillers of the Far East, Inc., and Townsquare Development, Inc. and sits in the boards of Eastwood Cyber One Corporation, Megaworld Cayman Islands, Inc., Gilmore Property Marketing Associates, Inc., Megaworld Central Properties, Inc., Raffles & Company, Inc., and The Andresons Group, Inc. He is also the Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation and a Director and Treasurer of Andresons Global, Inc. Mr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

Kevin Andrew L. Tan

Mr. Tan, 38 years old, Filipino, is currently the Chief Executive Officer of the Company since 04 June 2018 and a director since 20 April 2012. He was Executive Director since September 2016 to June 2018. He holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/Years
Global-Estate Resorts, Inc.	Director	June 24, 2014	June 28, 2018	4
Empire East Land Holdings, Inc.	Director	June 09, 2015	June 13, 2018	3
Emperador Inc.	Director	October 04, 2017	May 21, 2018	0.7

Mr. Tan 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, Burgos Circle at Forbestown Center, and Uptown Mall, all in Fort Bonifacio, California Garden Square in Mandaluyong City, Newport Mall at Resorts World Manila in Pasay City, Lucky Chinatown Mall in Binondo, Manila, and Southwoods Mall in Laguna. He is a Director of Emperador Distillers, Inc., and of Alliance Global Brands, Inc., Anglo Watsons Glass, Inc., Yorkshire Holdings, Inc., The Bar Beverage, Inc., Emperador Brandy, Inc., New Town Land Partners, Inc., and Consolidated Distillers of the Far East, Inc. He holds a degree in Business Administration major in Management from the University of Asia and the Pacific.

Sergio R. Ortiz-Luis, Jr.

Mr. Ortiz-Luis, Jr., 75 years old, Filipino, has served as Vice Chairman and Independent Director 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 Jolliville Holdings. He is also an Independent Director of Forum Pacific, Inc. Corporation and Calapan Ventures, Inc. He was a past President of the Rotary Club of Greenmeadows, Quezon City, a Senator of the Philippine Jaycee Senate, and a member of the League of Corporate Foundation and the Council of Advisers of the Philippine National Police. Mr. Ortiz-Luis, Jr. has broad experience in business management/administration and in the export sector. He obtained his Bachelor of Arts and Bachelor of Science in Business Administration and Masters of Business Administration from the De La Salle College and was awarded Honorary Doctorates in Humanities and Business Technology by the Central Luzon State University and Eulogio Rodriguez Institute of Science and Technology, respectively.

Kingson U. Sian

Mr. Sian, 57 years old, Filipino, has served as President and Chief Operating Officer of the Company since February 2007. He also holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Megaworld Corporation	Director/ Executive Director	Apr 2007	June 15, 2018	11
Travellers International Hotel Group, Inc.	Director and President	June 2008	June 9, 2016	8
	Chief Executive Officer	Oct 2014	Oct 2014	

He is concurrently President and Director of Forbestown Properties Holdings, Inc., and Eastwood Cyber One Corporation and a Director of Alliance Global Group Cayman Islands, Inc. He is also Chairman and President of Prestige Hotels & Resorts, Inc. and is the Senior Vice President of Megaworld Land, Inc. Mr. Sian was formerly a Vice President of FBP Asia Ltd/First Pacific Bank in Hongkong from 1990 to 1995 and, prior to that, was connected with Citicorp Real Estate, Inc. in the United States from 1988 to 1990. He graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Master's Degree in Business Administration for Finance and Business Policy from the University of Chicago.

Winston S. Co

Mr. Co, 60 years old, Filipino, has served as Director since 1998. He previously served as Vice Chairman of the Board from November 1999 to August 2003 and Chairman from June 1998 to October 1999. He holds position in the following other listed company:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/ Years
Emperador Inc.	President and CEO	August 2013	May 21, 2018	5

He is concurrently Chairman and President of New Town Land Partners, Inc. and Chairman of Anglo Watsons Glass, Inc. He is also a Director and President of Emperador Distillers, Inc., and a Director of Alliance Global Brands, Inc., Forbes Town Properties & Holdings, Inc., McKester Pik-Nik International Limited, Raffles & Company, Incorporated, and The Bar Beverage, Inc. and 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.

Katherine L. Tan

Ms. Tan, 66 years old, Filipino has served as Director and Treasurer since February 2007. She also holds positions in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Term/Years
Emperador Inc.	Director and Treasurer	Aug 2013	May 21, 2018	5
Megaworld Corporation	Director	Aug 1989	June 15, 2018	29
	Treasurer	Aug 1989	June 1995	6

She is concurrently Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc., Director and President of The Andresons Group, Inc., Consolidated Distillers of the Far East, Inc., and Raffles & Company, Inc., and Director and Treasurer of Alliance Global Brands, Inc., Yorkshire Holdings, Inc., New Town Land Partners, Inc., and Emperador Distillers, Inc. She is also director of Golden Arches Development Corporation. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

Alejo L. Villanueva, Jr.

Mr. Villanueva, 76 years old, Filipino, has served as an Independent Director since August 2001. He also holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Emperador Inc.	Independent Director	Aug 2013	May 21, 2018	5
Empire East Land Holdings, Inc.	Independent Director	June 2007	June 13, 2018	11
Suntrust Home Developers, Inc.	Independent Director	Oct 2012	Oct 30, 2018	6

He is concurrently Director of First Capital Condominium Corporation, a non-stock non-profit corporation. He is also the Chairman of Ruru Courier Systems, Inc. and Vice Chairman of Public Relations Counselors Foundations of the Philippines, Inc. 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.

Dina D. Inting

Ms. Inting, 58 years old, Filipino, has served as First Vice President for Finance since January 1995 and at present its Chief Financial Officer, Compliance Officer and Corporate Information Officer. She holds position in the following other listed company:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Emperador Inc.	Chief Financial Officer, Compliance Officer and Corporate Information Officer	Aug 2013	May 21, 2018	5

She is currently director of Progreen Agricornp, Inc. She has extensive experience in the fields of audit, comptrollership, treasury, finance, branch operations and personnel management from her previous employments. She is a Cum Laude graduate of Bachelor of Science in Commerce major in Accounting, Honors Program, at the Philippine College of Commerce (Polytechnic University of the Philippines), holds a certificate in Organizational Development from the Ateneo de Manila University, and is a Certified Public Accountant.

Dominic V. Isberto

Mr. Isberto, 43 years old, Filipino, has served as Corporate Secretary since September 2007. He also holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Global-Estate Resorts, Inc.	Corporate Secretary and Assistant Corporate Information Officer	Jan 2011	June 28, 2018	7
Emperador Inc.	Corporate Secretary	Aug 2013	May 21, 2018	5

He is also the Corporate Secretary of Twin Lakes Corporation, Suntrust Properties, Inc., Eastwood City Estates Association, Inc., and Fil-Estate Properties, Inc. He is currently a Vice President for Corporate Compliance of Megaworld Corporation, where he is responsible for compliance with regulatory filings and requirements, negotiation, preparation and review of lease agreements for office and retail tenants and sale agreements for buyers of units and lots, review of loan agreements, and other corporate contracts and agreements, human resource matters, and also handles legal cases. Mr. Isberto has experience in litigation and banking and corporate law. He has a degree in Management Engineering from the Ateneo de Manila University and obtained his Bachelor of Laws degree from the University of the Philippines.

Rolando D. Siatela

Mr. Siatela, 57 years old, Filipino, has served as Assistant Corporate Secretary since August 2002. He also holds position in the following other listed companies:

Listed Company	Position	Date First Elected	Date Last Elected	No. of Terms/ Years
Suntrust Home Developers, Inc.	Corporate Secretary and Corporate Information Officer	May 2006	Oct 30, 2018	12
Megaworld Corporation	Asst. Corporate Secretary	Oct 2006	June 15, 2018	12
Global-Estate Resorts, Inc.	Asst. Corporate Secretary	Jan 2011	June 28, 2018	17
Emperador Inc.	Asst. Corporate Secretary	Aug 2013	May 21, 2018	5

He is a member of the board of Asia Finest Cuisine, Inc. and also serves as Corporate Secretary of Oceanic Realty Group International, Inc., ERA Real Estate, Inc. and ERA Real Estate Exchange, Inc., and as Documentation Officer of Megaworld Foundation, Inc. He is at present an Assistant Vice President in Megaworld Corporation. He was employed as Administrative and Personnel Officer with Batarasa Consolidated, Inc. and served as Assistant Corporate Secretary and Chief Administrative Officer of The Andresons Group, Inc. He holds Bachelor's degrees in law and political science conferred by the Lyceum of the Philippines.

Procedure for Nomination and Election of Independent Directors

Pursuant to Article II, Section 2 of the Company's By-Laws (amended as of July 20, 2005 by the Board of Directors and as of August 26, 2005 by the Stockholders) and the Manual on Corporate Governance revised as of May 30, 2017, the nomination and election of independent directors shall be conducted in accordance with SRC Rule 38.

SRC Rule 38 provides that the nomination and election of independent directors shall be conducted in accordance with the following rules:

1. Nomination of independent directors shall be conducted by the Corporate Governance Committee prior to a stockholders' meeting. All recommendations shall be signed by nominating stockholders and shall bear the conformity of the nominees.
2. The Corporate Governance Committee shall pre-screen the nominees and prepare a final list of candidates.
3. The final list of candidates shall contain the business and/or professional experience of the nominees for independent directors, which list shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the Company is required to submit to the Commission. The name of the person or group of persons who recommended the nominees for independent directors shall be identified in such report including any relationship to the nominees.
4. Only nominees whose names appear in the final list of candidates shall be eligible for election as independent directors. No other nominations shall be entertained after the final list of candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.
5. The conduct of the election of independent directors shall be made in accordance with the standard election procedures of the Company in its By-laws, subject to pertinent laws, rules and regulations of the Commission.
6. It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent directors. He shall ensure those independent directors are elected during the stockholders' meeting.
7. In case of failure of election for independent directors, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

The Company is required to have at least two (2) independent directors in its Board of Directors, who are each independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the Company. An independent director should have at least one (1) share of the Company's common stock, a college graduate or has been engaged or exposed to the business for at least five (5) years, and possesses integrity/probity and assiduousness. Pursuant to SEC Memorandum Circular No. 19, Series of 2016, the independent directors shall serve for a maximum cumulative term of nine (9) years, reckoned from 2012. After which, the independent director should be perpetually barred from reelection as such in the Corporation but may continue to qualify for nomination and election as a non-qua. If the Corporation wants to retain an independent director who has served for nine years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

There shall be no limit in the number of covered companies that a person may be elected as Independent Director, except in business conglomerates where he can be elected to only five (5) companies of the conglomerate, i.e., parent company, subsidiary or affiliate.

Nominees

Directors are elected annually by the stockholders at the annual stockholders' meeting to serve until the election and qualification of their successors. The Corporate Governance Committee composed of Alejo L. Villanueva, Jr. as Chairman and Sergio R. Ortiz-Luis, Jr. and Kevin Andrew L. Tan as members accept nominees to the Board of Directors, including nominees for independent directors. The Committee is responsible for screening and qualifying the list of nominees. The following is the complete and final list of nominees for members of the Board of Directors:

1. Andrew L. Tan
2. Sergio R. Ortiz-Luis, Jr. – Independent Director
3. Kevin Andrew L. Tan
4. Kingson U. Sian
5. Katherine L. Tan
6. Winston S. Co
7. Alejo L. Villanueva, Jr. – Independent Director

This year's nominees for directors include two persons who qualify as independent directors. The President, Mr. Kingson U. Sian, nominated the incumbent Independent Director, Mr. Sergio R. Ortiz-Luis, Jr., for another term, while Mr. Winston S. Co nominated the other incumbent Independent Director, Mr. Alejo L. Villanueva, Jr., for another term. Messrs. Sian and Ortiz-Luis, Jr. and Co and Villanueva, Jr. are not related by consanguinity or affinity up to the fourth civil degree. The Corporate Governance Committee reviewed the qualifications of Messrs. Ortiz-Luis, Jr. and Villanueva, Jr. and they do not possess any of the disqualifications enumerated under the law and in the Code of Corporate Governance (Their respective profiles are presented on the preceding pages). Having found them duly qualified, the Corporate Governance Committee endorsed the nomination of Messrs. Sergio R. Ortiz-Luis, Jr. and Alejo L. Villanueva, Jr. as candidates for Independent Directors for the ensuing year.

Disagreements with the Company

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual stockholders' meeting because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Significant Employees

The Company does not have significant employees, *i.e.*, persons who are not executive officers but expected to make significant contribution to the business.

Family Relationships

Chairman Andrew L. Tan is married to Director/Treasurer Katherine L. Tan while CEO Kevin Andrew L. Tan is their son.

Involvement in Legal Proceedings

The Company has no knowledge of any of the following events that occurred during the past five (5) years up the date of this report that are material to an evaluation of the ability or integrity of any director, nominee for election as director, or executive officer:

- Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Certain Relationships and Related Transactions

The Company and its subsidiaries, in the ordinary course of business, engage in transactions with affiliates. The Company's policy with respect to related party transactions is to ensure that these are entered on terms comparable to those available from unrelated third parties. Inter-company transactions between and among the Company and its subsidiaries are eliminated in consolidation and

thus are no longer reflected in the consolidated financial statements. These primarily consisted of the following:

- Cash advances for financial requirements. Entities within the Group obtain advances from the parent and/or other entities and associates for working capital or investment purposes. There are also certain expenses that are paid in behalf of other entities.
- Lease of manufacturing facilities. AGI leases the glass manufacturing plant property to AWGI, and TEI leases the brandy manufacturing plant property to EDI.
- Lease of parcels of land. GARC leases out these lots to GADC.
- Lease of office spaces. MEG leases out office and parking spaces to AGI, subsidiaries, and affiliates.
- Purchase and sale of real estate, services and rentals. Real estate properties are bought or sold based on price lists in force with non-related parties. Services are usually on a cost-plus basis allowing a margin ranging 20%-30%. Commissions for marketing services are based on prevailing market rates.
- Supply of glass bottles. AWGI supplies the new bottle requirements of EDI.
- Receivables from subsidiaries/franchisees. GADC supplies restaurant equipment, food, paper and promotional items to all franchisees, including affiliated restaurants, at normal market prices through a third party service provider.

Major related party transactions have been disclosed in Note 29 to the consolidated financial statements appearing elsewhere in this report.

Except for the material related party transactions described therein, there has been no material transaction during the last two years, nor is there any material transaction currently proposed, to which the Company was or is to be a party, in which any director or executive officer, any nominee for election as director, stockholder of more than ten percent (10%) of the Company's voting shares, and any member of the immediate family (including spouse, parents, children, siblings, and in-laws) of any such director or officer or stockholder of more than ten percent (10%) of the Company's voting shares had or is to have a direct or indirect material interest.

Item 6. Compensation of Directors and Executive Officers

Name and Principal Position

Andrew L. Tan, Chairman

Sergio R. Ortiz-Luis, Jr., Vice Chairman and Independent Director

Kevin Andrew L. Tan, Chief Executive Officer

Kingson U. Sian, President and Chief Operating Officer

Katherine L. Tan, Director and Treasurer

Winston S. Co, Director

Alejo L. Villanueva, Jr., Independent Director

Dina D. Inting, Chief Financial Officer, Compliance Officer, and Corporate Information Officer

Dominic V. Isberto, Corporate Secretary

Rolando T. Siatela, Asst. Corporate Secretary

The officers receive fixed salary on a monthly basis from the respective subsidiaries or businesses they principally handle. Hence, for years 2017, 2016, and 2015, no compensation was received from AGI, the holding company, and neither will there be for 2018, except for an allowance for Mr. Kingson Sian which started in February 2007.

In 2016 and 2017, directors received a total of Php525,000 each year as per diem, and for 2018 the same amount is expected to be paid.

The Company has an Executive Stock Option Plan (the "Plan") approved by the Board of Directors of the Company and by stockholders (holding at least 2/3 of the outstanding capital stock) on July 27, 2011 and September 20, 2011, respectively. The purpose of the Plan is to enable the key Company executives and senior officers who are largely responsible for its further growth and development to obtain an ownership interest in the Company, thereby encouraging long-term commitment to the Company. The Plan is being administered by the Corporate Governance Committee (previously, Compensation and Remuneration Committee) (the "Committee") of the Board., composed of the

following: Alejo L. Villanueva, Jr., Independent Director, as Chairman, and Sergio R. Ortiz-Luis, Jr. and Kevin Andrew L. Tan as members.

Under the Plan, the Company shall initially reserve for exercise of stock options up to approximately three percent (3%) of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within ten (10) years from the adoption of the Plan and may be exercised within seven (7) 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 (9) months immediately preceding the date of grant. The options shall vest within three (3) 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 (3) year period. The Company shall receive cash for the stock options.

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. As of this time, the Company cannot determine if options can be exercised with less than forty percent (40%) of the total price of the shares so purchased. The Company does not provide or arrange for loans to enable to qualified participant to exercise their options.

Based on the following list of Options granted, all of the 2011 Options have vested as of December 2014 and all of the 2013 Options has vested as of March 2016 but, as of today, no vested options have been exercised.

Name	Number of Outstanding Options	Date Granted	Exercise Price
Andrew L. Tan	21,000,000	19 December 2011	Php9.175
	48,000,000	14 March 2013	Php12.9997
Kingson U. Sian	15,000,000	19 December 2011	Php9.175
Winston S. Co	10,500,000	19 December 2011	Php9.175
	3,000,000	14 March 2013	Php12.9997
Kevin Andrew L. Tan	6,000,000	14 March 2013	Php12.9997
All above-named officers	103,500,000		
All other grantees as a group unnamed	2,100,000	14 March 2013	Php12.9997
TOTAL	105,600,000		

Item 7. Independent Public Accountants

Punongbayan & Araullo (P&A), upon recommendation by the Audit Committee of the Board of Directors composed of Alejo L. Villanueva as Chairman and Sergio R. Ortiz-Luis, Jr. and Andrew L. Tan as members, was re-appointed by the stockholders as the principal external auditors for the years 2017 and 2016, and is again being recommended to the stockholders for re-election as the Company's principal external auditors for the year 2018. The selection of external auditors is made on the basis of credibility, professional reputation, accreditation with the Securities and Exchange Commission, and affiliation with a reputable foreign partner. The professional fees of the external auditors are approved by the Company after approval by the stockholders of the engagement and prior to the commencement of each audit season.

In compliance with SRC Rule 68 paragraph 3 (b) (iv) (Rotation of External Auditors), and as adopted by the Company, external auditors or engagement partners are rotated or changed every five years or less. Ms. Mailene Sigue-Bisnar was the lead engagement partner for 2012-2016. For the year 2017, the new lead engagement partner is Mr. Romualdo V. Murcia III.

Representatives of Punongbayan & Araullo are expected to be present at the Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

External audit fees and services

The respective fees billed by P&A for each of the last two fiscal years totaled P2.36 million and P2.26 million for the audit of 2017 and 2016 annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements.

Tax fees and all other fees

Other than the foregoing, there were no separate tax fees billed and no other products and services provided by P&A for the last two fiscal years.

All the above services have been approved by the Company, upon recommendation of the Audit Committee composed of Alejo L. Villanueva as Chairman and Sergio R. Ortiz-Luis, Jr. and Andrew L. Tan as members. The selection of external auditors and approval of external audit fees and services is made on the basis of credibility, professional reputation, accreditation with the Securities and Exchange Commission, and affiliation with a reputable foreign partner. The fees of the external auditors are approved by the Company after approval by the stockholders of the engagement and prior to the commencement of each audit season.

Changes in and disagreements with accountants on accounting and financial disclosure

P&A, as principal auditors, issued an unqualified opinion on the consolidated financial statements. As such, there had been no disagreements with them on any accounting principles or practices, financial disclosures, and auditing scope or procedure.

Information Incorporated by Reference

Financial Statements of the Company and its subsidiaries as of 31 December 2017 and 2016 and Interim Financial Statements of the Company and its subsidiaries as of 30 June 2018, as well as the Management's Discussion and Analysis of Operations and Financial Condition for the corresponding periods are included in the Company's Management Report and are incorporated herein by reference.

C. OTHER MATTERS

Item 8. Action with Respect to Reports

The minutes of the annual meeting of stockholders held on 19 September 2017 will be submitted to the stockholders for approval. The Minutes will refer to the adoption of stockholder's resolutions pertaining to the following matters:

1. Approval of Minutes of the Previous Annual Meeting
2. Appointment of Independent Auditors
3. Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management
4. Election of Directors

The approval or disapproval of the Minutes will constitute merely an approval or disapproval of the correctness of the minutes but will not constitute an approval or disapproval of the matters referred to in the Minutes.

Item 9. Amendment of Charter, Bylaws, or Other Documents

In a special meeting of the Board of Directors held on 27 July 2018, the Board approved to amend the date of the annual stockholders' meeting **FROM** every third Tuesday of September **TO** every third Thursday of June. The amendment is being made to move the schedule of the annual stockholders' meeting to an earlier date in the year, which will benefit the stockholders since it is closer to the release of the previous year results of operations of the Company.

As amended, Article VII, Section 5 of the Company's Amended By-Laws shall read as follows:

"5. Annual Meeting – The annual meeting of the stockholders shall be held on the third **Thursday** of **June** of each calendar year when they shall elect by a plurality vote by ballot a Board of seven (7) directors to serve for one year until

their successors are elected and qualified. **(Amended as of 27 July 2018 by the Board of Directors and as of _____ by the stockholders)**

Written Notice of the annual meeting of the company shall be sent to each registered stockholder at least ten (10) days prior to the date of such meeting. Waiver of such notice may only be made in writing.”

The proposed amendment of Article VII, Section 5 of the Company's Amended By-Laws shall be presented to the stockholders for approval and ratification during the annual meeting.

Item 10. Other Proposed Action

The stockholders will be asked to ratify all resolutions of the Board of Directors, Board Committees, and acts of Management adopted during the period covering 01 January 2017 up to the date of this meeting. These include, among others, the appointment of officers in the corporation, opening and maintenance of bank accounts and other bank transactions, approval and issuance of financial statements, declaration of cash dividend, appointment of proxies and nominees, designation of authorized contract signatories and representatives, appointment of attorneys-in-fact, and other similar activities of the Company.

Item 11. Voting Procedures

Vote Required

In the election of directors, the seven (7) nominees garnering the highest number of votes will be elected as members of the board of directors, provided that there shall always be elected at least two (2) independent directors in the Company's board of directors.

For all other matters proposed to be acted upon, the vote of a majority of the outstanding capital stock will be required for approval.

Method of Counting of Votes

Each holder of common share will be entitled to one (1) vote with respect to all matters to be taken up during the Meeting; provided, that in the election of directors, each stockholder may vote such number of shares for as many persons as there are directors to be elected or may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit; provided further, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

There will be seven (7) persons to be elected to the Company's board of directors, including at least two (2) independent directors. In the event that the number of nominees to the board of directors exceeds the number of board seats, voting shall be done by ballot. However, if the number of nominees to the board of directors does not exceed the number of board seats, voting will be done by a show of hands. Election inspectors duly appointed during the meeting shall be responsible for counting the number of votes, subject to validation by representatives of Punongbayan & Araullo, the Company's external auditors.

UNDERTAKING

The Company undertakes to provide without charge to a stockholder a copy of the Annual Report on SEC Form 17-A upon written request addressed to Ms. Dina Inting, Chief Financial Officer, Compliance Officer, and Corporate Information Officer, at 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Quezon City on _____.

ALLIANCE GLOBAL GROUP, INC.

By:


DINA D. INTING

Chief Financial Officer, Corporate Information Officer
and Compliance Officer

**MANAGEMENT REPORT
AS REQUIRED BY SRC RULE 20
INCLUDING FINANCIAL INFORMATION FOR FIRST QUARTER OF 2018**

a.1. General Nature and Scope of Business

Alliance Global Group, Inc. (“AGI” or “the Company”) is one of the leading conglomerates in the Philippines, with interests in property development, food and beverage manufacture and distribution, quick-service restaurants and integrated tourism development businesses. The Company and its subsidiaries, associates and jointly-controlled entities operate a diversified range of businesses that focus on developing products and services that generally cater to the target markets.

Incorporated on October 12, 1993, AGI began operations in 1994 as a glass-container manufacturer after it acquired a glass manufacturing plant in Canlubang, Laguna. AGI initially listed its shares in the Philippine Stock Exchange (“PSE”) in 1999; after which in the same year, it broadened its primary business and became a holding company. Immediately, the Company began its diversification into the food and beverage and real estate industries, and, in 2005, into the quick-service restaurant business. In 2007, it reorganized to consolidate businesses controlled by Dr. Andrew L. Tan and family (“**Tan family**”), specifically in the distilled spirit manufacturing and property development. In 2008, the Company entered into integrated tourism development, with gaming activities, by partnering with a leading multinational leisure, entertainment and hospitality group. In 2011, AGI expanded its integrated tourism estate development outside of Metro Manila, particularly in the Calabarzon and Visayan regions, and in 2014, in Mindanao. From 2013 to 2017, the Group expanded its spirits manufacturing business abroad through acquisitions of rich heritage in Spain, United Kingdom and Mexico. The Group started acquiring vineyard lands, aged liquids and assets in Spain in early parts of 2013 and 2014, and brandy and sherry wine assets in 2016 and 2017, which include the oldest bodegas in Spain, the first brandy in Jerez and Mexico and other well-known brands which the Group now owns. The Group owns the 5th largest Scotch Whisky manufacturer in the world with a history of more than 170 years, which was acquired in 2014; thus fortifying the distilled spirits business segment. The Group did realignments and acquisitions also in the real estate segment from 2013 to 2017 where it continues to introduce innovative concepts such as ‘integrated lifestyle community’ and ‘transit-oriented developments’ in addition to its ‘live-work-learn-play’ township while the expansion of non-gaming facilities and offerings and quick-service restaurants is ongoing. AGI begins diversifying into infrastructure in 2017.

The Tan family beneficially owns a majority interest in AGI.

a.2. Subsidiaries

EMPERADOR INC.

EMPERADOR INC. (“EMP” or “Emperador”) is a publicly-listed domestic holding company that operates an integrated business of manufacturing, bottling and distributing distilled spirits and other alcoholic beverages from the Philippines, United Kingdom, Spain, and Mexico, through its subsidiaries. Emperador has established its identity in the Philippine alcoholic beverages business as producer of high quality liquor and innovative products through **Emperador Distillers, Inc.** (“EDI”), the Philippines’ largest liquor company and the world’s largest brandy producer. EDI, a wholly owned subsidiary of EMP, has a product portfolio that consists of its own brands, the Group’s brands as well as licensed products. The offshore operations of Emperador fall under the wings of **Emperador International Limited** (“EIL”), a wholly-owned subsidiary of EMP, whose subsidiaries handle the Scotch whisky, Jerez and Mexican brandies and sherry wine operations. Through **Emperador UK Limited** (“EUK”), EMP acquired a rich heritage of a Scottish spirits company in **Whyte and Mackay Group Limited** (“WMG” or “Whyte and Mackay”) of United Kingdom, the fifth largest Scotch whisky manufacturer in the world with products being distributed in over 102 countries. Through **Grupo Emperador Spain S.A.U.** (“GES”), EMP has expanded its rich heritage to brandy de Jerez and sherry wine and assets, including trademarks, vineyards, and well-matured inventory, in Spain with the acquisition of **Bodega San Bruno; Bodegas Fundador**, the largest and oldest in Jerez; and **Bodegas Garvey**, with origins dating back to 1780. GES further enhanced its brandy and wine business in North and South Americas with the acquisition of assets related to **Domecq** brandy and wines. At present, EMP has a wider range of products in its portfolio - from value to super premium – and an international reach to at least 102 countries.

EMP was incorporated on November 26, 2001 under its former name Touch Solutions, Inc., which listed its shares on the PSE on December 19, 2011. From August to September 2013, AGI, EDI and EMP, which was substantially a shell company at the time, entered into a reverse acquisition in a series of transactions whereby AGI acquired majority control over EMP and EMP acquired full ownership of EDI. EMP has P20.0 billion authorized capital stock, P16.2 billion of which are outstanding as of December 31, 2017. Its consolidated total assets amounted to P111.5 billion as at December 31, 2017.

EDI, a wholly-owned subsidiary of EMP, is the leading brandy manufacturer and distributor of distilled spirits in the Philippines and acknowledged as the largest brandy producer in the world. It produces own label brands, namely, 'Emperador Brandy', 'Andy Player Whisky', 'The BaR' flavored alcoholic beverage (gin, vodka, tequila) and 'Raffa' Sparkling white wine; manufactures 'Smirnoff Mule Vodka' under license from Diageo North America, Inc.; and distributes Ernest & Julio Gallo wines, Whyte and Mackay Scotch whisky products, Fundador brandy products and Pik-Nik shoestring-shaped potato snacks in the Philippines. EDI was incorporated on June 6, 2003 and was sold to AGI by **The Andresons Group, Inc.** ("TAGI") and the Tan Family on February 16, 2007. EDI has an authorized capital stock of 22 billion, of which 12.5 billion shares are outstanding and held by EMP as of to-date.

EDI operates two manufacturing plants in Laguna. The main plant is being leased from its wholly-owned subsidiary **Tradewind Estates, Inc.** ("TEI") while the annex plant was acquired from Diageo Philippines in May 2012. TEI was incorporated on September 22, 2000 and was acquired by EDI from its previous owner, Alliance Global Brands, Inc. (a wholly-owned subsidiary of AGI), in March 2016. EDI has its own distillery plant which was acquired in February 2013 from **The Consolidated Distillers of the Far East, Inc.** ("Condis"), which is owned by the Tan family. Another distillery plant was built and became operational in March 2018. Both plants are being leased out to a wholly-owned domestic subsidiary **Progreen Agricorp, Inc.**, which handles the distillery operations.

EDI procures its new bottles from **Anglo Watsons Glass, Inc.** ("AWG" or "AWGI"), a wholly-owned domestic subsidiary of EDI, which caters principally to EDI's requirements. AWG operates a flint glass container manufacturing plant in Laguna on a 24-hour shift which it leases from AGI.

International Operations

EIL, a wholly owned subsidiary of EMP, is a business company incorporated in the British Virgin Islands on December 13, 2006, which is involved in the international sales, marketing and merchandising of EMP products. EIL and its subsidiaries are responsible for the investments and properties in Spain, United Kingdom, and recently in Mexico. Both EMP and EDI have investments in EIL that account to 100%.

Emperador Asia Pte Ltd. ("EAsia"), a wholly-owned subsidiary of EIL, was incorporated in Singapore. It wholly owns **GES**, a public liability company in Spain, incorporated on September 28, 2011. GES main activities are the production of wines, fortified wines, brandies and all types of alcoholic drinks, as well as the purchase and operation of any type of land and, in particular, vineyards. In 2013, it acquired **Bodega San Bruno, S.L.** ("BSB"), a wholly-owned subsidiary incorporated on January 10, 2013, whose business activities involved the plantation, growing and operation of vineyards. The acquisition included Bodega San Bruno, the San Bruno trademark, vineyards, and sizable inventory of high-quality well-matured brandy from **Gonzalez Byass S.A.** ("GBS"), one of the largest and oldest liquor and wine conglomerate in Spain. The Spain group acquired vineyard estates in 2013-14. In 2014, Gonzalez Byass agreed to give Emperador 50% participation in **Bodega Las Copas** ("BLC"), a fully integrated brandy production company that it owns. On February 29, 2016, **Bodegas Fundador SLU** ("Bodegas Fundador"), a wholly-owned subsidiary of GES incorporated on September 28, 2011 under its former name Brandy Emperador Spain, completed the purchase in a deal signed on November 27, 2015, of the Spanish brandy and sherry business in Jerez de la Frontera, from Beam Suntory Inc. The purchase includes Spain's largest and oldest brandy cellars with sizeable brandy inventory aged more than 50 years; four iconic brands including 'Fundador Brandy de Jerez', the first Brandy de Jerez, and 'Harveys', the leading sherry wine in UK; production and bottling facilities, vineyards, distillery and winery facilities. On January 19, 2017, **Complejo Bodeguero San Patricio SLU** ("CBSP"), a wholly-owned subsidiary of GES incorporated on October 11, 2016, acquired well-known brands and associated inventories and casks and real estate properties, including the **Bodegas Garvey**, one of the ancient brandy and sherry winery in Jerez founded in 1780. On March 30, 2017, BLC and its two subsidiaries, Pedro Domecq S.A.

de C.V. and Bodega Domecq S.A. de C.V., completed the acquisition of the 'Domecq' brandies and sherry wine portfolio and related assets from **Pernod Ricard SA**, from a deal signed on December 1, 2016. In a restructuring that followed, BLC transferred the acquired assets, which include the trademark to the first Mexican brandy 'Presidente' and winery in Ensanada, and three Mexican subsidiaries to **Domecq Bodega Las Copas SL** ("Domecq BLC" or "DBLC") effective September 1, 2017. DBLC is a newly-incorporated subsidiary of GES with 50% equity owned by GB. Its wholly-owned subsidiaries in Mexico, **Pedro Domecq SA de CV** and **Bodega Domecq SA de CV** were incorporated on March 15, 2017 while **Gonzales Byass de Mexico SA de CV** was incorporated on October 2, 2001. The first is involved in the manufacturing, bottling and selling of spirits, the second is involved in business management while the latter is the distribution and sale of foods and beverages, which currently is mainly for the former two subsidiaries.

For its part, BLC keeps its main activities - planting, cultivation and exploitation of vineyards destined to grape for distillation, and manufacture, storage, distribution, sale of wine spirits, liquors, spirits and similar – which are developed throughout its Spanish fully owned subsidiaries **Alcoholera de la Mancha Vinicola, S.A.U.** ("Alcomasa") and **Viñedos del Río Tajo, S.L.U.** ("Viñedos"), and the remaining stakes in the Mexican companies referred to above.

Emperador Holdings (GB) Limited ("EHGB" or "EGB"), the ultimate UK parent undertaking and controlling entity, is a wholly-owned subsidiary of EIL. EGB is a private company incorporated under the laws of England and Wales on June 19, 2014. It operates as an investment and holding company and wholly owns **EUK**, a private limited company incorporated in Scotland on May 6, 2014. On October 31, 2014, **Whyte and Mackay Group Limited** ("WMG" or "Whyte and Mackay") and subsidiaries were folded into the Emperador group, as a deal signed on May 9, 2014 between EUK and United Spirits (Great Britain) Limited, an indirect wholly-owned subsidiary of United Spirits Limited ("USL") of India, was completed for an enterprise value of £430 million. USL (the world's largest spirits company by volume) was forced to put Whyte and Mackay up on sale because of UK anti-trust concerns, when London-based Diageo Plc (the world's leading premium drinks manufacturer) gained controlling interest in USL. Whyte and Mackay is the fifth largest Scotch whisky manufacturer in the world with a history of more than 170 years and ownership of some of the most iconic Scotch brands in the industry, including British luxury brand 'The Dalmore Single Highland Malt', 'Jura Single Malt', and 'Whyte & Mackay Blended Scotch Whisky'. The products are distributed in approximately 102 countries mainly in Europe, North America and now Asia, with strong presence in the global travel retail space. WMG, the immediate parent and smallest consolidating group, was incorporated on August 7, 2001 in Scotland. The main trading entity and a wholly owned subsidiary is **Whyte and Mackay Limited** ("WML"), incorporated on January 20, 1927 in Scotland, the principal activity of which is the production, marketing and distribution of distilled potable alcoholic drinks which include Scotch whisky, vodka, liqueurs and other alcoholic drinks. The other two active wholly-owned entities are **Whyte and Mackay Warehousing Ltd.** ("WMW"), incorporated in Scotland, and **Whyte and Mackay Americas Ltd, LLC** ("WMA"), incorporated in the United States of America. WMW's principal activity is the warehousing and blending of bulk whisky for related and third-party customers while WMA, a direct subsidiary of WML, was formed to handle Whyte and Mackay's business portfolio in US market. There are forty-one dormant companies within WMG Group that have been retained for branding purposes.

On December 4, 2014, with the completion of the Whyte and Mackay acquisition as a condition precedent to its entry, Singapore sovereign wealth fund **GIC Private Ltd.** ("GIC"), through its private equity arm, **Arran Investment Pte. Ltd.** ("Arran") initially invested P17.6 billion in the Company split into 70%-equity and 30%-equity-linked securities debt ("ELS"), which is convertible to equity between 2 to 7 years. Through this initial investment, Arran acquired 7% ownership interest in EMP and AGI's 88% was diluted to 82%. In 2017, additional new shares were issued to Arran in consideration for the three-year accrued interest on the ELS. The new issuance has minimal effect on the respective ownership interests of Arran and AGI. Whyte and Mackay is headquartered in Glasgow and has significant malt and grain production capability from its four malt distilleries and one large grain distillery. It also has a leased bottling facility.

MEGAWORLD CORPORATION

MEGAWORLD CORPORATION ("MEG" or "Megaworld"), a publicly-listed domestic company since 1994,, is one of the leading property developers in the Philippines and is primarily engaged in the development of large scale, mixed-use master planned communities or townships which are comprised

of residential, commercial, and office developments and integrate leisure, entertainment, and educational/training components. Founded in 1989, Megaworld initially established a reputation for building high quality residential condominiums and commercial properties located in convenient urban locations with easy access to offices as well as leisure and entertainment amenities in Metro Manila. Beginning in 1996, in response to demand for the lifestyle convenience of having quality residences in close proximity to office and leisure facilities, Megaworld began to focus on the development of mixed use communities, primarily for the middle-income market by commencing Eastwood City in Quezon City, which is the pioneer project for Meg's "live-work-play-learn" lifestyle township concept and the country's first cyberpark to be designated a Philippine Economic Zone Authority ("PEZA") special economic zone. It has since then grown and diversified its roster of townships to twenty-three: four in Fort Bonifacio, six in Metro Manila, six in Luzon, six in Visayas, and one in Mindanao.

Megaworld and its subsidiaries ("Megaworld group") have real estate portfolio that includes residential condominium units, subdivision lots and townhouses as well as office and retail developments. It has the following three primary business segments: (i) real estate sales of residential developments, (ii) leasing of office and retail space and (iii) management and operation of hotels. As of December 31, 2017, Megaworld owns or has development rights to over 4,400 hectares of land located throughout the Philippines. Since its incorporation, Megaworld and its affiliates have launched more than 660 residential buildings, 54 office towers, 15 lifestyle malls and 5 hotels.

The company founded by Dr. Andrew Tan has won recognition awards over the years. Recently, in 2017, it received 73 awards from both local and international award-giving bodies. It received three best developer awards, three executive awards, 37 project awards, nine corporate awards, 11 CSR awards and 10 communication awards. Dr. Andrew Tan received the hall of fame award as Property Man of the Year at the Property and Real Estate Awards and was awarded the Special Achievement Award at the Asia Pacific Entrepreneurship Awards.

Through its subsidiaries, MEG also engages in other property related activities such as project design, construction oversight and property management. Through a wholly-owned subsidiary, **Prestige Hotels & Resorts, Inc.**, MEG owns and operates the Richmond Hotel Ortigas in Pasig City, Eastwood Richmond Hotel in Quezon City and Richmond Hotel Iloilo in Mandurriao, Iloilo City. MEG has two other homegrown hotel brands – Belmont and Savoy.

Megaworld has P40.2 billion authorized capital stock and P32.43 billion paid-up capital (both common and preferred stock) as at end-2017. Its consolidated total assets amounted to P310.53 billion as at December 31, 2017.

From 46% effective ownership interest in MEG in 2007, the Group increased its effective ownership interest in MEG to 67% by end-2017 through purchases in the market, exercise of stock rights and warrants, and subscription to new shares.

Global-Estate Resorts, Inc. ("GERI"), a publicly listed domestic company incorporated on May 18, 1994, is one of the leading property developers in the country and is engaged primarily in the development of integrated tourism and urban townships with residential, office, retail, hotel and/or golf components. It has vast land bank where key developments include Boracay Newcoast in Malay, Aklan; Twin Lakes in Laurel, Batangas; Sta. Barbara Heights in Iloilo; Southwoods City in Laguna and Cavite; Alabang West in Las Pinas, Metro Manila; Eastland Heights in Antipolo, Rizal; and The Hamptons Caliraya in Lumban-Cavinti, Laguna. GERI undertakes its development business by itself or through joint venture with landowners. The township developments are marketed by a subsidiary and an in-house marketing group. Another subsidiary operates Fairways and Bluewater, a resort complex integrated with Boracay Newcoast. GERI has P20 billion authorized capital stock, P10.986 billion of which was subscribed and paid-up as at December 31, 2017. Total assets reported as at end-2017 amounted to P47.8 billion.

AGI acquired 60% interest in GERI in January 2011. With the capital infusion, GERI was able to pay its interest-bearing loans and pursue its development plans. In 2013, GERI doubled its authorized capital stock, of which Megaworld subscribed to 25% of the said increase; this together with indirect holdings translates to Meg's 24.7% beneficial ownership in GERI at end-2013. As at end-2016, Megaworld holds 82.32% of GERI.

Empire East Landholdings, Inc. (“Empire East” or “ELI”), a publicly-listed domestic company under the Megaworld group, was incorporated on July 15, 1994. It specializes in multi-cluster condominium projects and multi-phase subdivision developments in key locations in Metro Manila and Laguna. Laguna Bel-Air is ELI’s flagship township project while Pioneer Woodlands in Mandaluyong City is its first transit-oriented development. ELI is 81.73% owned by Megaworld. Total assets reported as at end-2017 amounted to P41.4 billion.

Suntrust Properties, Inc. (“SPI”), incorporated on November 14, 1997, develops master-planned self-sustaining residential communities and condominiums in Cavite, Laguna, Batangas, Baguio, Davao and Metro Manila that provide affordable homes for the low- to moderate-income families. The developments focus on space-saving and functionality features. In March 2011, MEG acquired 50% majority interest in SPI. In 2013, MEG acquired 100% ownership by buying out the minority interests of Empire East and another related party.

TRAVELLERS INTERNATIONAL HOTEL GROUP, INC.

TRAVELLERS INTERNATIONAL HOTEL GROUP, INC., a publicly-listed domestic company since November 5, 2013, was incorporated on December 17, 2003. It is the developer and operator of **Resorts World Manila** (“RWM”), an integrated tourism resort in the Philippines. RWM is the first integrated leisure and resort property in the Philippines that combines privately-operated gaming facilities with hotel, retail, dining, entertainment and other leisure amenities. Travellers was awarded one of the first licenses issued by the **Philippine Amusement and Gaming Corporation** (PAGCOR) in June 2008 to construct and operate integrated leisure and gaming facilities to an international standard with the goal of enhancing tourism in the Philippines. RWM, which was the first site to be completed, opened in August 2009.

RWM is an approximately 11.5-hectare integrated tourism resort that is strategically located across the Ninoy Aquino International Airport Terminal 3 (“NAIA-3”) in Pasay City, Manila and approximately five kilometers away from NAIA Terminal 1 (“NAIA-1”) and NAIA Terminal 2 (“NAIA-2”) and directly linked to highways leading to Makati. RWM is a 24-hour, one-stop, world-class leisure and entertainment facility within Newport City, a mixed-use community of integrated residential condominiums, hotels, restaurants, shops and offices developed by Megaworld. RWM features a themed shopping and entertainment center, three hotels – Maxims Hotel, an all-suite luxury hotel; the Marriott Hotel Manila, a five-star hotel catering to international business and leisure travelers; and the Holiday Inn Express Manila Newport City (formerly, Remington Hotel), a mid-range hotel, and the Marriott Grand Ballroom, a MICE (meetings, incentives, conventions and exhibitions) venue with over 8,000 square meters of function space.

Construction of RWM commenced in July 2008, and its gaming facilities and casino opened in August 2009, along with non-gaming features, such as the 11,534 sq. m. Newport Mall, which includes a retail mall, a 1,500 seat performing arts theater (the “Newport Performing Arts Theater”) and a four-screen cinema. The Marriott Hotel Manila opened in October 2009 and offers 342 rooms and suites plus 228 rooms in the Marriott West Wing which opened in November 2016; Maxims Hotel opened in December 2010 and offers 172 suites and villas, and the Remington Hotel opened in November 2011. The Marriott Grand Ballroom, a world-class events and convention center, formally opened its doors to the public in March 2015. The Grand Wing under Phase 3 development is ongoing and expected to open towards the end of 2018.

Travellers is AGI’s first integrated tourism vehicle in Metro Manila through a partnership deal in August 2008 with Malaysia-based Genting Group through Genting Hong Kong Limited (“GHK”), a company with shares listed on The Stock Exchange of Hong Kong Limited and traded on the GlobalQuote of Singapore Exchange Securities Trading Limited. The partnership combines AGI’s expertise in the Philippine mixed use township development, food and beverage (“F&B”) and quick service restaurants, and GHK’s international experience as an owner and operator of casino and gaming businesses, operator of passenger cruise ships and provider of cruise-related leisure, entertainment and hospitality services. GHK is affiliated with Genting Berhad and its subsidiaries and associates (the “Genting Group”).

Travellers has P10 billion authorized capital stock (common and preferred shares), of which P1.68 billion is outstanding as at end-2017. AGI’s ownership interest is accounted through direct holding of

25.12% and indirect holdings through its subsidiaries Megaworld, First Centro, Inc. and Adams Properties, Inc. ("Adams") which hold 1.84%, 4.49% and 22.47%, respectively, of Travellers' outstanding common shares. Adams holds 83.3% of outstanding preferred shares. Travellers has consolidated total assets of P86.42 billion as at end-2017.

GOLDEN ARCHES DEVELOPMENT CORPORATION

GOLDEN ARCHES DEVELOPMENT CORPORATION ("GADC") is a domestic corporation engaged in the operations and franchising of quick service restaurant business under the McDonald's brand in the Philippines and in accordance with the master franchise agreement with McDonald's Corporation ("MCD"), a company incorporated in Delaware and with principal offices in Illinois, USA. GADC was incorporated on July 16, 1980. It has P99.44 million authorized and paid up common capital stock, 49% of which is held by AGI and the rest by its founder, Mr. George Yang and his family. Its consolidated total assets amounted to P17.66 billion at end-2017.

AGI acquired its 49% interest in GADC on March 17, 2005 from **McDonald's Restaurant Operations, Inc.** ("MRO"), a subsidiary of MCD, both of which are foreign corporations incorporated in the USA. MRO holds all of GADC's preferred shares.

Golden Arches Realty Corporation ("GARC") leases solely to GADC parcels of land where McDonald's restaurants and warehouses are situated. It was incorporated on June 25, 2001 and, at present, has P1 million authorized and issued common shares, 49% of which is held by AGI.

a.3. Bankruptcy or Similar Proceedings and Significant Assets not in Ordinary Course

The Company and its subsidiaries have not been involved in any bankruptcy, receivership or similar proceedings. Likewise, there were no other material reclassifications, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

b.1. Principal Products Or Services And Their Markets

EMPERADOR

'**Emperador Brandy**', the first brandy label of the Group, was launched in 1990. In 2010, '**Emperador Light**', the first light brandy, was introduced in response to a growing market for alcoholic beverages with lower alcohol content and targeted at younger alcoholic beverage consumers. In March 2013, EDI introduced '**Emperador Deluxe Spanish Edition**', a premium brandy imported from Spain that is created specifically to appeal to the Philippine palate. In 2017, EDI launched its first brandy shooter spiced with cinnamon, '**Emperador Hotshot**' and '**Emperador Red**', a brandy with a stronger alcohol content.

At the 2016 International Review of Spirits, organized by Beverage Testing Institute in Chicago, **Emperador Solera Brandy** won the silver award (highly-recommended), with added special recognition as "Best Buy", by garnering 89 points while Emperador Light received the bronze award (recommended) with 83 points. The "Best Buy" recognition is an added excellence award given only to the spirits or wines that provide uncommon value. Emperador is the only Filipino brandy to be included as one of the best brandies in the world with Solera and Emperador Light.

The premium and imported lines, '**Emperador Deluxe Special Reserve**' and '**Emperador Grand Supreme**' are sold exclusively at EDI's retail store.



'Andy Player Whisky', a popular drink in the '80s, was revived in October 2015. The new whisky blend has a unique character, rich aroma and complex taste which include orange marmalade and maple syrup. In October 2016, **'Andy Player Whisky and Cola'** or Andy Cola, a ready-to-drink blend of refreshing cola and the smooth blend of Andy Player Whisky was launched in the Philippine market.

'The BaR', a flavored vodka and gin beverage was launched in 2009. 'The BaR' is marketed as a ready-to-serve flavored alcoholic beverage with low alcohol content. The gin comes in lemon-and-lime flavor while the vodka comes in orange, apple and strawberry flavors. In 2012, 'The BaR Cocktails Margarita' line was launched. 'The BaR' products are targeted to a younger demographic, specifically, the 18 to 35 year old age bracket.

'Smirnoff Mule', a ready-to-drink blend of Smirnoff Vodka, ginger beer, and lime, was launched on April 28, 2015. It is a classic iconic drink that delivers a smooth, full flavored refreshment with a unique ginger taste. It is known as 'Mule' because of its premium vodka, ginger beer and lime, creating a ginger kick effect. The "Stubbornly Refreshing" drink is being manufactured and distributed in the Philippines, under license from Diageo North America, Inc.

'Raffa Sparkling' is a delightful drink that has the elegance of sparkling wine with a fruity and refreshing finish. It only has 4% ABV making it a drink to be enjoyed by everyone. It is meant for leisurely lunches, extended dinners and long get-togethers. Raffa is made from the finest white grapes grown in Bodega San Bruno's very own vineyard along the scenic Tajo River near Toledo. The product was launched in to the Philippine market in December 2016.

'Zabana Single Barrel Reserve Philippine Rum', an EDI store exclusive. Since its release, this product was able to garner several awards: Gold Award for the 2016 Cathay Pacific Hong Kong International Wine & Spirit Competition, Gold Award in the 2017 Monde Selection, and Silver recognition in the International Spirits Challenge 2017.

'Tres Cepas Light' is an imported brandy from Spain, excellently made by Bodegas Fundador in Spain. Tres Cepas Light has great value for money because it is a great tasting Spanish brandy but priced at a very affordable introductory price. It was launched locally in December 2016.

EDI introduced 'The Dalmore', 'Jura' and 'Whyte and Mackay' variants at 700ml bottles in the local market in 2015. It also began distributing 'Fundador Brandy', the Philippine best-selling imported premium brandy, in March 2016 and launched locally 'Tres Cepas Light' in December 2016.

EDI also started distributing 'Harveys Bristol Cream' and the newly developed '**Fundador Double Light**' in 2017.

EDI also distributes '**Pik-Nik**' brand shoestring potato snacks and Ernest and Julio Gallo wines from California, USA. The 'Pik-Nik' brand is owned by AGI Group.

Scotch whisky is Scotland's leading indigenous product and is now established as the leading international spirit drink, making it one of Britain's most important exports. It is a distilled spirit made (distilled and matured) in Scotland using *only* cereals, water and yeast. Most whiskies mature far longer than the legal minimum of three years, and the maturation period varies for different whiskies. The age statement on a bottle reflects the amount of time the youngest whisky in that bottle has spent maturing in a cask.

WMG offers Single Malt and Blended Scotch whiskies, liquers and vodkas, under the following key brands:

'**The Dalmore Single Malt Scotch Whisky**' sits at the apex of the category in which it competes. It is positioned as super premium and luxury brand. The Dalmore's 'To The Brave' proposition is built on a heritage that is rooted in the saving of King Alexander III of Scotland from being gored by a raging stag with a single arrow in 1263 by an ancestor of Mackenzie clan. The grateful king granted him the right to bear a stag's head in his coat of arms and so every bottle of The Dalmore is adorned with this noble emblem: a stag's head with twelve points to its antlers, signifying a 'royalty'. The Mackenzie family ran the Dalmore distillery from the mid 1800's until Whyte and Mackay took over. It is considered the most revered single malt whisky in the world. '**The Dalmore Principal Collection**' consists of six expressions positioned as Accessible (The 12, The 15, Cigar Malt Reserve, The 18, King Alexander III) and Aspirational (The 25). Positioned at the apex is '**The Dalmore Constellation Collection**' which is a rare ensemble of unique vintage single malts from the Highland distillery. 'The Dalmore' is renowned for rare editions that have sold for industry redefining prices, including the most expensive bottle ever sold in a retail store.

'**Jura Single Malt Scotch Whisky**' is a premium Scotch whisky that is considered an accessible single malt whisky. It is produced at the only distillery on the Isle of Jura, a very remote island off the west coast of Scotland. This brand is built upon a captivating island environment that has two distinct sides, the wild, rugged west and the temperate east. Jura's uncommon nature is reinforced by the split production of both peated and unpeated malt whiskies in the same distillery, reflecting the two sides of the island. The Jura Rare collection offers one or two vintages every year, supported by a story, while the super-premium Milestones offers a new release every few years.

'**Tamnavulin Single Malt Scotch whisky**' was launched in 2016, initially in the UK. The Tamnavulin Distillery was built in 1966 and was acquired by WMG in 1993.

'**Fettercairn**' comes from Fettercairn distillery which was founded in 1824 and acquired by WMG in 1973. The arch and the unicorn are two symbols that are heavily associated with the long history of the Fettercairn Distillery.

'**Whyte and Mackay Blended Scotch Whisky**' is produced using a unique triple maturation process that ensures a smoother, richer taste.

'**Shackleton**' is the newest Blended Malt brand launched in 2017. It was inspired by a 1907 whisky which was extracted after 100 years under ice. A conservation team carefully extracted crates of whisky left behind by renowned polar explorer Sir Ernest Shackleton. Whyte and Mackay master blender Richard Paterson carefully selected 20 of the finest highland malts to recreate the antique whisky supplied to the British Antarctic Expedition

Liquers are alcoholic beverages made from a distilled spirit that has been flavored with fruit, cream, herbs, spices, flowers or nuts and bottled with added sugar or other sweetener. They are typically quite sweet, usually not aged for long but may have resting periods to allow flavors to marry. In this category belongs:

'**Glavya**', a liqueur made from a blend of aged Scotch whiskies, a selected range of spices, Mediterranean tangerines, cinnamon, almonds and honey. It has a deep golden colour and a distinctive flavor.

'**Vladivar Vodka**' is a brand of vodka distilled in the UK. It is a Pure Grain, triple distilled, charcoal filtered vodka. Originally made in Warrington by the G & J Greenall distillery, the brand was sold in 1990 to Whyte and Mackay and is today bottled in Scotland.

'**John Barr**', '**Cluny**' and '**Claymore**' are all blended Scotch whiskies, a combination of malt whiskies and grain whiskies from a number of different distilleries. The packaging of both John Barr and Claymore has recently been redesigned to enhance the consumer offering.

From *Bodegas Fundador*, the following iconic brands manufactured and distributed from Spain are under EMP Group beginning March 1, 2016:

'**Fundador**' is a Brandy de Jerez, the brandy capital of Spain. Fundador means the founder, as it was the first Spanish brandy to be marketed, this happened in 1874 by Pedro Domecq Loustau. It is sold in over 70 countries worldwide, and the no. 1 imported premium brandy in the Philippines. The brand has an excellent range ending with the high premium brand Fundador Exclusivo.

'**Terry Centenario**' is the largest brandy in Spain. Centenario means centenary, and it evokes the change to the twentieth century when the Terry family started producing brandies in its bodegas in Puerto de Santa María. It is a premium and distinguished brand with the iconic net and the unique logo of the Terry Horse. '**Terry White**', a new expression, a new category, a new Classic "White Brandy" was born in 2017.

'**Tres Cepas**' is a market leader in Equatorial Guinea. In the beginning Domecq had three brands, Una Cepa (One vine), Dos Cepas (Two vines) and Tres Cepas (Three vines), that were in increasing order of quality and age. It is a premium brand result of a special selection of wines distilled aged in sherry oak casks by the traditional Criadera and Solera system. In 1902 the brand Tres Cepas was launched in the market and starting to be a successful brand. The year 2016 was the renaissance of the brand in the Philippines, and it launched a special expression of **Tres Cepas Light**, with a different concept and bottle. Tres Cepas Spirit is a delicate selection of wines distilled carefully aged in Bodegas Fundador's wineries in Jerez, smooth with mineral notes and beautiful amber tone.

'**Harveys**' is the number 1 selling Sherry Wine in the world and the leader in the UK. It is a recipient of twenty-four quality awards in 2015. It holds Royal warrant in UK which distinguishes it as the only sherry wine that can be served to the Queen in Buckingham Palace. It is also the unique Spanish Company that supplies to the Royal Household. This brand was registered in Bristol by the Harvey family in 1886 and was the first cream Sherry to be marketed. Harveys Bristol Cream is a unique blend of sherries combining the character and body of aged olorosos with the aroma and finesse of finos and amontillados.

Harveys Very Old Amontillado 30-Year Old V.O.R.S was awarded the "The Best Wine in the World" by the International Wine Challenge (IWC), by bagging the Champion of Champions' Trophy 2016, while **Harveys V.O.R.S. Palo Cortado** was awarded in 2015 by the IWC as the "Best Sherry". Also in 2016, the International Wine & Spirit Competition (IWSC) awarded gold medals to **Harveys Pedro Ximenez 30 Year Old V.O.R.S.** and **Harveys Rich Old Oloroso Sherry 30 Year Old V.O.R.S.** An ultimate expression **Signature by Harveys** which was launched in 2017 is a 12-Year Old Cream Sherry, this product was awarded the silver medal by the IWSC in 2016.

MEG

The Group's pioneering "live-work-play-learn" concept for integrated mixed-use communities, or commonly known as townships in the Philippines, has enabled it to launch more than 660 residential buildings, 54 office towers, 15 lifestyle malls and 5 hotels. "Townships" integrate lifestyle convenience of having high quality residences in close proximity to office, commercial, educational, and leisure and entertainment facilities. The strategy is to lease all commercial and retail properties and sell all residential units. A description of each of the group's 23 townships follows.

PRESENCE ACROSS THE PHILIPPINES

Premier township development and pioneer of the "Live-Work-Play-Learn" lifestyle with landbank of 4,414ha



1. **Eastwood City** is the first township to implement the Company's "live-work-play-learn" concept. Its 18.50-hectare community property in Libis, Quezon City has 19 completed luxury condominium towers, 10 first-class corporate office buildings, and a modern IT park. The planning of Eastwood City adopts an integrated approach to urban planning, with an emphasis on the development of the Eastwood City Cyberpark to provide offices with infrastructure such as high-speed telecommunications and 24-hour power supply that support BPO and other technology-driven businesses. The township provides education/training, restaurants, leisure and retail facilities and residences. It is currently home to more than 25,000 residents and 55,000 workers. Eastwood city is also home to the four-level Eastwood Mall — a shopping and dining destination which has been declared the "Best Shopping Center" by the Philippine Retailers Association. Eastwood City has three malls and around 500 commercial and retail shops. The Eastwood Richmond Hotel is located adjacent to the Eastwood Mall.
2. **Forbes Town Center** is located in a 5-hectare land in Bonifacio Global City, Taguig, Metro Manila adjacent to the Manila Golf Club, Manila Golf and Country Club, the Forbes Park residential subdivision and Dasmariñas Village. Forbes Town Center has 12 residential towers which house more than 3,500 residential units. Upon completion, Forbes Town Center is expected to consist of residential, retail and entertainment properties. The focal point of activity in the township is Forbes Town Road, a retail strip with 37 restaurants and shops that cater to the diverse needs of the residents of the community's three Bellagio towers, six towers of Forbeswood Heights, two towers of Forbeswood Parklane, and the 53-storey Eight Forbes Town Road.
3. **McKinley Hill** is located on approximately 50 hectares of land in Fort Bonifacio, Taguig City, Metro Manila. McKinley Hill consists of office, residential, retail, educational, entertainment and recreational centers. The residential zone consists of subdivision lots for low-density single-detached homes, clusters of low-rise residential garden villas and residential condominiums. The office properties will include the McKinley Hill Cyberpark which is a PEZA-designated IT special economic zone. Tenants of the office properties will largely comprise of software developers, data encoding and conversion centers, call centers, system integrations, IT and computer system

support. The leisure and entertainment zone will consist of bars, restaurants, specialty shops, cinemas and sports complex. Three international schools, the Chinese International School, the Korean International School and Enderun College, a hotel management institution affiliated with Les Roches of Switzerland, comprise the “learn” component of the township. McKinley Hill is also home to the British Embassy and the Korean Embassy.

4. **Newport City** is a township located on 25 hectares of land at the Villamor Air Base, Pasay City, Metro Manila, across from the NAIA Terminal 3 and adjacent to the Villamor golf course. It will be targeted towards tenants and buyers who consider proximity to the NAIA Terminal 3 an advantage. The residential zone consists of eight to nine-storey medium-rise buildings. The corporate zone comprised of office buildings. The leisure and entertainment zone consist of bars, restaurants, retail and tourist oriented shops, which are designed to complement the office and residential buildings in the community township. Newport City is home to Resorts World Manila, with leisure and entertainment offerings such as gaming facilities, restaurants, hotels and shopping outlets. The hotel zone comprises the Marriott Hotel, Marriott West Wing, Maxims Hotel and Holiday Inn Express Hotel under Travellers; and Belmont Luxury Hotel and Savoy Hotel which are condotel projects of Megaworld. Travellers and its subsidiaries are set to add three global hotel brands, the Hilton Manila, the Sheraton Hotel Manila and Hotel Okura Manila. Newport City also features Travellers’ Marriott Grand Ballroom project, a meetings, incentives, conventions and exhibitions facility. Newport City is registered with PEZA as a Cyber Tourism Special Economic Zone.
5. **Uptown Bonifacio** is being developed in an approximately 15.4-hectare property in Fort Bonifacio in Taguig, Metro Manila. Uptown Bonifacio is comprised of a residential portion in the northern part of Fort Bonifacio, and a portion for mixed-use, comprising office and retail space. Set in the heart of Fort Bonifacio, the township will be close to several of the new CBD’s popular landmarks, such as Forbes Town, Burgos Circle, the Mind Museum, Bonifacio High Street, and The Fort Strip. It is also within close proximity to St. Luke’s Medical Center and the institutional zone. The township is easily accessible via Kalayaan Avenue, C-5 Road and EDSA. It has its own high-end commercial center, Uptown Place Mall.
6. **McKinley West** is an “ultra high-end” township being developed on a 34.5-hectare portion of the JUSMAG property in Fort Bonifacio which is directly beside Forbes Park and Manila Polo Club and across McKinley Hill in Taguig, Metro Manila. The development of McKinley West is another joint venture undertaking with BCDA. McKinley West will have rows of luxury residential estates, some of which will have their own swimming pools and other amenities. The upscale residential enclave will be supplemented by a modern business district of sustainable office buildings, an international school, and a commercial centre. These will all be complemented by open spaces and greenery. Ingress and egress points of the estate are conveniently located along Lawton Avenue which connects Fort Bonifacio to Pasay City and Makati City.
7. **The Mactan Newtown** is Megaworld’s first township venture outside Luzon. Mactan Newtown is a mixed-use development situated on a 30-hectare property near Shangri-La’s Mactan Resort and Spa in Mactan, Cebu. This has its own beach and combines high-end office towers, luxury condominiums, leisure amenities, retail shops, a school, and upscale hotels. It will also have its own exclusive beach club at the township’s beachfront, and sports facilities at the 11-hectare beachfront property formerly known as Portofino Beach. It is also near the Mactan-Cebu International Airport. The first phase of the project is expected, on completion, to comprise high- tech BPO offices, and retail centres, luxury condominiums, leisure facilities and beach resort frontage. The Mactan Newtown is approximately 10 minutes away from the Mactan-Cebu International Airport, the Philippines’ second largest airport. The Mactan Newtown will also have five hotels, two of which are at the beachfronts.
8. **Iloilo Business Park** is a mixed-planned community in a 72-hectare property in Mandurriao, Iloilo. Upon completion, it will be a mixed-use business, tourism, commercial and residential hub with a residential community, BPO office buildings, hotels, a convention centre, retail centres and a lifestyle centre. The entire Iloilo Business Park development was registered as a special economic zone with the Government. It also features The Street of Festive Walk, a 1.1-kilometre retail strip envisioned to be one of the longest shop-and-dine streets outside of Metro Manila. Iloilo Business Park has launched three residential condominium developments to date — One Madison Place Luxury Residence, Lafayette Park Square and The Palladium, the tallest

building in the region at 22 storeys high. With Iloilo Business Park, Megaworld aims to transform Western Visayas into the next central district in the region.

9. **ArcoVia** is envisioned as an environment-friendly community on the 12.4-hectare property located along the C-5 Road in Pasig City. A main “green” feature of the township is the approximately 1,000 trees that will be planted around the development. This greening feature will help provide an outdoor thermal comfort for the future residents, workers, tenants and visitors of the township. Sustainable buildings registered under Leadership in Energy and Environmental Design (LEED) are the standard of office developments in this township, with the first two to rise designed by world-renowned architectural firm Skidmore, Owings & Merrill. Other green features of ArcoVia City are a rainwater catchment facility, a network of bicycle lanes, and wide tree-lined sidewalks. Aside from office towers, the township will have residential condominiums, a lifestyle mall, retail and commercial strips, and open parks.
10. **Davao Park District** is the first township development in Mindanao. It is situated on an 11-hectare property along S.P. Dakudao Loop in Lanang, Davao City, which used to be the Lanang Golf and Country Club. The township is envisioned to be the Mindanao’s new central business district by being a center for BPO and other corporate entities over the next seven years. Also in Davao Park District are the themed residential condominiums that will be built by Suntrust, a wholly-owned subsidiary of Megaworld. The township will also have a lifestyle mall, commercial and retail strips, open parks, a lagoon, and a school. The first office tower to rise is the iconic 15-storey Davao Finance Center. The first tower in One Lakeshore Drive, a 4-tower condominium cluster, started selling in 2014. Two Lakeshore Drive started selling in 2017.
11. **Suntrust Ecotown**, an ongoing project under Suntrust, will sit on a 350-hectare land in Tanza, Cavite and will be Megaworld’s first mixed-use development with an industrial park in the country. The industrial park is the country’s first to be accredited by PEZA with lifestyle amenities. It is also positioned to be the major hub for light to medium export-oriented industries, residential, commercial, and institutional establishments in the south. At Suntrust Ecotown, 111 hectares will be allotted for the industrial park. Another 40 hectares is dedicated for the expansion of the industrial park and the integration of lifestyle amenities such as a hotel, commercial and retail hubs, driving range, mini golf course, putting greens, swimming pool, jogging path, basketball and badminton courts, and open parks, and another 200 hectares of future development that may include residential and other recreational facilities.
12. **Boracay Newcoast**, an ongoing project under GERI, is a 150-hectare mixed-use leisure and resort development. It is envisioned to be a tourism destination on the island. Soon to rise in the tourism development are luxury and boutique hotels, commercial and retail district, upscale villas, and an exclusive residential village. Among the first residential towers to be built here is Oceanway Residences, a cluster of mid-rise condominiums offering views of the Sibuyan Sea, Mt. Luho, the island’s highest peak, as well as the Fairways & Bluewater Golf Course. Aside from Oceanway Residences, among the upcoming projects here include four hotels and a commercial and retail strip.
13. **Twin Lakes**, an ongoing project under GERI, is a 1,200-hectare mixed-use leisure and resort community in Tagaytay. Within the tourism estate is the first residential cluster called The Vineyard Residences, which is composed of three mid-rise condominium towers: Shiraz, Merlot, and Chardonnay. Twin Lakes also has a unique mixed-use community development called The Vineyard, which spans 177-hectare of natural landscape that offers views of the Taal Volcano and the man-made lake within the estate. The Vineyard will have its own sports club and spa, wedding venue, and its own chateau. The township will also have commercial and retail hubs (The Village and Lakeshore Town Center), a university park, as well as a nature park. Other developments in Twin Lakes include a retirement community, wellness center, hotel, among others.
14. **Southwoods City** is a fully-integrated township with a golf course at the south of Metro Manila. The 561-hectare property is a mixed-use development that features the Manila Southwoods Golf and Country Club, a central business district, a mall, schools, a church, and a medical facility among others. It is conveniently accessible via the South Luzon Expressway. Within Southwoods City is **Pahara**, a 26-hectare residential village consisting of over 600 lots, each

offering a view of the golf course and the Laguna de Bay. This residential village has a Mediterranean-inspired architectural theme with green open spaces and its own clubhouse, swimming pool, function halls, children's playground, an outdoor circuit gym, and parks.

15. **Alabang West** is a 62-hectare township located at the heart of Alabang's leisure, business and commercial district. It is easily accessible to and from Metro Manila via the South Luzon Expressway and the Daang Hari Exit. Alabang West has a 1.3-kilometer commercial and retail row and an exclusive Alabang West Village that features over 700 residential lots. The village will have a clubhouse with badminton and basketball courts, function rooms, game room, a fitness center, and an infinity pool.
16. **The Upper East** sits on a 34-hectare property in Bacolod City, Negros Occidental and is bound by Burgos Avenue on the north, Lopez Jaena Street on the west, the Circumferential Road on the east and is just across the New Government Center. The residential condominiums, malls and commercial centers, BPO office towers, tourism and leisure facilities as well as recreational parks and open spaces are integrated to create a "live-work-play" township.
17. **Northhill Gateway** will rise in the northern part of Bacolod. Sitting on a 53-hectare property along the new Circumferential Road on the boundaries of Talisay City and Bacolod City, it has direct access to the new Bacolod-Silay Airport and will have a direct link to The Upper East via the Circumferential Road. Northhill Gateway is envisioned to be a refreshing lifestyle district that will house upscale residential villages, mixed-use office and retail developments, leisure and recreational amenities as well as institutional facilities. Megaworld is constructing a 'commercial town center' on the Bacolod side of the Northhill Gateway township, the Northhill Town Center. This will occupy around 7.5 hectares and will be a sprawling horizontal commercial development composed mostly of stand-alone two-storey structures of retail shops and dining establishments, surrounded by landscaped parks and open spaces. The town centre, which will be accessible along the Bacolod-Silay Airport Access Road, will also have a central plaza, an events venue, 'pasalubong' centres featuring local Negrense delicacies, a supermarket, and wellness and sports facilities.
18. **Sta. Barbara Heights**, a masterplanned community of GERI, is a 170- hectare mixed-use development with 34 hectares allocated for residential lots overlooking nearby natural lake and hills in Sta. Barbara Iloilo. The township is adjacent to the historic Santa Barbara Church and Convent and the Iloilo Golf Course and Country Club. Sta. Barbara Heights will have a direct access to the road leading to the Iloilo International Airport via the Iloilo International Avenue, a six-lane "spine" highway featuring rows of mixed-use and commercial buildings, retail shops, restaurants, boutique hotels and institutional facilities. Half of the development is allocated for the Sta. Barbara Heights Residential Estates, a residential village with three phases offering around 1,000 lots. The village will feature a five-hectare Village Center with amenities that include a 260-metre swimming pool, tennis and basketball courts, children's park and picnic ground overlooking a lake beside the Iloilo Golf and Country Club.
19. **Capital Town Pampanga** is a 35.6-hectare prime property beside the provincial capitol of the City of San Fernando, Pampanga and is the fourth township launched by Megaworld in 2015. It is just 70 kilometers away from Metro Manila and accessible via the North Luzon Expressway and the Jose Abad Santos Avenue, also known as the Olongapo-Gapan Road. It is also around 20 kilometers away from Clark International Airport and will comprise of residential, office, commercial, and institutional components. It will be home to residential and BPO office towers, civic and institutional facilities such as school, amphitheatre and event venues, mall and retail hubs, hotel and a shophouse district that highlights neo-classical and art deco architecture. 25% of the entire township will be devoted to green and open spaces, including road networks.
20. **Westside City** will be the second site of Resorts World Manila in the Philippines. The 31- hectare leisure and entertainment township at the booming Entertainment City in Parañaque City will have international hotels, a luxury mall, and residential condominiums. The launch of Westside City marked the Company's 20th integrated urban township. The township will also be home to

upscale residential condominiums, a luxury mall as well as international hotel brands. These hotels will have a total of around 1,500 rooms. Westside City highlights facilities for the performing arts and will be home to the Philippines' Grand Opera House that has a total capacity of 3,000

21. **Maple Grove**, the Megaworld's 21st township is a 140-hectare property in General Trias, Cavite. This property will be developed into another mixed-use development. The property is approximately 45 minutes away from Makati and other Metro Manila CBDs via Coastal Road and Cavite, Maple Grove is at the entry point of the industrial and residential centre of the Cavite-Batangas corridor. The company is allocating P10 billion in the next 10 years to develop Maple Grove. The township will comprise of residential, retail, office and institutional components.
22. **Eastland Heights**, an ongoing project under GERI, will be an 'integrated lifestyle community' in Antipolo, Rizal on a 640 hectares of land along Marcos Highway with some areas overlooking Metro Manila's panoramic skyline. The vast property has its own 36-hole golf course and country club, which will occupy around 20% of the entire development. It is also known for its elevation on the foot of the scenic Sierra Madre Mountain Range. GERI is spending P5 billion to develop Eastland Heights in the next five to seven years. Aside from the golf course, the community will have residential, commercial and retail, and institutional components such as a school.
23. **The Hamptons Caliraya**, the second 'integrated lifestyle community' under GERI, is located in Lumban-Cavinti, Laguna, surrounding Lake Caliraya. Through GERI, Megaworld has allocated P8 billion in this 300-hectare development in the next 10 years. The development will feature leisure and tourism developments including lakeside residential villages and villas, a town centre, two 18-hole golf courses and clubhouse, and a Marina Club that offers a wide range of water sports activities such as boating, jet ski and kayaking, as well as a shophouse district and resort hotel district. The development will also be the site of The Hamptons Village, an 11-hectare lakeside residential village that will feature its own marina.

The GERI group has a diversified real estate inventory including residential and commercial lots, residential condominium units, condominium hotel units, and golf club shares. These include the following:

1. **Boracay Newcoast** is the first and only tourism estate development with world-class resort offerings in the northeast side of Boracay. It sits on 150-hectare of land and will house a private residential village, specialty boutique hotels, shop houses and a massive commercial center called Newcoast Station and international hotel brands. Its Fairways & Bluewater Newcoast, a premier luxury eco-friendly vacation hotel, has over 250 well-appointed guestrooms, each with a spectacular view of an 18-hole par-72 golfcourse, the only one in the island. Fairways & Bluewater features three private white sand beach coves. (see under townships)
2. **Twin Lakes** is the first and only vineyard resort community in the Philippines, located in the rolling terrains of Tagaytay overlooking the world-famous Taal Lake. The master-planned integrated tourism estate that sits on a 1,182-hectare property will feature real vineyard and chateaus, residential condominiums and villages, hotels, nature park as well as commercial and retail hubs. The Vineyard, a 69-hectare mixed-used phase will host a hotel and resort, sports club and spa, culinary school, residential condominiums and a traditional wine chateau for aging the vintage produce – all with the views of the vineyard and man-made twin lakes. (see under townships)
3. **Forest Hills** is a 500-hectare integrated development in Antipolo, Rizal which includes residential and commercial lots, an aqua park, two 18-hole golf courses and a community clubhouse.
4. **Mountain Meadows** is 260-hectare residential subdivision in Cagayan de Oro with a 4-hectare commercial area at the entrance of the project.
5. **Sherwood Hills** is a 350-hectare integrated development in Trece Martires, Cavite that will include residential lots, a 27-hole golf course and other facilities.
6. **Newport Hills** is a 127-hectare integrated residential and golf development in Lian, Batangas.

7. **Sta. Barbara Heights** is a vast township rising on a 170-hectare property beside the Sta. Barbara Golf Course, known as Asia's oldest golf course, located in Sta. Barbara, Iloilo. It will be home to residential villages, condominiums, office towers, a mall, and commercial and retail centers. (See under townships)
8. **Southwoods City** is a 561-hectare mixed-use development with golf-course situated on the boundaries of Biñan, Laguna and Carmona, Cavite. (See under townships)
9. **Alabang West** is a 62-hectare residential and commercial development in Las Piñas City. (See under townships)
10. **Eastland Heights** is a township development along a 640-hectare of land along Marcos Highway with some areas overlooking Metro Manila's panoramic skyline. (See under townships)
11. **The Hamptons Caliraya** is a 300-hectare sprawling community surrounding Lake Caliraya in Lumban-Cavinti, Laguna. (See under townships).

ELI's real estate portfolio is composed of multi-cluster mid- to high-rise condominium projects and multi-phase subdivision developments in key locations in Metro Manila and the South. ELI set the trend for transit-oriented developments ("TOD") where condominium communities are directly linked to mass-transit systems for faster and more efficient mobility in the metro. ELI's portfolio also includes ready-for-occupancy ("RFO") units available in its various high-rise development projects in Metro Manila. These include the following:

1. **Laguna BelAir** is ELI's flagship township project located outside of Metro Manila. The 156-hectare horizontal development in Sta. Rosa, Laguna is a complete community setting featuring several residential phases with American-inspired homes, commercial blocks, recreational amenity zones, a science-oriented school and a parish church. The project has spearheaded various residential and commercial developments in Santa Rosa City which is now dubbed as the "New Makati City of the South."
2. **The Sonoma** is the second township project outside Metro Manila. It is a 50-hectare horizontal development in Sta. Rosa, Laguna that features Asian Modern-inspired homes. The community is centered by a five-star clubhouse complete with luxurious swimming pools, open courts, function rooms and other recreational facilities. Towards the main gate of the development is 1433 West Row, a retail strip that will feature high-end shops, restaurants and other establishments. The four residential phases, Enclave, Country Club, Pavilion and Esplanade, have all been turned over and are almost sold out.
3. **The Cambridge Village** along East Bank Road in the boundary of Pasig City and Cainta, Rizal, is the ELI's largest residential development in scale to date. This 37-tower mid-rise community on an 8-hectare land offers approximately 5,200 units targeted to the broad middle-income market segment. Most towers are RFO and sold out, with the few remaining towers of the Central Park phase nearing turnover and nearly sold out. Residents get a vacation lifestyle with its resort-type amenities and ground-level retail shops.
4. **The Rochester**, a tropical-inspired urban resort community at Elisco Road, San Joaquin, Pasig City, will have seven Asian Modern towers set to rise on a 3-hectare property. The low-rise Garden Villas 1 and 2 and the mid-rise Breeze Tower have been completed and sold out. The residents of the RFO towers are currently enjoying the clubhouse with function areas, min-bar, fitness gym, 25-meter lap pool, kiddie pool and a multi-purpose court. Parklane, Palmridge and Hillcrest Towers are nearly sold out and more than halfway completed. Construction for Bridgeview Tower has already started.
5. **San Lorenzo Place** is a luxurious 4-tower high-rise development along EDSA corner Chino Roces Avenue, Makati City standing on a podium with an upscale shopping mall directly linked to MRT-3 Magallanes station. The project offers an unparalleled luxurious city lifestyle in the Makati CBD with high-end amenities such as swimming pools, tennis court, fitness gym, jogging paths, gardens, function room, daycare center and clubhouse at the sixth level. Towers 4, 1 and

2 are ready-for- occupancy while Tower 3 is expected to be completed by mid of the year. Almost all residential units in the four towers have been sold out.

6. **Pioneer Woodlands** offers a transit-oriented lifestyle to its residents as it is connected directly to MRT-3 Boni station. Located along EDSA corner Pioneer Street in Mandaluyong City, close to Ortigas and Makati CBDs, the project has 6 high-rise towers, recreational amenities at the 5th level, and a two-level retail arcade. Towers 1, 2 and 3 have been sold out and are now ready for occupancy. Tower 4 will be finished by mid of the year while Tower 5 is almost sold out and in the initial stage of construction. Tower 6, which was launched last year, is nearly sold out.
7. **Little Baguio Terraces** is a 4-tower TOD mid-rise condominium along Aurora Boulevard and N. Domingo Street, San Juan City. This TOD is between Gilmore and J. Ruiz station of LRT-2, offering a quick access to the University Belts in Manila and Quezon City. Amenities at the 3rd level such as lap pool, kiddie pool, jacuzzi, jogging path, playground, fitness gym, daycare center and function area can now all be enjoyed by its residents. Towers 1, 4 and 3 are RFO and sold out, while Tower 2 is almost sold out and scheduled for turnover by end of this year.
8. **Kasara Urban Resort Residences** along Eagle Avenue and P. E. Antonio Street near C5 Road in Ugong, Pasig City, features six high-rise towers with world-class resort-type amenities including a lake-inspired pool, infinity pools, waterfalls, bubblers and koi ponds, clubhouse with function hall and bar area, multi-purpose court, fitness gym, playground, jogging paths, and greeneries which are all dedicated to almost 65% of its 1.8-hectare property. The project's proximity to Ortigas CBD, Eastwood City and Bonifacio Global City, makes it a top choice for both investors and end-users. Almost sold out, Tower 1 is expected to be turned over soon while Tower 2 is significantly completed. Towers 3 and 5 are almost sold out and in the initial stages of construction. Tower 4 is under pre-selling while Tower 6 is set to be launched this year.
9. **South Science Park** is a 51-hectare property in Gimalas, Balayan, Batangas that is intended for mixed-use development.
10. **Mango Tree Residences** is an exclusive two-tower high-rise community situated along M. Paterno and J. Ledesma Streets in San Juan City. Natural mango trees, landscaped gardens, and hotel- type amenities will all be located at the spacious ground level as the podium parking will be standing on stilts, providing free flow of air and natural sunlight. West Residences is under-preselling and construction has just started while East Residences was launched last year and with more 50% take up to date.
11. **Covent Garden** is two-tower development located along Santol Street Extension in Santa Mesa, Manila walking distance to LRT-2 V. Mapa station, offering ultimate accessibility to the University Belts in Manila and Quezon City. Other transportation options such as jeepneys, city buses, and rail transits are also available within the area. The project promises an urban sanctuary and escape from the city through its various recreational amenities at an elevated level. South Residences is almost sold out and in full-swing construction. North Residences is under pre-selling and is almost sold out.

SPI's projects provide affordable homes in well-planned and secured community developments. Its communities feature commercial centers, clubhouses and other amenities, schools and 24-hour security. These include the following:

1. Sta. Rosa Height, Sta. Rosa Hills, Suntrust Sentosa, The Mandara, and Suntrust Verona are horizontal residential developments in Eastern Cavite and Laguna.
2. Governor Hills, Gentri Heights, Suntrust Rivabella, Cybergreens, Sunrise Hills, and Cyberville are horizontal community developments in Western Cavite.
3. Adriatico Gardens, Suntrust Parkview, UN Gardens, Suntrust Solana, Suntrust Treetop Villas are condominium projects in Manila and Mandaluyong areas.
4. Suntrust Shanata, Suntrust Asmara, Suntrust Amadea and Capitol Plaza are condominium projects in Quezon City.
5. Suntrust Kirana is a condominium project in Pasig City.
6. Sienna Hills is a Mediterranean-inspired subdivision in Lipa City, Batangas.

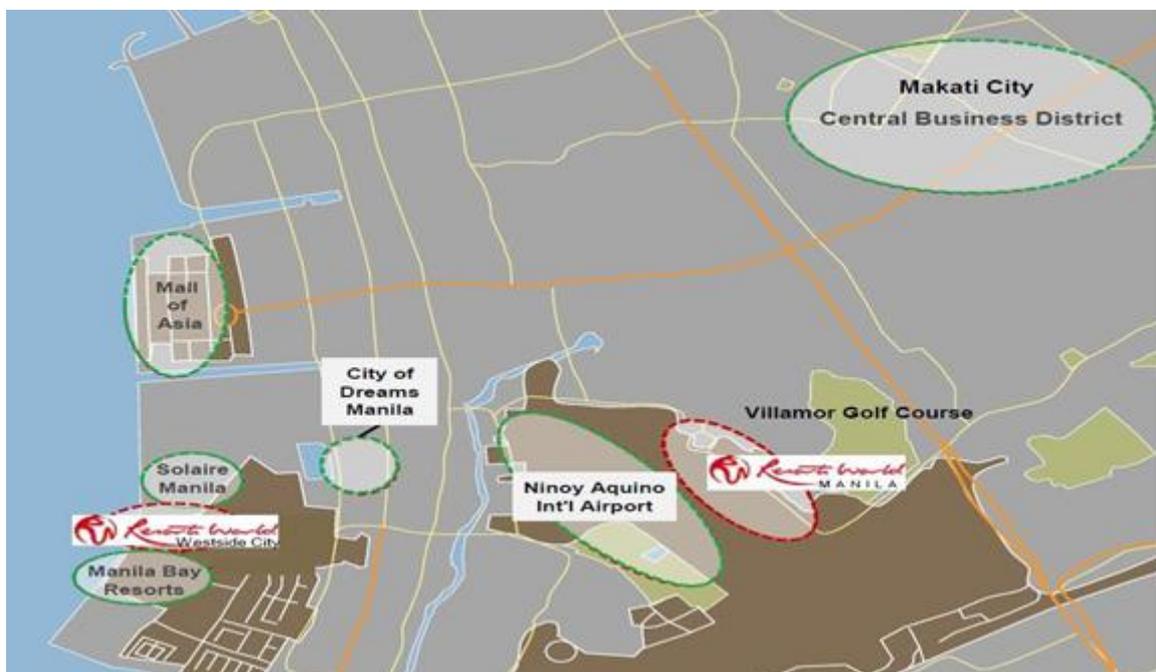
7. Suntrust 88 Gibraltar is a condominium project in Baguio City. This Mediterranean-inspired development is strategically located in front of Mines View Park.
8. Davao Park District is a township development in Davao City. (See under townships)
9. Suntrust Ecotown is a township development in Tanza, Cavite. (See under townships)
10. Northhill is a township development in northern part of Bacolod. Suntrust will develop 24.52 ha into house-and-lot residential project with modern theme called The Fountain Grove. (See under townships)

TRAVELLERS

Resorts World Manila (“RWM”), Travellers’ first integrated leisure and lifestyle complex, combines hospitality, entertainment, leisure, shopping and gaming in one grand arena, a one-stop non-stop destination. RWM operates a two-storey gaming facility, which includes the Genting Club (a members-only lifestyle club, with a private gaming area, dining options and other fabulous lifestyle features), and additional gaming halls through the Remington Hotel (now Holiday In Express Manila Newport City) with an aggregate area of 16,076 square meters. As of the end of 2017, RWM has 244 casino tables and 1,381 slot machines/electronic gaming machines (EGMs). RWM also features the upscale Newport Mall (91 retail stores and food-and beverage outlets with a mix of high-end boutiques and mass market option), Newport Cinemas (24 hours on weekends), the 1,500-seat Newport Performing Arts Theater (a majestic venue for concerts, plays, musicals and exclusive productions), the GameZoo arcade, an office space (which features a training academy and a 400-seat capacity call center) and hotels.

Three hotels are currently in operation at RWM - the five-star 570-room Marriott Hotel Manila, the 172-all-suites Maxims Hotel, and the mid-range 712-room Remington Hotel which has been rebranded to Holiday Inn Express Manila Newport City.

RWM also boasts of the newly opened Marriott Grand Ballroom, a MICE venue with a 3,000- square meter pillar-less ballroom. It is the largest and most versatile luxury space within Metro Manila and has taken center stage as the preferred venue for conventions and social affairs including internationally acclaimed performances, making full use of the impressive high-tech column free ballrooms. The facility holds 20 individual meeting rooms and its ballroom features 6 VIP multi-use skyboxes, offering a large array of flexibility in hosting multiple events.



Location map of the two RW sites

GADC



McDonald's is one of the best-known global brands. All McDonald's restaurants in the Philippines are operated either by GADC or by independent entrepreneurs under a sub-franchise agreement or by affiliates under joint venture agreements with GADC. The McDonald's System in the USA is adopted and used in the domestic restaurant operations, with prescribed standards of quality, service and cleanliness. Compliance with these standards is intended to maintain the value and goodwill of the McDonald's brand worldwide.

McDonald's restaurants offer varied menu of uniform and quality products, emphasizing value, fast and courteous service and convenience. The menu includes the McDonald's 'Global Icons' of beef burgers (Big Mac, Quarter Pounder with Cheese, Cheeseburger, World Famous Fries), 'Local Favorites' that cater to Filipino taste (Chicken McDo, McSpaghetti, Burger McDo) and McCafe specialty espresso-based coffee products. The Philippine menu is designed to appeal to a diverse target market across all ages.

Aside from new dishes being introduced regularly, dessert kiosks, McDelivery, Drive Thru and McCafe are innovations that speak how GADC listen to the needs of its customers.

Pik-Nik

Pik-Nik is an all-American fresh-fried potato snack line that includes Shoestring Potatoes, Fabulous Fries, Ketchup Fries, Less Salt, Sea Salt and Vinegar, and other delicious potato snacks manufactured and distributed internationally from USA by a wholly-owned subsidiary of AGI. Pik-Nik is the market leader in shoestring potato snack in the USA and is made with no preservatives or artificial ingredients. The products are packed in resealable, foil-lined canisters so they stay fresh and crunchy right to the bottom of the can. These canisters, along with the specialized ingredients and production process, give the products excellent shelf life. Pik-Nik also has Cheese Curls, Cheese Balls, and French Fried Onions. Pik-Nik has been in the market for more than 75 years since it was first introduced in the USA in the 1930s in San Jose, California. Pik-Nik is being manufactured in the USA and sold both in the USA and abroad, with Philippine distribution under EDI.

b.2. Foreign Sales

EMP

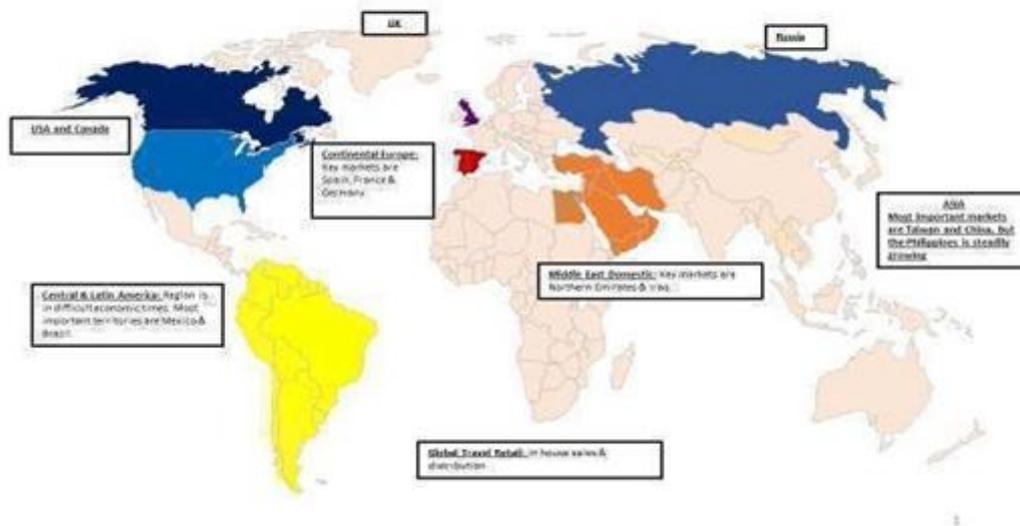
Export of the Emperador portfolio to the United Arab Emirates, West/East Africa, Qatar, Italy, Eastern Europe, Cambodia, Macau, Hong Kong and North America has been vastly growing due to the increasing demand of the Filipino community living and working in the said markets. EMP attributes its leading position to: (i) strong brand equity gained through brand building; (ii) targeted marketing; and (iii) local distribution network and, now a global reach.

Whyte and Mackay's overriding objective is to operate as a global branded drinks company which delivers sustainable rates of growth and returns that increase overall shareholder value. It operates in the UK and increasingly in international markets, including the Travel Retail sector. About 50% of brand revenues come from UK and other European countries and around 11% from Asia with the balance coming from the Middle East, Americas and Pacific regions .

Bodegas Fundador operates as a global brandy and sherry company, with approximately 77% of the revenues coming from Spain, Philippines and UK, and the rest from other European, American and African markets. Strategic growth will be brands-led but will be supported by private label business.

The global brandy and wine business is further fortified by the newly-acquired Domecq trademarks under Spain and Mexico and have commercial reach to South America, particularly Brazil and Colombia, and USA.

Map showing WMG global reach.



The areas in red below shows the markets where Bodegas Fundador is present:



MEG

Real estate products are also being marketed internationally (see b.3. below) in Europe, North America, Asia and the Middle East through various brokers. Foreign sales contributed approximately 23%, 16% and 18% of Megaworld's consolidated sales and revenues in the last years.

GERI has a broad market base that consists of end-users and investors. It targets the A and B markets with special niche products such as the integrated-tourism estates and integrated lifestyle communities with residential, commercial and leisure components.

Travellers

Based on Company's rated members (those members with gaming activity), the principal foreign market consistently contributing for 2017 are from United States, Korea, and China. Foreign guests in Maxims Hotel come from Korea, China, Malaysia, and Singapore; guests in Remington (now Holiday Inn Express Manila Newport City) are from the United States, Korea, China and Australia while for Marriott, majority are from the United States followed by Singapore, China and Korea.

Pik-Nik

Pik-Nik products are being sold locally in USA and exported to other countries at a ratio of approximately 48%-52%. The domestic sales in the USA slowed by 5% in 2017 as traditional retail stores struggle against club stores, dollar stores and natural food stores. Midwest is still the strongest market in the US, followed closely by Southeast and Southwest. International sales were down 15% as exports to Asia weakened.

b.3. Distribution Methods

EMP

EMP has a broad sales and distribution network which is one of its key strengths that will continue to drive its future growth. It has a distribution network of 25 sales offices across the Philippines, which supply national and regional customers, hypermarkets, supermarkets, wholesalers, traders, grocery outlets, convenient stores, and local neighborhood small sari-sari, stores. It employs a sales force of approximately 1,000 sales personnel and has a direct delivery service for over 125,000 accounts (more than 110,000 of which consist of sari-sari stores and 2,500 on-premise accounts) with a fleet of more than 530 direct sales vehicles. It uses direct sales vehicles such as cash vans to cover sari-sari stores across the country. Cash vans sell the brands directly to these small retailers on a cash-only basis,

where the average transaction is for two cases. EMP believes that the day-to-day interaction its sales team has with its trade partners is essential to maintaining product availability as well as access to its consumers. Standard sales terms include a credit period of 30 days before a buyer is required to pay for its products.

EMP has a standard volume based pricing model that is applied evenly across all customer segments and discounts are offered on large volume transactions.

The WMG business has a strong, international Route to Market. In UK, a dedicated sales team covers all trade channels and customers. It also has a dedicated Global Travel Retail team which manages its brands in a channel that is critical for single malt whisky equity building and sales. In other markets Whyte and Mackay has established a network of distribution partners that represent the brands in each territory. The goal is to develop long term partnerships with a strong local distributor in every markets, with selection based on strength and commitment in the channels offering the greatest opportunity in each market. At the start of 2016, Whyte and Mackay appointed E&J Gallo as their exclusive importer into the USA for certain key brands. The Dalmore's first flagship store in the Philippines, an exclusive retail store that houses some of the rarest and most expensive whisky collection in the Philippines, opened in February 2017 in Uptown Bonifacio.

Bodegas Fundador partners with the best player in the distribution market, having long term agreements with country and region wine and spirit distributors in place. In 2016, EDI took over the distribution of Fundador in the Philippines, while Whyte and Mackay took over the distribution in UK and Canada. This combination assures a deep sell out market presence around the world.

MEG

Property units are pre-sold prior to project completion, and often prior to start of construction, at various payment schemes, with down payment plans ranging from 50% to zero down payment. A typical payment scheme includes progressive payments over the period in advance of property construction, including a balloon payment to coincide with buyers' expected cash flows. ELI offers interest-free schemes. Postdated checks are collected to cover the entire purchase price based on an amortization schedule. Transfer of title to the property occurs only when all payments have been received. Typically, construction of a residential will not begin until at least 70% of the units have been pre-sold.

Each project has an in-house marketing and sales division which is staffed by a trained group of property consultants who exclusively market MEG's projects. All property consultants are trained prior to selling and provided with skills enhancement program intended to further develop them into high-caliber marketing professionals. Property consultants are required to meet the set criteria. There are also outside agents who compete directly with the in-house personnel. Marketing services staff are also employed to provide auxiliary services for sales and promotional activities; they are also responsible for monitoring the latest developments in the economy and the real estate property markets as well as conducting market research studies for the marketing division. An international marketing division based in Manila oversees a global network of sales offices which market the projects of the group to overseas Filipino professionals and retirees throughout Asia, Europe, North America, the Middle East and Australia. Brokers based in the different overseas markets sell the projects overseas through their respective marketing networks.

Commercial leases are generally for terms of three to five years, and typically require three months of security deposits and three months of advance rent. Land and office leases, which require development of a specific building structure, are generally for a longer term of 10 to 15 years. Retail rentals are typically based on a turnover component of 3% to 5% of the tenants' revenues, net of taxes and service charges in addition to a minimum rent charge. Kiosk retailers are charged a flat rent fee. Megaworld's tenants are generally charged a monthly management fee assessed on a per square meter, which covers building maintenance expenses. Tenants are also required to pay their own utility charges. The performance of the tenants in retail properties are regularly monitored. Leases of retail tenants whose performance is lagging may not be renewed. The lease agreements typically have no pre-termination options by the tenants.

GERI promotes and markets its real estate products in key township developments of Boracay Newcoast, Twin Lakes, Sta. Barbara Heights, Southwoods City, Alabang West, Eastland Heights and The Hamptons Caliraya through an in-house marketing group and a marketing subsidiary. Real estate

products in other developments are sold through third party real estate brokers. ELI has satellite sales offices in key cities outside Metro Manila. It also has showrooms in project sites and major malls.

Travellers

RWM engages in direct relationship-based marketing, which is targeted at specific market segments. The marketing team focuses on market research, surveys, promotions and events that can drive visitations and convert them to returning guests. The sales team is responsible for sales revenues and channel performance. In addition, RWM advertises in many types of media both domestically and overseas, including television, radio, newspapers, magazines and billboards to promote general market awareness.

RWM uses a mix of different channels to reach the specific targets on gaming, lifestyle, and entertainment, such as:

- Direct sales - that comprises of three levels to provide clients with full service: (i) traditional sales, (ii) a business development team and (iii) in-house VIP host services.
- Indirect sales through junkets – from the well-established relationships of Genting Group, to source high-end players in different regions.
- Indirect sales through travel and tour operators – these accredited operators create group travel packages with discounts, to bring in guests in RWM as part of their itineraries, and in return, receive commissions.
- City shuttles - free, convenient, hassle-free shuttle transport for member-players and member-consumers to RWM. The key locations are Quezon City, Marikina, Manila, Rizal and Laguna.

RWM uses a comprehensive membership management and customer database system.

RWM uses Genting's Dynamic Reporting System (DSR), a fully integrated real-time table games and slots monitoring system.

GADC

McDonald's products are sold through McDonald's restaurants nationwide. There are 566 restaurants nationwide as of end-2017, out of which 52% are owned by GADC while 48% are franchised. Fifty-two new restaurants opened in 2017 across the country and reached new territories like Antique, Sorsogon, Masbate and San Francisco, Agusan Del Sur; while six were closed during the year. The highest concentration is in NCR, followed by Southern Tagalog region. In selected areas, McDonald's products could be ordered and delivered round the clock through its "McDelivery" telephone service or website "mcdelivery.com.ph". There are 369 restaurants that are open 24/7 (24 hours every day).

b.4. New Product Or Service

The Group continuously look for innovations to introduce new or to improve existing products. The Group has supported this business growth through plant/store expansions or construction and retail service amenities.

EMP

'**Emperador Red®**' has the rich robust taste and smoothness of Emperador Light Brandy, but with a stronger alcohol kick at an affordable price. Our cellar masters aged this rich and extra smooth spirit to attain full body and aroma with golden dark color. This makes up a perfect drink to reward yourself on your everyday *tagumpay!* The innovative product was launched in the Philippine market in October 2017.

'**Emperador Hotshot®**', a brandy shooter spiced up in a fiery delicious cinnamon flavor delivering a smooth, sweet & spicy kick to start every party hot. Emperador Hotshot is a vastly different brandy offering targeted to the young and daring drinkers. This game changing product was launched in July 2017.

'**Fundador Double Light**' is an exceptional spirit from sherry casks in our cellars in Jerez, Spain. It guarantees double smoothness and double satisfaction in every bottle. It is the ultimate expression of Fundador Light with a different concept. It has a double ageing profile and character that is an effect of the double casks.

'Harveys Bristol Cream®' is a proprietary blend of three sherry types: Fino, Amontillado and Oloroso, all created from the Palomino grape. It is clean and fresh, with spicy overtones. Crisp and elegant with fruity grape flavors, it is loaded with woody and nutty flavors, but remains mellow with velvety smoothness. "Everyday's A Holiday" with Harveys Bristol Cream®, taken alone or with fruit or used as ingredient to desserts and baking.

'Dalmore 50'. The Dalmore celebrated Richard Paterson's 50 years in the whisky industry with the release of an exceptionally rare 50 Year Old single malt in 2017. Building on the celebrations surrounding Paterson's milestone, The Dalmore 50 is the result of a partnership with four luxury houses: Champagne house Domaine Henri Giraud, French crystal house Baccarat, jewellery house Hamilton & Inches and bespoke furniture company Linley.

'Dalmore 40'. In the same year, The Dalmore released The Dalmore 40 Year Old with only 750 bottles of the whisky released. Famous French crystal firms Baccarat was selected to supply the hand-blown decanters, which also carry The Dalmore 12-point Royal Stag emblem that was originally created by Royal Warrant Holders Hamilton & Inches.

'Shackleton' is the newest Blended Malt brand launched in 2017. It was inspired by a 1907 whisky which was extracted after 100 years under ice.

'Terry White', a new expression, a new category, a new Classic "White Brandy" was born in 2017 to renew the brandy category in Spain by shaking the market through a modern concept of a white spirit. Through mixology platform, we are launching this disruptive concept to a fashionable position for a spirit drink for a future halo of Brandy de Jerez.

From the ***Domecq brands of brandies and wines*** come these Mexican brandies: 'Presidente', the first Mexican brandy, 'Don Pedro', which has been more than 50 years in the market, and 'Azteca De Oro', which has been more than 36 years in the market. These brands are also distributed in USA. In Brazil, 'Domecq Brandy' is a strong brand which covers all market in Brazil.

MEG

In 2017, **The Hamptons Caliraya**, the second **'integrated lifestyle community'** was launched by GERI. It is set to rise in the 300-hectares of land surrounding Lake Caliraya in Lumban-Cavinti, Laguna. Also announced is the development of a Makati-inspired business district in General Trias, Cavite, the 35-ha. **Maple Grove Commercial District** which sold around 80% of the 360 prime commercial lots worth P9 billion, the fastest take-up of titled commercial lots in Meg's history.

Megaworld is allocating P60billion capital spending in 2018, with 80% covering development projects and the remaining 20% for land acquisition and other investment properties.

ELI has a project development located along Shaw Boulevard near ESA called **The Paddington Place** which will have a total of 4 towers.

Travellers

Travellers is currently developing several new hotels and other gaming and non-gaming attractions at RWM and is committed to continuously improve and refresh the current facilities at RWM to create unique customer experience across a variety of gaming and non-gaming amenities.

Three luxury hotels - **Sheraton Manila Hotel, Hilton Manila** and **Hotel Okura Manila** – are expected to open by 2018. The RWM's Phase 3 project increase both gaming and non-gaming facilities within RWM.

In 2017, **RunWay Manila** was officially opened. It is a 220-meter pedestrian link bridge that connects NAIA Terminal 3 and Newport City and is accessible to the public, free of charge. The project, which stands 65 meters above Andrews Avenue at Pasay City, is a fully enclosed, air-conditioned bridge with moving walkways and elevators. It is designed to accommodate up to 2,000 persons at any time, or up to 216,000 individuals per day. RunWay Manila is constructed and fully financed by the group through a right granted by the Philippine government.

GADC

New McDonald's product variations and promotions are introduced every now and then which normally last for limited time only. GADC welcomed the new year 2017 with **Mushroom Pepper Steak** which featured a juicy burger patty smothered in mushroom cream with a hint of pepper and topped with sliced button mushrooms, which stayed on the menu for a limited time. Also brought back for a limited time after three years was the well-loved specially-seasoned golden crispy **Twister Fries**. Other Limited Time Offers during the year were **Shake Shake Fries** in three flavor options and **Fish and Fries**. A welcome variant of the McDo Chicken Fillet Meal is the **Sweet Soy Chicken Fillet** with a sweetened garlic sauce. In the second half of the year, **Chicken Combolicious** give customers different ways of enjoying McDonald's Best Tasting Chicken McDo, as it comes with Sundae, McFloat or McFreeze. Sprite and Dalandan **McFreeze** are expansions to the frozen sparkling beverage range. **McShare Bundles** with Chicken McDo and McNuggets became a permanent menu offering as these shareable offers give customers more options for group meals and great value for their money.

b.5. Competition

In general, the Company believes that the high quality of all the products it sells/offers can effectively compete with other companies in their respective areas of competition.

EMP

The Philippine spirits industry is dominated by brandy, gin and rum. Popularity of these spirits is strangely delineated geographically - gin in the northern provinces, rum in Viz-Min areas and brandy in Metro Manila and urban centers nationwide. Brandy has recorded the highest consistent sales among all the spirits in the industry. There are also imported labels in the domestic market, but they are significantly more expensive than the locally-produced products. Emperador is recognized as the largest-selling brand in the Philippines and No. 1 brandy in the world, and EDI as the largest liquor company in the Philippines in terms of volume. EDI capitalizes primarily on the superior image and reputable quality of its brands.

EMP competes primarily against established Philippine spirits companies that produce and distribute brandy and other spirits to the domestic market. The main competitors in the Philippine broad distilled spirits market mainly comprise of Ginebra San Miguel, Inc. (GSMI) and Tanduay Distillers, Inc. (TDI). The Company also competes against imported labels. With respect to flavored spirits products, it primarily competes with other local vodka and gin companies that also produce ready-to-serve alcoholic beverages as well as imported labels. The whisky segment in the Philippines is not well tapped at present, and EMP aims to revive this segment.

The principal competitive factors with respect to EMP's products include brand equity, product range and quality, price, raw materials supply source, distribution capabilities and responsiveness to consumer preferences, with varying emphasis on these factors depending on the market and the product. EMP believes it has a track record of proven strength on these areas.

EMP believes that its products are strongly positioned within their respective markets, as measured by market share and brand recognition. Emperador Brandy accounted for 91% share of the Philippine brandy market in terms of sales volume, according to AC Nielsen Retail Audit. EMP believes its 'Emperador' brand is a status brand in the Philippines, and is associated with a certain level of success and sophistication that its potential customers aspire to. EMP believes that its range of well-established and highly recognized brands present significant barriers to new competitors, and are particularly important to its ability to both attract and maintain consumers.

WMG, on the other hand, competes in the UK market and internationally. Competitors use brand strength together with price and product range to compete. The major Scotch whisky brand owners are Diageo, Pernod Ricard, William Grant and Bacardi who are all materially larger than WMG. WMG can compete as they have differentiated brands in a fragmented Malt whisky market and their Blended Scotch brands are competitively priced. WMG management monitors market prices on an on-going basis and takes steps to safeguard the overall competitive position.

Fundador brands compete in the Spanish market and internationally in the brandy and sherry businesses, among which are Osborne and Torres. The management monitors the market and the strategies of the competitors to safeguard the overall competitive position.

Pik-Nik

Pik-Nik is still the number one brand in shoestring potatoes in the US. Utz is still the number 2 shoestring brand. French's shoestring potatoes ranks number 5. A local brand, Oishi, has fielded string potato snacks from potato starch in the local market.

MEG

MEG competes with other property investment, development, leasing and property holding companies to attract purchasers as well as tenants for its properties in Metro Manila. The principal bases of competition in the real estate development business are location, product, price, financing, execution and completion, quality of construction, brand and service. MEG believes it has several competitive advantages in each of these categories due to the prime locations of its properties, innovative projects, and a good reputation for high quality designs, affordable pre-sales financing, after-sales service and a consistent track record of completion.

The group attributes its strong residential sales to two main factors – the popularity of its live-work-play communities in Metro Manila and the group's proven track record of delivering more than 660 buildings to its customers over the last two decades.

With respect to community township developments, MEG considers ALI to potentially be its only significant competitor. ALI is present in Fort Bonifacio, which is where MEG's Forbes Town Center, McKinley Hill, McKinley West and Uptown Bonifacio projects are located. With respect to its office and retail leasing business, MEG believes that it has many competitors in the industry such as Robinsons Land Corporation ("RLC"), ALI and SM Prime Holdings, Inc. ("SMPHI").

GERI considers Ayala Land Premiere, Alveo, Filinvest Premiere, Landco and SM Prime among its significant competitors in its real estate development business. GERI competes with other developers in the acquisition of land or development rights to land in key growth areas in the country. GERI believes that its land bank, its real estate development experience, its innovative real estate offerings and the solid financial backing of its parent, Megaworld Corporation, are its competitive advantages. Its massive land bank in tourist destinations such as Boracay Island, Aklan; Laurel and Nasugbu, Batangas gives it a lead over its competitors and has enabled GERI to be a pioneer in master-planned integrated tourism developments.

Travellers

RWM, being the first integrated resort with world-class gaming in the Philippines, has set a benchmark in a very high and unique manner. The group competes with both Philippine and foreign owned hotels and resorts. With respect to the gaming business, competition comes from casinos operated by government and other private companies.

In particular, there are facilities already built or under construction by three developers other than the Company that have been granted provisional licenses by PAGCOR in Entertainment City, all of which are already open to the public. These three other licensees similarly partnered with international resorts and gaming companies – Henry Sy's SM-consortium has Melco Crown Entertainment Ltd. of billionaire Lawrence Ho (Macau); Tiger Entertainment Resort of Kazuo Okada (Japanese) and Filipino businessman Antonio Cojuangco, Jr.; Enrique Razon's Bloomberry Resorts Corporation. In addition, Westside City Resorts World will be developed in Entertainment City by its co-Licensee, WCRWI.

While it has the first-mover advantage, Travellers continues to develop other leisure and entertainment attractions to complement its gaming business. RWM is expanding its hotel service through additional hotel brands and rooms, and its attractions as a family destination.

In addition, PAGCOR operates 13 gaming facilities across the Philippines and 34 satellite gaming facilities (which are smaller casinos and slots clubs). The Philippine gaming market also includes many other private casino and gambling operations, including six licensed private casino operators in special economic zones ("Ecozones"). The Philippine gaming market is also comprised of other gambling

competitors specializing in horse racing, cock fighting, jueteng, lotteries, sweepstakes, online gaming operators and other smaller-scale gaming operators.

GADC

McDonald's restaurants compete with a large and diverse group of restaurant chains and individual restaurants that range from independent local operators to well-capitalized national and international QSRs and convenience stores. GADC considers Jollibee Foods Corporation as its main competitor. Jollibee, a home-grown brand with far greater number of restaurants nationwide than McDonald's, offers Filipino-influenced dishes of chicken, burgers, spaghetti, and other Filipino dishes. Another one is KFC, a global brand from USA whose most popular product is its Original Recipe fried chicken served with side dishes. Other competitors include Wendy's, Kenny Rogers, Shakey's and Pizza Hut. Since 2005, GADC has opened more than 300 new restaurants and initiated marketing campaigns such as new product launches, promotions, emotive television commercials, and discount coupons. It has embarked on modernizing its restaurants and re-imaging existing ones. GADC competes on the basis of taste, food quality and price of products, convenience of location, and customer service.

b.6. Sources And Availability Of Raw Materials

EMP

The principal raw materials for the manufacture of the alcoholic beverage products are distilled neutral spirit, brandy distillates, grain and malt whiskies, and water. It also requires a regular supply of glass bottles and packaging materials. It can also source raw materials from subsidiaries and third party suppliers. All of the water for blending is sourced from two deep wells located in the Santa Rosa, Laguna manufacturing facility. The facilities in Laguna are located on top of one of the best fresh water supplies in the Philippines. There is also a filtration system for the water it uses at its Laguna facilities.

EDI sources its bottles from AWGI, which produces a majority of the new glass bottles; and the rest are imported. EDI also reuses returned bottles. AWGI canvasses suppliers twice a year to seek the most competitive prices for its raw materials. While terms for different suppliers vary, AWGI generally orders raw materials to meet its projected supply requirements for one year and prices are subject to review on a quarterly basis. For imported raw materials, new purchase orders for supplies are generally sought two months prior to the expiration of existing purchase orders. For raw materials sourced in the Philippines, orders are finalized one month before existing orders terminate. At least three suppliers are maintained for major raw materials. In addition, major raw materials' suppliers typically maintain a warehouse in close proximity to the AWGI plant to cover possible delays in shipments and to prevent delivery interruptions. AWGI also maintains its own inventory of raw materials to prevent interruptions to production. EDI sources final packing material such as carton boxes and closures from at least three different suppliers.

EMP has not experienced and does not anticipate any significant difficulty in obtaining adequate supplies of raw materials and dry goods at satisfactory prices under its supply arrangements. EMP believes that AWGI has not had, and does not expect to have, difficulty sourcing glass bottles on behalf of EMP from third party suppliers, as required .

Whyte and Mackay and Bodegas Fundador have long term relationships with its suppliers to meet the current business requirements. Pricing agreements are in place with all suppliers.

MEG

The Group has a broad base of suppliers from where it sources its construction materials and is not, and does not plan to be, dependent on any one or a limited number of suppliers. Megaworld also has no plans on being dependent on any one or a limited number of suppliers.

Travellers

Travellers has a large base of contractors and suppliers that provide construction, engineering and consulting services, and is not dependent on any one contractor or supplier. In 2017, the ten largest suppliers – Global Matrix Concept Group, Systech Lighting & Controls Inc., Aristocrat (MACAU) PTY Limited, Empire Automation Philippines Inc., Top Source Maintenance and Contracting Services, RGB LTD, Jay Edwards Group LLC, Vycon Inc, Arcliffe Construction, Joint Venture Audio Visual Lighting Inc. – accounted for 49.53% of the total purchases for the year.

GADC

Suppliers for the McDonald's products are sourced using the McDonald's global supply chain, which allows the purchase of food, beverages and restaurant supplies at competitive prices and quality consistent with McDonald's products worldwide. McDonald's has quality assurance laboratories around the world to ensure that its standards are consistently met. In addition, McDonald's works closely with suppliers to encourage innovation, assure best practices and drive continuous improvement. GADC also contracts the services of third parties for its food supplies. GADC procures the services of a supply distribution center that provides purchasing, warehousing, delivery and other logistical support for the requirements of all of the McDonald's restaurants in the Philippines. GADC develops product specifications and continually monitors supplies to ensure compliance with McDonald's standards.

Pik-Nik

Pik-Nik uses only fresh potatoes from California and Oregon, pure vegetable oil, the finest seasonings and never any preservatives. The suppliers of potatoes for Pik-Nik have two to seven months contracts.

Financial Statements

The audited annual consolidated financial statements ("CFS") and unaudited interim consolidated financial statements for the second quarter of 2018 (per filing under SEC 17Q), as required by SRC Rule 68, as amended, are attached.

The CFS have been prepared in compliance with the Philippine Financial Reporting Standards ("PFRS"), on the historical cost basis except for the measurement of certain financial assets and liabilities. The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. The estimates and assumptions are based upon management's evaluation of relevant facts and circumstances of the financial statements. Actual results may ultimately vary from those estimates.

The interim consolidated financial statements have been prepared in accordance with PFRS and Philippine Accounting Standard 34, Interim Financial Reporting. These do not include all of the information required for full annual consolidated financial statements, and thus should be read in conjunction with the CFS as at and for the year ended December 31, 2017. The accounting policies and methods used in the interim financial statements are consistent with those applied in December 31, 2017 CFS.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, after elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are eliminated in full. In addition, shares of stock of the Company acquired by any of these subsidiaries are recognized as treasury shares and these are presented at cost as deduction in the consolidated statements of changes in equity. 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. The financial statements of subsidiaries are prepared for the same accounting period as the parent company, using consistent accounting policies. The consolidated financial statements are presented in Philippine pesos, the Group's functional currency, and all values represent absolute amounts except when otherwise indicated.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATION

a. Key Performance Indicators

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

<i>In Million Pesos</i>	2017	2016	2015	Percent 2017	Growth 2016
REVENUES	141,622	139,741	139,098	1.35%	0.46%
Non-recurring gains ¹	113	136	188		
Recurring Revenues	141,509	139,605	138,910	1.36%	0.50%
NET PROFIT	21,826	22,819	21,686	-4.35%	5.22%
Non-recurring gains(loss) – net ¹	(317)	136	68		
Recurring Net Profit	22,143	22,683	21,618	-2.38%	4.93%
NET PROFIT ATTRIBUTABLE TO OWNERS OF AGI	14,931	14,801	13,965	0.88%	5.99%
Non-recurring gains (loss) –net ¹	(317)	136	29		
Recurring NP Attributable to Owners of AGI	15,248	14,665	13,936	3.98%	5.23%
Net profit rate	15.41%	16.33%	15.59%		
Recurring NP rate	15.65%	16.25%	15.56%		
NP Attributable to parent	10.54%	10.59%	10.04%		
Recurring NP attributable to parent	10.78%	10.50%	10.03%		
Return on investment/assets [NP/TA]	3.88%	4.64%	4.83%		
	<u>31-Dec-17</u>	<u>31-Dec-16</u>	<u>31-Dec-15</u>		
TOTAL ASSETS	561,822	491,297	448,725	14.35%	9.49%
CURRENT ASSETS	267,905	230,074	225,720	16.44%	1.93%
CURRENT LIABILITIES	111,714	123,072	89,733	-9.23%	37.15%
Current ratio	2.40x	1.87x	2.52x		
Quick ratio	1.28x	0.95x	1.40x		

¹Non-recurring gains in 2015 refer to P181 million gain on sale of investment in an associate of Megaworld, P3.7 million gain on acquisition of GADC subsidiary, P3.5 million gain on divestment interest and P120 million one-time expenses on acquisition by EMP. In 2016, there is P88.8 million gains from acquisition and deconsolidation of Meg subsidiaries and P46.9 million from disposal of a GADC subsidiary. In 2017, there is P113 million gain on sale of investment in an associate of Megaworld and P430 million loss from casualty of Travellers.

- 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.
- Net profit growth – measures the percentage change in net profit over a designated period of time.
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs.
- 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.
- 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.

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 to the consolidated financial statements.

b.1. Results of Operations - By Subsidiary Groups

	MEG	EMP	RWM	GADC	Others	TOTAL
2017						
Revenues	50,410	42,656	21,342	25,907	6,215	146,530
Intercompany/ Adjustment	-174		-51		-4,683	
Consolidated	50,236	42,656	21,291	25,907	1,532	141,622
% contribution	35.5%	30.1%	15.0%	18.3%	1.1%	100.0%
Costs and expenses	33,338	34,821	20,881	23,501	2,171	114,712
Intercompany/ Adjustment	-1,584	-31	-37	-89	529	
Consolidated	31,754	34,790	20,844	23,412	2,700	113,500
Tax Expense	3,793	1,503	218	755	27	6,296
Net profit	13,279	6,332	243	1,651	4,017	25,522
Intercompany/ Adjustment	1,410	31	-14	89	-5,212	
Consolidated	14,689	6,363	229	1,740	-1,195	21,826
% contribution	67.3%	29.2%	1.1%	8.0%	-5.5%	100.0%
Net profit to owners	12,772	6,322	251	1,628	4,017	24,990
Intercompany/ Adjustment	-2,772	-1,125	-151	-741	-5,270	
Consolidated	10,000	5,197	100	887	-1,253	14,931
% contribution	67.0%	34.8%	0.7%	5.9%	-8.4%	100.0%
2016						
Revenues	46,814	40,938	27,635	22,811	5,604	143,802
Intercompany/ Adjustment	-126	-22	-58	0	-3,855	
Consolidated	46,688	40,916	27,577	22,811	1,749	139,741
% contribution	33.4%	29.3%	19.7%	16.3%	1.3%	100.0%
Costs and expenses	31,616	31,502	24,172	21,049	2,790	111,129
Intercompany/ Adjustment	3	-27	-34	0	-30	
Consolidated	31,619	31,475	24,138	21,049	2,760	111,041
Tax Expense	3,489	1,743	64	529	56	5,881
Net profit	11,709	7,693	3,399	1,233	2,758	26,792
Intercompany/ Adjustment	-129	5	-24	0	-3,825	
Consolidated	11,580	7,698	3,375	1,233	-1,067	22,819
% contribution	50.8%	33.7%	14.8%	5.4%	-4.7%	100.0%
Net profit to owners	11,332	7,693	3,402	1,220	2,758	26,405
Intercompany/ Adjustment	-3,767	-1,400	-1,918	-622	-3,897	
Consolidated	7,565	6,293	1,484	598	-1,139	14,801
% contribution	51.1%	42.5%	10.0%	4.0%	-7.7%	100.0%
2015						
Revenues	44,992	43,660	27,803	20,421	6,476	143,352
Intercompany/ Adjustment	-94	0	33	0	-4,193	
Consolidated	44,898	43,660	27,836	20,421	2,283	139,098
% contribution	32.3%	31.4%	20.0%	14.7%	1.6%	100.0%
Costs and expenses	31,133	35,210	23,736	19,295	2,936	112,310
Intercompany/ Adjustment	-22	0	0	0	-117	
Consolidated	31,111	35,210	23,736	19,295	2,819	112,171
Tax Expense	3,285	1,490	49	366	51	5,241
Net profit	10,575	6,960	4,018	760	3,489	25,802
Intercompany/ Adjustment	-72	0	33	0	-4,077	
Consolidated	10,503	6,960	4,051	760	-588	21,686
% contribution	48.4%	32.1%	18.7%	3.5%	-2.7%	100.0%
Net profit to owners	10,215	6,960	4,021	751	3,489	25,436
Intercompany/ Adjustment	-3,417	-1,288	-2,206	-383	-4177	
Consolidated	6,798	5,672	1,815	368	-688	13,965
% contribution	48.7%	40.6%	13.0%	2.6%	-4.9%	100.0%

Year-on-year Change	MEG	EMP	RWM	GADC	Others	TOTAL
2017						
Revenues	7.6%	4.3%	-22.8%	13.6%	-12.0%	1.3%
Costs and expenses	0.4%	10.5%	-13.6%	11.2%	-1.9%	2.2%
Tax Expense	8.7%	-13.7%	239.6%	42.6%	-51.2%	7.1%
Net profit	26.9%	-17.3%	-93.2%	41.1%	12.0%	-4.4%
Net profit to owners	32.2%	-17.4%	-93.3%	48.3%	10.0%	0.9%
2016						
Revenues	4.0%	-6.3%	-0.9%	11.7%	-23.4%	0.5%
Costs and expenses	1.6%	-10.6%	1.7%	9.1%	-2.1%	-1.0%
Tax Expense	6.2%	17.0%	30.6%	44.5%	9.8%	12.2%
Net profit	10.3%	10.6%	-16.7%	62.2%	81.6%	5.2%
Net profit to owners	11.3%	10.9%	-18.3%	62.5%	65.4%	6.0%

-Amounts are in million Pesos. Numbers may not add up due to rounding off. Percentages are taken based on full numbers, not from the presented rounded amounts.

- At AGI consolidated level, as presented above, revenues and costs and expenses may not tally the totals as separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs or expenses at AGI consolidated level.

-RWM revenues are presented gross of promotional allowance, which is then included under costs and expenses.

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

<i>In Million Pesos</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 vs 2016</u>	<u>2016 vs 2015</u>
REVENUES	141,622	139,741	139,098	1.35%	0.46%
Sale of goods	77,860	74,739	77,192	4.18%	-3.18%
Consumer goods	43,237	41,608	44,465	3.91%	-6.42%
Revenues from real estate(RE) sales	34,623	33,131	32,727	4.50%	1.23%
RE sales	28,902	27,451	27,262	5.28%	0.69%
Realized gross profit on RE sales	3,974	3,979	3,787	-0.11%	5.07%
Interest income on RE sales	1,747	1,701	1,678	2.71%	1.39%
Rendering of services	60,720	62,172	58,482	-2.34%	6.31%
Gaming	17,115	23,649	24,217	-27.63%	-2.35%
Sales by company-operated quick-service restaurant	23,070	20,540	18,476	12.32%	11.17%
Franchise revenues	2,470	2,089	1,864	18.25%	12.06%
Rental income	12,346	10,485	9,185	17.74%	14.16%
Other services	5,719	5,409	4,740	5.74%	14.11%
Hotel operations	4,187	3,790	3,265	10.47%	16.07%
Other services	1,532	1,619	1,475	-5.35%	9.76%
Share in net profits of associates and joint ventures	273	356	269	-23.31%	32.38%
Finance and other income	2,769	2,474	3,156	11.93%	-21.61%
COSTS AND EXPENSES	113,500	111,041	112,171	2.21%	-1.01%
Cost of goods sold	47,983	46,020	50,443	4.27%	-8.77%
Consumer goods sold	28,324	26,307	30,493	7.67%	-13.73%
RE sales	16,305	15,515	15,435	5.09%	0.52%
Deferred gross profit on RE sales	3,354	4,198	4,515	-20.10%	-7.03%
Cost of services	31,069	30,870	30,163	0.64%	2.34%
Gaming-license fees, promo allowances	8,795	10,856	11,362	-18.99%	-4.46%
Services	22,274	20,014	18,801	11.29%	6.45%
Other operating expenses	28,065	27,219	25,712	3.11%	5.86%
Selling and marketing	10,790	11,383	11,075	-5.21%	2.78%
General and administrative	17,275	15,835	14,637	9.09%	8.19%
Finance costs and other charges	6,383	6,933	5,852	-7.93%	18.46%
TAX EXPENSE	6,296	5,881	5,241	7.05%	12.22%
NET PROFIT	21,826	22,819	21,686	-4.35%	5.22%

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

For the Year Ended December 31, 2017 vs. 2016

The year 2017 has been a rather challenging year for the Group.

The Group attained P15.2 billion **core net profit attributable to owners**, up 4% from P14.7 billion a year ago. Non-recurring loss incurred from a casualty by Travellers this year was reduced by the non-recurring gain on disposal of investment by Megaworld, netting out to P317 million loss as compared to P136 million non-recurring gains last year. Taking into account these items, **net profit to owners** hit P14.9 billion, inching 1% from a year ago, with consolidated revenues reaching P141.6 billion on a 1% growth year-on-year.

Megaworld, the country's largest developer and pioneer of integrated urban townships, grew its group net profit to owners to P12.6 billion (net of P113 million non-recurring gain), a 13% jump from P11.2 billion (net of P82 million non-recurring gain) a year ago. The healthy growth was underpinned by the strong performances of its key businesses in residential and hotel developments, office as well as commercial space leasing in malls and shopping centers. Consolidated revenues rose 8% to P50.4 billion, boosted by the 18% soar in rentals to P11.8 billion while residential sales expanded 5% to P28.9 billion. The Megaworld-GERI-Empire East-Suntrust brands turned over 58-16-15-11 of real estate sales. In later part of 2017, GERI launched its 2nd "integrated lifestyle community" and the group's 23rd

township, the 300-hectare The Hamptons Caliraya in Lumban-Cavinti, Laguna, where nature becomes the focal point of development. The group's existing landbank offers abundant nature reserves that can be nurtured and preserved as part of its future community development. Megaworld has turned over 1,000 residential units in Makati Central Business District in 2017 which included the 30-storey Paseo Heights and 50-storey Three Central, and four more towers are under construction. The group also opened its 14th lifestyle mall in 2017, which is GERI's first full-scale mall, the Southwoods Mall, the first and only full-scale mall development within the Biñan-Carmona area. The group's operating results brought in 35% and 67% to AGI's consolidated revenues and net profit, respectively.

Emperador, the world's largest brandy company and owner of the world's 5th largest Scotch whisky manufacturer in the world, turned over P42.6 billion this year, a modest hike of 4% year-on-year attributed to strong sales from offshore subsidiaries. The Scotch Whisky segment turned over revenues to external customers higher by 7% year-on-year. Own Scotch whisky labels The Dalmore and Jura remained to be the growth drivers, with strong sales in UK, Asia, USA, Greater Europe, Latin America and Travel Retail. Jura, with new bottle and packaging upgrade, has a significant launch of the redesigned range in the US. The Brandy segment, on the other hand, turned over revenues to external customers higher by 3% year-on-year. Spanish brandies Fundador and Terry Centenario and Harveys Bristol Cream sherry enjoyed a good year, with sales growing in Spain, UK and the Philippines. It was a challenging year for Emperador Brandy, yet it keeps its lead in the domestic market. Higher cost of goods sold, strategic marketing expenses and unrealized foreign currency losses dragged clipped net income to P6.3 billion from P7.7 billion a year ago. Nevertheless, gross profit margins (GPM) remained healthy at 35% in 2017 and 37% in 2016. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 35% and 30% in 2017 and 40% and 28% in 2016. The group accounted for 30% and 29% of AGI's consolidated revenues and net profit, respectively.

Travellers, the owner and operator of RWM, reported a 5% increase in non-gaming revenues to P4.0 billion driven by hotel and MICE operations. Gross gaming revenues continued to recover after the loss of the second-floor gaming area in June 2017, increasing 22% in the fourth quarter as compared to the previous quarter and ending the year at P17.1 billion as property visitation continued to improve averaging 27,000 in the fourth quarter, up from 23,000 in the third quarter. The casino was closed for 27 days in June and the second-floor gaming area has not been opened. Average occupancy rate for the three hotels stayed high, hovering around the 80% mark, led by Remington Hotel (now Holiday Inn Express) at almost 90%. Total gross revenues amounted to P21.1 billion for the current year with EBITDA of P3.5 billion. The group contributed 15% and 1% to AGI's consolidated revenues and consolidated net profit, respectively.

GADC, the master franchise holder of McDonald's quick-service restaurants brand in the Philippines, continued to grow business in 2017 exceeding targets with margins growing at pace with topline sales. Within the QSR market, McDonald's outpaced reported market growth at 8.9%. Net profit surged 34% to P1.6 billion from P1.2 billion a year ago. Sales revenues rose 13% to P25.5 billion, boosted by 52 new store openings (half are company-owned), menu innovations and local store marketing activities which allowed system wide sales to reach P42.6 billion. System wide same-store-sales grew 5.8% year-on-year. Total number of restaurants totaled 566 at end-2017, reaching new territories as far as Antique, Sorsogon, Masbate and San Francisco, Agusan Del Sur. Consumer touchpoints such as drivethru and online delivery have delivered double-digit growths. A strong source of incremental business is the convenient services across the country through McDelivery which made McDonald's post the fastest growth in the QSR industry. These operating results translated into 18% and 8% of the consolidated revenues and net profit of AGI and subsidiaries.

Revenues, as a result of the foregoing, showed 1% year-on-year growth to P141.6 billion in 2017, as the strong performances in the real estate, QSR and alcoholic beverages countered RWM's lost gaming revenues. Sale of goods (real estate, alcoholic beverages, and snack products) jumped 4%. Service revenues (QSR, rentals, hotels, gaming) slid 2%, with sales from company-operated QSR and rental income growing 12% and 18%, respectively, cushioning the impact of 28% drop in gaming revenues.

Cost and expenses expanded 2% to P113.5 billion in 2017. Cost of goods sold, as a function of sales, showed same 4% expansion pace in spite of the higher costs of wine and packaging materials for alcoholic products.

Share in net profits of associates and joint ventures went down 23% or P83 million, due to decrease in net profit of Megaworld's associates.

Finance and other income increased 12% or P295 million higher than last year from interest income and other miscellaneous gains, including the gain on sale of investment in an associate of Megaworld.

Finance costs and other charges appeared to dwindle 8% because of foreign currency losses reported last year by Megaworld and Travellers from the translation of their foreign-currency bonds, which mitigated the high interest expenses and loss from casualty reported this year.

Tax expense rose P414.8 million or a 7% increase due to higher taxable income for Megaworld and GADC, and the expiration of a previously recognized deferred tax asset of Travellers from 2014.

Net profit totaled P21.8 billion this year, 4% down year-on-year, with **net profit attributable to owners** slightly up by 1% to P14.9 billion.

For the Year Ended December 31, 2016 vs. 2015

The Group net profited P22.8 billion in 2016, up 5% from P21.7 billion in 2015, as revenues inched to P139.7 billion and operating efficiencies improved across all segments. Net profit attributable to owners amounted to P14.8 billion, up 6% year-on-year.

The Group has adopted an aggressive expansion strategy since 2013, to expand its product portfolios and geographic footprint both in the Philippines and across the globe to further seal growth in business earnings.

Megaworld reportedly grew its group net profit by 12% to P11.6 billion (net of P82 million non-recurring gain) in 2016 from P10.4 billion (net of P181 million non-recurring gain) a year ago. The sustained double-digit growth was attributed to stronger rental revenues that soared 15% in 2016 to an all-time high of P10.0 billion as well as the group's efficient operating cost management. Consolidated revenues, excluding non-recurring gains, which include Global-Estate Resorts, Inc. (GERI), Empire East Land Holdings, Inc. (Empire East) and Suntrust Properties, Inc. (Suntrust), grew 4% year-on-year to P46.7 billion. The group now has twenty-two townships nationwide. In early 2016, Megaworld unveiled its 21st integrated urban township, the 140-hectare Maple Grove in General Trias, Cavite and, later in 2016, the 22nd township under a new concept of 'integrated lifestyle community', the 640-hectare Eastland Heights in Antipolo, Rizal. Township development remains to be a key strength, with focus on strengthening the various components on top of residential business, such as offices, malls and commercial developments and hotels. About 23% of real estate sales were from Fort Bonifacio projects, 47% from other Metro Manila projects, 15% from Luzon outside Metro Manila and 14% from Visayas. The Megaworld-GERI-Empire East-Suntrust brands shared 60-16-15-9 of real estate sales. The office and mall leasing business provided the earning stability for the group. Hotel revenues grew 46% from a year ago as hotel portfolio expanded with the introduction of another local hotel brand, Belmont Hotel, which launched its first hotel in Newport City last year. The group by end of 2016 has three homegrown hotel brands – Richmond, Belmont and Savoy. The group's operating results brought in 33% and 51% to AGI's consolidated revenues and net profit in 2016, respectively.

Emperador realized a consolidated net profit of P7.7 billion in 2016 which is 11% higher than a year ago. The year was marked with a significant milestone as Emperador takes over the largest and oldest brandy producer in Spain - the 286-year old Bodegas Fundador - at end-February, fortifying Emperador as the largest brandy company in the world. The acquisition bolstered EMP's brandy business and sherry wine business in Spain and United Kingdom, adding four iconic brands to the Group's portfolio – 'Fundador Brandy de Jerez', the first Spanish brandy to be marketed; 'Terry Centenario', the largest brandy in Spain; 'Tres Cepas', a market leader in Equatorial Guinea; and 'Harveys', the number 1 selling sherry wine in the world and the leader in UK where it holds the distinction of being the only sherry wine that can be served to the Queen in Buckingham Palace. Consolidated revenues were reported at P41.0 billion in 2016 as compared to P43.6 billion a year ago, a 6% slowdown attributed to the termination at end-2015 of distribution of an agency brand from the Scotch whisky business. Own Scotch whisky labels, led by Dalmore and Jura, were driving offshore growth particularly in USA, Europe, Latin America and Travel Retail. The brandy business, which combined Emperador and Fundador brands, on the other hand, turned over revenues higher by 11% year-on-year. Gross profit

margins improved to 37% in 2016 from 32% in 2015. The brandy segment's gross profit rate was up 40% in 2016 as compared to 39% a year ago due to cost efficiencies. The Scotch whisky segment, which has a relatively low gross margin, improved its GP rate to 28% in 2016 from 20% a year ago. The Scotch whisky business contributed about 28% and 14% of EMP's consolidated revenues and net profit in 2016, respectively. EBITDA, which is computed as profit before interest expense, tax, depreciation and amortization, amounted to P11.0 billion in 2016 and P9.6 billion in 2015 representing 27% and 22% margin in the respective years. The group accounted for 29% and 34% of AGI's consolidated revenues and net profit, respectively.

Travellers ended the year 2016 with revenues of P27.6 billion, net profit of P3.4 billion, and EBITDA growing 4% to P6.4 billion. Gross gaming revenues amounted to P23.6 billion, supported by an improved win rate and stable growth in the non-VIP segment. Non-gaming revenues, which include hotel and food and beverage, expanded to P2.6 billion. Total room count for the three hotels [Maxims Hotel, Remington Hotel (now Holiday Inn Express Manila Newport City) and Marriott Hotel Manila] has increased to 1,454 with the addition of 228 premier rooms and suites from Marriott West Wing which formally opened on November 30, 2016. The Marriott Grand Ballroom which became fully operational in June 2015 provided added revenues during the year. Increased revenues were also seen in the entertainment front, specifically with the RWM's theatrical production of Annie. Direct costs, which included promotional allowance, for the year contracted with the decrease in promotional allowance as Travellers preferred the traditional rolling-based commissions. Other operating costs increased due to higher marketing and promotions and depreciation. The group contributed 20% and 15% to AGI's consolidated revenues and consolidated net profit in 2016, respectively.

GADC reported a 62% surge in net profit in 2016 to P1.2 billion from P760 million a year ago as revenues climbed 12% to P22.8 billion. This all-time high is achieved from the opening of 44 new restaurants (22 company-owned, 21 franchised, 1 joint venture), renovation of existing restaurants, expansion of business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of new products (Chicken Fillet ala King, Cheesy Eggdesal, Mushroom Soup) and the continuous marketing and promotions of core menu. The new and improved Burger McDo was introduced on May 27, 2016. The new restaurants contributed about 3% to total system sales while business extensions comprise 23% of the total. Drive-thru is the extension which has the biggest contribution of 12% of total revenues. There were 520 restaurants operating by the end of 2016, as compared to 481 restaurants a year ago, out of which 275 were company owned and operated as compared to 254 a year ago. Systemwide same-store sales grew by 7% year-on-year. Price increases were also strategically implemented in order to mitigate the impact of increase in cost of raw materials and to maintain the level of product quality. Cost of sales and services went up by 7%, primarily due to cost of inventory which increased by 6% brought about by increase in sales volume, higher prices of imported raw materials and the shift in product mix. These operating results translated into 16% and 5% of the consolidated revenues and net profit of AGI and subsidiaries for 2016.

Revenues, as a result of the foregoing, totaled P139.7 billion in 2016 as compared to P139.1 billion a year ago. Service revenues grew by 6% or P3.7 billion which mitigated the 3% contraction in sale of goods. The growth in service revenues (gaming, hotel, quick-service restaurants, rentals, cinemas) was attributed to the 11% increment in quick-service restaurant sales, 14% jump in rental income and 16% boom in hotel revenues. The contraction in sale of goods (real estate, alcoholic beverages and snack products) was attributed to an agency brand which Emperador's WMG stopped distributing by the end of 2015.

Costs and expenses decreased 1.0% year-on-year. Cost of goods sold, which is a function of sales, decreased by 9%, while cost of services went up 2% due to higher restaurant sales and brisk hotel and rental operations. Other operating expenses rose 6% primarily due to higher general marketing expenditures and depreciation at RWM, payroll and rentals of GADC, salaries and benefits of MEG employees, and operating expenses of the new Spanish business unit. There was also an increase in strategic marketing spend in the Scotch core malt brands as compared to a year ago.

Share in net profits of associates and joint ventures increased 32% year-on-year due to take-up of share in net profit of EMP's joint venture which was up 69% this year.

Finance and other income went down 22% this year because of lower cash level during the year as compared to a year ago which resulted in lower interest income earnings during the year. Finance costs

and other charges went up 18% due to higher interest expense this year as new loans were obtained during the year.

Income tax increased by 12% this year as compared to a year ago, which is attributed to higher taxable income for Megaworld, EMP and GADC this year.

Net profit attributable to owners grew by 6%.

For the Year Ended December 31, 2015 vs. 2014

The Group's financial performance continues to be compelling in spite of the challenges faced by the gaming business. The Group ended the year with revenues growing 11.2% to P139 billion (net of P189 million non-recurring gain) from P125 billion (net of 525 billion non-recurring gain) a year ago, which resulted in net profit of P22 billion, up 3.5% from P21 billion a year ago, which further gave net profit to owners of P14 billion, up 6.9% from P13 billion a year ago. All businesses showed positive profitable results and contributions.

Megaworld's core net profit reached P10 billion (net of P181 million non-recurring gain), a 10.5% increase from its P9 billion (net of P12.2 billion non-recurring gain at its level) reported a year ago. Its strong roster of townships across Luzon, Visayas and Mindanao provided the impetus for the 9% growth in revenues excluding non-recurring gains. Revenues from leasing, residential sales and hotel operations climbed 23%, 11% and 10%, respectively, during the year. The Group launched five townships during the year, namely, The Upper East (34ha) and Northhill (53ha) in Bacolod City, Sta. Barbara Heights (173ha) in Iloilo, a prime property (35.6ha) in Pampanga and Westside City (31ha) in Parañaque City, or a total of about 330ha of land. Suntrust launched 2 residential projects: Fountain Grove (horizontal) in Bacolod and One Lake Shore Drive Towers 3 and 4 (vertical) in Davao while GERI launched Holland Park (4towers) in Southwoods City and commercial lots in Sta. Barbara Shophouse District. During the year, Megaworld completed 16 residential and 6 BPO office towers with retail components while GERI completed 2 for the 4 condominium clusters of Oceanway Residences in Boracay Newcoast, Phase 2 of Sta. Barbara Heights and the commercial building in Twin Lakes called Twin Lakes Shopping Village. ELI realized sales across all its high-rise and horizontal projects, with the bulk coming from San Lorenzo Place and SouthPoint Science Park. The group contributed 32% and 48% to AGI's consolidated revenues and net profit, respectively, in 2015.

Emperador hit P7 billion net profit and P44 billion revenues, up 12% and 37% year-on-year. These are inclusive of offshore operations, with full-year results of Scotch whisky business tucked in. The Scotch whisky business reported P16 billion revenues and P1 billion net profit for full year 2015 which represent 38% and 16% of respective consolidated totals. The share in net profit of Bodega Las Copas that was added to consolidated revenues and net profit amounted to P130 million in 2015 versus P40 million in 2014. Emperador now has a much bigger product portfolio of brandy and whisky that has greater global presence and which positions it to premiumization opportunities in the Philippine market. Emperador introduced the 'The Dalmore' line locally and relaunched 'Andy Player' during the year. The group contributed 31% and 32% to AGI's consolidated revenues and net profit, respectively in 2015.

Travellers focused on building a base in 2015, particularly in the Mass and Premium Mass segments and controlled its operating costs so it remained profitable even as revenues and net profit declined year-on-year. In 2015, revenues totaled P28 billion which turned in P4 billion net profit. While drops volumes contracted during the year, the win rates improved from last year. Travellers continues to expand its non-gaming facilities and offerings. Hotel occupancy remains strong with all 3 hotels registering average occupancy of above 86% for the entire year. With the Marriott Grand Ballroom now fully operational, the MICE market is a key differentiator. The group turned in 20% and 19% of AGI's consolidated revenues and net profit, respectively.

GADC's total revenues grew by 9% primarily due to the opening of 28 new restaurants (QSRs), reimagining of 28 (35 in 2014) existing restaurants, expansion of business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of new products (Chicken Fillet Ala King, Cheesy Eggdesal), Limited Time Offer Products (McGriddles, Shake Shake Fries, Twister Fries, Bacon Burgers, Dessert Campaigns, McRib, Chicken Muffin and Sweet Ham Special), and aggressive advertising/promotional campaigns to support Extra Value Meals (Chicken McDo Price Reduction, Coke Glass), Everyday McSavers (Float, Sundae and Fries), McSaver Meals,

Desserts and Breakfast. Average sales per restaurant increased by 4%, with 3% growth in sales per company-owned restaurant and 6% for sales per franchised restaurant. Business extensions provided a growth rate of 15%, with Drive-thru boosted 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 outpaced 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 contracted slightly 5% year-on-year. GADC's results accounted for 15% and 4% of AGI's consolidated revenues and net profit, respectively.

Revenues with or without the one-time items, thus, as a result of the foregoing, grew by 10.9% year-on-year. Sale of goods soared by 24.4% from 36.7% expansion in sale of consumer goods (distilled spirits, beverages and snacks) and 11% growth in real estate revenues. Rendering of services (gaming, hotels, restaurants, rentals), on the other hand, is at same level as last year with revenues from company-operated QSRs, franchised QSRs, rentals of office and retail spaces and hotel operations growing by 9.2%, 24.7%, 23.1% and 9.3%, respectively, which offset the 14.7% drop in gaming revenues at RWM.

Costs and expenses went up by 13.6% year-on-year. Costs of goods sold and services rendered expanded by 25.7% and 7.4%, respectively, as a result of revenue growth. Other operating expenses contracted by 1.4% due to lower advertising and promotions inspite of increases in salaries and employee benefits, utilities, rentals and commissions. These five accounts comprised 59.7% and 59.4% of other operating expenses in 2015 and 2014, respectively. The decrease in advertising and promotions is primarily attributed to the contraction in RWM's general marketing expenditures.

Share in net profits of associates and joint ventures more than doubled at 118.9% 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 shrank 32.7% from a year ago because of one-time gains from acquisitions and divestments (P188 million in 2015 and P525 million in 2014) and reversal of liabilities (P6 million in 2015 and P121 million in 2014) in 2014 and lower interest income in 2015.

Finance costs and other charges increased by 31.3% due to foreign currency losses of Travellers and Megaworld from translation of their foreign-currency denominated bonds.

Tax expense totaled P5.2 billion, down 5.2% from P5.5 billion a year ago, primarily due to reductions in taxes of Travellers and Emperador inspite of increase in Megaworld and GADC.

Net profit attributable to owners grew by 5.4%, or 6.9% before non-recurring gains.

Financial Condition

December 31, 2017 vs 2016

Consolidated total assets amounted to P561.8 billion at end of 2017 from P491.3 billion at beginning of year. The Group is strongly liquid with **current assets** exceeding **current liabilities** 2.4times. Current assets amounted to P267.9 billion while current liabilities amounted to P111.7 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 went up 14% or P7.0 billion to end the year at P55.7 billion from P48.7 billion at the beginning of the year, primarily from loan proceeds. 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 soared 29% or P3.0 billion from marketable securities purchased during the year.

Current trade and other receivables increased 28% or P16.2 billion mainly from real estate sales and rental transactions, advances to contractors and suppliers (mostly relating to ongoing construction works), booked insurance claims, and receivable from sale of land.

Inventories expanded 8% or P6.6 billion from the maturing liquids of Scotch whisky and Spanish brandy and real estate for-sale inventories. Emperador group acquired inventories relating to 'Domecq' brandies and Bodegas Garvey during the year.

Property development costs soared 15% or P3.0 billion due to various ongoing development projects of the Megaworld group. Megaworld is allocating P60 billion in capital spending in 2018, with 80% covering development projects, mostly residential, office and commercial developments in various townships across the country.

Other current assets went up 24% or P2.0 billion mainly due to an increase in the amount of unutilized input vat, prepayments and refundable deposits at year-end.

Advances to landowners and joint ventures escalated 23% or P1.1 billion due to additional advances made by Megaworld relating to its ongoing development projects.

Non-current Available-for-sale financial assets decreased 29% or P175.0 million from securities sold to get fresh funds. **Current available-for-sale financial assets** at end-2016 already matured during the year.

Land for future development expanded 15% or P3.4 billion due to additional land acquisitions and contribution of Meg's new subsidiaries.

Investment in and advances to associates and other related parties decreased 6% or P559.0 million primarily due to reduction in capitalization of a Spanish joint venture (BLC) and the transfer of such to a newly incorporated Spanish subsidiary (DBLC).

Property, plant and equipment increased 18% or P15.0 billion primarily attributed to Travellers, Megaworld and Emperador. Expansion works in RWM are in full swing with the Grand Wing, comprising of three hotels (Hilton Manila, Sheraton Manila and Hotel Okura Manila) and retail and gaming areas expected to be completed by the end of 2018. Megaworld completed its corporate headquarters in Uptown and Travellers completed RunWay Manila which opened to the public in April. There were also asset acquisitions (vineyards, bodegas wineries, real estate) in Spain and Mexico made during the year.

Investment property increased 17% or P10.7 billion as more revenue-generating malls, commercial centers and office buildings were completed by Megaworld group.

Intangible assets amplified 11% or P4.1 billion from trademarks acquired by Emperador from its asset acquisitions relating to 'Domecq' intellectual properties held by Pernod Ricard and those of Grupo Garvey which include brandies and sherry wines.

Deferred tax assets were reduced 18% or P180.0 million principally due to lapsing of the three-year validity of Travellers' MCIT in 2014.

Trade and other payables went up 17% or P6.7 billion as trade payables and retention payable to contractors swelled up, reflecting the heightened development activities at Megaworld and Travellers. Accrued expenses increased due to timing of accruals at year-end.

Current bonds payable plummeted 75% or P29.8 billion from the settlement of Cayman \$500 million bonds which matured in August (P24.9 billion) and full settlement of Traveller's \$300 million notes in November (P14.9 billion). Megaworld's \$200 million bonds maturing in April 2018 (P10.0 billion) is reclassified (from non-current last year-end) to this account. **Non-current bonds payable** increased 9% or P2.1 billion from additional issuance of bonds by Megaworld for general corporate purposes. Megaworld issued P12.0 billion seven-year bonds which carry 5.3535% p.a. coupon on March 28, 2017.

Current interest-bearing loans ballooned 55% or P11.6 billion while **non-current interest-bearing loans** surged 95% or P52.8 billion, for a total increase of P64.4 billion which is mainly attributed to additional loans obtained by Travellers (P24.4 billion) and Megaworld (P1.7 billion) intended for capital expenditures; by AGCayman (P34.8 billion) to refinance its bonds and for investment purposes; and by Emperor offshore (P8.8 billion) for the purchase of stocks and capital expenditures in UK and Spain.

Income tax payable were reduced 15% or P163 million, mainly due to application of creditable withholding taxes, which come significantly from sale of land plus collections from franchisees which resulted in lower accrued income tax of GADC.

Non-current advances from related parties swelled 34% or P588.7 million due to advances received by Megaworld during the year.

Retirement benefit obligation reduced 25% or P660.8 million primarily driven by the increase in the fair value of Emperor group's plan assets.

Redeemable preferred shares, current and non-current portions combined, rose 5% or P94.9 million relating to the accretion of GADC's redeemable preferred shares.

Deferred tax liabilities increased 6% or P661.7 million from temporary tax difference of MEG and Emperor's UK group.

The **changes in equity components** are presented in detail in the consolidated statements of changes in equity. The equity attributable to owners and to non-controlling interest increased 10% each, from the share in net profit and other comprehensive income. Treasury shares pertain to the acquisition cost of the shares that have been brought back from the market pursuant to the Group's ongoing buyback program.

December 31, 2016 vs 2015

Consolidated total assets amounted to P491.3 billion at end-2016 from P448.7 billion at beginning of year. The Group is strongly liquid with **current assets** exceeding **current liabilities** 1.9times. Current assets amounted to P230.0 billion while current liabilities amounted to P123.1 billion at the end of the 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 P19.9 billion or 29% to end at P48.7 billion from P68.6 billion at the beginning of the year, primarily due to cash outlaid in the completion of Emperor's acquisition of assets of Bodegas Fundador; capital expenditures and business expansion of RWM, Megaworld and GADC; and dividend payments. 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 went up 30% or P2.4 billion from additional investments made during the year and marked-to-market gains by the end of the year.

Current trade and other receivables rose 18% or P8.6 billion and **Non-current trade and other receivables** climbed 9% or P2.9 billion mainly from real estate customers. Advances to contractors and suppliers, which are due within one year, soared 1.73 times due to mobilization or initial payments made for real estate construction projects. Megaworld group pumped up its project development across all segments.

Inventories increased 8% or P6.3 billion from the maturing inventories of Spanish brandy and Scotch whisky and the condominium units for sale. Emperor is currently laying down stocks for future growth of its Scotch whisky.

Property development costs escalated 35% or P5.2 billion due to various ongoing development projects under Megaworld group.

Other current assets increased 25% or P1.6 billion mainly due to an increase in input vat, refundable deposits and timing of prepayments and subsequent charging to profit or loss of such expenses.

Advances to landowners and joint ventures escalated by 6% or P266 million due to development of projects.

Non-current Available-for-sale financial assets dwindled 73% or P1.6 billion from securities sold to get fresh funds. **Current available-for-sale financial assets** consist of euro-denominated bonds maturing in 2017.

Investment in and advances to associates and other related parties decreased 14% primarily due to a related party which became a subsidiary and consolidated in 2016 by Megaworld.

Property, plant and equipment swelled 25% or P16.7 billion primarily from the assets of the acquired Spanish business unit which include vineyards and buildings; massive constructions at RWM which expanded a new wing and will add three new hotels; and new hotel buildings of Megaworld. The Marriott West Wing in RWM formally opened its doors to the public in November 2016 while the three hotels, Hilton Manila, Sheraton Manila Hotel, and Maxims II, will be completed by 2018. It will also include an additional gaming area, new retail spaces and six basement parking decks.

Investment property increased 29% or P14.1 billion as more revenue-generating property get completed by Megaworld.

Intangible assets ballooned 27% or P8.0 billion from the acquired Spanish trademarks and the goodwill resulting in the business unit acquisition.

Deferred tax assets rose 30% or P229 million principally from GADC's retirement and other long-term employee benefits.

Other non-current assets dropped 50% or P4.9 billion primarily due to decrease in advances for future investment being made by Travellers to PAGCOR in connection with development of Site A. In 2016, the Group received parcels of land amounting to P3.7 billion from PAGCOR which were offset or deducted from the advances account. There was also a P2.85 billion advance payment made in 2015 for the purchase of Bodegas Fundador which was applied and closed upon completion of the purchase in February 2016. Moreover, the end-2016 balance included deposit for certain brandy assets and an acquired mortgage receivable on a leased bottling plant in UK, which will decrease as rentals are billed.

Interest bearing loans, both current and non-current portions combined, increased 33% or P18.8 billion from the new loans obtained by Travellers (P7.0 billion), Megaworld (P7.0), GERI (P2.0 billion), SPI (P0.4 billion), EMP (P4.7 billion) and AGI during the year. Principal amortizations and repayments were made as they fall due.

Income tax payable went up 78% or P492 million due to higher taxable profit and the resulting accrual of annual taxes which were higher for EMP and GADC.

Bonds payable, current and non-current combined, increased 13.4% or P7.3 billion due to higher forex translation this year and the free-up of Megaworld bonds held by the Group. Last yearend, such bonds were deducted from the bonds payable balance in consolidation, and this year, such bonds had been sold or traded already.

Advances from related parties escalated 17% or P250 million due to advances made by Megaworld during the year.

Retirement benefit obligation expanded 40% or P738 million primarily from additions booked by WMG and GADC.

Redeemable preferred shares increased by 4% or P84 million due to interest accretion only.

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 7% or P10.0 billion primarily from net profit share for the year and marked-to-market gains on available-for-sale financial assets, which were partly reduced by the actuarial and translation losses during the year. The equity to non-controlling interest increased by 5% from net profit share for the year.

December 31, 2015 vs 2014

Total assets amounted to P448.7 billion at end of 2015 from P409.6 billion at beginning of year, up 9.6% primarily due robust business across all business segments. The Group is strongly liquid with **current assets** exceeding **current liabilities** 2.5times. Current assets amounted to P225.7 billion while current liabilities amounted to P89.7 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 shrank by P13.5 billion or 16.4% to end at P68.6 billion from P82.1 billion at the beginning of the year, primarily due to the capital expenditures, business expansion activities and debt repayments during the current year. 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 soared 85.5% or P3.7 billion due to additional investments during the year, which include adjustments for gains in fair values and currency translations at year-end.

Current trade and other receivables rose up P6.3 billion or 14.7% primarily due to Megaworld group's robust sales, UK sales, and additional advances paid by Megaworld and Travellers to their suppliers and contractors in connection with the ongoing expansion works. **Noncurrent trade and other receivables** went up by P3.9 billion or 13.5% due to higher real estate sales.

Inventories increased by P4.9 billion or 6.7% due primarily to additional real estate lots, condominium units and resort shares completed and put up for sale, increase in Scotch whisky work-in-process, and other materials.

Property development costs went up by P2.5 billion or 19.9%, reflecting the costs incurred in ongoing real estate projects.

Available-for-sale financial assets dipped by P3.8 billion or 63.4% from asset disposals to get fresh funds for financing purposes and marked-to-market changes in values. Marketable securities at Megaworld level depreciated in market values. The loss to adjust carrying values to market prices is shown under Equity portion of the statement of financial position.

Land for future development increased by 37.1% or P4.9 billion primarily from acquisitions and contribution of a new MEG subsidiary.

Investments in and advances to associates and other related parties expanded by P2.5 billion or 30.8% due to ELI's acquisition of an associate, Travellers' joint venture in a newly-incorporated entity, and an increase in advances to other related parties.

Property, plant and equipment increased by P12.0 billion or 22.2% with the ongoing constructions at Phase 2 (expansion of Marriott Hotel and Marriott West Wing) and Phase 3 (extension of Maxims Hotel, new Hilton Manila Hotel and new Sheraton Manila Hotel) at RWM, a new local distillery plant for Emperador, hotels brands under Megaworld, and McDonald's stores; plus the ongoing upgrade of IT system in Scotland. Marriott Grand Ballroom which is part of Phase 2 formally opened in July 2015. Marriott West Wing is scheduled for turnover by end of second quarter of 2016. Phase 3, which shall also include a new gaming area, additional retail space and six-level basement parking decks, is scheduled to be turned over by end of 2017.

Investment property expanded by P10.4 billion or 27.6% from completion of properties for lease of Megaworld group. In 2015, Megaworld completed 6 BPO office towers with retail components in Uptown Bonifacio, Mactan Newtown, McKinley West and Iloilo Business Park and GERI completed Twin Lakes Shopping Village.

Other current assets escalated 16.6% or P938 million due to increase in input vat and advances to suppliers of Megaworld group. **Other non-current assets** soared by 90.1% or P4.7 billion due to the P1.5 billion additional advances for future investment made by Travellers and the P2.8 billion deposit made by Emperador for the acquisition of the brandy and sherry business from Beam Suntory. Refundable deposits and accumulated jackpot seed money also increased from a year ago.

Trade and other payables went up by 3.37% or P1.3 billion as trade payables, accrued expenses, retentions, gaming license fees, and liabilities for land acquisition increase. This is due to the aggressive real estate development, construction works and timing of accruals at yearend.

Current interest-bearing loans increased by 7.7% or P2.0 billion while **non-current interest-bearing loans** surged by 261.6% or P21.0 billion, for a total increase of P23.7 billion which is attributed to new long-term loans obtained by Megaworld, GERI and ELI to finance their project development and expansion activities. While Emperador fully settled all its existing loans in the first half of the year, it incurred new short-term foreign loans primarily to finance its offshore expansion in the later part of the year.

Income tax payable decreased by 31.3% or P287 million due to lower unpaid taxes at the end of the year by EMP, GADC, MEG and Travellers.

Current bonds payable decreased by P5 billion from the full redemption of Megaworld bonds upon maturity in May 2015. **Non-current bonds payable** increased by P3.0 billion or 5.9% due to weaker peso translations of long-term US dollar-denominated bonds of Megaworld (\$450 million), Travellers (\$300 million) and AGC (\$500 million).

Advances from related parties rose up by 65.1% or P588 million which is attributed to advances obtained by Megaworld group.

Retirement benefit obligation went down 31.8% or P870 million which is attributed to the reductions for the plans of Megaworld and Emperador, which include the balance in Whyte and Mackay.

Deferred tax liabilities increased by 13.0% or P1.3 billion due to tax differences in Megaworld group arising primarily from their uncollected gross profit and capitalized interest.

Other non-current liabilities grew by 12.5% or P3.0 billion from increases in reserve for property development, deferred income on real estate sales and deferred rental income, which are reflective of aggressive real estate development and pre-selling activities. 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 P10.6 billion or 8.4% which is attributed to net profit for the year and other comprehensive income.

b.2. Liquidity and Capital Resources

The consolidated statements of financial position showed strong liquidity with current assets exceeding current liabilities 2.4times and 1.9times at end of 2017 and 2016, respectively. Total-liabilities-to-equity ratios were at 1.1:1 and 1.0:1 at the end of 2017 and 2016, respectively, while interest-bearing-debt-to- total-equity ratios were correspondingly at 66% and 58%. Assets exceeded liabilities 2times and equity 2times as well.

In general, working capital was sourced internally from operations and bank loans during the year. In the ensuing year, the Group expects to meet its working capital and investment requirements from

operating cash flows and debt. It may also from time to time seek other sources of funding, if necessary, depending on its financing needs and market conditions.

<i>Amounts in Million Pesos</i>	<u>31-Dec-17</u>	<u>31-Dec-16</u>	<u>31-Dec-15</u>
Cash and equivalents	55,673	48,673	68,594
FVTPL/AFS financial assets	<u>13,948</u>	<u>11,138</u>	<u>10,260</u>
Total Available	<u>69,621</u>	<u>59,811</u>	<u>78,854</u>
Interest-bearing debt –current	42,677	60,831	28,705
Interest-bearing debt- noncurrent	132,662	77,831	83,791
Equity-linked securities- non- current*	<u>5,227</u>	<u>5,263</u>	<u>5,259</u>
Total Debt	<u>180,566</u>	<u>143,924</u>	<u>117,755</u>
Net cash (debt)	-110,945	-84,113	-38,901
Available Cash and financial assets to interest-bearing debt	39%	42%	67%
Interest-bearing debt to total equity	66%	58%	51%

*Equity-linked debt securities are 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 products and markets.

Emperador group is best positioned to capitalize on premiumization opportunities, with its bigger product portfolio of brandy and Scotch whisky and greater global reach. The group is looking forward into an exciting integration.

Megaworld has a strong roster of townships nationwide that are backed by adequate landbanking and carefully-thought masterplans. Its aggressive thrust to grow its investment properties has resulted in increased recurring income stream. It continues to innovate its real estate development as it introduced what it calls the 'integrated lifestyle community' and targets to add more developments under this category. It intends to acquire more land and other investment properties.

Travellers sees a lot of potential for further growth, as it continues to expand its non-gaming facilities and offerings. It is looking forward to the completion of its Grand Wing in RWM which should boost its hotel and overall gaming capacity.

GADC will continue its brand promise of making delicious feel-good moments easy for every customer and remains steadfast in its expansion inspite of the challenges ahead. It aims to sustain its business momentum as it targets more new store openings with continuous focus on operational excellence, leveraging on its taste heritage and technology, espousing the role of family and community in delivering business while exemplifying good corporate citizenship.

In 2018, all the business segments are expected to sustain their growth trajectory in line with targets and will continue to bolster their presence in their respective fields.

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 of operations of the Group.

Second Quarter of 2018

Key Performance Indicators

Presented below are the top five (5) key performance indicators:

In Million Pesos

	Jan-June 2018	Jan- June 2017	Quarter 2 2018	Quarter 2 2017	Quarter 1 2018	Quarter 1 2017
REVENUES	73,160	66,843	37,857	33,140	35,303	33,703
NET PROFIT	12,431	10,084	6,987	4,703	5,444	5,381
NET PROFIT TO OWNERS OF AGI	7,857	6,719	4,357	3,153	3,499	3,567
Revenue Growth	9.45%	-0.34%	14.23%	-2.51%	4.75%	1.88%
Net Profit Growth	23.27%	-11.11%	48.57%	-22.59%	1.17%	2.13%
NP Attributable to Parent Growth	16.93%	-7.76%	38.21%	-20.10%	-1.89%	6.82%
Net profit rate	16.99%	15.09%	18.46%	14.19%	15.42%	15.97%
NP Attributable to parent	10.74%	10.05%	11.51%	9.51%	9.91%	10.58%
Return on investment/assets [NP/TA]	2.13%	1.83%				
	Jan-June 2018	Dec-17	Growth	Jan-June 2017		
TOTAL ASSETS	583,539	561,822	3.87%	550,672		
CURRENT ASSETS	271,501	267,905	1.34%	275,795		
CURRENT LIABILITIES	96,386	111,714	-13.72%	140,891		
Current ratio	2.8X	2.4x		2.0x		
Quick ratio	1.5X	1.3x		1.1x		

Note: Numbers may not add up due to rounding.

- Revenue growth – measures the percentage change in sales/revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- Net profit growth – measures the percentage change in net profit over a designated period of time
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on 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
- 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.

Results of Operations – First Half of 2018

By Subsidiary groups:

<i>In Million Pesos</i>						
	MEG	EMP	RWM	GADC	Others	TOTAL
2018						
Revenues	26,771	19,474	12,630	13,604	2,782	75,261
Intercompany/ Adjustment	-87		-45		-1,969	
Consolidated	26,684	19,474	12,585	13,604	813	73,160
% contribution	36%	27%	17%	18%	1%	100%
Costs and expenses	16,984	15,699	10,405	12,516	1,515	57,119
Intercompany/ Adjustment		-17	-29	-41	-4	
Consolidated	16,984	15,682	10,376	12,475	1,511	57,028
Tax Expense	2,282	512	537	345	24.00	3,700
Net profit	7,505	3,263	1,688	743	1,242	14,441
Intercompany/ Adjustment	-87	17	-16	41	-1965	
Consolidated	7,418	3,280	1,672	784	-723	12,431
% contribution	60%	26%	13%	6%	-5%	100%
Net profit to owners	7,251	3,190	1,690	741	1,243	14,115
Intercompany/ Adjustment	-2,462	-551	-943	-337	-1,965	
Consolidated	4,789	2,639	747	404	-722	7,857
% contribution	61%	34%	10%	5%	-10%	100%
2017						
	MEG	EMP	RWM	GADC	Others	TOTAL
Revenues	23,971	18,014	11,231	12,288	3,554	69,059
Intercompany/ Adjustment	-27		10		-2,198	
Consolidated	23,944	18,014	11,241	12,288	1,355	66,843
% contribution	36%	27%	17%	18%	2%	100%
Costs and expenses	15,224	14,753	10,665	11,391	1,634	53,666
Intercompany/ Adjustment	-3	-3	-22		-4	
Consolidated	15,221	14,750	10,643	11,391	1,630	53,634
Tax Expense	2,056	564	193	303	9	3,125
Net profit	6,692	2,698	373	595	1,910	12,268
Intercompany/ Adjustment	-24	3	32	0	-2,194	
Consolidated	6,667	2,700	405	595	-284	10,084
% contribution	66%	27%	4%	6%	-3%	100%
% contribution	64%	33%	3%	4%	-4%	100.0%
Year-on-year Change						
	MEG	EMP	RWM	GADC	Others	TOTAL
2018						
Revenues	11.44%	8.10%	11.96%	10.70%	-40.07%	9.45%
Costs and expenses	11.58%	6.32%	-2.50%	9.53%	-7.30%	6.33%
Tax Expense	11.00%	-9.17%	177.77%	14.12%	151.78%	18.40%
Net profit	11.26%	21.46%	312.92%	31.55%	154.57%	23.27%
Net profit to owners	11.15%	19.55%	277.15%	39.89%	154.53%	16.93%

Notes: Numbers may not add up due to rounding. Percentages are taken based on full numbers, not from the presented rounded amounts.

-At AGI consolidated level, as presented above, revenues and costs and expenses may differ from the totals separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs or expenses to follow the group's consolidated presentation.

Profit and loss accounts:

Profit and loss accounts:

<i>In Million Pesos</i>	<u>2018</u>	<u>2017</u>	<u>2018 vs 2017</u>
REVENUES			
Sale of goods	37,955	35,106	8.11%
Consumer goods	19,737	18,337	7.64%
Revenues from real estate (RE) sales	18,218	16,769	8.64%
RE sales	14,665	13,624	7.64%
Realized gross profit on RE sales	2,597	2,193	18.43%
Interest income on RE sales	956	953	0.35%
Rendering of services	32,115	29,915	7.35%
Gaming	9,008	9,249	-2.61%
Sales by company-operated quick-service restaurant	12,238	10,972	11.54%
Franchise revenues	1,284	1,181	8.65%
Rental income	6,976	6,121	13.96%
Other services	2,609	2,391	9.14%
Hotel operations	2,235	2,104	6.27%
Other services	374	287	30.18%
Share in net profits of associates and joint ventures	147	135	9.30%
Finance and other income	2,943	1,687	74.43%
TOTAL	73,160	66,843	9.45%
COSTS AND EXPENSES			
Cost of goods sold	22,832	22,185	2.92%
Consumer goods sold	12,721	12,226	4.05%
RE sales	8,212	7,701	6.64%
Deferred gross profit on RE sales	1,899	2,258	-15.91%
Cost of services	15,588	14,586	6.86%
Gaming	3,677	3,743	-1.76%
Services	11,911	10,843	9.84%
Other operating expenses	15,362	13,666	12.41%
Selling and marketing	6,637	5,946	11.62%
General and administrative	8,725	7,720	13.01%
Finance costs and other charges	3,247	3,196	1.60%
TOTAL	57,029	53,634	6.33%
TAX EXPENSE	3,700	3,125	18.40%
NET PROFIT	12,431	10,084	23.27%

Note: Numbers may not add up due to rounding.

The Group raked in P12.4 billion net profit during the first half of the year, a 23% upturn from P10.1 billion a year ago, with revenues escalating 9% to P73.2 billion from P66.8 billion a year ago, as all business segments delivered double-digit net profit growths. Net profit attributable to owners jumped 17% to P7.9 billion from P6.7 billion a year ago. Quarter-on-quarter, business accelerated in the second quarter of the current year.

Megaworld, the country's largest developer and pioneer of integrated urban townships, attained P7.5 billion net profit during the first half, a 12% growth from P6.7 billion last year, with revenues rising 12% as well to P26.8 billion from P24.0 billion (as classified at AGI level) a year ago. Net profit attributable to its owners was reported at P7.2 billion, a 12% rise year-on-year. The residential business (real estate sales, realized gross profit and interest income on real estate sales), which accounted for more than two-thirds of revenues, was up 9% growing to P18.2 billion from P16.8 billion a year ago. Real estate sales pumped up 8% year-on-year to P14.7 billion from P13.6 billion. These mostly came from the group's township projects across the country with product mix recorded at 59%-15%-14%-12% for Megaworld- GERI (Global-Estate Resorts, Inc.)-Empire East (Empire East Land Holdings, Inc.)-Suntrust (Suntrust Properties, Inc.) brands. Rental income from leasing of office and commercial retail spaces provided steady revenue stream as it continued to expand about 17% year-on-year in each of the two quarters, ending the first half at P6.8 billion compared to P5.8 billion a year ago. In its Lifestyle Malls, Megaworld opened its first full-scale mall outside of Luzon – the Festive Walk Mall in Iloilo – and three new community malls: The Village Square in Alabang, Three Central and San Lorenzo Place, both in Makati City. Office space inventory stood at 1.01 million sqm. Hotel revenues rose 10% to P715 million from P648 million, with the expansion of homegrown hotel brands Savoy and Belmont to areas outside Metro Manila. Megaworld also announced earlier this year the iTownships' evolution of its developments, which is a step of incorporating digital technology, design innovations, connectivity and environmental sustainability into its township developments. These operating results brought in 36% and 60% to AGI's consolidated revenues and net profit, respectively.

Emperador, the world's largest brandy company and owner of the world's 5th largest Scotch whisky manufacturer, realized a 21% leap in net profit to P3.3 billion from P2.7 billion a year ago, with revenues rising 8% to P19.5 billion from P18.1 billion a year ago. Net profit attributable to owners closed at P3.2 billion, up 18% year-on-year. In the second quarter, net profit soared 33% year-on-year to P1.6 billion from P1.2 billion while revenues rose 7% to P9.8 billion from P9.1 billion. These strong results were lifted up by the international business, especially the Scotch whisky segment. Revenues from the Scotch Whisky business in the interim period escalated 16% to P6.2 billion from P5.3 billion a year ago, with net profit skyrocketing 77% year-on-year to P890 million, propelled by the single malts. The Dalmore remains as the best seller, followed by single malt Jura and blended Whyte&Mackay. UK, Asia and Travel Retail were the top markets for the brands. Revenues from the Brandy business, which combined Philippines' Emperador and Spain's Grupo Emperador brands, on the other hand, grew 4% to P13.6 billion from P13.1 billion a year ago, realizing net profit rise of 8% year-on-year to P2.4 billion. The Spanish brandies (particularly Fundador, Terry Centenario, and Tres Cepas) sold predominantly in the Philippines, Spain, and UK. The local market posed to be a challenge as net profit remained at same level as a year ago. The Emperador group's net profit margins went up to 17% from 15% as gross profit margins improved to 36% from 33% a year ago. For the first six months of the year, Emperador group accounted for 27% of AGI's consolidated revenues and 26% of consolidated net profit.

Travellers, the owner and operator of Resorts World Manila (RWM), reaped quadrupled net profit of P1.7 billion during the first half of the year from its revenues of P12.6 billion (as classified at AGI level) which already expanded 12% year-on-year. Gaming revenues continued to improve quarter-on-quarter as it totaled P4.52 billion in the second quarter as compared to P4.48 billion and P4.3 billion in the previous two quarters. Blended win rate was 5.3% for the first half of the year. Non-gaming revenues climbed 4% year-on-year to P2.1 billion during the first half from P2.0 billion a year ago, and surged 18% year-on-year to P1.1 billion for the second quarter. Occupancy rate for the three hotels – Maxims Hotel, Marriott Hotel Manila and Holiday Inn Express Manila Newport City - averaged at 80%. Courtyard by Marriott opened in May 2018, and is the first international hotel in Western Visayas. A portion of the ground floor gaming area in the Grand Wing (RWM's Phase 3 development) opened last May 9. The Grand Wing will be fully completed next year and is seen to enhance gaming capacity, add approximately 940 hotel rooms and more retail space. Travellers group contributed 17% and 13% to AGI's consolidated revenues and consolidated net profit respectively.

GADC, the master franchise holder of McDonald's quick-service restaurants brand in the Philippines, turned over P13.6 billion revenues, 11% higher than P12.3 billion a year ago, that escalated net profit by 25% to end at P742 million from P595 million a year ago. This is achieved from the opening of new restaurants, renovation of existing restaurants, new product launches and the continuous marketing and promotions of core menu. Fifty-nine new restaurants (twenty-one in 2018) were opened while seven (two in 2018) were closed from a year ago, bringing the total count to 585 restaurants at end of the interim period as compared to 533 a year ago (566 at end-2017). Company owned and operated restaurants totaled 303 at end of current interim period as compared to 277 a year ago. Systemwide same-store sales grew 5.7% year-on-year. Happy Meals were bundled with the Justice League Action at the start of the year, followed by the Thomas & Friends and Barbie Fashionista, Hello Kitty & Yo-Kai Watch, and My Little Pony & Transformers during the year. New selections were added in the menu during the year: Longgadesal which was introduced in March, The New Spicy Chicken McDo in April, a new and improved McSpaghetti in May, and a new BBQ Mayo Crispy Chicken Sandwich in June. Convenience channels continued to be accelerators for the business with the Drive-Thru, McDelivery, and dinner/midnight sales delivering double-digit growths. Gross profit margins improved to 22.6% from 22.5% a year ago weathering the impact of the new excise tax on sugar products. These operating results translated into 19% and 6% contribution to the consolidated revenues and net profit of AGI and subsidiaries, respectively.

Revenues for the first six months improved 9% to P73.2 billion as compared to P66.8 billion a year ago. Sales of goods (real estate, alcoholic beverages and snack products) at P38.0 billion expanded 8% compared to last year's P35.1 billion as a result of higher sales of Megaworld's condominium units and residential lots and Emperor's Scotch Whisky and Brandy products. Service revenues (gaming, hotel, quick-service restaurants, rentals) at P32.1 billion jumped 7% from P29.9 billion a year ago. The growth in hotel and rental operations of Megaworld and in the McDonald's stores of GADC countered the effect of slightly less gaming revenues of RWM.

Costs and expenses escalated to P57.0 billion which is 6% higher than P53.6 billion reported a year ago. Cost of goods sold and cost of services (which is a function of sales) moved at a slower pace of 3% and 7%, respectively, to P22.8 billion and P15.6 billion, respectively. Other operating expenses rose 12% year-on-year to P15.4 billion. Emperor had higher expenses this year in advertising and promotions, salaries and employee benefits and freight and handling. Megaworld had expended more on commissions, salaries and employee benefits plus higher depreciation.

Share in net profits of associates and joint ventures went up 9% to P147 million or P12 million higher this interim period from the take-up of share in net profit of Emperor's Spanish joint venture.

Finance and other income soared 74% to P2.9 billion or P1.2 billion higher than P1.7 billion a year ago from interest and dividend income earned during the period bolstered by the non-operating gain reported by Travellers. **Finance costs and other charges**, on the other hand, remained at same P3.2 billion level.

Income tax increased 18% this year or P575 million year-on-year from higher taxes expensed by Travellers, Megaworld and GADC this year.

Earnings before interest, taxes, depreciation and amortizations (EBITDA), computed as net profit before income taxes, interest expense, depreciation and amortizations and impairment provisions, and non-recurring loss/gains amounted to P20.3 billion this year as compared to P19.1 billion a year ago.

Net profit attributable to owners amounted to P7.8 billion from P6.7 billion a year ago.

Financial Condition

Consolidated total assets amounted to P583.5 billion at end of the interim period from P561.8 billion at beginning of year. The Group is strongly liquid with current assets exceeding current liabilities 2.82times. Current assets amounted to P271.5 billion while current liabilities amounted to P96.4 billion at end of the interim period.

Cash and cash equivalents shrank by P10.8 billion or 19% ending at P44.9 billion from P55.7 billion at the beginning of the year, primarily due to capital expenditures. Cash flows from operating, financing

and investing activities during the period were presented in the interim consolidated statements of cash flows.

Financial assets at fair value through profit or loss soared 63% or P8.5 billion, due to additional marketable securities acquired during the quarter and marked-to-market valuation of financial assets.

Inventories swelled 8% or P7.2 billion increased fillings of Scotch whisky and Spanish brandy and real estate for-sale inventories.

Property development cost which represents the cost attributable to the development of various projects contracted by 10% or P2.3 billion as project units are completed by Megaworld group and transferred to inventory. Meanwhile, Megaworld launched new residential projects during the first half of the year: a tower of McKinley West in Fort Bonifacio; Chelsea Parkplace in Capital Town Pampanga; Bayshore Residential Resorts Phase 2 and Gentry Manor in Westside City; Tulip Gardens in Southwoods City; and The Fifth in Ortigas.

Non-current trade and other receivables increased by 9% or P3.2 billion attesting to Megaworld's robust business.

Advances to landowners and joint ventures decreased 13% or P755million mainly due to reclassification of account to land for future development.

Investments in and advances to associates and other related parties went up 5% or P438million mainly due to additional advances made by Megaworld to related parties.

Property, plant and equipment increased by P9.2 billion or 9%, primarily from the on-going construction of Grand Wing in RWM. Three luxury hotels in RWM – Sheraton Manila Hotel, Hilton Manila and Hotel Okura Manila - are expected to be fully operational by next year and would add approximately 940 rooms, new gaming area, retail spaces, and six basement parking decks. Also, Courtyard by Marriott opened in May in Western Visayas.

Investment property went up 5% or P4.0 billion, from project cost of malls, commercial centers and office buildings intended for lease.

Deferred tax assets climbed 10% or P81 million principally from temporary tax differences of MEG and GADC while deferred tax liabilities went down 6% or P709million from temporary tax differences of MEG and EMP.

Trade and other payables expanded 9% or P3.9 billion from dividends payable of MEG and trade payables of Travellers.

Current interest-bearing loans decelerated 22% or P7.3 billion and non-current interest-bearing loans accelerated 13% or P13.8 billion mainly due to shift from short-term to term loan by Travellers.

Current bonds payable was closed at end-period as Megaworld settled it during the interim period.

Other current liabilities shrank 8% or P1.9 billion from Megaworld's customer deposits and other accounts.

Non-current advances from related parties depleted 9% or P215 million due to payment of advances made by Megaworld during the interim period.

Retirement benefit obligation plunged 41% or P800 million from the actuarial gains booked in UK in the interim period.

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 4% or P7.4 billion from net profit share less cost of treasury shares during the interim period. Non-controlling interest grew 13% or P14.2 billion, primarily from the issuance of Megaworld perpetual bonds and net profit share for the interim period.

Liquidity and Capital Resources

The consolidated statements of financial position showed strong liquidity with current assets exceeding current liabilities 2.8times. Total-liabilities-to-equity ratio is at 1:1 while interest-bearing- debt-to-equity stands at 0.6:1. Assets exceeded liabilities 2times, and equity 2times as well.

In general, working capital was sourced internally from operations and debts during the period. The Group may also from time to time seek other sources of funding, if necessary, depending on its financing needs and market conditions.

<i>Amounts in Million Pesos</i>	<u>30-Jun-18</u>	<u>31-Dec-17</u>
Cash and equivalents	44,868	55,673
FVTPL/AFS financial assets	<u>22,436</u>	<u>13,948</u>
Total Available	67,304	69,621
Interest-bearing debt –current	25,369	42,677
Interest-bearing debt- noncurrent	147,142	132,662
Equity-linked securities- non- current*	<u>5,181</u>	<u>5,227</u>
Total Debt	177,692	180,566
Net cash (debt)	-110,388	-110,945
Available Cash and financial assets to interest-bearing debt	38%	39%
Interest-bearing debt to total equity	61%	66%

*Presented under Other Non-current liabilities

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 recognizes the various opportunities that will enhance the overall profitability of the group while maintaining established products and markets.

Emperador is best positioned to capitalize on premiumization opportunities, with its much bigger product portfolio and inventory of high quality brandy and Scotch whisky and greater global reach. The group is looking forward into an exciting integration.

Megaworld has a strong roster of townships nationwide that are backed by adequate land banking and carefully-thought masterplans. Its aggressive thrust to grow its investment properties has resulted in increased recurring income stream. It continues to innovate its real estate development as it introduced the 'integrated lifestyle community' and the 'iTownship' concepts. It intends to acquire more land and other investment properties.

Travellers sees a lot of potential for further growth, as it continues to expand its non-gaming facilities and offerings. It is looking forward to the completion of its Grand Wing in RWM which should boost its hotel and overall gaming capacity.

GADC will continue its brand promise of making delicious feel-good moments easy for every customer. It aims to sustain its business momentum as it targets more new store openings with continuous focus on operational excellence leveraging on its taste heritage and technology, espousing the role of family and community in delivering business while exemplifying good corporate citizenship.

The Group is optimistic about its infrastructure pursuit in line with the government's aggressive push for infrastructure developments.

Others

There were no known material events subsequent to the end of the interim period that would have a material impact in the interim period.

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 Company's liquidity increasing or decreasing in any material way. The Company does not have nor anticipate having any cash flow or liquidity problems within the year. 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 Company, 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 of operations of the Group.

Market Price and Dividends on Common Shares

Market Information

The Company's common shares are traded on the Philippine Stock Exchange. The closing price of the said shares as of latest practicable trading date of **14 August 2018** was **P12.38**. The trading prices of the said shares for each quarter within the last two years and subsequent interim period are set forth below:

	2016				2017				2018		Closing price as of 14 August 2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
High	17.42	17.00	17.00	16.08	13.90	15.48	17.30	17.18	16.50	14.50	12.38
Low	12.60	13.98	14.94	12.20	12.20	12.68	13.06	15.06	12.56	11.52	

Source: PSE Research Department

Shareholders

As of 30 June 2018, the Company had 868 stockholders holding 10,077,016,479 common shares. The Top Twenty Stockholders of the Company are as follows:

Rank	Stockholder	No. of Shares Held	Percent to Total
1	The Andresons Group, Inc.	4,033,178,294	40.024%
2	PCD Nominee Corporation (Non-Filipino)	2,833,615,796	28.120%
3	PCD Nominee Corporation (Filipino)	1,282,136,866	12.723%

4	Altavision Resources, Inc.	451,574,334	4.481%
5	Yorkshire Holdings, Inc.	255,773,508	2.538%
6	Asiagroup Holdings, Inc.	220,004,000	2.183%
7	Globaland Holdings, Inc.	220,004,000	2.183%
8	Grand Belair Holdings, Inc.	220,004,000	2.183%
9	Le Bristol Holdings, Inc.	216,100,000	2.144%
10	California Orchard Growers' Investments, Inc.	120,000,000	1.191%
11	Eastwood Property Holdings, Inc.	112,600,000	1.117%
12	Andrew L. Tan	63,684,350	0.632%
13	Andresons Global, Inc.	30,088,596	0.299%
14	Megaworld Cebu Properties, Inc.	10,000,000	0.099%
15	Kingson U. Sian	5,001,100	0.050%
16	Lucio W. Yan &/or Clara Y. Yan	1,000,000	0.010%
17	First Centro, Inc.	364,200	0.004%
18	Jianhua Su	202,500	0.002%
19	American Wire & Cable Co., Inc.	200,000	0.002%
20	Ramon C. Garcia	100,000	0.001%

Refer to Security Ownership on page 5 of Information Statement for stockholders holding 5% or more. PCD Nominee Corporation (Non-Filipino and Filipino) is comprised of several nominees and the participants with 5% or more are indicated in Security Ownership on page 5 of Information Statement. Total shares of Yorkshire Holdings, Inc. includes direct and indirect beneficial ownership through Altavision Resources, Inc., Asiagroup Holdings, Inc., Globaland Holdings, Inc., Grand Belair Holdings, Inc., and Le Bristol Holdings, Inc.

In July 2008, the Company was authorized to buy-back its shares from the market. The buy-back program was undertaken to create and enhance shareholder value, since market prices at this time did not reflect the true value of the shares. The Company bought 550.10 million shares worth P1.63 billion under its buy-back program. In 03 December 2010, the Board authorized the reissuance of its treasury shares which were all sold in 2011.

In September 2017, the Board of Directors authorized the Company to repurchase up to Php5billion worth of the Company's common shares from the market for a term of 24 months, or until September 2019.

Dividends in the Two Most Recent Years and Subsequent Interim Period

It is the Company's policy to periodically declare a portion of its unrestricted retained earnings as dividend either in the form of cash or stock. The declaration of dividends depends upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends out of its unrestricted retained earnings only. Unrestricted retained earnings represent the net accumulated earnings of the Company with its capital unimpaired which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Cash dividends are subject to the approval by the Board of Directors. Stock dividends are subject to the approval by both the Board of Directors and at least two-thirds (2/3) of the outstanding capital stock of the stockholders at a stockholders' meeting called for such purpose.

On August 19, 2016, AGI declared cash dividends of P0.31 per share, payable to all stockholders of record as of September 5, 2016.

In 2017, the Company did not declare cash dividends as it has implemented a P5 billion share buy-back program which restricts its declaration.

Recent Sales of Unregistered or Exempt Securities Within the Past Three Years

On December 19, 2011 and March 14, 2013, options to subscribe to common stock of the Company totaling 46.5 million (the "2011 Options") and 59.1 million (the "2013 Options"), respectively, were granted to key executives and senior officers, including the CEO and President, at an exercise price of P9.175 and P12.9997, respectively. The total number of outstanding options granted is 105.6 million options to subscribe to the same number of common shares. All of the 2011 Options have vested as of December 31, 2014 while all of the 2013 Options have vested as of March 2016. No vested options have been exercised and no stocks have been issued as of to-date.

Compliance with Leading Practices on 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 and as amended by SEC Memorandum Circular No. 9, Series of 2014. The Manual was further revised and adopted by the Company on May 30, 2017 pursuant to SEC Memorandum Circular No. 19, Series of 2016.

Corporate Governance Committee

The Company's Corporate Governance Committee is responsible for assisting the Board in the performance of its corporate governance responsibilities, as well as establishing formal and transparent procedure to develop a policy for determining the remuneration of directors and officers, and determining the nomination and election process for the Corporation's directors and the general profile of board members that the Corporation may need to ensure that appropriate knowledge, competencies and expertise that complement the existing skills of the Board. This Committee shall be composed of three (3) members, two of whom are independent directors, including the Chairman.

Board Risk Oversight Committee

The Company's Board Risk Oversight Committee is responsible for the oversight of the Corporation's Enterprise Risk Management system to ensure its functionality and effectiveness. This Committee shall be composed of three (3) members of the Board, the majority of whom are independent directors, including the Chairman.

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.

Related Party Transaction Committee

The Company's Related Party Transaction Committee is responsible for reviewing all material related party transactions of the Corporation, including evaluating on an ongoing basis existing relations between and among business and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. This Committee shall be composed of three directors, two of whom are independent directors, including the Chairman.

In 2017, 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.

Deviations from Manual and Sanctions Imposed

In 2017, 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 compliant with the Revised Code of Corporate Governance. The Manual was further revised and adopted by the Company on May 30, 2017 pursuant to SEC Memorandum Circular No. 19, Series of 2016.

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.

Alliance Global Group, Inc.
 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark
 188 E. Rodriguez Jr. Avenue, Bagumbayan, 1110 Quezon City
 Tel. Nos. 7092038-41 Fax Nos. 7091966

**STATEMENT OF MANAGEMENT’S RESPONSIBILITY
 FOR CONSOLIDATED FINANCIAL STATEMENTS**

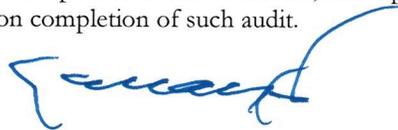
The management of *Alliance Global Group, Inc. and Subsidiaries* (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial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

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

The Board of Directors is responsible for overseeing the Group’s financial reporting process.

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



ANDREW L. TAN
 Chairman of the Board
 (Chief Executive Officer)



KINGSON U. SIAN
 President



DINA D.R. INTING
 Chief Financial Officer

SUBSCRIBED AND SWORN to before me this **APR 06 2018**, affiants exhibiting to me their Passport/SSS No., as follows:

Names	PassportNo./SSS No./DLNo.	Date	Place of Issue
Andrew L. Tan	EC1087269	May 14, 2014 to 2019	Manila
Kingson U. Sian	N11-79-019621	valid until Aug. 27, 2019	Manila
Dina D.R. Inting	SSS 03-5204775-3		

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 Book No. 29
 Series of 2018


ATTY. FRANCISCO G. ZARATE
 Notary Public until Dec. 31, 2018
 Notarial Commission No. 2017051-Manila
 TIN No. 180-238-3587/Roll No. 17574



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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

Opinion

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

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

Basis for Opinion

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

Certified Public Accountants

Punongbayan & Araullo is the Philippine member firm of Grant Thornton International Ltd

Offices in Cavite, Cebu, Davao
BOA/PRC Cert of Reg. No. 0002
SEC Accreditation No. 0002-FR-5

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Key Audit Matters

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

(a) Consolidation Process

Description of the Matter

The Group's consolidated financial statements comprise the financial statements of Alliance Global Group, Inc. and its subsidiaries, as enumerated in Note 1 to the consolidated financial statements, after the elimination of material intercompany transactions. The Group's consolidation process is significant to our audit because of the complexity of the process. It involves layers of consolidation, identification and elimination of voluminous intercompany transactions to properly reflect realization of profits and measurement of controlling and non-controlling interests.

The Group's policy on consolidation process is more fully described in Note 2 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Among others, our audit procedures to address the risk associated with the Group's consolidation process are as follows:

- Obtaining an understanding of the Group structure and consolidation process, including the procedures for identifying intercompany transactions and reconciling intercompany balances;
- Tracing the balances used in the consolidation from the financial reports of the components;
- Ascertaining the appropriateness of the application of consistent accounting policy across the Group; and,
- Testing significant consolidation adjustments, which includes elimination of intercompany revenues, expenses and investments, and recognition of equity transactions to measure non-controlling interest, by identifying such intercompany transactions and balances among the entities or business activities within the Group.



(b) Revenue Recognition on Real Estate Sales

Description of the Matter

The Group, through its Megaworld business segment, recognizes revenue from real estate sales using the percentage-of-completion method for sale of pre-completed properties and full accrual method for sale of developed properties after establishing that collection of the total contract price is reasonably assured, which is determined when a certain percentage of the total contract price has already been collected. Further, under the percentage-of-completion method, the Group recognizes gross profit based on the stage of completion as estimated by management with the assistance of project engineers.

Revenue recognition from real estate sales amounting to P34.6 billion was significant to our audit as it comprises 24% of total revenues of the Group. Further, revenue recognition involves significant management judgments and estimates. Management applies judgment in ascertaining the collectability of the contract price, and estimating the stage of completion and contract costs of the real estate project under development. An error in application of judgment and estimate could cause a material misstatement in the consolidated financial statements.

The Group's disclosures on its revenue recognition policy and details of total revenues are presented in Notes 2 and 23, respectively, to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition on real estate sales included the following:

- Testing the design and operating effectiveness of internal controls over recognition and measurement of revenue from real estate sales;
- Testing, on a sample basis, the application of percentage of collection threshold on sales contracts entered during the year;
- Testing the reasonableness of the collection threshold as basis of determining revenue recognition criterion on the collectability of contract price;
- Ascertaining the qualification of project engineers who certified the stage of completion of projects;
- Testing the reasonableness of percentage of completion by performing physical inspection of selected projects under development and comparing our observations of physical stage of completion with cost-to-cost budgetary estimate; and,
- Evaluating the reasonableness of estimated contract costs with reference to contractors' and suppliers' quotes and historical costs of similar and recently completed projects.



(c) Revenue Recognition for Sale of Consumer Goods and Sales from Company-operated Quick-service Restaurants

Description of the Matter

Sale of consumer goods amounting to P43.2 billion, which mainly from its Emperador business segment, represents 30% of the Group's total revenues. The Group recognizes sale of goods when the risks and rewards of ownership of the goods have passed to the buyer, i.e., generally when the customer has acknowledged delivery of goods.

Sale from company-operated quick-service restaurants amounting to P23.1 billion, which mainly from its GADC business segment, represents 16% of the Group's total revenue. The Group recognizes revenue from restaurant sales when services are rendered, that is, when food and beverage products or promotional items purchased by customers have been delivered and accepted by the customers.

We considered revenue recognition from both sources as a key audit matter since it involves significant volume of transactions, requires proper observation of cut-off procedures, and directly impacts the Group's profitability.

The Group's disclosures on its revenue recognition policy and details of total revenues are presented in Notes 2 and 23, respectively, to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

On sale of consumer goods

- Testing the design and operating effectiveness of the Group's internal controls over the recognition and measurement of revenues from sale of goods;
- Testing sales invoices, delivery receipts and cash receipts, on a sample basis, of sales transactions throughout the current period to determine whether sale of goods is valid and actually occurred;
- Reviewing third party contracts and testing related sales invoices, delivery receipts and cash receipts, on sample basis, for bulk sales transactions;
- Confirming trade receivables, on a sample basis, as of the end of the reporting period from the sale of goods; and, performing alternative procedures such as, but not limited to, examining cash receipts, or sales invoices and delivery receipts.
- Testing sales invoices and delivery receipts immediately prior and subsequent to the current period to determine whether the related sales transactions are recognized in the proper reporting period; and,



- Performing substantive analytical review procedures over revenues from sale of goods such as, but not limited to, yearly and monthly analyses of sales per product/brand and location, and sales mix composition based on our expectations and following up variances from our expectations; and, verifying that the underlying data used in the analyses are valid.

On sales from company-operated quick-service restaurants:

- Testing the design and operating effectiveness of the Group's internal controls over the recognition and measurement of revenues from sales from company-operated quick-service restaurants;
- Testing implemented I.T. general and application controls over automated systems that process revenue from company-operated quick-service restaurants; and,
- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per product/brand and location, and sales mix composition based on our expectations and following up variances from our expectations; and, verifying that the underlying data used in the analyses are valid.

(d) Revenue Recognition on Gaming Operations

Description of the Matter

The Group, through its Travellers business segment, is the operator of integrated gaming resorts and tourist destination, Resorts World Manila. The total revenue from gaming operations amounted to P17.1 billion in 2017 representing 12% of the Group's total revenues. In our view, revenue recognition is significant to our audit because the amount is significant and it involves voluminous transactions at any given period of time, which undergo complex automated and manual gaming processes and controls under the Group's principal gaming and gaming-related systems.

The Group's disclosures on its revenue recognition policy and details of total revenues are presented in Notes 2 and 23, respectively, to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition on gaming operations, which was considered to be a significant risk, included the following:

- Testing the design and operating effectiveness of the Group's internal controls over recognition of revenue from gaming operations;
- Testing I.T. general and application controls on automated systems that process revenue from gaming operations;



- Testing the recognition and measurement of gaming revenues by tracing a sample of transactions throughout the current period to source data to verify the accuracy of reported gaming revenues;
- Performing detailed observation of cash count procedures at the end of the reporting period to verify the appropriateness of the Group's cut-off procedures on gaming revenues; and,
- Performing analytical review procedures on gaming revenues, drops and win rates from both gaming tables and slot machines based on our expectations and followed up variances from our expectations.

(e) Impairment of Goodwill and Trademarks with Indefinite Useful Life

Description of the Matter

Under Philippine Accounting Standard 36, *Impairment of Assets*, the Group is required to annually test the amounts of its goodwill and trademarks, from its Emperador business segment, with indefinite useful life for impairment. As at December 31, 2017, goodwill amounted to P20.5 billion while the trademarks amounted to P20.1 billion. We considered the impairment test as a key audit matter because the amounts of goodwill and trademarks are material to the consolidated financial statements. In addition, management's assessment process is highly judgmental, and is based on significant assumptions, specifically the determination of the discount rate and cash flows projections used in determining the value-in-use of the trademarks and the cash-generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

The Group's policy on impairment assessment of goodwill and trademarks with indefinite useful life is more fully described in Note 2 while the relevant key assumptions used and the result of the impairment testing are presented in Note 15 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to goodwill and trademarks with indefinite useful life included, among others, the following:

- Evaluating the reasonableness of assumptions and methodology used in determining the value-in-use of cash-generating units attributable to the goodwill and trademarks, which include the discount rate and the cash flow projections by comparing them to external and historical data; and, performing sensitivity analysis of the projections and discount rate to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash generating units to exceed the recoverable amount; and,
- Comparing the net present value of excess earnings attributable to the trademarks and cash generating units over which the goodwill was allocated against the carrying amounts of trademarks and goodwill.



(f) Fair Value of Investment Properties

Description of the Matter

The carrying amount of the Group's investment properties, which mainly from its Megaworld business segment, carried at cost less accumulated depreciation as at December 31, 2017 is P73.0 billion. As required by Philippine Accounting Standard 40, *Investment Property*, the Group disclosed in Note 14 to the consolidated financial statements the total fair value of its investment properties amounting to P310.1 billion. Management determined the fair value using the discounted cash flows model which considers assumptions that are mainly based on market conditions existing at the end of the reporting period, such as the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements and appropriate discount rate.

The disclosure on fair value of investment properties was significant in our audit as the amount is material to the consolidated financial statements and that the processes of determining the fair value involves significant estimates.

The method and assumptions used in determining the fair value of investment properties is more fully described in Notes 3 and 33 to the consolidated financial statements while the fair value of investment properties as at December 31, 2017 is presented in Note 14.

How the Matter was Addressed in the Audit

We tested the integrity of inputs of the projected cash flows used in the valuation by examining supporting lease contracts and other relevant documents. We challenged the discount rate used in the valuation by comparing with industry data, taking into consideration comparability and market factors.

(g) Existence and Valuation of Inventories

Description of the Matter

Inventories amounted to P91.7 billion as at December 31, 2017, which mainly from its Megaworld and Emperador business segments. The valuation of inventories is at the lower of cost or net realizable value (NRV).

Real estate inventories principally comprise of land for future development, property development costs, residential and condominium units for sale, and golf and resort shares for sale while consumable inventories mostly comprise of alcoholic beverages. Future realization of inventories is affected by price changes in the costs incurred necessary to complete and make a sale. Due to the significant volume and carrying amount of inventories, and the high level of judgment in estimating its NRV, we considered the existence and valuation of inventories as significant to our audit.

The Group's disclosures on accounting policy, estimation uncertainty, and Inventories account are presented in Notes 2, 3, and 8, respectively, to the consolidated financial statements.



How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the existence and valuation of inventories included, among others, the following:

On existence of inventories:

- Performing, on a sample basis, physical inspection of real estate properties held as inventories;
- Observing physical inventory count procedures on consumer goods and obtaining relevant cut-off information and copy of count control documents;
- Performing a physical count test on consumer goods, on a sample basis, during the physical inventory count procedures and other test count dates, and verifying the inventory movements during the intervening periods between the actual count and reporting dates to further test the quantities of inventory items as of the reporting date; and,
- Performing substantive analytical review procedures over inventory-related ratios such as, but not limited to, inventory turnover and current period's components of inventories; and, verifying that the underlying data used in the analyses are valid.

On valuation of inventories:

- Testing the design and operating effectiveness of the method of inventory costing and measurement at the lower of cost or NRV;
- Performing a price test, on a sample basis, of inventory items by examining supporting documents such as, but not limited to, construction contracts for real estate inventories, purchase contracts and invoices, and relevant importation documents;
- Performing detailed analysis of the Group's standard costing of inventories through analytical review procedures of actual costs during the current period against the budgeted standard, and testing significant actual costs, on a sample basis, by agreeing with contracts and invoices;
- Determining whether the application of the lower of cost or NRV is appropriate and consistent with prior periods; and,
- Evaluating the sufficiency and appropriateness of the amount of allowance for inventory write-down by testing the key assumptions used on the expected realization of inventories.



Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



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

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

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

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



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the 2017 audit resulting in this independent auditors' report is Romualdo V. Murcia III.

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 6616014, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 6, 2018

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash and cash equivalents	5	P 55,672,960,546	P 48,672,938,017
Trade and other receivables - net	6	73,812,169,152	57,600,956,140
Financial assets at fair value through profit or loss	7	13,516,474,011	10,465,266,604
Inventories - net	8	91,579,134,140	84,928,119,642
Property development costs	2.7	23,111,103,124	20,105,196,663
Available-for-sale financial assets	11	-	66,501,898
Other current assets	9	10,213,596,675	8,235,312,421
		267,905,437,648	230,074,291,385
NON-CURRENT ASSETS			
Trade and other receivables - net	6	34,775,424,756	35,678,314,324
Advances to landowners and joint ventures	10	5,988,892,593	4,859,000,177
Available-for-sale financial assets - net	11	431,645,289	606,613,388
Land for future development	2.7	25,469,878,369	22,079,341,640
Investments in and advances to associates and other related parties	12	8,665,615,820	9,224,586,430
Property, plant and equipment - net	13	98,026,484,627	82,993,671,075
Investment property - net	14	72,999,467,061	62,306,769,151
Intangible assets - net	15	41,637,659,271	37,524,214,229
Deferred tax assets - net	28.1	800,928,952	980,756,248
Other non-current assets	9	5,120,358,496	4,969,404,868
		293,916,355,234	261,222,671,530
TOTAL ASSETS		P 561,821,792,882	P 491,296,962,915

	Notes	<u>2017</u>	<u>2016</u>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Trade and other payables	16	P 45,648,707,657	P 38,967,103,207
Interest-bearing loans	17	32,700,476,157	21,095,657,317
Bonds payable	18	9,976,270,876	39,734,990,308
Income tax payable		959,058,840	1,122,497,897
Redeemable preferred shares	19	251,597,580	-
Other current liabilities	20	<u>22,178,277,568</u>	<u>22,151,381,020</u>
Total Current Liabilities		<u>111,714,388,678</u>	<u>123,071,629,749</u>
NON-CURRENT LIABILITIES			
Interest-bearing loans	17	108,273,087,030	55,500,216,708
Bonds payable	18	24,388,714,176	22,330,589,969
Advances from related parties	29.6	2,329,974,989	1,741,255,704
Retirement benefit obligation	27.2	1,943,453,287	2,604,306,467
Redeemable preferred shares	19	1,857,022,803	2,013,695,292
Deferred tax liabilities - net	28.1	12,116,387,446	11,454,686,710
Other non-current liabilities	20	<u>27,356,716,682</u>	<u>26,476,910,868</u>
Total Non-current Liabilities		<u>178,265,356,413</u>	<u>122,121,661,718</u>
Total Liabilities		<u>289,979,745,091</u>	<u>245,193,291,467</u>
EQUITY			
Equity attributable to owners of the parent company	21	162,574,974,361	147,140,151,266
Non-controlling interest		<u>109,267,073,430</u>	<u>98,963,520,182</u>
Total Equity		<u>271,842,047,791</u>	<u>246,103,671,448</u>
TOTAL LIABILITIES AND EQUITY		<u>P 561,821,792,882</u>	<u>P 491,296,962,915</u>

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
REVENUES				
Sale of goods	23	P 77,859,966,979	P 74,739,178,749	P 77,191,938,805
Rendering of services	23	60,720,616,123	62,172,432,145	58,481,511,173
Share in net profits of associates and joint ventures - net	12	272,698,340	355,605,317	268,621,860
Finance and other income	26	<u>2,768,704,769</u>	<u>2,473,666,563</u>	<u>3,155,787,700</u>
		<u>141,621,986,211</u>	<u>139,740,882,774</u>	<u>139,097,859,538</u>
COSTS AND EXPENSES				
Cost of goods sold	24	47,982,847,802	46,019,543,082	50,442,851,655
Cost of services	24	31,068,609,355	30,870,331,895	30,163,499,053
Other operating expenses	25	28,065,392,787	27,218,660,549	25,712,056,719
Finance costs and other charges	26	<u>6,382,794,291</u>	<u>6,932,664,573</u>	<u>5,852,497,011</u>
		<u>113,499,644,235</u>	<u>111,041,200,099</u>	<u>112,170,904,438</u>
PROFIT BEFORE TAX		28,122,341,976	28,699,682,675	26,926,955,100
TAX EXPENSE	28	<u>6,295,772,435</u>	<u>5,880,979,710</u>	<u>5,240,654,206</u>
NET PROFIT		<u>21,826,569,541</u>	<u>22,818,702,965</u>	<u>21,686,300,894</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains (losses) on remeasurement of retirement benefit obligation	27.2	950,503,573	(807,696,890)	887,318,413
Share in other comprehensive income (loss) of associates	12	33,916,495	(27,975,475)	38,744,144
Deferred tax income (expense) relating to components of other comprehensive income	28.1	(189,305,616)	130,194,376	(206,483,118)
		<u>795,114,452</u>	(705,477,989)	<u>719,579,439</u>
Items that will be reclassified subsequently to profit or loss				
Net unrealized fair value gains (losses) on available-for-sale financial assets	11	26,875,114	(10,848,693)	(1,077,987,929)
Translation adjustments	2.19	729,350,325	(2,602,327,527)	(773,889,829)
Net unrealized fair value loss on cash flow hedge	20	(45,942,879)	-	-
Realized fair value loss (gain) on disposal of available-for-sale financial assets	11	(28,356,713)	11,942,807	(38,213,359)
Deferred tax expense relating to components of other comprehensive income	28.1	(409,175)	(13,068,552)	(20,960,996)
		<u>681,516,672</u>	(2,614,301,965)	(1,911,052,113)
TOTAL COMPREHENSIVE INCOME		<u>P 23,303,200,665</u>	<u>P 19,498,923,011</u>	<u>P 20,494,828,220</u>
Net profit attributable to:				
Owners of the parent company		P 14,931,132,276	P 14,801,009,539	P 13,964,765,317
Non-controlling interest		<u>6,895,437,265</u>	<u>8,017,693,426</u>	<u>7,721,535,577</u>
		<u>P 21,826,569,541</u>	<u>P 22,818,702,965</u>	<u>P 21,686,300,894</u>
Total comprehensive income attributable to:				
Owners of the parent company		P 16,006,075,772	P 13,239,431,722	P 13,581,880,917
Non-controlling interest		<u>7,297,124,893</u>	<u>6,259,491,289</u>	<u>6,912,947,303</u>
		<u>P 23,303,200,665</u>	<u>P 19,498,923,011</u>	<u>P 20,494,828,220</u>
Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company:				
Basic	22	<u>P 1.4773</u>	<u>P 1.4587</u>	<u>P 1.3763</u>
Diluted		<u>P 1.4740</u>	<u>P 1.4437</u>	<u>P 1.3715</u>

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

Notes	Attributable to Owners of the Parent Company													
	Capital Stock	Additional Paid-in Capital	Treasury Shares – at cost	Net Actuarial Losses on Retirement Benefit Plan	Net Fair Value Gains (Losses) on Available-for-Sale Financial Assets	Accumulated Translation Adjustments	Revaluation Reserves on Cash Flow Hedge	Dilution Gain	Share Options	Retained Earnings			Noncontrolling Interest	Total Equity
										Appropriated	Unappropriated	Total		
Balance at January 1, 2017	P 10,269,827,979	P 34,395,380,979	(P 936,157,074)	(P 585,429,112)	P 477,744,138	(P 4,595,890,425)	P -	P 19,980,402,684	P 744,676,052	P 2,532,837,400	P 84,856,758,645	P 147,140,151,266	P 98,963,520,182	P 246,103,671,448
Transactions with owners:														
Acquisition of treasury shares	-	-	(629,988,966)	-	-	-	-	-	-	-	-	(629,988,966)	-	(629,988,966)
Share-based compensation	21, 27	-	-	-	-	-	-	-	-	-	-	-	49,457,009	49,457,009
Change in percentage ownership	-	-	-	-	-	-	-	58,736,289	-	-	-	58,736,289	401,401,199	98,876,488
Acquisition and incorporation of new subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	4,503,257,026	4,503,257,026
Dividend from investee	-	-	-	-	-	-	-	-	-	-	-	-	(1,719,702,265)	(1,719,702,265)
Recognition of conversion options	-	-	-	-	-	-	-	-	-	-	-	-	136,151,386	136,151,386
Retirement of preferred shares	-	-	(629,988,966)	-	-	-	-	58,736,289	-	-	-	(571,252,677)	(2,875,000)	(2,875,000)
Appropriation of retained earnings	21	-	-	-	-	-	-	-	-	2,748,722,000	(2,748,722,000)	-	-	-
Reversal of appropriation	21	-	-	-	-	-	-	-	-	(2,532,837,400)	2,532,837,400	-	-	-
Total comprehensive income	-	-	-	548,891,312	(277,796,725)	834,745,495	(30,896,586)	-	-	-	14,931,132,276	16,006,075,772	7,297,124,893	23,303,200,665
Balance at December 31, 2017	P 10,269,827,979	P 34,395,380,979	(P 1,566,146,040)	(P 36,537,800)	P 199,947,413	(P 3,761,144,930)	(P 30,896,586)	P 20,039,138,973	P 744,676,052	P 2,748,722,000	P 99,572,006,321	P 162,574,974,361	P 109,267,073,430	P 271,842,047,791
Balance at January 1, 2016	P 10,269,827,979	P 34,395,380,979	(P 936,157,074)	(P 71,269,938)	P 690,503,745	(P 2,370,232,891)	P -	P 19,980,402,684	P 727,492,290	P 1,990,590,660	P 73,760,966,190	P 137,056,497,134	P 94,131,696,857	P 231,188,193,991
Transactions with owners:														
Share-based compensation	21, 27	-	-	-	-	-	-	-	88,261,583	-	-	88,261,583	48,020,050	136,281,633
Reclassification adjustment	-	-	-	(11,091,008)	1,100,000	-	-	-	(71,077,821)	-	(113,265,968)	(194,334,797)	194,334,797	-
Change in percentage ownership	-	-	-	-	-	-	-	-	-	-	95,823,396	95,823,396	(112,820,053)	(16,996,657)
Acquisition and incorporation of new subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	143,598,107	143,598,107
Dividend from investee	-	-	-	-	-	-	-	-	-	-	-	-	(1,700,800,865)	(1,700,800,865)
Cash dividends declared	21	-	-	(11,091,008)	1,100,000	-	-	-	17,183,762	-	(3,145,527,772)	(3,145,527,772)	(3,145,527,772)	(3,145,527,772)
Appropriation of retained earnings	21	-	-	-	-	-	-	-	-	2,084,587,400	(2,084,587,400)	-	-	-
Reversal of appropriation	21	-	-	-	-	-	-	-	-	(1,542,340,660)	1,542,340,660	-	-	-
Total comprehensive income	-	-	-	(503,068,166)	1,167,147,883	(2,225,657,534)	-	-	-	-	14,801,009,539	13,239,431,722	6,259,491,289	19,498,923,011
Balance at December 31, 2016	P 10,269,827,979	P 34,395,380,979	(P 936,157,074)	(P 585,429,112)	P 477,744,138	(P 4,595,890,425)	P -	P 19,980,402,684	P 744,676,052	P 2,532,837,400	P 84,856,758,645	P 147,140,151,266	P 98,963,520,182	P 246,103,671,448
Balance at January 1, 2015	P 10,269,827,979	P 34,395,380,979	(P 936,157,074)	(P 551,140,907)	P 505,662,807	(P 1,692,318,460)	P -	P 19,980,402,684	P 577,813,280	P 1,225,000,000	P 63,707,319,305	P 126,470,464,979	P 91,012,950,893	P 217,483,415,872
Transactions with owners:														
Share-based compensation	21, 27	-	-	-	-	-	-	-	149,679,010	-	-	149,679,010	150,322,881	300,001,891
Change in percentage ownership	-	-	-	-	-	-	-	-	-	-	-	-	(2,291,217,054)	(2,291,217,054)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	254,687,970	254,687,970
Dividend from investee	-	-	-	-	-	-	-	-	-	-	-	-	(1,907,995,136)	(1,907,995,136)
Cash dividends declared	21	-	-	-	-	-	-	-	-	(3,145,527,772)	(3,145,527,772)	-	-	(3,145,527,772)
Appropriation of retained earnings	21	-	-	-	-	-	-	-	149,679,010	-	(3,145,527,772)	(3,145,527,772)	(3,794,201,339)	(6,790,050,101)
Reversal of appropriation	21	-	-	-	-	-	-	-	-	(1,225,000,000)	1,225,000,000	-	-	-
Total comprehensive income	-	-	-	479,870,069	(184,840,938)	(677,914,431)	-	-	-	-	13,964,765,317	13,581,880,917	6,912,947,303	20,494,828,220
Balance at December 31, 2015	P 10,269,827,979	P 34,395,380,979	(P 936,157,074)	(P 71,269,938)	P 690,503,745	(P 2,370,232,891)	P -	P 19,980,402,684	P 727,492,290	P 1,990,590,660	P 73,760,966,190	P 137,056,497,134	P 94,131,696,857	P 231,188,193,991

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 28,122,341,976	P 28,699,682,675	P 26,926,955,100
Adjustments for:				
Depreciation and amortization	24, 25	5,839,552,780	5,100,711,730	4,486,155,305
Interest expense	26	5,554,066,867	4,856,184,716	4,030,183,353
Interest income	26	(2,093,123,324)	(1,818,829,674)	(2,477,581,190)
Losses from property damages	13, 30.7	652,604,324	-	-
Unrealized foreign currency losses - net		285,082,501	1,833,760,579	1,671,668,080
Share in net profits of associates and joint ventures	12	(272,698,340)	(355,605,317)	(268,621,860)
Loss (gain) on disposal of property, plant and equipment and investment property	26	(115,773,777)	35,820,601	(1,779,421)
Gain on sale of investments in an associate	26	(113,069,227)	(82,459,513)	(181,347,731)
Gain on reversal of impairment losses	13, 26	(60,504,846)	-	(1,877,430)
Stock option benefit expense	27	49,457,009	136,281,633	300,444,171
Unrealized loss on interest rate swap	26	27,235,637	31,769,386	30,186,511
Loss (gain) on sale of investment in available-for-sale financial assets	26	(22,230,010)	(11,942,807)	34,615,950
Dividend income	26	(12,423,602)	(6,312,863)	(15,376,038)
Fair value losses (gains) - net	26	9,126,926	(159,134,466)	(257,633,748)
Reversal of preacquisition income (loss)	26	(2,715,950)	3,314,788	(291,847)
Impairment of property, plant and equipment	13, 25	-	166,497,656	-
Income from acquisition and deconsolidation of subsidiaries	26	-	(53,333,760)	(3,758,167)
Gain on reversal of liabilities	26	-	-	(6,000,000)
Operating profit before working capital changes		37,846,928,944	38,376,405,364	34,265,941,038
Increase in trade and other receivables		(14,707,810,124)	(10,818,767,603)	(12,420,286,494)
Decrease (increase) in financial assets at fair value through profit or loss		(3,060,334,333)	1,381,247,869	(2,874,686,770)
Increase in inventories		(5,971,254,910)	(6,646,895,698)	(5,010,665,696)
Increase in property development costs		(986,067,337)	(5,200,693,240)	(2,467,537,709)
Increase in other current assets		(2,350,535,366)	(2,954,106,410)	(1,614,508,215)
Increase (decrease) in trade and other payables		6,807,728,994	(574,864,877)	1,346,538,032
Increase (decrease) in other current liabilities		(106,480,791)	599,129,197	(1,060,888,298)
Increase (decrease) in retirement benefit obligation		(60,038,783)	34,207,167	16,743,203
Increase (decrease) in other non-current liabilities		1,309,967,252	(321,679,183)	3,347,111,659
Cash generated from operations		18,722,103,546	13,873,982,586	13,527,760,750
Cash paid for taxes		(5,138,190,000)	(4,455,061,359)	(4,210,292,049)
Net Cash From Operating Activities		13,583,913,546	9,418,921,227	9,317,468,701
<i>Balance carried forward</i>		P 13,583,913,546	P 9,418,921,227	P 9,317,468,701

	Notes	2017	2016	2015
<i>Balance brought forward</i>		P 13,583,913,546	P 9,418,921,227	P 9,317,468,701
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Property, plant and equipment	13	(19,349,174,305)	(15,258,990,246)	(13,362,202,290)
Investment property	14	(13,842,368,413)	(12,979,191,612)	(12,896,131,534)
Intangible assets	15	(3,012,832,940)	-	(125,000)
Subsidiaries, associates and business units	12	(2,283,198,971)	(12,208,064,237)	(956,432,437)
Land for future development		(404,398,113)	(1,687,208,045)	(4,358,367,202)
Available-for-sale financial assets	11	(15,857,795)	(161,284,871)	(536,169,158)
Proceeds from:				
Disposal of property, plant and equipment	13	1,519,523,083	76,795,977	205,139,013
Withdrawal of investment in a joint venture		858,354,900	-	-
Sale of available-for-sale financial assets	11	306,432,916	1,689,935,683	3,240,197,938
Sale of investment in associates	12	297,454,675	343,867,951	422,256,169
Collections of advances from associates and other related parties	12	285,081,063	386,790,457	193,297
Disposal of investment property	14	169,869,223	766,776	33,846,200
Interest received		1,796,894,279	1,578,065,218	2,190,794,144
Additional advances granted to associates		(308,966,472)	(35,162,769)	(1,557,034,759)
Collection from (advances to) landowners, joint ventures and other related parties		(255,044,624)	(265,563,720)	230,269,524
Increase (decrease) in other non-current assets		(150,905,407)	2,025,977,244	(4,675,923,285)
Cash dividends received		73,375,843	99,704,157	15,376,038
Net Cash Used in Investing Activities		(34,315,761,058)	(36,393,562,037)	(32,004,313,342)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from interest-bearing loans and bonds	17, 18	98,231,009,865	46,474,698,987	50,622,198,717
Payment of interest-bearing loans and bonds	17, 18	(62,327,686,223)	(27,657,660,328)	(32,852,765,742)
Interest paid		(8,278,141,867)	(6,504,307,008)	(5,230,421,625)
Dividends paid	21	(1,719,702,265)	(4,846,328,637)	(5,053,522,908)
Advances collected and received from related parties	29	1,333,718,613	1,530,728,915	2,404,220,900
Proceeds from issuance of shares of subsidiaries		847,882,450	-	13,737,924
Acquisition of treasury shares and redemption of preferred shares	21	(632,863,966)	-	-
Payments of derivative liabilities	20	(360,478,688)	(339,463,500)	(324,351,375)
Advances granted and paid to related parties	29	(338,467,614)	(1,405,950,723)	(420,471,559)
Net Cash From Financing Activities		26,755,270,305	7,051,717,706	9,158,624,332
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		6,023,422,793	(19,922,923,104)	(13,528,220,309)
CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARY		976,599,736	1,902,094	63,342,689
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		48,672,938,017	68,593,959,027	82,058,836,647
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 55,672,960,546	P 48,672,938,017	P 68,593,959,027

Supplemental Information on Non-cash Investing and Financing Activities:

- In the normal course of business, the Group enters into non-cash activities which are not reflected in the cash flows, including the following: (a) exchanges or purchases or sale on account of real estate and other assets that remain unpaid at end of period; (b) reclassifications or transfers of property as it goes through its various stages of development, such as incurred costs from Land for Future Development to Property Development Costs or to Investment Property or to Inventories; (c) borrowing costs capitalized under Property Development Costs or Construction in Progress; (d) prior period's deposits applied during the period.
- In 2017, the Group wrote-off certain properties and equipment amounting to P652.6 million which were damaged due to the incident at Resorts World Manila (see Notes 13 and 30.7).
- In 2017, a subsidiary issued 122.4 million common shares in consideration of the accrued interest amounting to P832.3 million (see Note 20).

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 General 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, associates and joint ventures (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/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2017	2016	2015
Subsidiaries					
Megaworld and subsidiaries					
Megaworld Corporation	Megaworld	(a)	67%	67%	67%
Megaworld Resort Estates, Inc.		(b)	83%	83%	83%
Sonoma Premiere Land, Inc.		(c)	73%	73%	73%
Megaworld Land, Inc.			67%	67%	67%
Prestige Hotels and Resorts, Inc.			67%	67%	67%
Mactan Oceanview Properties and Holdings, Inc.			67%	67%	67%
Megaworld Cayman Islands, Inc.		(d)	67%	67%	67%
Richmonde Hotel Group International Ltd.	RHGI	(e)	67%	67%	67%
Eastwood Cyber One Corporation	ECOC		67%	67%	67%
Megaworld Cebu Properties, Inc.			67%	67%	67%
Megaworld Newport Property Holdings, Inc.			67%	67%	67%
Oceantown Properties, Inc.			67%	67%	67%
Piedmont Property Ventures, Inc.			67%	67%	67%
Stonehaven Land, Inc.			67%	67%	67%
Streamwood Property, Inc.			67%	67%	67%
Suntrust Properties, Inc.	SPI		67%	67%	67%
Luxury Global Hotels and Leisures, Inc.			67%	67%	67%
Suntrust Ecotown Developers, Inc.	SEDI		67%	67%	67%
Arcovia Properties, Inc.			67%	67%	67%
Citywalk Building Administration, Inc.			67%	67%	67%
Forbestown Commercial Center Administration, Inc.			67%	67%	67%
Paseo Center Building Administration, Inc.			67%	67%	67%
Uptown Commercial Center Administration, Inc.			67%	67%	67%
Global One Integrated Business Services, Inc.			67%	67%	67%
Luxury Global Malls, Inc.			67%	67%	67%
Davao Park District Holdings Inc.			67%	67%	67%
Governor's Hills Science School, Inc.			67%	67%	67%
Sunrays Properties Management, Inc.			67%	67%	67%
Suntrust One Shanata, Inc.			67%	67%	67%
Suntrust Two Shanata, Inc.			67%	67%	67%
Belmont Newport Luxury Hotels, Inc.			67%	67%	67%
Global One Hotel Group, Inc.			67%	67%	67%
Ilo-ilo Center Mall Administration, Inc.			67%	67%	67%
Valley Peaks Property Management, Inc.			67%	67%	67%

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2017	2016	2015
Subsidiaries					
Megaworld and subsidiaries					
Newtown Commercial Center Administration, Inc.			67%	67%	67%
Landmark Seaside Properties, Inc.		(f)	67%	67%	-
San Vicente Coast, Inc.		(g)	67%	67%	-
San Lorenzo Place Commercial Center Administration, Inc.	SLPCCAI	(h)	67%	-	-
Megaworld Bacolod Properties, Inc.	MBPI		62%	62%	62%
Southwoods Mall Inc.	SMI		61%	61%	61%
Megaworld Global-Estate, Inc.		(i)	60%	60%	60%
Manila Bayshore Property Holdings, Inc.	MBPHI	(j)	57%	57%	57%
Twin Lakes Corp.	TLC		56%	56%	56%
Empire East Land Holdings, Inc.	EELHI		55%	55%	55%
Valle Verde Properties, Inc.			55%	55%	55%
Empire East Communities, Inc.			55%	55%	55%
Sherman Oak Holdings, Inc.			55%	55%	55%
Eastwood Property Holdings, Inc.			55%	55%	55%
20th Century Nylon Shirt, Inc.			55%	55%	55%
Global-Estate Resorts, Inc.	GERI	(k)	55%	55%	55%
Fil-Estate Properties, Inc.	FEPI		55%	55%	55%
Aklan Holdings Inc.			55%	55%	55%
Blu Sky Airways, Inc.			55%	55%	55%
Fil-Estate Subic Development Corp.			55%	55%	55%
Fil-Power Construction Equipment Leasing Corp.			55%	55%	55%
Golden Sun Airways, Inc.			55%	55%	55%
La Compañia De Sta. Barbara, Inc.			55%	55%	55%
MCX Corporation			55%	55%	55%
Pioneer L-5 Realty Corp.			55%	55%	55%
Prime Airways, Inc.			55%	55%	55%
Sto. Domingo Place Development Corp.			55%	55%	55%
Fil-Power Concrete Blocks Corp.			55%	55%	55%
Fil-Estate Golf and Development, Inc			55%	55%	55%
Golforce, Inc.			55%	55%	55%
Fil-Estate Urban Development Corp.			55%	55%	55%
Novo Sierra Holdings Corp.			55%	55%	55%
Global Homes and Communities, Inc.			55%	55%	55%
Megaworld Central Properties, Inc.			51%	51%	51%
Megaworld Capital Town, Inc.	MCTI	(h)	51%	-	-
Townsquare Development, Inc.	TDI		50%	50%	50%
Golden Panda-ATI Realty Corporation			50%	50%	50%
Soho Cafe and Restaurant Group, Inc.		(f)	50%	50%	-
La Fuerza, Inc.	LFI		45%	45%	45%
Fil-Estate Industrial Park, Inc.			44%	44%	44%
Megaworld-Daewoo Corporation	MDC		40%	40%	40%
Laguna Bel-Air School, Inc.			40%	40%	40%
Northwin Properties, Inc.	NWPI	(h)	40%	-	-
Gilmore Property Marketing Associates Inc.			35%	35%	35%
Megaworld Globus Asia, Inc.			34%	34%	34%
Philippine International Properties, Inc.			34%	34%	34%
Maple Grove Land, Inc.		(g)	34%	34%	-
Southwoods Ecocentrum Corp.		(l)	33%	33%	31%
Philippine Aquatic Leisure Corp.		(l)	33%	33%	31%
Sherwood Hills Development Inc.			30%	30%	30%
Oceanfront Properties, Inc.	OFPI		28%	28%	28%
Subsidiaries					
Emperador and subsidiaries					
Emperador Inc.	EMP or Emperador	(m)	82%	82%	82%
Emperador Distillers, Inc.	EDI		82%	82%	82%
Alcazar de Bana Holdings Company, Inc.		(g)	82%	82%	-
Anglo Watsons Glass, Inc.	AWGI		82%	82%	82%
Cocos Vodka Distillers Philippines, Inc.			82%	82%	82%
ProGreen AgriCorp, Inc.		(f)	82%	82%	-
South Point Science Park, Inc.		(f)	82%	82%	-
The Bar Beverage, Inc.			82%	82%	82%

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2017	2016	2015
Subsidiaries					
Emperador and subsidiaries					
Tradewind Estates, Inc.	TEI	(n)	82%	82%	100%
Zabana Rum, Inc.		(o)	82%	-	-
Emperador International Ltd.	EIL	(c)	82%	82%	82%
Emperador Europe SARL	EES	(p)	82%	82%	82%
Emperador Asia Pte Ltd.	EA	(p)	82%	82%	82%
Grupo Emperador Spain, S.A.U.	GES	(p)	82%	82%	82%
Bodega San Bruno, S.L.	BSB	(p)	82%	82%	82%
Bodegas Fundador SLU	BFS	(p)	82%	82%	82%
Destilados de la Mancha S.L.	DDLDM	(g)	82%	82%	-
Complejo Bodeguero San Patricio, SLU	CBSP	(g, p)	82%	82%	-
Emperador Gestion S.L.	GEG	(g, p)	82%	82%	-
Emperador Holdings (GB) Limited.	EGB	(p)	82%	82%	82%
Emperador UK Limited	EUK	(p)	82%	82%	82%
Whyte and Mackay Group Limited	WMG	(p)	82%	82%	82%
Whyte and Mackay Limited	WML	(p)	82%	82%	82%
Whyte and Mackay Warehousing Ltd.	WMWL	(p)	82%	82%	82%
Domecq Bodega Las Copas, S.L.	DBLC	(o)	41%	-	-
Pedro Domecq S.A. de C.V.	PDSC	(o)	41%	-	-
Bodega Domecq S.A. de C.V.	BDSC	(o)	41%	-	-
Gonzales Byass de Mexico S.A. de C.V.	GBMS	(o)	41%	-	-
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.			49%	49%	49%
Golden Laoag Foods Corporation			38%	38%	38%
Davao City Food Industries, Inc.			37%	37%	37%
Red Asian Food Solutions			37%	37%	37%
First Golden Laoag Ventures			34%	34%	34%
Retiro Golden Foods, Inc.			34%	34%	34%
McDonald's Anonas City Center			34%	34%	34%
McDonald's Puregold Taguig			29%	29%	29%
Golden City Food Industries, Inc.			29%	29%	29%
McDonald's Bonifacio Global City			27%	27%	27%
Molino First Golden Foods, Inc.			26%	26%	26%
GY Alliance Concepts, Inc.			19%	19%	19%
Onzal Development Corp.	ODC	(q)	-	-	49%
Travellers and subsidiaries					
Travellers International Hotel Group, Inc.	Travellers	(r)	47%	47%	47%
APEC Assets Limited			47%	47%	47%
Bright Leisure Management, Inc.			47%	47%	47%
Deluxe Hotels and Recreation, Inc.	DHRI		47%	47%	47%
Entertainment City Integrated Resorts & Leisure, Inc.			47%	47%	47%
Grand Integrated Hotels and Recreation, Inc.			47%	47%	47%
Grandservices, Inc.			47%	47%	47%
Grandventure Management Services, Inc.			47%	47%	47%
Lucky Star Hotels and Recreation, Inc.	LSHRI		47%	47%	47%
Majestic Sunrise Leisure & Recreation, Inc.			47%	47%	47%
Netdeals, Inc.			47%	47%	47%
Newport Star Lifestyle, Inc.			47%	47%	47%
Royal Bayshore Hotels & Amusement, Inc.			47%	47%	47%
FHTC Entertainment & Production, Inc.	FHTC		47%	47%	47%
Bright Pelican Leisure and Production, Inc.			47%	47%	47%
Golden Peak Leisure and Recreation, Inc.			47%	47%	47%
Westside City Resorts World, Inc.	WCRWI	(s)	47%	47%	47%
Purple Flamingos Amusement and Leisure Corporation			47%	47%	47%
Red Falcon Amusement and Leisure Corporation			47%	47%	47%

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI		
			2017	2016	2015
Subsidiaries					
Travellers and subsidiaries					
Agile Fox Amusement and Leisure Corporation			47%	47%	47%
Aquamarine Delphinium Leisure and Recreation, Inc.			47%	47%	47%
Brilliant Apex Hotels and Leisure Corporation			47%	47%	47%
Coral Primrose Leisure and Recreation Corporation			47%	47%	47%
Lucky Panther Amusement and Leisure Corporation			47%	47%	47%
Luminescent Vertex Hotels and Leisure Corporation			47%	47%	47%
Magenta Centaurus Amusement and Leisure Corporation			47%	47%	47%
Sapphire Carnation Leisure and Recreation Corporation			47%	47%	47%
Scarlet Milky Way Amusement and Leisure Corporation			47%	47%	47%
Sparkling Summit Hotels and Leisure Corporation			47%	47%	47%
Valiant Leopard Amusement and Leisure Corporation			47%	47%	47%
Vermillion Triangulum Amusement and Leisure Corporation			47%	47%	47%
Westside Theatre Inc.			47%	47%	47%
Corporate and Others					
Alliance Global Brands, Inc.			100%	100%	100%
McKester Pik-nik International Limited	MPIL	(e)	100%	100%	100%
Great American Foods, Inc.		(t)	100%	100%	100%
New Town Land Partners, Inc.	N'TLPI		100%	100%	100%
Alliance Global Group Cayman Islands, Inc.	AG Cayman	(d)	100%	100%	100%
Dew Dreams International, Inc.		(o)	100%	-	-
Dew Dreams International, Ltd.		(e)	100%	100%	100%
First Centro, Inc.	FCI		100%	100%	100%
ERA Real Estate Exchange, Inc.			100%	100%	100%
Oceanic Realty Group International, Inc.			100%	100%	100%
Greenspring Investment Holdings Properties Ltd.		(e)	100%	100%	100%
Infracorp Development, Inc.		(u)	100%	-	-
Shiok Success International, Inc.		(o)	100%	-	-
Shiok Success International, Ltd.		(e)	100%	100%	100%
Travellers Group Ltd.		(e)	100%	100%	100%
Venezia Universal Ltd.		(e)	100%	100%	100%
Adams Properties, Inc.	Adams		60%	60%	60%
Associates					
First Premiere Arches Restaurant Inc.	FPARI	(v)	49%	49%	-
Bonifacio West Development Corporation	BWDC		31%	31%	31%
Suntrust Home Developers, Inc.	SHDI	(w), 12.2	31%	29%	29%
First Oceanic Property Management, Inc.		(x)	31%	29%	29%
Citylink Coach Services, Inc.		(x)	31%	29%	29%
Palm Tree Holdings and Development Corporation	PTHDC		27%	27%	27%
Fil-Estate Network, Inc.	FENI		11%	11%	11%
Fil-Estate Sales, Inc.	FESI		11%	11%	11%
Fil-Estate Realty and Sales Associates, Inc.	FERSAI		11%	11%	11%
Fil-Estate Realty Corp.	FERC		11%	11%	11%
Pacific Coast Mega City, Inc.	PCMCI		11%	11%	11%
Boracay Newcoast Hotel Group, Inc.	BNHGI	(y), 12.3	8%	17%	25%
Nasugbu Properties, Inc.	NPI		8%	8%	8%
Joint Ventures					
Front Row Theatre Management, Inc.	FRIMI	(z)	50%	50%	50%
Bodega Las Copas, S.L.	BLC	(aa), 12.4	41%	41%	41%

Explanatory notes:

- (a) AGP's effective ownership interest is derived from its 44% direct ownership, 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 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) Acquired subsidiaries in 2016.
- (g) Incorporated subsidiaries in 2016.
- (h) Newly acquired subsidiaries in 2017.
- (i) A subsidiary through 60% and 40% direct ownership of GERI and Megaworld, respectively.
- (j) A subsidiary through 50/50 ownership of Travellers and Megaworld.
- (k) AGP's effective ownership interest represents its indirect holdings through Megaworld, which owns 82% of GERI as at December 31, 2017 and 2016.
- (l) As a result of additional investments of GERI in 2016, indirect ownership interest over these subsidiaries increased in proportion to the increase in effective interest of GERI.
- (m) In 2017, EMP issued additional shares to a stockholder and repurchased certain number of outstanding common shares in relation to its share repurchase program during the year. AGI was able to retain its ownership interest at around 82%.
- (n) In March 2016, AGBI sold its 100% ownership over TEI to EDI, a subsidiary of EMP; hence, the Company's effective interest decreased to 82%.
- (o) Newly incorporated subsidiaries in 2017, except for GBMS. These are operating in the Philippines except for DBLC, a subsidiary of GES, which is operating under the laws of Spain and its subsidiaries PDSC, BDSC and GBMS which are operating under the laws of Mexico.
- (p) Subsidiaries under EIL. EA is operating under the laws of Singapore while GES and its subsidiaries BSB, BFS, GEG, CBSP and DBLC, are operating under the laws of Spain. EES is operating under the laws of Luxembourg. EGB (the ultimate UK parent) is operating under the laws of England and Wales. EUK, WMG, WML and WMWL are operating under the laws of Scotland. EA, EES and EGB are direct subsidiaries of EIL.
- (q) In December 2016, GADC sold its full ownership interest over ODC to AGI and a third party. The retained interest is now reclassified as available-for-sale (AFS) financial assets.
- (r) Travellers' common shares are directly owned 15% by AGI, 3% by FCI, 2% by Megaworld, 46% by Adams, 24% by Genting Hongkong Limited (GHL) and 10% by the public.
- (s) AGI's effective ownership is through 1% direct ownership, 45% through 95% ownership of Travellers, and 1% through ownership of other subsidiaries within the Group (i.e., FCI, Megaworld and Adams).
- (t) Foreign subsidiary of MPIL operating under the laws of United States of America.
- (u) In 2017, a major stockholder of AGI transferred its entire rights over Infracorp to AGI. Infracorp is a newly incorporated subsidiary engaged in infrastructure business.
- (v) In 2016, FCI acquired 49% ownership in FPARI, a domestic corporation engaged in establishing, maintaining, operating and managing, for its own account, or for the account of other entities or individuals, restaurants, bars and general food catering services, specifically McDonald's.
- (w) In 2017, TDI acquired shares of SHDI resulting to an increase in effective ownership over SHDI. The Group did not obtain control over SHDI as a result of the increase.
- (x) Subsidiaries of SHDI, an associate of Megaworld. As a result of additional investment in SHDI in 2017, ownership over these associates increased in proportion to the increase in effective interest over SHDI.
- (y) In 2017 and 2016, FEPI further sold 15% ownership interest each year over BNHGI to third parties. The Group maintained its ability to exercise significant influence over BNHGI despite the decrease in ownership.
- (z) A joint venture through FHTC.
- (aa) A foreign joint venture under GES and operating under the laws of Spain.

The Company, its subsidiaries, associates and joint ventures are incorporated and operating in the Philippines, except for such foreign subsidiaries and a joint venture as identified in the preceding table (see explanatory notes d, e, o, p, t and aa above).

AGP'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.

1.2 Business and Asset Acquisitions and Disposals

(a) 2017 Acquisitions

On various dates in 2017, the Group obtained control over various entities to expand its operations as disclosed in Note 1.1. The acquisitions were accounted for as business acquisitions [see Notes 2.2(a) and 2.11]. The details of the recognized amounts of identifiable net assets acquired and total consideration transferred are as follows:

Recognized amounts of tangible assets acquired	P	5,782,812,627
Recognized amount of liabilities assumed	(<u>55,744,865</u>)
Net assets acquired		5,727,067,762
Non-controlling interest	(3,655,374,576)
Preacquisition loss	(<u>2,715,950</u>)
Net equity acquired	<u>P</u>	<u>2,068,977,236</u>
Fair value of cash consideration transferred	<u>P</u>	<u>2,068,977,236</u>

Significant portion of tangible assets acquired relates to land held for future development. There was no goodwill nor gain recognized on the acquisition as the fair value of consideration transferred is equivalent to the fair value of net assets acquired, net of non-controlling interest and preacquisition loss.

Also, in 2017, the Group completed the asset acquisitions (see Note 2.11) of the Domecq brand portfolio and related assets and the Grupo Garvey brands and certain assets. The total consideration amounting to P6.7 billion was allocated among the tangible and intangible properties acquired based on the relative fair value of each asset, as translated at exchange rate at the date of purchase.

The intangible assets acquired pertains to various brands of brandies and wines which were assessed to have indefinite useful lives (see Note 15).

(b) 2016 Acquisitions

In February 2016, BFS, a subsidiary of GES, acquired the Spanish brandy and sherry business (Business Unit or Bodegas Fundador) of Beam Suntory Spain, S.L. The goodwill recognized from this acquisition reflects the opportunity to strengthen the Group's position in the global drinks market, and the synergies and economies of scale expected from combined operations. [See Notes 2.2(a) and 2.11]

Also on various dates in 2016, Megaworld acquired various business entities primarily to expand its reach in the local market [see Notes 1.1, 2.2(a) and 2.11].

The details of the recognized amounts of identifiable net assets acquired, total consideration transferred, goodwill and gain on acquisition recognized are presented in the succeeding page.

	<u>Spanish Brandy and Sherry Business</u>	<u>Various Acquisitions by Megaworld</u>
Recognized amounts of assets acquired:		
Tangible assets	P 6,592,734,082	P 1,131,637,070
Intangible assets	<u>6,662,974,698</u>	<u>-</u>
	<u>13,255,708,780</u>	<u>1,131,637,070</u>
Recognized amount of liabilities assumed	<u>-</u>	(<u>26,802,593</u>)
Net assets acquired	13,255,708,780	1,104,834,477
Non-controlling interest	-	(675,882)
Preacquisition income	<u>-</u>	<u>3,314,788</u>
Net equity acquired	<u>13,255,708,780</u>	<u>1,107,473,383</u>
Fair value of consideration transferred:		
Cash	14,718,366,134	5,000,000
Advances to related parties	<u>-</u>	<u>1,100,445,738</u>
	<u>14,718,366,134</u>	<u>1,105,445,738</u>
Goodwill (gain on acquisition)	<u>P 1,462,657,354</u>	(<u>P 2,027,645</u>)

Significant portion of tangible assets acquired includes land for future development and property, plant and equipment (see Note 13). The total amount of intangible assets acquired pertains to trademarks assessed to have indefinite useful lives (see Note 15).

(c) *2015 Acquisitions*

In 2015, Megaworld and GADC acquired various subsidiaries for business expansion [see Notes 2.2(a) and 2.11]. The acquisitions are individually insignificant to the Group.

The aggregate information relating to the total recognized amounts of identifiable net assets acquired, total consideration transferred and gain on acquisition recognized is presented below.

Recognized amounts of tangible assets acquired	P 3,135,842,532
Recognized amount of liabilities assumed	(<u>21,796,134</u>)
Net assets acquired	3,114,046,398
Non-controlling interest	(254,687,970)
Preacquisition loss	(<u>291,847</u>)
Net equity acquired	2,859,066,581
Fair value of cash consideration transferred	<u>2,855,308,414</u>
Gain on acquisition	<u>P 3,758,167</u>

Tangible assets acquired includes cash, inventories and property, plant and equipment.

(d) *2016 Disposals*

In 2016, the Group disposed ownership interests in various entities thereby losing control [see Notes 1.1 and 2.2(a)]. The carrying amount of net assets of the entities at the date of disposal and the resulting gain on deconsolidation are as follows:

Current assets (excluding cash)	P	9,612,358
Non-current assets		320,099,653
Current liabilities	(133,614,177)
Non-current liabilities	(<u>118,647,500</u>)
Total net assets		<u>77,450,334</u>
Total consideration received in cash		199,900,330
Cash and cash equivalents disposed of	(<u>75,643,883</u>)
Net cash received		<u>124,256,447</u>
Derecognized non-controlling interest	(<u>4,500,000</u>)
Gain on deconsolidation	P	<u>51,306,113</u>

1.3 Approval of the Consolidated Financial Statements

The Board of Directors (BOD) approved on April 6, 2018 the issuance of the consolidated financial statements of the Group as at and for the year ended December 31, 2017 (including the comparative financial statements as at December 31, 2016 and for the years ended December 31, 2016 and 2015).

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, and approved by the Philippine Board of Accountancy.

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.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Parent 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 Parent Company's functional currency (see Note 2.19). Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Basis of Consolidation

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 material 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 (see Note 2.15). 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 arrangements, 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 Group controls another entity. The acquisition method is applied to account for acquired subsidiaries (see Note 2.11).

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 above. Accordingly, entities are deconsolidated from the date that control ceases.

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 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 other comprehensive income are reclassified to profit or loss.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of the related goodwill (see Note 2.12).

(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 arrangement. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method from the date on which the entity becomes an associate.

Goodwill, which is the excess of the acquisition cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities, is included in the carrying amount of the investment. When the Group's share in the fair value of identifiable assets and liabilities is higher than the acquisition cost, the excess is included as income in the determination of the Group's share in net income of the associate in the period 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 associates' assets and liabilities.

Impairment loss is provided when there is objective evidence that the investments in associates will not be recovered (see Note 2.20).

Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity, for example, resulting from the associates' accounting for AFS financial assets, are recognized in other comprehensive income or equity of the Group, as applicable.

Any non-income related equity movements of the associates 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 on 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 Arrangements*

For interest in a joint 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 operation. No adjustments or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint operation are recognized in the separate financial statements of the operators.

For interest in a joint venture, the Group recognizes in its consolidated financial statements its interest using the equity method. Under the equity method, the interest in a joint venture 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 joint venture 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 equity. (See Note 2.15)

The Parent Company holds beneficial interests in various subsidiaries, associates and joint ventures as presented in Notes 1.1 and 12.

2.3 Adoption of New and Amended PFRS

(a) *Effective in 2017 that are Relevant to the Group*

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvements to PFRS (2014-2016 Cycle)	:	
PFRS 12	:	Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale

Discussed below and in the succeeding page are the relevant information about these amendments and improvements.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*.
The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
- a. changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and,

- b. a reconciliation of the opening and closing balances of liabilities arising from financing activities in the consolidated statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current year and has not disclosed comparative figures as allowed by the transitional provisions. A reconciliation between the opening and closing balances of liabilities arising from financing activities, which includes both cash and non-cash changes are disclosed in Note 35.

- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Asset for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary differences; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of these amendments had no impact on the Group's consolidated financial statements.
 - (iii) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PFRS 12, *Disclosure of Interest in Other Entities*, is relevant to the Group. The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. The application of these amendments did not have an impact on the Group's consolidated financial statements.
- (b) *Effective Subsequent to 2017 but are not Adopted Early*

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. 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 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.

- (ii) PFRS 2 (Amendments), *Classification and Measurement of Share-based Payment* (effective from January 1, 2018). The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that these amendments have no significant impact on the Group's consolidated financial statements.
- (iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement*, 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 credit loss (ECL) 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 principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVTOCI) 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, does 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.

Based on an assessment of the Group's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- The Group's financial assets at FVTPL are composed of listed equity and debt securities and derivative financial instruments (see Note 7). Management expects that these financial assets will continue to be measured at fair value, with mark-to-market fluctuations directly recognized in profit or loss.
 - Equity securities classified as available-for-sale (AFS) financial assets are composed of both listed and unquoted equity securities (see Note 11). In applying PFRS 9 (2014), the Group shall make an irrevocable designation whether these equity securities shall be classified as financial assets at FVTPL or at fair value through other comprehensive income.
 - Management expects that majority of its trade and other receivables will continue to be accounted for at amortized cost.
 - Most of the financial liabilities of the Group are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial liabilities will be retained.
 - The ECL model will apply to the Group's trade receivables from real estate sales. For other financial assets and receivables, the Group will apply a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.
 - The Group will continue to assess its hedging instrument if it will still qualify to apply hedge accounting on a continuing basis.
- (iv) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. 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.

Based on an assessment and comprehensive study of the Group's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to revenues from real estate sales, sale of consumer goods, gaming activities, sales from company-operated quick-service restaurants, rentals and rendering of services. Management has initially identified the impact of PFRS 15 for each of the Group's revenue source as follows:

- Real estate sales include sale of developed land, house and lot, and condominium units on which the Group's performance obligation is to transfer ownership over the developed properties. The Group begins selling real properties prior to the completion of the development. Based on the requirements of PFRS 15, the Group has assessed that its performance obligation on its sale of real properties under development is satisfied over time considering that, under existing laws and regulations, the Group does not have an alternative use on the assets being developed and that it has rights to payment over the development completed to date. When the Group sells developed properties, its performance obligation is satisfied at a point in time; that is when the customer has accepted the property.

The Group has also assessed that its contracts to sell real properties contain significant financing components as the timing of collection of promised consideration is not aligned with the timing of the satisfaction of performance obligation. Such timing difference usually extends beyond twelve months; hence, the Group will consider the significant financing component on its contracts when determining the transaction price.

- The Group's existing revenue recognition policy on revenues from sale of consumer goods, sales from company-operated quick-service restaurants, rentals and rendering of services are consistent with the requirements of PFRS 15.
- Gaming transactions of the Group with fixed-odds known at the time of bet are considered to be financial instruments (derivative contracts) and accordingly assessed to be outside the scope of PFRS 15. Management is currently assessing the full impact of this new standard in the Group's gaming operations.
- For the Group's franchise revenues, the Group will recognize revenues on transferring franchise rights over time, that is over the duration of the franchise agreement, as its franchise agreements grant customers the right to access the Group's intellectual properties as they exist throughout the franchise period.

- (v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on the Group’s consolidated financial statements.
- (vi) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. Management is currently assessing the impact of this amendment in the Group’s consolidated financial statements.
- (vii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this new standard in the Group’s consolidated financial statements.
- (viii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in the Group's consolidated financial statements.

- (ix) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority.

When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new interpretation in the Group's consolidated financial statements.

- (x) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require 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 or contribution of assets that do not constitute a business. Corresponding amendments have 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.
- (xi) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Group. The amendment clarifies that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. Management has initially assessed that this amendment has no material impact on the Group's consolidated financial statements.

(xii) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments which are effective from January 1, 2019 are relevant to the Group but have no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

2.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*.

(a) Classification and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments (see Note 2.5) 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. A more detailed description of the categories of financial assets currently relevant to the Group is in the succeeding pages.

(i) *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 (see Note 2.5). 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 profit or loss.

The Group's financial assets included in this category consist mainly of investments in marketable debt and equity securities and derivative instruments (see Note 7).

(ii) *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 (see Note 5), Trade and Other Receivables (except Advances to contractors and suppliers) (see Note 6), Advances to associates and other related parties [included under Investments in and Advances to Associates and Other Related Parties account (see Note 12)], Time deposits and Refundable security deposits, and Property mortgage receivable [included under Other Assets account (see Note 9)]. 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 [see Notes 2.4(b)(i) and 3.2(b)].

(iii) *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, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any [see Notes 2.4(b)(ii) and 2.4(b)(iii)]. 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 equity (see Note 2.15), except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

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 equity to profit or loss and is presented as reclassification adjustment within consolidated other comprehensive income even though the financial asset has not been derecognized.

(b) *Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial asset is impaired. The Group recognizes impairment loss based on the category of financial assets as presented below.

(i) *Carried at Amortized Cost – Loans and Receivables*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' 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 [see Note 2.4(a)(ii)].

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss. [See Note 3.2(b)]

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of reversal is recognized in profit or loss.

(ii) *Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed. [See Notes 3.1(b) and 3.2(d)]

(iii) *Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset [see Note 2.4(a)(iii)] has been recognized in other comprehensive income and there is objective evidence that the asset is impaired [see Notes 3.1(b) and 3.2(d)], the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) *Items of Income and Expense Related to Financial Assets*

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 Costs and Other Charges accounts in the consolidated statement of comprehensive income (see Note 26).

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.

(d) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.5 *Derivative Financial Instruments and Hedge Accounting*

The Group occasionally uses derivative financial instruments to manage its risks associated with foreign currency and interest rates. Derivatives are recognized initially and subsequently at fair value. Such derivatives are carried as assets when there is gain in the net fair value and as liabilities when there is loss in net fair value. Any gains or losses arising from changes in fair value of derivative financial instruments which are not designated as accounting hedges are recognized directly in profit or loss [see Note 2.4(a)].

The Group uses hedge accounting when it assigns hedging relationships between a hedging instrument, usually a derivative financial instrument, and a hedged item. The hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness to qualify for hedge accounting. The cross currency swap instrument of Megaworld has been designated as a hedging instrument to one of its foreign currency denominated loan. Such hedging relationship qualified as an accounting hedge (see Note 20).

Changes in fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included under Revaluation Reserves on Cash Flow Hedges in equity to the extent that the hedge is effective (see Note 20). Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

In assessing hedge effectiveness, the Group considers both expected and actual effectiveness of the hedge. The hedging relationship must be expected to be highly effective over the period for which it is designated as cash flow hedge and that actual results of the hedge should be around 80% to 125%.

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

2.6 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 includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities. (See Note 8)

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. [See Note 3.2(c)]

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 2.17). Accounting policies for real estate development transactions are discussed in more detail in Note 2.7.

2.7 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 2.17). 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 Notes 2.6 and 8) 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 (see Note 24). 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. [See Note 3.2(c)]

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known.

2.8 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. (See Notes 9 and 2.20)

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.

2.9 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. (See Note 13)

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 2.17) and asset retirement obligation (ARO) relating to property and equipment installed/constructed on leased properties [see Note 3.2(n)]. 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 statement of financial position (see Note 20).

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: [see Note 3.2(h)]

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 2.17) 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 2.20).

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 profit or loss in the year the item is derecognized.

2.10 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 Notes 2.20, 3.1(c)(d), 3.2(e) and 14].

Cost capitalization, depreciation, impairment loss and asset derecognition are recorded in the same manner as in Property, Plant and Equipment (see Note 2.9). 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 [see Note 3.2(h)].

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

2.11 Business Combinations and Asset Acquisitions

A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members and participant. When a unit acquired does not constitute a business, it is accounted for as an asset acquisition. Under the asset purchase accounting, the purchase costs are allocated to identifiable assets and liabilities based on relative fair values of individual items, goodwill or gain on bargain purchase is not recognized, and transaction costs are capitalized.

Business acquisitions [see Note 3.1(g)] are accounted for using the acquisition method of accounting. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Identifiable assets acquired and liabilities, including contingent liabilities, assumed are measured initially at their fair values at the acquisition date [see Note 3.2(p)]. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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 either in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any existing equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets 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 profit or loss and is not subsequently reversed (see Note 2.20). 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 [see Note 2.2(a)]. 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.

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 profit or loss or 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.

2.12 Intangible Assets

Intangible assets include goodwill, trademarks, leasehold rights, computer software and franchise fee. 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 (see Notes 2.11, 2.20 and 15).

The cost of trademarks, leasehold rights, computer software and franchise fee includes the acquisition price and other direct costs. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the assets [see Note 3.2(h)] as follows:

Trademarks [except those with indefinite useful lives (see Note 15)]	10 years
Computer software	3 years
Franchise fee	10 years

Capitalized costs for trademarks with indefinite useful lives are not amortized. In addition, these assets are subject to impairment testing as described in Note 2.20. 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 profit or loss as incurred.

2.13 Financial Liabilities

Financial liabilities, which include Interest-bearing Loans (see Note 17), Bonds Payable (see Note 18), Trade and Other Payables (except tax-related payables) (see Note 16), Advances from Related Parties (see Note 29.6), Redeemable Preferred Shares [see Notes 3.1(i) and 19), and Equity-linked debt securities (ELS) (see Note 20), Derivative Liability and Guaranty deposits [presented as part of Other Non-Current Liabilities (see Note 20)] are recognized when the Group becomes a party to the contractual agreements of the instrument.

All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Finance Costs and Other Charges in the consolidated statement of comprehensive income (see Note 26).

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 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 and Guarantee deposits 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 a liability in the consolidated statement of financial position; the liability is subsequently measured at amortized cost (see Note 19). 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 (see Note 26) in the consolidated statement of comprehensive income.

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

The Group's Derivative liability arising from financial instruments designated as cash flow hedges is recognized and subsequently measured in accordance with its hedge accounting policy (see Note 2.5). All other derivative liabilities are measured at fair value. (See Note 20)

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 12 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.

2.14 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.

[See Note 3.1(k)]

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.

Contingent asset is not recognized – but is only disclosed where an inflow of economic benefits is probable. The asset is only recognized when it is virtually certain that the inflow of economic benefits will arise to the Group.

2.15 Equity

Capital stock represents the nominal value of shares that have been issued (see Note 21.1).

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 from sale of treasury shares over acquisition cost of such treasury shares is also added to APIC. (See Note 21.2)

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 Notes 2.2 and 21.3).

Net actuarial gains or losses on post-employment benefit plan pertain to actuarial gains or losses from remeasurement of post-employment benefit obligation and the Group's share in other comprehensive income or loss of associates and joint ventures.

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(a)(iii)].

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 2.19(b)(iii)].

Revaluation reserves on cash flow hedges pertain to the cumulative effective portion of gains and losses recognized on hedging instruments in a cash flow hedge (see Note 2.5).

Dilution gain or loss arises when an 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. (See Note 21.4)

Share options represent the value of share options during vesting period upon recognition of share-based remuneration expense in profit or loss [see Notes 2.21(d) and 21.6].

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 (see Note 21.7).

Non-controlling interests represent the portion of the net assets and profit or loss not attributable to the Parent Company's shareholders which are presented separately in the Group's consolidated statement of comprehensive income and within the equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity. [See Notes 2.2(d) and 2.11]

2.16 Revenue and Expense Recognition

Revenue (see Notes 23 and 26) 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 for occupancy are recognized using the full accrual method while sales of units sold prior to completion are recognized under the percentage-of-completion method. [See Notes 3.1(a) and 3.2(a)]

Under the full accrual method, revenue is recognized in full when the risks and rewards of ownership of the properties have passed to the buyer, i.e., generally when the customer has acknowledged delivery of goods.

Under the percentage-of-completion 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 (see Note 24)] 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 (see Note 20)] in the consolidated statement of financial position.

The sale is recognized when a certain percentage of the total contract price has already been collected. The amount of real estate sales recognized in the consolidated statement of income is equal to the total contract price, net of day-one loss related to the discounting of noninterest-bearing receivables.

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 buyers are initially recorded as Customers' deposits and presented as part of Other Liabilities [current and non-current (see Note 20)] in the consolidated statement of financial position. Revenues and costs relative to forfeited or back out sales are reversed in the current year as they occur.

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 (losses) 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 (see Note 23).
- (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).
- (b) *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 (see Note 23).
- (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. (See Note 23)
- (j) *Rentals* – Rental income is recognized on a straight-line basis over the duration of the lease terms [see Notes 2.18(b) and 23]. 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 (see Note 20). 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 (see Note 26).
- (l) *Dividends* – Revenue is recognized when the right to receive the payment is established (see Note 26).

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 room accommodations, 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) (see Note 24) 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 2.17) and estimated costs to complete the project, determined based on estimates made by the project engineers (see Notes 2.7 and 24).

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 (see Notes 24 and 25).

All finance costs are reported in profit or loss on an accrual basis (see Note 26), except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.17).

2.17 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred (see Note 26), except to the extent that they are capitalized (see Notes 2.6, 2.7 and 2.9). 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 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.18 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 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 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 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.

2.19 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, European Union euro and Mexican peso, their functional currencies, are translated to Philippine pesos, the Parent Company's functional currency as follows:

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

- (ii) 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,
- (iii) All resulting exchange differences are recognized in other comprehensive income and in a separate component of 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.

2.20 Impairment of Non-Financial Assets

The Group's Investments in associates and joint ventures [see Notes 2.2(b), 2.2(c) and 12], Intangible Assets (see Notes 2.12 and 15), Investment Property (see Notes 2.10 and 14), Property, Plant and Equipment (see Notes 2.9 and 13) and other non-financial assets (see Notes 2.8 and 9) are subject to impairment testing [see Note 3.2(i)]. Intangible assets with an indefinite 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. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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.

2.21 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: (See Note 27)

(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 plans cover all regular full-time employees. The respective pension plans are tax-qualified, noncontributory and administered by respective trustees 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 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 Costs and Other Charges account in the consolidated statement of comprehensive income.

Past-service costs are recognized immediately in 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*

The Group grants share options to key executive officers and employees eligible under each share option plan of the Parent Company, Megaworld, GERI, EMP and Travellers. 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 recorded in the equity section of the consolidated statement of financial position.

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 share 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.

2.22 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any (see Note 28).

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 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.

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.

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.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

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 other comprehensive income or directly in 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.

2.23 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 (see Note 22).

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 21.6)].

2.24 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Strategic Steering Committee (SSC), its chief operating decision-maker. The SSC 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 represents 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.

2.25 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 (see Note 29).

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 four 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.

2.26 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) *Recognizing Revenue for Real Estate Activities*

The Group uses judgement in evaluating the probability of collection of contract price on real estate sales as a criterion for revenue recognition. The Group uses historical payment pattern of customers in establishing a percentage of collection threshold over which the Group determines that collection of total contract price is reasonably assured. [See Note 2.16(b)]

(b) *Assessing 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. [See Notes 2.4(b)(ii) and (iii)]

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

The Group determines whether a property qualifies as an investment property (see Note 2.10). 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 (see Note 2.9) 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 (see Note 2.7) 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.

(d) *Distinguishing Residential and Condominium Units for Sale and Investment Properties*

Real estate for sale comprise residential and condominium units that are held for sale in the ordinary course of business (see Note 8). Meanwhile, investment properties (see Notes 2.10 and 14) comprise of land and buildings which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. The Group considers management's intention over these assets in making its judgement.

(e) *Distinguishing AFS Financial Assets and Golf and Resort Shares*

In determining whether golf and resort shares shall be accounted for as either inventories or financial instruments, the Group considers its role in the development of the club and its intent for holding these shares. The Group classifies such shares as inventories when the Group acts as the developer and it intends to sell a developed property together with the club share.

(f) *Determining Control, Joint Control or Significant Influence*

Judgment is exercised in determining whether the Group has control, joint control or significant influence over an entity. In assessing each interest over an entity, the Group considers voting rights, representation on the board of directors or equivalent governing body of the investee, participation in policy-making process and all other facts and circumstances, including terms of any contractual arrangement.

(g) *Distinguishing Asset Acquisition and Business Combinations*

At the time of acquisition, the Group determines whether the acquisition represents the acquisition of a business or of assets (see Notes 1.2 and 2.11). The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., for Megaworld, maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40, *Investment Property*, on ancillary services.

In 2017 and 2016, the Group gained control over various entities and a business unit as described in Note 1.2 which, based on management's assessment, are accounted for as business combinations. Also in 2017, the Group acquired brands and assets as described in Note 1.2(a) which, based on management's assessment, are accounted for as asset acquisitions.

(h) *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.

(i) *Classifying Preferred Shares as Financial Liability*

The Group determines the classification of preferred shares based on the substance of the contractual agreement and the characteristics of a financial liability or an equity instrument (see Notes 2.13 and 19).

(j) *Recoverability of Insurance Claims*

The Group recognized insurance recoveries in 2017 covering actual losses incurred for damaged capital assets, and other casualty losses arising from the arson and robbery incident in June 2017 (see Note 30.7). Critical judgment was exercised by management to evaluate the recoverability of said claims as highly probable and virtually certain. The Group has not yet accrued the whole amount of recoverable claims as of December 31, 2017 pending Travellers' finalization with the insurance company. The amount recognized as Claims receivables as of December 31, 2017 is presented as part of Trade and Other Receivables account in the 2017 consolidated statement of financial position (see Note 6).

(k) *Recognizing 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 2.14 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 2.16(b)].

There were no changes in the assumptions or basis for estimation during the year. The realized gross profit on real estate sales recognized in 2017, 2016 and 2015 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 [see Note 2.4(a)(ii)]. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability 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 Group 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 (see Note 2.6) and real estate properties (see Note 2.7), 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 provided 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 profit and loss and 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. (See Note 2.4)

The carrying amounts of financial assets at FVTPL and AFS financial assets are disclosed in Notes 7 and 11, respectively. [See Notes 2.4(a)(i)(iii) and 2.4(b)(ii)(iii)]

(e) *Fair Valuation of Investment Properties*

Investment properties are measured using the cost model (see Note 2.10). The fair value disclosed in Note 14 to the consolidated financial statements was 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 Share Options*

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 21.6).

The Group estimates the fair value of the Executive Share Option (the Options) by applying an option valuation model, considering the terms and conditions on which the executive share option was granted. The estimates and assumptions used are presented in Note 21.6 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 EMP) and fair value of the specific common shares. Changes in these factors can affect the fair value of share options at grant date.

(g) *Fair Valuation of Derivative Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available.

The determination of the fair value of derivatives is dependent on the selection of certain assumptions used by third party experts in calculating such amounts. Those assumptions include, among others, expected movements in the index cumulative performance as defined in the swap agreement. Changes in assumptions could affect reported fair value of financial instruments. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(h) *Estimating Useful Lives of Property, Plant and Equipment, Investment Property and Intangible Assets*

The Group estimates the useful lives of property, plant and equipment (see Note 2.9), investment property (see Note 2.10) and intangible assets (see Note 2.12) 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.

Specific trademarks mentioned in Note 15 were assessed to have an indefinite useful lives considering that there is no foreseeable limit to the period over which such trademarks are expected to generate cash inflows for the Group (i.e., trademarks for The Dalmore and Jura have been in existence for more than 100 years). Moreover, there are no legal or similar limits imposed on the period over which the Group has control or can use the said trademarks.

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 2017 and 2016.

(i) *Impairment of Non-Financial Assets*

Goodwill and specific intangible assets with indefinite life are 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 2.20. 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, goodwill, trademarks and other intangible assets and other non-financial assets based on management's evaluation for the years ended December 31, 2017, 2016 and 2015.

(j) *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 realized and unrealized deferred tax assets is presented in Note 28.1.

(k) *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.

(l) *Determining Fair Value of Gaming Points and Estimation of Liability for Unredeemed Gaming Points*

The Group provides gaming points to its patrons based on gaming activity. Gaming points are redeemable in a wide selection of redemption categories. The Group recognizes the fair values of gaming points, based on redemption terms, historical redemption pattern of patrons and fair value of promotional activities per source (i.e., hotel, food and beverage, and others). The Group reassesses the measurement basis used for calculating the fair value of gaming points on a regular basis. The carrying value of the gaming points accrued by the Group is presented as Unredeemed gaming points under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

(m) *Recognizing Financial Liability and Equity Components of Compound Financial Instruments*

The ELS instrument (see Note 20) contains both a financial liability and an equity component as this instrument creates a financial liability and grants an option to the holder to convert it into an equity instrument of the issuer. The equity component is assigned the residual value after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as own credit risk, volatilities and correlations require management to make estimates. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

Initially, the Group determined the fair value of the financial liability as equivalent to the issue price, so no value was assigned to the equity component, and the financial liability was subsequently measured at amortized cost. The total carrying amount of the ELS was presented as part of Other Non-current Liabilities account in the 2016 consolidated statement of financial position (see Note 20).

In 2017, as a result of the amendments on the ELS, management reassessed the compound instrument and recomputed the fair values of the components at the time of amendment, which resulted in a revalued financial liability component and an equity component with value. Accordingly, the Group presented the components separately as Equity-linked debt securities under Other Non-current Liabilities account (see Note 20) and as part of Non-controlling Interest account under Equity section, respectively, in the 2017 consolidated statement of financial position.

(n) *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 the Group is liable (see Note 2.9). 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 carrying amount of ARO and provision for dilapidation are presented as part of Other Non-Current Liabilities account in the consolidated statement of financial position (see Note 20).

(o) *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.

The carrying amount of provision for onerous lease is presented as part of Other Non-Current Liabilities account in the consolidated statement of financial position (see Note 20).

(p) *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. (See Note 2.11)

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 2.24). 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.
- (b) 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.
- (c) 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.
- (d) 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.

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.

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, 2017, 2016 and 2015:

	2017				
	<u>Megaworld</u>	<u>Travellers</u>	<u>GADC</u>	<u>Emperador</u>	<u>Total</u>
REVENUES					
Sales to external customers	P 48,633,280,868	P 21,118,881,775	P 25,539,935,441	P 42,257,796,854	P 137,549,894,938
Intersegment sales	173,133,657	50,277,686	-	-	223,411,343
Finance and other revenues	<u>1,600,392,938</u>	<u>172,363,323</u>	<u>366,821,027</u>	<u>397,730,690</u>	<u>2,537,307,978</u>
Segment revenues	50,406,807,463	21,341,522,784	25,906,756,468	42,655,527,544	140,310,614,259
Cost of sales and expenses excluding depreciation and amortization	(<u>28,189,136,661</u>)	(<u>17,637,976,799</u>)	(<u>22,079,908,123</u>)	(<u>32,562,510,354</u>)	(<u>100,469,531,937</u>)
	22,217,670,802	3,703,545,985	3,826,848,345	10,093,017,190	39,841,082,322
Depreciation and amortization	(1,830,763,458)	(1,931,946,081)	(1,160,186,016)	(802,101,313)	(5,724,996,868)
Finance cost and other charges	(<u>1,733,622,248</u>)	(<u>1,274,812,002</u>)	(<u>172,099,662</u>)	(<u>1,424,757,176</u>)	(<u>4,605,291,088</u>)
Profit before tax	18,653,285,096	496,787,902	2,494,562,667	7,866,158,701	29,510,794,366
Tax expense	(<u>3,792,600,176</u>)	(<u>218,395,439</u>)	(<u>754,517,341</u>)	(<u>1,503,052,461</u>)	(<u>6,268,565,417</u>)
SEGMENT PROFIT	<u>P 14,860,684,920</u>	<u>P 278,392,463</u>	<u>P 1,740,045,326</u>	<u>P 6,363,106,240</u>	<u>P 23,242,228,949</u>
SEGMENT ASSETS AND LIABILITIES					
Segment assets	P 313,882,958,265	P 84,365,114,201	P 17,013,429,201	P 110,654,016,965	P 525,915,518,632
Segment liabilities	137,948,130,312	42,186,793,445	10,242,056,765	51,114,592,291	241,491,572,813

	2016				
	<u>Megaworld</u>	<u>Travellers</u>	<u>GADC</u>	<u>Emperador</u>	<u>Total</u>
REVENUES					
Sales to external customers	P 45,159,209,745	P 27,490,917,963	P 22,629,168,991	P 40,470,950,595	P 135,750,247,294
Intersegment sales	129,197,283	58,136,406	-	22,485,362	209,819,051
Finance and other revenues	<u>1,529,137,444</u>	<u>85,896,223</u>	<u>182,258,141</u>	<u>444,501,068</u>	<u>2,241,792,876</u>
Segment revenues	46,817,544,472	27,634,950,592	22,811,427,132	40,937,937,025	138,201,859,221
Cost of sales and expenses excluding depreciation and amortization	(<u>27,260,830,172</u>)	(<u>21,036,434,023</u>)	(<u>19,714,018,727</u>)	(<u>30,053,548,917</u>)	(<u>98,064,831,839</u>)
	19,556,714,300	6,598,516,569	3,097,408,405	10,884,388,108	40,137,027,382
Depreciation and amortization	(1,486,971,728)	(1,643,106,203)	(1,102,983,228)	(708,238,131)	(4,941,299,290)
Finance cost and other charges	(<u>2,867,726,950</u>)	(<u>1,458,618,238</u>)	(<u>231,718,113</u>)	(<u>713,874,962</u>)	(<u>5,271,938,263</u>)
Profit before tax	15,202,015,622	3,496,792,128	1,762,707,064	9,462,275,015	29,923,789,829
Tax expense	(<u>3,489,339,020</u>)	(<u>64,314,408</u>)	(<u>529,208,455</u>)	(<u>1,742,331,316</u>)	(<u>5,825,193,199</u>)
SEGMENT PROFIT	<u>P 11,712,676,602</u>	<u>P 3,432,477,720</u>	<u>P 1,233,498,609</u>	<u>P 7,719,943,699</u>	<u>P 24,098,596,630</u>
SEGMENT ASSETS AND LIABILITIES					
Segment assets	P 282,832,774,666	P 73,934,705,268	P 15,617,095,043	P 93,657,270,308	P 466,041,845,285
Segment liabilities	119,545,632,116	31,683,728,199	10,220,260,865	40,626,020,465	202,075,641,645

	2015				
	Megaworld	Travellers	GADC	Emperador	Total
REVENUES					
Sales to external customers	P 43,106,965,673	P 27,719,688,907	P 20,339,823,705	P 43,309,839,802	P 134,476,318,087
Intersegment sales	93,909,127	(32,929,706)	-	-	60,979,421
Finance and other revenues	<u>1,791,188,160</u>	<u>116,287,960</u>	<u>81,529,137</u>	<u>350,349,040</u>	<u>2,339,354,297</u>
Segment revenues	44,992,062,960	27,803,047,161	20,421,352,842	43,660,188,842	136,876,651,805
Cost of sales and expenses excluding depreciation and amortization	(<u>27,039,717,335</u>)	(<u>21,557,822,114</u>)	(<u>18,064,249,651</u>)	(<u>34,027,719,502</u>)	(<u>100,689,508,602</u>)
	17,952,345,625	6,245,225,047	2,357,103,191	9,632,469,340	36,187,143,203
Depreciation and amortization	(1,348,751,764)	(1,402,874,562)	(1,046,140,030)	(639,514,403)	(4,437,280,759)
Finance cost and other charges	(<u>2,722,669,407</u>)	(<u>775,371,564</u>)	(<u>184,499,714</u>)	(<u>543,116,587</u>)	(<u>4,225,657,272</u>)
Profit before tax	13,880,924,454	4,066,978,921	1,126,463,447	8,449,838,350	27,524,205,172
Tax expense	(<u>3,284,678,495</u>)	(<u>49,370,190</u>)	(<u>365,972,332</u>)	(<u>1,489,782,064</u>)	(<u>5,189,803,081</u>)
SEGMENT PROFIT	<u>P 10,596,245,959</u>	<u>P 4,017,608,731</u>	<u>P 760,491,115</u>	<u>P 6,960,056,286</u>	<u>P 22,334,402,091</u>
SEGMENT ASSETS AND LIABILITIES					
Segment assets	P 252,105,958,522	P 68,119,691,610	P 13,829,633,657	P 96,600,733,758	P 430,656,017,547
Segment liabilities	104,018,432,250	25,103,384,020	8,939,177,060	41,249,488,480	179,310,481,810

4.5 Reconciliations

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues			
Total segment revenues	P 140,310,614,259	P 138,201,859,221	P 136,876,651,805
Unallocated corporate revenue	1,534,783,295	1,748,842,604	2,282,187,154
Elimination of intersegment revenues	(223,411,343)	(209,819,051)	(60,979,421)
Revenues as reported in consolidated profit or loss	<u>P 141,621,986,211</u>	<u>P 139,740,882,774</u>	<u>P 139,097,859,538</u>
Profit or loss			
Segment operating profit	P 23,242,228,949	P 24,098,596,630	P 22,334,402,091
Unallocated corporate loss	(1,192,248,065)	(1,070,074,614)	(587,121,776)
Elimination of intersegment revenues	(223,411,343)	(209,819,051)	(60,979,421)
Profit as reported in consolidated profit or loss	<u>P 21,826,569,541</u>	<u>P 22,818,702,965</u>	<u>P 21,686,300,894</u>
Assets			
Segment assets	P 525,915,518,632	P 466,041,845,285	P 430,656,017,547
Unallocated corporate assets	<u>35,906,274,250</u>	<u>25,255,117,630</u>	<u>18,068,736,840</u>
Total assets reported in the consolidated statements of financial position	<u>P 561,821,792,882</u>	<u>P 491,296,962,915</u>	<u>P 448,724,754,387</u>
Liabilities			
Segment liabilities	P 241,491,572,813	P 202,075,641,645	P 179,310,481,810
Unallocated corporate liabilities	<u>48,488,172,278</u>	<u>43,117,649,822</u>	<u>38,226,078,586</u>
Total liabilities reported in the consolidated statements of financial position	<u>P 289,979,745,091</u>	<u>P 245,193,291,467</u>	<u>P 217,536,560,396</u>

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:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash on hand and in banks		P 22,324,226,840	P 23,131,024,687
Short-term placements	30.3(a)	<u>33,348,733,706</u>	<u>25,541,913,330</u>
		<u>P 55,672,960,546</u>	<u>P 48,672,938,017</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates [see Notes 26 and 31.1(b)].

Short-term placements are made for varying periods up to 90 days and earn effective interest per annum ranging from 0.5% to 3.5% in 2017, 0.6% to 2.5% in 2016, and 1.2% to 2.8% in 2015. Placements amounting to P117.1 million and P115.7 million as at December 31, 2017 and 2016, respectively, which earn effective interest of 1.5% in 2017, 1.4% in 2016 and 1.3% in 2015, and have a term of 360 days for those years, are shown under Other Current Assets account in the consolidated statements of financial position (see Note 9).

Interest income from Cash and Cash Equivalents for the years ended December 31, 2017, 2016 and 2015 is presented under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Current:			
Trade receivables	17(j, m) 29.2	P 52,965,762,130	P 43,580,278,243
Advances to contractors and suppliers		17,608,891,136	12,457,276,299
Claims receivables	30.7	762,551,480	-
Due from related parties	29.5	249,464,102	812,050,310
Accrued interest receivable		55,284,785	181,572,152
Others	30.4	3,054,921,065	1,320,509,088
		74,696,874,698	58,351,686,092
Allowance for impairment	3.2(b)	(884,705,546)	(750,729,952)
		<u>73,812,169,152</u>	<u>57,600,956,140</u>
Non-current:			
Trade receivables	29.2	34,560,033,758	35,682,910,226
Loans receivable		145,289,857	-
Others		82,326,077	7,629,034
		34,787,649,692	35,690,539,260
Allowance for impairment	3.2(b)	(12,224,936)	(12,224,936)
		<u>34,775,424,756</u>	<u>35,678,314,324</u>
		<u>P108,587,593,908</u>	<u>P 93,279,270,464</u>

Most receivables from trade customers, particularly those relating to real estate sales, are covered by postdated checks. As at December 31, 2017 and 2016, the Group has outstanding receivables assigned to local banks amounting to P1,044.8 million and P1,089.4 million, respectively [see Note 17(j and m)].

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 similar financial instruments. Interest income from amortization amounted to P1,746.9 million, P1,700.9 million and P1,677.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. These amounts are presented as Interest income on real estate sales under Revenues 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.

Claims receivables pertain to expected minimum insurance and recoveries from losses arising from property damages and other casualty losses [see Notes 3.1(j) and 30.7].

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 29.5).

Other current receivables include receivable from sale of land and loan receivable.

All of the Group's trade and other receivables have been reviewed for indications of impairment [see Note 2.4(b)(i)]. 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 (see Note 31.2).

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

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		P 762,954,888	P 726,238,514
Impairment losses during the year	25	145,518,483	40,591,819
Reversal of impairment previously recognized	26	(7,553,903)	(3,875,445)
Write-off of trade receivables previously provided with allowance		(3,988,986)	-
Balance at end of year		<u>P 896,930,482</u>	<u>P 762,954,888</u>

Impairment losses are presented as part of Other Operating Expenses account (see Note 25), while the gain on reversal is presented as part of Miscellaneous under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

All trade receivables are subject to credit risk exposure (see Note 31.2). 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 local and foreign investments, held for trading, as follows:

	<u>2017</u>	<u>2016</u>
Marketable debt securities	P 11,864,245,566	P 9,242,483,204
Quoted equity securities	1,632,656,186	1,222,783,400
Derivative financial assets	<u>19,572,259</u>	<u>-</u>
	<u>P 13,516,474,011</u>	<u>P 10,465,266,604</u>

Marketable debt securities, which bear interest ranging from 4.3% to 8.3%, 2.8% to 8.4% and 2.5% to 10.6% per annum as at December 31, 2017, 2016 and 2015, 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 either as part of Fair value gains under Finance and Other Income account or Fair value losses under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest income amounting to P88.8 million, P285.5 million and P569.1 million for 2017, 2016 and 2015, 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.\$45.1 million (P2,248.8 million) as at December 31, 2016. The loans were settled in 2017. No instruments were set-off as at December 31, 2017.

Derivative financial assets arise from foreign exchange margins trading spot and forward contracts entered into by the Group. The term of these forward contracts is usually one month to one year.

Changes in foreign currency value arising from such investments are taken up in profit or loss and are recorded either as part of Fair value gains under Finance and Other Income account or Fair value losses under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

8. INVENTORIES

The details of inventories are shown below [see Notes 2.6, 3.1(d) and 3.2(c)].

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
At cost –			
Real estate for sale	17(j)	<u>P 62,117,798,015</u>	<u>P 60,091,240,355</u>
At net realizable value:			
Work-in-process goods		17,786,098,444	13,532,427,366
Finished goods		3,608,924,741	3,244,991,251
Raw materials		3,249,324,608	3,100,031,589
Golf and resort shares for sale		2,816,204,114	2,669,705,396
Food, supplies and other consumables		<u>2,318,195,098</u>	<u>2,548,122,730</u>
		29,778,747,005	25,095,278,332
Allowance for inventory write-down	2.6	(<u>317,410,880</u>)	(<u>258,399,045</u>)
		<u>29,461,336,125</u>	<u>24,836,879,287</u>
		<u>P 91,579,134,140</u>	<u>P 84,928,119,642</u>

Real estate for sale pertains to the accumulated costs incurred in developing residential houses, lots and condominium units for sale which refer to the Group's horizontal and condominium projects and certain integrated tourism projects. Total cost includes capitalized borrowing costs amounting to P1,804.7 million, P1,540.4 million and P642.3 million in 2017, 2016, and 2015, respectively, forming part of the Inventories and Property Development Costs accounts (see Notes 17 and 18). The amount capitalized was determined using a capitalization rate of 4.55%, 4.32% and 5.53% in 2017, 2016 and 2015, respectively. Certain real estate for sale are subject to negative pledge on certain loans obtained by the Group [see Note 17(j)].

Work-in-process pertains mainly to substantial inventory of aged whisky stocks in Scotland which mature over periods of up to 60 years. These maturing whisky stock inventory amounted to P13,501.2 million and P11,030.3 million as of December 31, 2017 and 2016, respectively.

Golf and resort shares for sale comprise of proprietary or membership shares (landowner resort 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 per share.

Food, supplies and other consumables, on the other hand, include paper and packaging, promotional materials, membership program items, operating supplies, spare parts, fuel and lubricants.

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

	Notes	<u>2017</u>	<u>2016</u>
Balance at beginning of year		P 258,399,045	P 295,493,317
Additional losses during the year	25	73,266,813	38,718,861
Reversals of write-down	26	(14,254,978)	(75,813,133)
Balance at end of year		<u>P 317,410,880</u>	<u>P 258,399,045</u>

The additional losses on inventories were recognized to reduce the carrying values of cased stocks, dry goods and golf and resort shares in 2017 and 2016. The additional losses are shown as Write-down of inventories under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). 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.

	Notes	<u>2017</u>	<u>2016</u>
Current:	2.8		
Input VAT		P 6,616,129,225	P 5,510,958,384
Prepayments		1,793,267,124	1,316,988,835
Creditable withholding taxes		679,983,433	609,162,285
Refundable deposits		448,470,573	218,393,171
Time deposits	5	117,126,031	115,737,185
Office supplies		85,326,709	63,455,803
Deferred commission		59,240,537	59,089,057
Guarantee deposits		-	36,310,054
Others		<u>414,053,043</u>	<u>305,217,647</u>
		<u>10,213,596,675</u>	<u>8,235,312,421</u>
Non-current:	2.8		
Advances for future investment	30.3(a)	1,556,429,882	968,194,588
Refundable deposits		1,455,506,668	1,632,348,277
Property mortgage receivable		654,595,116	597,604,251
Advance payments for assets acquisition		385,962,965	866,362,114
Deferred input VAT		192,499,656	270,699,487
Accumulated jackpot seed money		169,300,000	170,676,888
Claims for tax refund		112,282,175	112,282,175
Rental receivable		27,045,025	26,888,817
Others		<u>566,737,009</u>	<u>324,348,271</u>
		<u>5,120,358,496</u>	<u>4,969,404,868</u>
		<u>P 15,333,955,171</u>	<u>P 13,204,717,289</u>

Prepayments include prepaid taxes, insurance, rentals and advertising, which are expected to be realized in the next reporting period.

Advances for future investment pertain to the advances made by the Group to PAGCOR starting 2014 in connection with the development of Site A [see Note 30.3(a)]. In 2017 and 2016, the Group made additional payments to PAGCOR amounting to P0.6 billion in each year to fulfill the future investment.

In 2016, EMP purchased from one of its property lessors an outstanding mortgage debt on one of the Group's leased properties. The purchased mortgage asset entitles the Group to full security over the leased property and to monthly interest payments from the property lessor. However, the Group remains as lessee over the property; hence, it is still required to make monthly lease payments to the property lessor.

In 2016, the Group made a deposit for a certain acquisition amounting to P449.3 million presented as part of Advanced payment for asset acquisition which remains outstanding as of December 31, 2016. The deposit was applied in full against the total consideration paid in 2017 (see Note 1.2).

Current others include payroll funds and food and beverage inventories while non-current others include prepaid rentals and non-financial deposits or advances to suppliers.

10. ADVANCES TO/FROM LANDOWNERS AND JOINT VENTURES

10.1 Advances to Landowners and Joint Ventures

The Group enters into numerous joint operation agreements for the joint development of various real estate projects. The joint operation agreements stipulate that the Group's joint operator 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 residential and condominium units to be constructed on the properties. Costs incurred for these projects are recorded under the Real estate for sale under Inventories account or Property Development Costs account in the consolidated statements of financial position (see Note 2.7).

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint operators under the joint operation agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the joint operation 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.

As at December 31, 2017 and 2016, the Group's management has assessed that the advances to joint ventures are fully recoverable. Accordingly, no impairment loss was recognized in those years.

As at December 31, 2017 and 2016, there has been no outstanding commitment for cash advances under the joint arrangements. The net commitment for construction expenditures amounts to:

	<u>2017</u>	<u>2016</u>
Total commitment for construction expenditures	P 25,920,193,838	P 25,275,787,747
Total expenditures incurred	(18,730,950,238)	(18,965,104,576)
Net commitment	<u>P 7,189,243,600</u>	<u>P 6,310,683,171</u>

The Group's interests in joint operations and projects, ranging from 50% to 95% in 2017 and 2016, are as follows:

Megaworld:

- McKinley Hill
- McKinley West
- Newport City
- Manhattan Garden City
- Noble Place
- Uptown Bonifacio
- Northhill Gateway

GERI:

- Alabang West
- Caliraya Spring
- Forest Hills
- Kingsborough
- Monte Cielo de Peñafrancia
- Mountain Meadows
- Pahara at Southwoods
- Sta. Barbara Heights Phase 2 & 3
- Holland Park
- Sta. Barbara Heights Shophouse District

SPI:

- Capitol Plaza
- Governor's Hills
- Mandara
- Sta. Rosa Heights
- Sta. Rosa Hills
- Sentosa
- Asmara
- 88 Gibraltar
- One Lakeshore
- Two Lakeshore
- Riva Bella
- Solana
- Genti Heights
- Fountain Grove
- Palm City
- The Mist Residence

EELHI:

- Pioneer Woodlands
- San Lorenzo Place
- Various Metro Manila and Calabarzon Projects

The aggregate amounts of the current assets, long-term assets, current liabilities and long-term liabilities as at December 31, 2017 and 2016, and income and expenses for each of the three years in the period ended December 31, 2017 related to the Group's interests in these joint arrangements, are not presented or disclosed in the consolidated financial statements as these are only joint operations in which the Group is an operator [see Note 2.2(c)].

As at December 31, 2017 and 2016, the Group has assessed that the probability of loss that may arise from contingent liabilities is remote and there are no other contingent liabilities with regard to these joint operations.

10.2 Advances from Joint Ventures

This account represents the share of joint venture partners in the proceeds from the sale of certain projects in accordance with various joint venture agreements entered into by the Group. The total outstanding balance is presented as part of Advances from Related Parties account in the consolidated statements of financial position (see Note 29.6).

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS financial assets [see Notes 2.4(a) and (b)] are reflected in the consolidated statements of financial position as follows:

	<u>2017</u>	<u>2016</u>
Current	P -	P 66,501,898
Non-current	<u>431,645,289</u>	<u>606,613,388</u>
	P <u>431,645,289</u>	P <u>673,115,286</u>

This account comprises the following:

	<u>2017</u>	<u>2016</u>
Quoted marketable debt securities	P -	P 260,449,586
Equity securities:		
Quoted	<u>136,872,015</u>	<u>129,142,426</u>
Unquoted	298,031,214	286,781,214
Allowance for impairment	(<u>3,257,940</u>)	(<u>3,257,940</u>)
	<u>294,773,274</u>	<u>283,523,274</u>
	<u>431,645,289</u>	<u>412,665,700</u>
	P <u>431,645,289</u>	P <u>673,115,286</u>

The securities can be further analyzed as follows:

	<u>2017</u>	<u>2016</u>
Local	P 434,903,229	P 609,871,328
Allowance for impairment	(<u>3,257,940</u>)	(<u>3,257,940</u>)
	<u>431,645,289</u>	<u>606,613,388</u>
Foreign	<u>-</u>	<u>66,501,898</u>
	P <u>431,645,289</u>	P <u>673,115,286</u>

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 673,115,286	P 2,188,729,177
Additions	15,857,795	102,680,652
Disposals	(284,202,906)	(1,607,445,850)
Fair value gains (losses)	<u>26,875,114</u>	<u>(10,848,693)</u>
Balance at end of year	<u>P 431,645,289</u>	<u>P 673,115,286</u>

Marketable debt securities bear interests ranging from 5.4% to 10.6% per annum in 2016 and 2.3% to 10.6% per annum in 2015. Certain debt securities amounting to P66.5 million which matured in 2017 were classified under current assets in the 2016 consolidated statement of financial position. There are no marketable debt securities as of December 31, 2017.

In 2017, 2016 and 2015, 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 proprietary club shares which are denominated in Philippine pesos. Golf club shares are proprietary membership shares of Travellers from certain golf clubs.

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 P26.9 million gain in 2017, P10.8 million loss in 2016 and P1,078.0 million loss in 2015 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's realized gains amounting to P22.2 million in 2017 and P11.9 million in 2016, and realized loss amounting to P34.6 million in 2015. These are included under Finance and Other Income account or Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). As a result of the disposal, the fair value gains and losses accumulated in OCI pertaining to the AFS financial assets sold amounting to P28.4 million gain in 2017, P11.9 million loss in 2016 and P38.2 million gain in 2015 were recycled to profit or loss and are included in the amount of realized gain from disposal of AFS financial assets.

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 presented in the succeeding pages.

	Notes	<u>2017</u>	<u>2016</u>
Investments of Megaworld in Associates:			
Acquisition costs:			
SHDI	12.2	P 1,089,666,735	P 875,445,000
PCMCI		877,776,746	877,776,746
NPI		734,396,528	734,396,528
BWDC		199,212,026	199,212,026
BNHGI	12.3	109,216,973	293,602,421
PTHDC		64,665,000	64,665,000
FERC		28,000,000	28,000,000
FENI		10,000,003	10,000,003
FESI		7,808,360	7,808,360
FERSAI		<u>4,000,000</u>	<u>4,000,000</u>
		<u>3,124,742,371</u>	<u>3,094,906,084</u>
Accumulated share in net losses:			
Balance at beginning of year		(424,655,817)	(561,522,560)
Share in net profits for the year		<u>118,829,303</u>	<u>136,866,743</u>
Balance at end of year		<u>(305,826,514)</u>	<u>(424,655,817)</u>
Accumulated equity in other comprehensive income:			
Balance at beginning of year		10,768,669	38,744,144
Share in other comprehensive income (loss) of associate		<u>33,916,495</u>	<u>(27,975,475)</u>
Balance at end of year		<u>44,685,164</u>	<u>10,768,669</u>
		<u>2,863,601,021</u>	<u>2,681,018,936</u>
Investment of EMP in BLC,			
a joint venture – acquisition cost	12.4	<u>3,703,721,965</u>	<u>3,703,721,965</u>
Withdrawal		<u>(858,354,900)</u>	<u>-</u>
Accumulated share in net profits (losses):			
Balance at beginning of year		295,428,091	169,542,466
Share in net profits for the year		154,101,850	219,276,919
Dividend received during the year		<u>(60,952,241)</u>	<u>(93,391,294)</u>
Balance at end of year		<u>388,577,700</u>	<u>295,428,091</u>
		<u>3,233,944,765</u>	<u>3,999,150,056</u>
Investment of Travellers in FRTMI,			
a joint venture – acquisition cost		<u>10,000,000</u>	<u>10,000,000</u>
Accumulated share in net losses:			
Balance at beginning of year		(538,345)	-
Share in net losses for the year		<u>(232,813)</u>	<u>(538,345)</u>
Balance at end of year		<u>(771,158)</u>	<u>(538,345)</u>
		<u>9,228,842</u>	<u>9,461,655</u>
<i>Balance carried forward</i>		<u>P 6,106,774,628</u>	<u>P 6,689,630,647</u>

	Note	<u>2017</u>	<u>2016</u>
<i>Balance brought forward</i>		<u>P 6,106,774,628</u>	<u>P 6,689,630,647</u>
Investment of FCI in FPARI, an associate – acquisition cost		<u>14,700,000</u>	<u>14,700,000</u>
		<u>6,121,474,628</u>	<u>6,704,330,647</u>
Advances to Associates and Other Related Parties	29.4	<u>2,544,141,192</u>	<u>2,520,255,783</u>
		<u>P 8,665,615,820</u>	<u>P 9,224,586,430</u>

The total share in net profits amounts to P272.7 million, P355.6 million and P268.6 million for the years ended December 31, 2017, 2016 and 2015 respectively. These amounts are shown as Share in Net Profits of Associates and Joint Ventures – Net account in the consolidated statements of comprehensive income.

The carrying costs of Investments in Associates are lower than the book values of such investments in the investees' books; hence, management has assessed that recognition of impairment losses in 2017, 2016 and 2015 is not necessary.

12.2 SHDI

The shares of stock of SHDI are listed in the PSE. In 2017, TDI acquired 235.0 million SHDI shares amounting to P235.0 million representing 10.44% ownership interest. Megaworld's effective ownership over SHDI increased to 45.67% as a result of TDI's acquisition of shares. The total quoted or market value of investment in this associate amounted to P1.0 billion and P0.9 billion as at December 31, 2017 and 2016, respectively.

12.3 BNHGI

In 2017 and 2016, FEPI sold portions of its ownership interest each year, reducing the Group's effective ownership over BNHGI to 8% and 17%, respectively. Gain on sale of investment in an associate amounting to P113.1 million, P82.5 million and P181.3 million was recognized in 2017, 2016 and 2015, respectively and presented under Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

12.4 BLC

In 2017, the Group partially withdrew its investment in BLC. The amount withdrawn was used by the Group for its investment, representing 50% of the capital stock of DBLC (see Note 1.1).

12.5 Summarized Financial Information

The aggregated amounts of assets, liabilities, revenues and net profit (loss) of the associates and joint ventures are as follows as at and for the years ended December 31, 2017 and 2016 (in thousands):

2017				
	Assets	Liabilities	Revenues	Net Profit (Loss)
NPI	P 5,673,410	P 1,317,006	P 10	(P 97)
BLC	4,460,318	1,253,479	2,686,510	308,204
BWDC	2,614,723	1,283,079	299,821	209,926
PCMCI	2,442,354	8,522	-	(9,589)
BNHGI	1,800,333	169,478	-	(136)
PTHDC	1,136,407	1,009,162	5	(1,589)
SHDI	698,583	235,959	581,166	101,875
FERC	277,875	209,509	-	-
FERSAI	157,909	173,014	-	-
FENI	98,511	93,113	-	-
FESI	61,571	16,234	-	-
FRTMI	3,459	638	17	(466)
	<u>P 19,425,453</u>	<u>P 5,769,193</u>	<u>P 3,567,529</u>	<u>P 608,128</u>

2016				
	Assets	Liabilities	Revenues	Net Profit (Loss)
NPI	P 5,675,416	P 1,317,006	P 18	(P 123)
BLC	5,132,925	1,056,563	4,140,938	438,554
BWDC	2,759,329	2,749,338	443,284	280,292
PCMCI	2,451,853	8,433	-	(6,422)
BNHGI	1,800,435	196,475	-	(108)
PTHDC	1,136,165	1,007,332	5	(766)
SHDI	684,683	402,542	417,351	47,758
FERC	277,875	209,509	-	-
FERSAI	157,909	173,014	-	-
FESI	61,571	16,234	1,521	(2,415)
FENI	98,511	93,113	-	-
FRTMI	4,538	638	90	(1,077)
	<u>P 20,241,210</u>	<u>P 7,230,197</u>	<u>P 5,003,207</u>	<u>P 755,693</u>

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. [See Notes 2.9, 3.1(c) and 3.2(h)]

	<u>Land and Land Improvements</u>	<u>Buildings and Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Condominium Units, Fixtures and Other Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2017							
Cost	P 13,258,156,917	P 48,777,083,571	P 23,173,692,253	P 1,255,342,539	P 11,721,288,150	P 28,345,712,887	P 126,531,276,317
Accumulated depreciation, amortization and impairment	(210,347,851)	(10,172,440,363)	(11,938,706,307)	(696,565,906)	(5,486,731,263)	-	(28,504,791,690)
Net carrying amount	<u>P 13,047,809,066</u>	<u>P 38,604,643,208</u>	<u>P 11,234,985,946</u>	<u>P 558,776,633</u>	<u>P 6,234,556,887</u>	<u>P 28,345,712,887</u>	<u>P 98,026,484,627</u>
December 31, 2016							
Cost	P 12,582,510,927	P 44,152,563,556	P 19,843,643,000	P 1,015,546,308	P 9,554,335,481	P 20,668,602,178	P 107,817,201,450
Accumulated depreciation, amortization and impairment	(183,255,383)	(8,479,481,389)	(10,645,276,674)	(594,039,740)	(4,921,477,189)	-	(24,823,530,375)
Net carrying amount	<u>P 12,399,255,544</u>	<u>P 35,673,082,167</u>	<u>P 9,198,366,326</u>	<u>P 421,506,568</u>	<u>P 4,632,858,292</u>	<u>P 20,668,602,178</u>	<u>P 82,993,671,075</u>
January 1, 2016							
Cost	P 11,056,902,519	P 36,558,047,118	P 18,876,650,033	P 889,003,599	P 8,564,373,419	P 13,006,191,319	P 88,951,168,007
Accumulated depreciation, amortization and impairment	(160,463,480)	(7,382,843,468)	(10,079,353,913)	(486,249,489)	(4,568,029,117)	-	(22,676,939,467)
Net carrying amount	<u>P 10,896,439,039</u>	<u>P 29,175,203,650</u>	<u>P 8,797,296,120</u>	<u>P 402,754,110</u>	<u>P 3,996,344,302</u>	<u>P 13,006,191,319</u>	<u>P 66,274,228,540</u>

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

	<u>Land and Land Improvements</u>	<u>Buildings and Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Condominium Units, Fixtures and Other Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation amortization and impairment	P 12,399,255,544	P 35,673,082,167	P 9,198,366,326	P 421,506,568	P 4,632,858,292	P 20,668,602,178	P 82,993,671,075
Transfer from investment property	-	-	-	-	1,619,168,429	-	1,619,168,429
Transfer to investment property	-	-	-	-	(85,581,344)	-	(85,581,344)
Additions	1,084,373,837	3,773,769,094	3,737,159,737	300,417,618	856,448,913	10,694,765,474	20,446,934,673
Additions due to acquired subsidiaries	-	-	-	-	5,255,192	-	5,255,192
Disposals – net	(408,727,847)	(63,982,758)	(76,905,182)	(10,806,243)	(11,451,516)	(1,297,223,420)	(1,869,096,966)
Write-off of damaged assets	-	(377,467,784)	(260,327,124)	-	(14,809,416)	-	(652,604,324)
Reclassifications – net	-	1,473,839,585	240,855,237	-	5,736,523	(1,720,431,345)	-
Reversal of impairment loss	-	60,504,846	-	-	-	-	60,504,846
Depreciation and amortization charges for the year	(27,092,468)	(1,935,101,942)	(1,604,163,048)	(152,341,310)	(773,068,186)	-	(4,491,766,954)
Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment	<u>P 13,047,809,066</u>	<u>P 38,604,643,208</u>	<u>P 11,234,985,946</u>	<u>P 558,776,633</u>	<u>P 6,234,556,887</u>	<u>P 28,345,712,887</u>	<u>P 98,026,484,627</u>
Balance at January 1, 2016, net of accumulated depreciation amortization and impairment	P 10,896,439,039	P 29,175,203,650	P 8,797,296,120	P 402,754,110	P 3,996,344,302	P 13,006,191,319	P 66,274,228,540
Transfer from investment property	-	-	-	-	457,721,767	-	457,721,767
Additions	26,086,122	3,109,764,343	1,309,997,571	148,988,825	980,817,163	10,962,996,747	16,538,650,771
Additions due to acquired subsidiaries and business unit	1,641,237,414	1,946,144,699	525,133,832	463,738	10,056,278	14,424,834	4,137,460,795
Disposals – net	(141,715,128)	(30,720,024)	(54,151,140)	(3,867,648)	(16,083,847)	(178,791)	(246,716,578)
Disposals due to deconsolidation of subsidiaries	-	-	-	-	(87,509,567)	-	(87,509,567)
Reclassifications – net	-	3,223,295,679	89,070,368	-	5,128,330	(3,314,831,931)	2,662,446
Impairment loss	-	(164,871,580)	(1,626,076)	-	-	-	(166,497,656)
Depreciation and amortization charges for the year	(22,791,903)	(1,585,734,600)	(1,467,354,349)	(126,832,457)	(713,616,134)	-	(3,916,329,443)
Balance at December 31, 2016, net of accumulated depreciation, amortization and impairment	<u>P 12,399,255,544</u>	<u>P 35,673,082,167</u>	<u>P 9,198,366,326</u>	<u>P 421,506,568</u>	<u>P 4,632,858,292</u>	<u>P 20,668,602,178</u>	<u>P 82,993,671,075</u>

Construction in progress includes accumulated costs incurred on the casino and hotel sites being constructed as part of Travellers' investment commitment in accordance with its Provisional License Agreement with PAGCOR [see Note 30.3(a)]. In 2017, the construction of RunWay Manila, a pedestrian link bridge that connects Ninoy Aquino International Airport Terminal (NAIA) 3 and Newport City, was completed (see Note 30.7). In 2016, the construction of Marriott West Wing, which is a 10-storey annex to the existing Marriott Hotel and with additional 228 rooms, was completed. Accordingly, the respective accumulated costs incurred for these facilities were reclassified from Construction in progress to Buildings and leasehold improvements in 2017 and 2016.

In 2017 and 2015, GADC recognized gain on reversal of impairment losses amounting to P60.5 million and P1.9 million, respectively. In 2016, GADC recognized impairment losses of P166.5 million to write down to recoverable amount certain stores' property and equipment. Impairment losses are presented as Impairment of property, plant and equipment under Other Operating Expenses account in the 2016 consolidated statement of comprehensive income (see Note 25), while the gain on reversal of impairment losses are presented as part of Miscellaneous – Net under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26). The value in use was computed using GADC's weighted average cost of capital of 12.2%, 15.5% and 16.0% in 2017, 2016 and 2015, respectively.

The Group recognized net gains on disposal of various property, plant and equipment totaling P115.1 million and P1.8 million in 2017 and 2015, respectively, which are presented as part of Gain on disposal of PPE, investment properties and intangible assets – net under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26). In 2016, the Group recognized net losses on disposal of various property, plant and equipment amounting to P35.8 million, which is presented as part of Loss on disposal of PPE, investment properties and intangible assets – net under Finance Costs and Other Charges account in the 2016 consolidated statement of comprehensive income (see Note 26).

In 2017, the Group wrote-off certain property and equipment with carrying value of P652.6 million (see Note 30.7). This is presented as part of Losses from casualty, net of insurance claims under Finance Costs and Other Charges account in the 2017 consolidated statement of comprehensive income (see Note 26).

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 accounts (see Notes 24 and 25). In 2017, 2016 and 2015, depreciation expense amounting to P272.9 million, P218.7 million and P198.6 million, respectively, 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.

Certain land and building are held as collateral by a local bank for a loan obtained by GADC. As at December 31, 2017 and 2016, the carrying values of the land and building amounted to P112.1 million and P24.7 million, respectively [see Note 17(dd)].

As at December 31, 2017 and 2016, total cost of fully depreciated assets that are still being used in operations amounted to P6.4 billion and P3.9 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. [See Notes 2.10, 3.1(c)(d) and 3.2(e)(h)]

	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
December 31, 2017			
Cost	P 9,946,455,829	P 72,023,251,889	P 81,969,707,718
Accumulated depreciation	<u>-</u>	<u>(8,970,240,657)</u>	<u>(8,970,240,657)</u>
Net carrying amount	<u>P 9,946,455,829</u>	<u>P 63,053,011,232</u>	<u>P 72,999,467,061</u>
December 31, 2016			
Cost	P 10,044,499,117	P 59,686,451,713	P 69,730,950,830
Accumulated depreciation	<u>-</u>	<u>(7,424,181,679)</u>	<u>(7,424,181,679)</u>
Net carrying amount	<u>P 10,044,499,117</u>	<u>P 52,262,270,034</u>	<u>P 62,306,769,151</u>
January 1, 2016			
Cost	P 9,823,058,912	P 44,538,546,995	P 54,361,605,907
Accumulated depreciation	<u>-</u>	<u>(6,190,659,719)</u>	<u>(6,190,659,719)</u>
Net carrying amount	<u>P 9,823,058,912</u>	<u>P 38,347,887,276</u>	<u>P 48,170,946,188</u>

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

	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation	P 10,044,499,117	P 52,262,270,034	P 62,306,769,151
Transfer to property and equipment	-	<u>(1,619,168,429)</u>	<u>(1,619,168,429)</u>
Transfer from property, plant and equipment	-	85,581,344	85,581,344
Additions	71,202,275	13,870,387,261	13,941,589,536
Disposals	<u>(169,245,563)</u>	<u>-</u>	<u>(169,245,563)</u>
Depreciation charges for the year	<u>-</u>	<u>(1,546,058,978)</u>	<u>(1,546,058,978)</u>
Balance at December 31, 2017, net of accumulated depreciation	<u>P 9,946,455,829</u>	<u>P 63,053,011,232</u>	<u>P 72,999,467,061</u>
Balance at January 1, 2016, net of accumulated depreciation	P 9,823,058,912	P 38,347,887,276	P 48,170,946,188
Transfer to property and equipment	-	<u>(457,721,767)</u>	<u>(457,721,767)</u>
Additions	163,153,826	12,816,037,786	12,979,191,612
Additions due to acquired subsidiaries and business unit	22,276,500	-	22,276,500
Disposals	-	<u>(766,776)</u>	<u>(766,776)</u>
Reclassifications – net	36,009,879	2,796,263,277	2,832,273,156
Depreciation charges for the year	<u>-</u>	<u>(1,239,429,762)</u>	<u>(1,239,429,762)</u>
Balance at December 31, 2016, net of accumulated depreciation	<u>P 10,044,499,117</u>	<u>P 52,262,270,034</u>	<u>P 62,306,769,151</u>

Rental income earned from the investment property amounted to P12.4 billion, P10.5 billion and P9.2 billion for the years ended December 31, 2017, 2016 and 2015, respectively, and shown as Rental income under Rendering of Services account 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 that generates income amounted to P568.0 million, P563.0 million and P468.4 million in 2017, 2016 and 2015, respectively, are presented as part of Cost of Services account 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.

In 2017 and 2016, the Group changed its intention on the use of certain properties from being held for lease to being used for administrative purpose. The Group occupied the properties in those years and the carrying amounts of P1.6 billion and P0.5 billion, respectively, were reclassified from Investment Properties account to Property, Plant and Equipment account.

In 2017, GADC sold parcels of land to a related party with a total carrying amount of P148.7 million for P149.4 million (see Note 29). Gain from sale of land amounted to P0.7 million and is presented as part of Gain on disposal of PPE, investment properties and intangible assets – net under Finance and Other Income account in the 2017 consolidated statement of comprehensive income (see Note 26).

In 2016, certain projects under property development costs were reclassified to investment properties due to change in management’s intention. At the date of reclassification, the properties were fully constructed and started earning rental income.

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, 2017 and 2016, none of the Group’s investment properties were held as collateral.

The fair market values of these properties amounted to P310.1 billion and P260.8 billion as at December 31, 2017 and 2016, respectively. These are estimated either by reference to current prices for similar properties or by calculation of the present values of the estimated cash inflows anticipated until the end of the life of the investment property using discount rates that reflect the risks and uncertainty in cash flows (see Note 33.4).

There were no idle investment properties in 2017, 2016 and 2015.

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 and in the succeeding page (see Note 2.12 and 2.19).

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Leasehold Rights</u>	<u>Computer Software</u>	<u>Franchise Fee</u>	<u>Total</u>
December 31, 2017						
Cost	P 19,848,347,372	P20,889,925,571	P 1,193,783,886	P 48,075,687	P 55,649,677	P42,035,782,193
Translation adjustment	241,819,514	646,181,370	-	-	-	888,000,884
Accumulated amortization	-	(1,019,486,261)	(234,990,795)	(29,564,926)	(2,081,824)	(1,286,123,806)
Net carrying amount	<u>P 20,090,166,886</u>	<u>P20,516,620,680</u>	<u>P 958,793,091</u>	<u>P 18,510,761</u>	<u>P 53,567,853</u>	<u>P41,637,659,271</u>

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Leasehold Rights</u>	<u>Computer Software</u>	<u>Franchise Fee</u>	<u>Total</u>
December 31, 2016						
Cost	P 19,848,347,372	P 17,663,845,521	P 1,194,058,929	P 29,758,358	P -	P 38,736,010,180
Accumulated amortization	-	(1,008,286,323)	(176,008,250)	(27,501,378)	-	(1,211,795,951)
Net carrying amount	<u>P 19,848,347,372</u>	<u>P 16,655,559,198</u>	<u>P 1,018,050,679</u>	<u>P 2,256,980</u>	<u>P -</u>	<u>P 37,524,214,229</u>
January 1, 2016						
Cost	P 18,385,690,018	P 11,000,870,823	P 1,155,954,708	P 29,758,358	P -	P 30,572,273,907
Accumulated amortization	-	(905,413,655)	(78,562,744)	(26,099,739)	-	(1,010,076,138)
Net carrying amount	<u>P 18,385,690,018</u>	<u>P 10,095,457,168</u>	<u>P 1,077,391,964</u>	<u>P 3,658,619</u>	<u>P -</u>	<u>P 29,562,197,769</u>

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

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Leasehold Rights</u>	<u>Computer Software</u>	<u>Franchise Fee</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated amortization	P 19,848,347,372	P 16,655,559,198	P 1,018,050,679	P 2,256,980	P -	P 37,524,214,229
Additions	-	3,226,080,050	-	18,317,329	55,649,677	3,300,047,056
Translation adjustment	241,819,514	646,181,370	-	-	-	888,000,884
Amortization for the year	-	(11,199,938)	(59,257,588)	(2,063,548)	(2,081,824)	(74,602,898)
Balance at December 31, 2017, net of accumulated amortization	<u>P 20,090,166,886</u>	<u>P 20,516,620,680</u>	<u>P 958,793,091</u>	<u>P 18,510,761</u>	<u>P 53,567,853</u>	<u>P 41,637,659,271</u>
Balance at January 1, 2016, net of accumulated amortization	P 18,385,690,018	P 10,095,457,168	P 1,077,391,964	P 3,658,619	P -	P 29,562,197,769
Additions due to consolidation of subsidiaries and business unit	1,462,657,354	6,662,974,698	-	-	-	8,125,632,052
Amortization for the year	-	(102,872,668)	(59,341,285)	(1,401,639)	-	(163,615,592)
Balance at December 31, 2016, net of accumulated amortization	<u>P 19,848,347,372</u>	<u>P 16,655,559,198</u>	<u>P 1,018,050,679</u>	<u>P 2,256,980</u>	<u>P -</u>	<u>P 37,524,214,229</u>

Goodwill primarily relates to growth expectations arising from operational efficiencies and synergies that will be achieved by combining the resources, skills and expertise of the individual components of the Group and by improving the Group's market reach and industry visibility both in the local and global market.

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 WMG Group, the trademarks "Jura" and "The Dalmore" were also recorded. In 2016, the Group's acquisition of Bodegas Fundador in Jerez resulted in the recognition of four new trademarks, which amounted to P6.7 billion, to the Group's brand portfolio, namely "Fundador Brandy", "Terry Centenario Brandy", "Tres Cepas Brandy", and "Harveys" sherry wine [see Note 1.2(b)]. In 2017, the Group acquired various trademarks amounting to P3.2 billion which included "Domecq" brands of Mexican and Spanish brandies, "Garvey Brandy", "Fino San Patricio", and other well-known sherries and liquors brands [see Note 1.2(a)]. These trademarks have indefinite useful lives; hence, no amortization was recognized for these brands for the periods presented.

The Group monitors goodwill and trademarks with infinite useful lives on the cash generating units to which these assets were allocated [see Notes 2.20 and 3.2(i)]. An analysis of the value-in-use and the amount of intangible assets allocated to such groups of cash generating units is presented as follows (amounts in billions of pesos):

	2017				2016			
	Allocated Intangible Assets	Value in Use	Terminal Growth Rate	Discount Rate	Allocated Intangible Assets	Value in Use	Terminal Growth Rate	Discount Rate
Goodwill:								
Megaworld	P 9.05	P 220.35	1.00%	9.87%	P 9.05	P 203.11	1.00%	9.95%
GADC	1.25	19.12	1.00%	9.41%	1.25	17.98	1.00%	9.16%
WMG ²	7.70	12.24	3.00%	12.30%	7.67	12.56	3.00%	12.73%
GES ²	1.68	4.46	1.60%	7.51%	1.46	2.35	1.60%	7.51%
Trademarks with indefinite lives:								
WMG brands ²	9.64	22.5	3.00%	12.30%	9.97	14.63	3.00%	12.73%
Fundador and other brands ^{1,2}	7.64	17.76	1.60%	8.14%	6.66	-	-	-
Domecq brands ^{1,2}	2.85	-	-	-	-	-	-	-
Grupo Garvey brands ^{1,2}	0.37	-	-	-	-	-	-	-

¹ Management believes that the carrying values of Domecq and Grupo Garvey brands as of December 31, 2017 and Fundador brands as of December 31, 2016 approximate their value-in-use as of that date since these were only acquired in 2017 and 2016, respectively.

² Amounts are translated at closing rate as of the end of the reporting periods in accordance with PAS 21, The Effects of Changes in Foreign Exchange Rates.

The value-in-use of each group of cash generating unit was determined using cash flow projections ranging from 3 to 5 years and extrapolating cash flows beyond the projection period using a steady terminal growth rate. The discount rates and growth rates are the key assumptions used by management in determining the value-in-use of the cash generating units. Based on management's analysis, no impairment is required to be recognized on goodwill and trademarks with indefinite useful lives. Management has also determined that a reasonably possible change in the key assumptions used would not cause the carrying value of the cash generating units to exceed their respective value-in-use.

The amortization of trademarks with finite useful lives amounted to P11.2 million in 2017 and P102.9 million in both 2016 and 2015, 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: [See Note 3.2(h)]

	2017	2016
The BaR	6 months	1.5 years
Emperador Deluxe	5.5 years	6.5 years
Emperador Brandy	-	1 month
Generoso Brandy	-	1 month

In 2014, WCRWI 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, WCRWI has paid NPF P1.0 billion (presented under Leasehold rights) covering the first 20 years of the lease. The amount of amortization charges amounted to P50.0 million in both 2017 and 2016, and P66.7 million in 2015, which is presented as part of Depreciation and amortization under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

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, computer software and franchise fee) in 2017, 2016 and 2015.

As at December 31, 2017 and 2016, the Group has no contractual commitments for the acquisition of any additional trademarks, leasehold rights, computer software and franchise fee.

16. TRADE AND OTHER PAYABLES

The breakdown of this account follows: (See Note 2.13)

	Notes	2017	2016
Trade payables	29.1	P 25,289,898,793	P 21,398,846,869
Accrued expenses	29.3, 30.5(a)	9,241,712,116	8,664,793,944
Retention payable		5,845,317,999	3,954,252,112
Accrued interest	17, 18	1,052,531,632	1,316,215,677
Due to related parties	29.5	487,878,940	643,933,434
Output VAT payable		616,174,653	553,834,979
Gaming license fees payable	28.3	331,622,805	455,765,634
Unredeemed gaming points		274,628,860	345,075,419
Withholding tax payable		301,688,160	185,843,917
Others		2,207,253,699	1,448,541,222
		<u>P 45,648,707,657</u>	<u>P 38,967,103,207</u>

Trade payables significantly comprise of obligations to subcontractors and suppliers of construction materials for the Group's projects and suppliers of raw materials. 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 or in custody, casino deposit certificates from patrons and other gaming-related liabilities.

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

Retention payable pertains to amount withheld from payments made to contractors for construction work performed to ensure compliance and completion of contracted projects. Upon completion of the contracted projects, the retained amounts are returned to the contractors.

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 Notes 2.16 and 3.2(l)].

Others include unearned rental, payables to government and other regulatory agencies, and various unreleased checks which are reverted to liability.

17. INTEREST-BEARING LOANS

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

	<u>2017</u>	<u>2016</u>
Current:		
Local	P 29,039,149,317	P 18,420,889,667
Foreign	<u>3,661,326,840</u>	<u>2,674,767,650</u>
	<u>32,700,476,157</u>	<u>21,095,657,317</u>
Non-current:		
Local	46,168,893,532	36,075,216,708
Foreign	<u>62,104,193,498</u>	<u>19,425,000,000</u>
	<u>108,273,087,030</u>	<u>55,500,216,708</u>
	<u>P 140,973,563,187</u>	<u>P 76,595,874,025</u>

The summarized terms and conditions of each availed loan as at December 31, 2017 and 2016 as follows:

<u>Outstanding Principal Balance</u>		Explanatory Notes	Interest Rate	Security	Maturity date
<u>2017</u>	<u>2016</u>				
<i>Megaworld</i>					
P 7,083,333,333	P 8,750,000,000	(a)	Fixed at 5.6286%	Unsecured	2022
5,000,000,000	5,000,000,000	(b)	Fixed at 6.4274%	Unsecured	2021
4,936,029,267	-	(c)	Floating rate on a 3-month LIBOR plus a certain spread	Unsecured	2022
3,846,153,846	4,615,384,615	(d)	Fixed at 5.25%	Unsecured	2022
3,750,000,000	5,000,000,000	(e)	Fixed at 5.035%	Unsecured	2020
3,076,923,077	3,846,153,846	(f)	Fixed at 5.3812%	Unsecured	2021
2,000,000,000	2,000,000,000	(g)	Fixed at 5.2632%	Unsecured	2021
<u>P 29,692,439,523</u>	<u>P 29,211,538,461</u>				
<i>EELHI</i>					
P 1,583,333,333	P 1,916,666,667	(h)	Floating from 3.2% to 5.4%	Unsecured	2022-2023
400,000,000	-	(i)	Floating rate of 4.5% subject to repricing	Unsecured	2018
18,079,643	41,882,809	(j)	Fixed at range of 7.0% and 9.0%	Secured	Upon collection of assigned receivables
<u>P 2,001,412,976</u>	<u>P 1,958,549,476</u>				
<i>LFI</i>					
<u>P 375,000,000</u>	<u>P 500,000,000</u>	(k)	Fixed at 5.0% subject to repricing	Unsecured	2020
<i>Balance carried forward</i>					
<u>P 32,068,852,499</u>	<u>P 31,670,087,937</u>				

<u>Outstanding Principal Balance</u>		<u>Explanatory Notes</u>	<u>Interest Rate</u>	<u>Security</u>	<u>Maturity date</u>
<u>2017</u>	<u>2016</u>				
<i>Balance brought forward</i>					
P 32,068,852,499	P 31,670,087,937				
SPI					
P 1,375,000,000	P 1,500,000,000	(l)	3.15% to 5.15% subject to repricing	Unsecured	2020
934,037,523	1,047,551,066	(m)	Variable prevailing market rate 5.5% to 15.0%	Secured	Upon collection of related assigned receivables 2021-2022
900,000,000	400,000,000	(n)	3.50% subject to repricing	Unsecured	
169,230,769	200,000,000	(o)	5.25% subject to repricing	Unsecured	2020
33,750,000	45,000,000	(p)	Fixed at range of 5.50% to 5.75%	Unsecured	2018
P 3,412,018,292	P 3,192,551,066				
GERI					
P 2,000,000,000	P -	(q)	Floating rate plus a spread of 2.5%	Unsecured	2022
1,750,000,000	2,000,000,000	(r)	Fixed based on 5-year PDST-R2 plus 1.3% spread at 3% floor	Unsecured	2021
1,153,846,154	1,500,000,000	(s)	Fixed based on 5-year PDST-R2 fixed based on plus 1.3% spread at 5% floor	Unsecured	2020
P 4,903,846,154	P 3,500,000,000				
RHGI					
P -	P 63,050,705	(t)	Fixed at 0.82%	Unsecured	2017
OFPI					
P 152,083,333	P 427,083,333	(u)	Fixed at 5.035%	Unsecured	2020
EIL					
P 22,055,700,000	P 19,425,000,000	(v)	Margin of 1.55% plus EURIBOR	Unsecured	2021
EDI					
P 750,000,000	P 750,000,000	(w)	Fixed at 5.245%	Unsecured	2021
750,000,000	750,000,000	(w)	Fixed at 5.113%	Unsecured	2021
500,000,000	500,000,000	(w)	Fixed at 5%	Unsecured	2021
P 2,000,000,000	P 2,000,000,000				
WMG					
P 3,580,796,290	P 2,674,767,650	(x)	0.75% over LIBOR	Secured	2019
DBLC					
P 2,980,500,000	P -	(y)	Fixed at 1.6%	Unsecured	2022
GES					
P 2,305,424,600	P -	(z)	Fixed at 1.55%	Unsecured	2027
GADC					
P 380,952,380	P 571,428,572	(aa)	3.85% to 5.15%	Unsecured	2019-2020
592,857,144	750,952,381	(bb)	Fixed at 4.18% and 5.17%	Unsecured	2021
185,714,287	235,238,095	(cc)	Fixed at 4.71%	Unsecured	2021
68,571,428	85,714,286	(dd)	Fixed at 5%	Secured	2021
P 1,228,095,239	P 1,643,333,334				
<i>Balance carried forward</i>					
P 74,687,316,407	P 64,595,874,025				

<u>Outstanding Principal Balance</u>		<u>Explanatory Notes</u>	<u>Interest Rate</u>	<u>Security</u>	<u>Maturity date</u>
<u>2017</u>	<u>2016</u>				
<i>Balance carried forward</i>					
P 74,687,316,407	P 64,595,874,025				
<i>Travellers</i>					
P 13,000,000,000	P -	(ee)	Fixed at 4.0%	Unsecured	2018
6,967,063,347	-	(ff)	Floating rate subject to repricing	Unsecured	2024
4,976,083,985	-	(ff)	Floating rate subject to repricing plus 1.15% spread	Unsecured	2024
2,000,000,000	-	(gg)	Fixed at 3.8%	Unsecured	2018
1,500,000,000	-	(hh)	Fixed at 4.0%	Unsecured	2018
3,000,000,000	-	(ii)	Fixed at 3.9% - 4.0%	Unsecured	2018
-	3,500,000,000	(jj)	Fixed at 3.6%	Unsecured	2017
-	2,000,000,000	(jj)	Fixed at 4.0%	Unsecured	2017
-	1,500,000,000	(kk)	Fixed at 3.7%	Unsecured	2017
P 31,443,147,332	P 7,000,000,000				
<i>AGI Parent</i>					
P -	P 5,000,000,000	(ll)	Fixed at 3.0%	Unsecured	2017
<i>AG Cayman</i>					
P 24,894,147,905	P -	(mm)	Fixed at 4.1456%	Unsecured	2022
4,978,836,085	-	(mm)	Fixed at 3.9%	Unsecured	2022
4,970,115,458	-	(mm)	Fixed at 3.8330%	Unsecured	2022
P 34,843,099,448	P -				
P 140,973,563,187	P 76,595,874,025				

Explanatory Notes:

- (a) Loan obtained by Megaworld from a local bank in two tranches in March and June 2015 to fund various real estate projects and retire currently maturing obligations. Principal repayment on this seven-year loan commenced in June 2016 and interest is paid quarterly.
- (b) Loan obtained by Megaworld from a local bank in November 2016 for a five-year term. The principal repayments shall commence in February 2018 and interest is paid quarterly.
- (c) Loan obtained by Megaworld from a local bank amounting to U.S. \$98.87 million payable quarterly for a term of five years with a grace period of one year upon availment. The principal repayment on the loan shall commence in March 2019 and a floating interest is paid quarterly. Megaworld entered into a cross-currency swap transaction to hedge the U.S. dollar exposure of the loans (see Note 20).
- (d) Loan obtained by Megaworld from a local bank in November 2015. The principal repayments on this seven-year loan commenced in November 2016 and interest is payable semi-annually.
- (e) Loan obtained by Megaworld from a local bank in December 2015 for a five-year term. The principal repayments commenced in March 2017 and interest is paid quarterly.
- (f) Loan obtained by Megaworld from a local bank in 2014. The principal repayments on this seven-year loan commenced in August 2015 while interest is paid semi-annually.

- (g) Loan obtained by Megaworld in August 2016 from a local bank payable for a term of five years with a grace period of two years upon availment. The principal repayment on the loan shall commence in November 2018 and interest is paid quarterly.
- (h) Loan obtained by EELHI from a local bank released in three tranches.
- (i) Loan obtained by EELHI in 2017 from a local bank used to fund the development of various real estate projects. Principal is payable upon maturity and interest is payable monthly in arrears.
- (j) Loans obtained by EELHI through assignment of receivables (see Note 6). Certain residential and condominium units for sale with carrying value of P110.7 million and P188.4 million as of December 31, 2017 and 2016, respectively, were used as collateral for the loans (see Note 8).
- (k) Five-year loan obtained by LFI from a local bank in December 2015. Quarterly installments began in March 2017, plus interest.
- (l) Five-year loan obtained by SPI from a local bank in 2015, payable in monthly installments after two years from draw down.
- (m) Loans obtained by SPI from a local bank in 2015 through assignment of trade receivables (see Note 6).
- (n) Five-year loan obtained by SPI from a local bank in 2017 and 2016, payable on a monthly basis after a grace period of two years from the date of availment. The loan bears floating interest which is subject to repricing every 30-180 days.
- (o) Five-year loan obtained by SPI from a local bank. Quarterly repayment of the loan began in 2017.
- (p) Outstanding balance of short-term loans availed by SPI from local banks in 2017 and 2016.
- (q) Loan availed by GERI in 2017 from a local bank payable quarterly for a term of five years commencing on the beginning of the fifth quarter from the initial drawdown date.
- (r) Five-year loan obtained by GERI from a local bank in 2016, with a grace period of two years on principal installment. The loan is payable in quarterly installments of P125.0 million commencing on the 9th quarter from the date of initial drawdown and balloon payment at the end of five years.
- (s) Five-year loan obtained by GERI from a local bank in 2015. The loan is payable quarterly commencing on the 9th quarter from the date of initial drawdown.
- (t) Euro-denominated short-term loan availed by RHGI from a foreign commercial bank. In June 2016, RHGI renewed the loan for another year. The loan was fully settled in 2017.
- (u) Five-year loan obtained by OFPI from a local bank in 2015.

- (v) Loans denominated in foreign currency obtained by EIL from international financial institutions.
- (w) Loans availed by EDI from a local bank for a term of five years payable over 12 quarterly payments.
- (x) Loan denominated in foreign currency obtained by WMG from a foreign bank. The loan is secured by way of floating charge against WMG's inventories.
- (y) Foreign-currency-denominated loans of DBLC totaling P3.0 billion used in relation to asset acquisition.
- (z) In 2017, GES obtained an unsecured five-year foreign-currency-denominated loan from certain financial institution for asset acquisitions.
- (aa) Loans drawn by GADC from a P1.0 billion credit facility granted by a local bank. Principal is payable in quarterly installments.
- (bb) Loans obtained by GADC from local banks. Quarterly principal payments commenced in September 2016.
- (cc) Loan obtained by GADC from a local bank in June 2015 in relation to the P500.0 million loan facility. Principal repayments began in June 2016 and every quarter thereafter.
- (dd) Balance from loan granted to GADC in December 2011 by a local bank for the purchase of land and building from the latter, payable monthly starting on the third year of the loan. The acquired land and building served as collateral on the loan (see Note 13).
- (ee) Short-term loan obtained by Travellers in 2017 from the credit line of P21.0 billion from a local bank, which is payable within 60 days and bears interest which is payable monthly.
- (ff) Seven-year loans obtained by Travellers in 2017 from the credit line agreements with certain local banks for the support of its expansion projects. Principal payments shall be made in lump sum upon maturity and interest is payable quarterly.
- (gg) Short-term loan availed by Travellers from a local bank payable upon maturity of 180 days and with interest payable monthly.
- (hh) Omnibus line credit facility obtained by Travellers with the term of up to 90 days, payable upon maturity and with interest payable monthly.
- (ii) Short-term loans availed by Travellers from a certain local bank with terms of up to 360 days, payable upon maturity and with interest payable monthly.
- (jj) Loans obtained by Travellers from a local bank for working capital requirements. Both principal and interest were fully settled in 2017.
- (kk) Loan obtained by Travellers from a P10.0 billion loan facility from a local bank. Both principal and interest were fully settled in 2017.

(ll) Loan obtained by AGI from a local bank for general corporate purposes. Principal and interest were fully settled in 2017.

(mm) Five-year U.S. dollar-denominated loans obtained by AG Cayman in 2017 from a foreign bank totaling to US\$700.0 million with interest payable semi-annually in arrears. The loans are unconditionally and irrevocably guaranteed by AGI.

As at December 31, 2017 and 2016, the Group has 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 P2,065.1 million, P778.3 million and P497.4 million for the years ended December 31, 2017, 2016 and 2015, respectively, and are presented as part of Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2017, 2016 and 2015 are included as part of additions to Construction in progress under Property, Plant and Equipment account (see Note 13), Real estate for sale under Inventories account (see Note 8) and Property Development Costs account (see Note 2.7). The amounts of outstanding accrued interest as at December 31, 2017 and 2016 are presented as part of Accrued interest under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

18. BONDS PAYABLE

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

	<u>2017</u>	<u>2016</u>
Current:		
Megaworld	P 9,976,270,876	P -
AG Cayman	-	24,855,927,368
Travellers	-	<u>14,879,062,940</u>
	<u>9,976,270,876</u>	39,734,990,308
Non-current –		
Megaworld	<u>24,388,714,176</u>	<u>22,330,589,969</u>
	<u>P 34,364,985,052</u>	<u>P 62,065,580,277</u>

The significant terms of the bonds are discussed below and in the succeeding page.

Face Amount	Outstanding Principal Balance		Explanatory Notes	Interest Rate	Nature	Maturity
	2017	2016				
\$250.0 million	P 12.4 billion	P 12.4 billion	(a)	Fixed at 4.25%	Unsecured	2023
P 12.0 billion	11.9 billion	-	(b)	Fixed at 5.3535%	Unsecured	2024
\$200.0 million	10.1 billion	9.9 billion	(c)	Fixed at 6.75%	Unsecured	2018
\$500.0 million	-	24.9 billion	(d)	Fixed at 6.50%	Unsecured	2017
\$300.0 million	-	<u>14.9 billion</u>	(e)	Fixed at 6.90%	Unsecured	2017
	<u>P 34.4 billion</u>	<u>P 62.1 billion</u>				

- (a) On April 17, 2013, Megaworld issued 10-year term bonds with semi-annual interest payments every April 17 and October 17. The proceeds of the bond issuance are being used by Megaworld for general corporate purposes.
- (b) On March 28, 2017, Megaworld issued seven-year term bonds totaling P12.0 billion inclusive of P4.0 billion oversubscription. The bond carries a coupon rate of 5.3535% per annum and interest is payable semi-annually in arrears every March 28 and September 28. The bonds shall mature on March 28, 2024.
- (c) On April 15, 2011, Megaworld issued seven-year term bonds with accrued interest semi-annually in arrears every April 15 and October 15 each year. The proceeds received from these bonds are being used by Megaworld to finance its capital expenditures for its real estate projects.
- (d) On August 18, 2010, AG Cayman issued seven-year bonds with accrued interest semi-annually in arrears on February 18 and August 18 of every year. The bonds were listed in the Singapore Exchange Securities Trading Limited. The net proceeds of the bonds were used to finance capital and project expenditures, refinance certain existing indebtedness of certain subsidiaries, and for general corporate purposes. The bonds were unconditionally and irrevocably guaranteed by AGI which, together with certain subsidiaries, were required to comply with certain covenants. In 2017, the bonds were fully settled at maturity date.
- (e) On November 3, 2010, Travellers issued seven-year bonds with accrued interest semi-annually in arrears every May 3 and November 3 of each year. The bonds were listed in the Singapore Exchange Securities Trading Limited. The net proceeds of the bonds were used to finance capital and project expenditures, to refinance certain existing indebtedness, and for general corporate purposes of Travellers. On November 3, 2017, the bonds were fully settled.

Interest expense on the bonds payable, including amortization of capitalized transaction costs, amounted to P2.8 billion in 2017, P3.4 billion in 2016 and P2.8 billion in 2015. These amounts are presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2017, 2016 and 2015 are included as part of additions to Construction in progress under Property, Plant and Equipment account (see Note 13), Investment Property account (see Note 14), Real estate for sale under Inventories account (see Note 8) and Property Development Costs account (see Note 2.7). The amounts of outstanding accrued interest as at December 31, 2017 and 2016 are presented as part of Accrued interest 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 GADC and TLC as presented below and in the succeeding page. 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 in the consolidated statements of financial position as follows:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Current –			
TLC	19.2	P 251,597,580	P -
Non-current:			
GADC	19.1	850,632,483	755,707,392
TLC	19.2	1,006,390,320	1,257,987,900
		<u>1,857,022,803</u>	<u>2,013,695,292</u>
		<u>P 2,108,620,383</u>	<u>P 2,013,695,292</u>

19.1 GADC's Redeemable Preferred Shares

The shares were issued in March 2005 to McDonald's Restaurant Operations (MRO), a company incorporated in the U.S.A. and is a subsidiary of McDonald's Corporation. The features of these preferred shares with par value per share of P61,066 each are presented below (in exact amounts).

<u>Class</u>	<u>Voting</u>	<u>No. of Shares Authorized and Issued</u>	<u>Total Par Value (Undiscounted)</u>	<u>Additional Payment in the Event of GADC's Liquidation</u>
A	No	778	P 47,509,348	U.S.\$1,086 per share or the total peso equivalent of U.S.\$845,061
B	Yes	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 (March 2005) for a total redemption price equivalent to the peso value on the date that the shares were issued;
- (b) Has preference as to dividends declared by the BOD, but in no event shall the dividends 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 GADC's redeemable preferred shares in 2017, 2016 and 2015 amounted to P94.9 million, P84.3 million and P74.9 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, 2017 and 2016, the carrying value of the GADC redeemable preferred shares amounted to P850.6 million and P755.7 million, respectively, shown as part of Redeemable Preferred Shares account in the consolidated statements of financial position. As at December 31, 2017 and 2016, the fair value of these shares amounted to P1,109.9 million and P1,036.9 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 6.82% and 6.83%, 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 the 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 P2.4 million and P118.1 million as at December 31, 2017 and 2016, respectively, are presented as part of Other Non-Current Liabilities account in the consolidated statements of financial position (see Note 20). The related interest expense recognized for the years ended December 31, 2017, 2016 and 2015 amounting to P28.9 million each year 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, 2017 and 2016, the fair values of the redeemable preferred shares on the date of issuance approximate their par values.

20. OTHER LIABILITIES

The composition of this account is shown below.

	Notes	2017	2016
Current:			
Customers' deposits	2.16(b)	P 7,864,554,137	P 6,145,027,638
Reserve for property development	2.7	6,381,894,196	7,460,325,834
Deferred income on real estate sales	2.16(b)	4,512,313,292	5,561,346,611
Unearned revenues		1,930,574,361	1,672,152,962
Deferred rental income	2.16(j)	584,617,272	197,890,667
Derivative liability	2.13	132,764,451	356,819,015
Others		<u>771,559,859</u>	<u>757,818,293</u>
		<u>22,178,277,568</u>	<u>22,151,381,020</u>
Non-current:			
Reserve for property development	2.7	10,101,060,168	8,846,206,033
Deferred income on real estate sales	2.16(b)	5,548,431,901	5,119,282,510
Equity-linked debt securities	3.2(m)	5,227,114,518	5,262,906,379
Deferred rental income	2.16(j)	4,766,032,890	4,334,195,802
Customers' deposit	2.16(b)	475,548,222	1,092,454,082
Guaranty deposits		311,203,121	294,114,566
Provision for dilapidations	3.2(n)	295,593,594	134,475,781
Provision for onerous lease	3.2(o)	147,651,851	346,041,898
Accrued rent		117,832,141	129,346,664
Asset retirement obligation	2.9	70,485,017	61,269,090
Accrued interest		-	562,730,466
Others	19.2	<u>295,763,259</u>	<u>293,887,597</u>
		<u>27,356,716,682</u>	<u>26,476,910,868</u>
		<u>P 49,534,994,250</u>	<u>P 48,628,291,888</u>

Deferred rental income refers to the rental payments advanced by the lessee at the inception of the lease which will be applied to the remaining payments at the end of the lease term.

Derivative liability recognized in 2017 includes the P109.9 million loss in fair value of a hedging instrument designated as a cash flow hedge entered into by Megaworld with a local bank (see Note 2.5). Under this cross currency swap agreement, Megaworld will receive a total of \$98.87 million to be paid on a quarterly basis beginning March 2019 up to December 2022 plus interest based on 3-month LIBOR plus a certain spread. In exchange, Megaworld shall make fixed quarterly payments in Philippine pesos plus a fixed interest of 4.91%. The Group has designated the cross currency swap as a hedging instrument to hedge the risk in changes in cash flows of its loan denominated in U.S. dollar as an effect of changes in foreign currency exchange rates and interest rates (see Note 17). The Group recognized a total of P45.9 million fair value changes on cash flow hedge in 2017 presented as part of other comprehensive income in the 2017 consolidated statement of comprehensive income. There was no amount of fair value changes recognized in profit or loss in 2017.

As of December 31, 2017, the Group has assessed that the cross currency swap designated as a cash flow hedge will continue to be highly effective over the term of the agreement as the significant terms of the hedging instrument and the hedged loan (e.g. principal amounts, repricing dates and payment dates) are similar and with offsetting effect; hence, the Group expects to continuously use hedge accounting on the hedging relationship of its cross currency swap and on its interest-bearing loan. There was no similar transaction in 2016.

On the other hand, the derivative liability recognized in 2016 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 value of the interest swap agreement 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 a fixed number of common shares (conversion shares) of EMP. The ELS bears a fixed annual interest rate (5.0% initially; 0% as amended) and variable interest (equal to the same dividend price declared and payable to common shareholders). On June 15, 2017, the ELS was amended, stipulating among others the change in the fixed number of Conversion Shares (728,275,862 new and fully paid-up) and in the Share Market Price for the mandatory conversion at any time during the period beginning on Redemption Date and ending on the Extended Redemption Date to greater than P7.25 per share.

The ELS was reported wholly as a non-current liability at amortized cost in the 2016 consolidated statement of financial position. Consequent to the amendments in 2017 as mentioned in the preceding paragraph, the ELS instrument was reassessed which resulted in the financial liability component being revalued at P5.1 billion and the equity component being recognized and valued at P136.2 million [see Note 3.2(m)]. The carrying amounts of the components are presented separately in the 2017 consolidated statement of financial position while the amortization of the revalued financial liability component amounting to P83.3 million in 2017 is presented as part of Interest expense under Finance Cost and Other Charges account in the 2017 consolidated statement of comprehensive income (see Note 26).

Interest expense amounted to P376.1 million, P364.0 million and P341.2 million in 2017, 2016 and 2015, 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).

Provision for onerous lease pertains to WML's 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 subleased at a discount. The provision takes into account the current market conditions, expected future vacant periods, and expected future sublet benefits.

Provision for dilapidations is recognized for the present value of the costs to be incurred by WML for the restoration of the leased properties to a specified condition at the end of the lease term in 2029 as provided in the tenant repairing clauses of lease agreements.

Others, which are currently due, include liabilities on stocks purchases and due to condo-unit holders arising from condo hotel operations while Others, which are not currently due, include accrued dividends on redeemable preferred shares (see Note 19.2) and security and miscellaneous deposits.

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2017	2016	2015	2017	2016	2015
Common shares – P1 par value						
Authorized	<u>12,950,000,000</u>	<u>12,950,000,000</u>	<u>12,950,000,000</u>	<u>P12,950,000,000</u>	<u>P12,950,000,000</u>	<u>P12,950,000,000</u>
Issued:	10,269,827,979	10,269,827,979	10,269,827,979	P10,269,827,979	P10,269,827,979	P10,269,827,979
Treasury stock – at cost	(<u>162,774,700</u>)	(<u>122,964,200</u>)	(<u>122,964,200</u>)	(<u>1,566,146,040</u>)	(<u>936,157,074</u>)	(<u>936,157,074</u>)
Total outstanding	<u>10,107,053,279</u>	<u>10,146,863,779</u>	<u>10,146,863,779</u>	<u>P 8,703,681,939</u>	<u>P 9,333,670,905</u>	<u>P 9,333,670,905</u>

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, 2017 and 2016, the quoted closing price per share was P16.00 and P12.78, respectively. There are 864 holders, which include nominees, of the Company's total issued and outstanding shares as at December 31, 2017. The percentage of the Company's shares of stocks owned by the public is 31.49% and 42.02% as at December 31, 2017 and 2016, 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, the Group reissued treasury shares, resulting to an increase in APIC by P783.5 million. There was no similar transaction in 2017, 2016 and 2015.

21.3 Treasury Shares

On September 19, 2017, the BOD approved a two-year repurchase program of up to P5.0 billion worth of common shares in the open market, to enhance shareholder value. As at December 31, 2017, the Company has repurchased 39,810,500 shares for P629.99 million under this program.

Under the Corporation Code of the Philippines, a stock corporation can purchase or acquire its own shares provided that it has unrestricted retained earnings to cover the shares to be purchased or acquired. Accordingly, the Parent Company's ongoing share repurchase program restricts the Parent Company's retained earnings for distribution as dividends.

There are 122.96 million shares held by subsidiaries at a total cost of P936.16 million that were reported as part of treasury shares in the consolidated statements of changes in equity (see Note 2.15).

21.4 Dilution Gain

The movement in dilution gain is a direct result of dilution in the Parent 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.

21.5 Dividends

On August 19, 2016 and August 12, 2015, the BOD approved the declaration of cash dividends of P0.31 per share for both periods. Total dividends amounting to P3,183.65 million in 2016 and 2015 were payable to stockholders of record as at September 5, 2016 and September 1, 2015, respectively. The said dividends were fully paid on September 19, 2016 and September 14, 2015, respectively. The amounts presented in the consolidated statements of changes in equity are net of dividends paid to subsidiaries. The Parent Company did not declare any dividends in 2017. (See Note 21.3)

21.6 Share Options

(a) Of the Company

On July 27, 2011, the BOD approved an Executive Share 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 share 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. Share 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 share options to certain key executives to subscribe to 46.5 million common shares of the Company, at an exercise price of P9.175 per share. As at December 31, 2017 and 2016, all of the said options vested but none have been exercised.

On March 14, 2013, the Company granted additional 59.1 million share options to certain key executives at an exercise price of P12.9997. As at December 31, 2017 and 2016, all of the said additional options vested and none have been exercised.

The fair values of the option 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		December 2011
	<u>Grant</u>		<u>Grant</u>
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	35.29%		37.75%
Average dividend yield	2.10%		1.70%
Average risk-free investment rate	2.92%		2.87%

The underlying expected volatility was determined by reference to historical data 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 share options to certain key executives to subscribe to 235.0 million of its common shares, at an exercise price of P1.77 per share.

In 2013, additional share options were granted to certain key executives to subscribe to 20.0 million common shares of Megaworld at an exercise price of P2.33 per share. Additional 40.0 million share options were granted in 2014 at an average exercise price of P3.00 per share.

There were no additional share options granted in 2017, 2016 and 2015.

In 2017 and 2016, 25.0 million and 5.0 million options, respectively, were forfeited due to resignation of key executive officers. A total of 20.0 million options have vested in 2017 (nil in 2016 and 2015).

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:

Option life	6.08 to 30.17 years
Share price at grant date	P 2.54 to P 4.52
Exercise price at grant date	P 1.7731 to P 3.2299
Fair value at grant date	P 0.98 to P 2.15
Average standard deviation of share price return	10.98 %
Average dividend yield	0.76 %
Average risk-free investment rate	3.64 %

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 GERI's BOD 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 share 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. Share 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 share options.

As of December 31, 2017, pursuant to this ESOP, GERI has granted the options to its key executive officers to subscribe to 400.0 million GERI shares. 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. A total of 350.0 million and 283.3 million options have vested as at December 31, 2017 and 2016, respectively, but none of these have been exercised yet by any of the option holders as at the end of both reporting periods.

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	7 years
Share price at grant date	P1.02 to P2.10
Exercise price at grant date	P1.00 to P1.93
Fair value at grant date	P0.24 to P2.27
Standard deviation of share price return	12.16% to 57.10%
Risk-free investment rate	2.14% to 2.59%

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.

(d) *Of EMP*

On November 7, 2014, EMP's BOD approved an ESOP for qualified employees of EMP Group.

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 the Group provided that the employee has continuously served for 11 years after the option offer date. The exercise price shall be at a 15% discount from the volume weighted average closing price of EMP's shares of nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2015, EMP granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of EMP at an exercise price of P7.0 per share.

The fair value of the options 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	20.23 years
Average share price at grant date	P 8.90
Average exercise price at grant date	P 7.00
Average fair value at grant date	P 4.09
Average standard deviation of share price returns	10.24%
Average dividend yield	1.08%
Average risk-free investment rate	4.89%

The underlying expected volatility was determined by reference to historical prices of EMP's shares over a period of one year.

(e) *Of Travellers*

Travellers has adopted an ESOP that grants share options to eligible key executive officers.

Travellers' ESOP is exempt from the registration requirements of SEC's Securities Regulation Code with respect to the issuance of the common shares, not to exceed 945,352,491 common shares, or 6% of the outstanding capital stock of Travellers listed with the PSE, to eligible employees pursuant to Travellers' ESOP adopted by the its shareholders and BOD effective June 13, 2014.

The purpose of the ESOP is to (a) strengthen the alignment of interests between key employees and consultants of Travellers and its shareholders through the ownership of Travellers' shares of common stock and thereby increase focus on Travellers' share value; (b) motivate, attract and retain the services of key employees and consultants of Travellers, upon whose judgment, valuable work and special efforts, the day-to-day and long-term success and development of the business and the operations of Travellers are largely dependent; and, (c) encourage long-term commitment of the key employees and consultants of Travellers to contribute to the long-term financial success of Travellers.

The ESOP is being administered by the Remuneration and Compensation Committee of Travellers' BOD. As of December 31, 2017, Travellers has not granted any option to its eligible optionees.

The Group recognized a total of P49.5 million, P136.3 million and P300.4 million Share-option benefit expense in 2017, 2016 and 2015, respectively, as part of Salaries and employee benefits under Other Operating Expenses account in the consolidated statements of comprehensive income and a corresponding credit to equity through Stock Options account for the portion incurred by the Parent Company and through Non-controlling Interest account for the portion incurred by the subsidiaries (see Notes 25 and 27.3).

21.7 Appropriated Retained Earnings

In 2017, GADC's BOD approved the appropriation of P4.6 billion for its continuing business expansion projects which include construction of new stores, renovation of existing stores, development of information technology projects and office renovations. The construction of new stores and renovation of new stores are projected to be completed within a period of three to four months and spread throughout 2018. In 2016, GADC's BOD appropriated P4.1 billion for the continuing business expansion which was fully utilized in 2017 and the appropriation reversed in 2017.

In 2015, AWGI's BOD approved the appropriation of P550.0 million for the rehabilitation of the glass manufacturing plant, which was approved to be extended until 2017 in 2016. In 2017, the said appropriation was reversed. Also, in 2017, AWGI appropriated portion of its retained earnings amounting to P600.0 million for capital expenditures for the plant.

21.8 Subsidiaries with Material Non-controlling Interest

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

Name	Proportion of Ownership Interest and Voting Rights Held by NCI		Subsidiary's Consolidated Profit Allocated to NCI		Accumulated Equity of NCI	
	2017	2016	2017	2016	December 31, 2017	December 31, 2016
Megaworld	33%	33%	P 4,689,931	P 4,015,151	P 68,348,442	P 60,341,343
Travellers	53%	53%	128,328	1,890,365	23,726,549	23,938,698
GADC	51%	51%	853,656	635,693	1,366,080	960,926
Emperador	18%	18%	1,166,158	1,464,529	11,536,626	10,340,267

Dividends paid to NCI amounted to P1.7 billion in both 2017 and 2016, and P1.9 billion in 2015.

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

	December 31, 2017			
	Megaworld	Travellers	GADC	Emperador
Non-current assets	P 155,046,173	P 66,805,146	P 8,080,899	P 60,287,680
Current assets	155,486,632	19,615,306	9,575,141	51,248,102
Total assets	P 310,532,805	P 86,420,452	P 17,656,040	P 111,535,782
Non-current liabilities	P 92,210,197	P 12,477,076	P 2,642,356	P 36,344,852
Current liabilities	57,018,406	29,739,717	7,622,781	16,837,376
Total liabilities	P 149,228,603	P 42,216,793	P 10,265,137	P 53,182,228
Revenues	P 50,408,310	P 19,258,927	P 25,539,935	P 42,655,528
Profit for the year attributable to:				
Owners of Parent	P 12,772,158	P 251,151	P 1,627,810	P 6,321,784
NCI	507,049	(9,453)	23,473	10,536
Profit for the year	13,279,207	241,698	1,651,283	6,332,320
Other comprehensive income (loss) attributable to:				
Owners of Parent	2,235,176	(2,867)	100,908	1,510,520
NCI	77,112	-	-	(226,636)
Other comprehensive income (loss) for the year	2,312,288	(2,867)	100,908	1,283,884
Total comprehensive income for the year	P 15,591,495	P 238,831	P 1,752,191	P 7,616,204
Net cash from (used in)				
Operating activities	P 5,844,744	P 1,452,851	P 3,016,404	P 2,463,076
Investing activities	(15,050,907)	(11,235,538)	(300,849)	(8,214,883)
Financing activities	8,264,036	6,891,105	(995,240)	5,740,313
Net cash inflow (outflow)	(P 942,127)	(P 2,891,582)	P 1,720,315	(P 11,494)

	December 31, 2016			
	Megaworld	Travellers	GADC	Emperor
Non-current assets	P 138,052,700	P 56,933,340	P 9,400,729	P 52,012,431
Current assets	<u>140,689,818</u>	<u>19,375,450</u>	<u>6,966,339</u>	<u>42,289,970</u>
Total assets	<u>P 278,742,518</u>	<u>P 76,308,790</u>	<u>P 16,367,068</u>	<u>P 94,302,401</u>
Non-current liabilities	P 94,234,642	P 334,438	P 2,944,336	P 30,164,796
Current liabilities	<u>40,889,535</u>	<u>31,349,290</u>	<u>7,275,925</u>	<u>11,913,117</u>
Total liabilities	<u>P 135,124,177</u>	<u>P 31,683,728</u>	<u>P 10,220,261</u>	<u>P 42,077,913</u>
Revenues	<u>P 46,817,544</u>	<u>P 25,094,629</u>	<u>P 22,629,169</u>	<u>P 41,018,101</u>
Profit for the year attributable to:				
Owners of Parent	P 11,331,824	P 3,402,125	P 1,220,012	P 7,693,367
NCI	<u>377,537</u>	<u>(3,598)</u>	<u>13,487</u>	<u>-</u>
Profit for the year	<u>11,709,361</u>	<u>3,398,527</u>	<u>1,233,499</u>	<u>7,693,367</u>
Other comprehensive loss attributable to:				
Owners of Parent	(968,850)	(6,073)	(31,718)	(2,857,728)
NCI	<u>(67,978)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other comprehensive loss for the year	<u>(1,036,828)</u>	<u>(6,073)</u>	<u>(31,718)</u>	<u>(2,857,728)</u>
Total comprehensive income for the year	<u>P 10,672,533</u>	<u>P 3,392,454</u>	<u>P 1,201,781</u>	<u>P 4,835,639</u>
Net cash from (used in)				
Operating activities	P 3,918,234	P 7,722,489	P 3,735,337	(P 792,136)
Investing activities	(12,997,729)	(11,224,221)	(1,700,277)	(15,190,437)
Financing activities	<u>2,710,193</u>	<u>(4,252,075)</u>	<u>(829,241)</u>	<u>(3,021,061)</u>
Net cash inflow (outflow)	<u>(P 6,369,302)</u>	<u>(P 7,753,807)</u>	<u>P 1,205,819</u>	<u>(P 19,003,634)</u>

22. EARNINGS PER SHARE

Earnings per share is computed as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Basic:			
Net profit attributable to owners of the parent company	P 14,931,132,276	P 14,801,009,539	P 13,964,765,317
Divided by the weighted average number of outstanding common shares	<u>10,107,053,279</u>	<u>10,146,863,779</u>	<u>10,146,863,779</u>
	<u>P 1.4773</u>	<u>P 1.4587</u>	<u>P 1.3763</u>
Diluted:			
Net profit attributable to owners of the parent company	P 14,931,132,276	P 14,801,009,539	P 13,964,765,317
Divided by the weighted average number of outstanding common shares and potentially dilutive shares	<u>10,129,383,609</u>	<u>10,252,463,779</u>	<u>10,181,954,022</u>
	<u>P 1.4740</u>	<u>P 1.4437</u>	<u>P 1.3715</u>

The actual number of outstanding common shares approximates the weighted average for each year. There are 105.6 million potentially dilutive shares as at December 31, 2017 and 2016, and 35.1 million potentially dilutive shares as at December 31, 2015 from the Company's ESOP (see Note 21.6). 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 2017, 2016 and 2015 diluted EPS.

23. REVENUES

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

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Sale of Goods:				
Revenues from RE sales:				
RE sales	2.16(b, d)	P 28,901,544,217	P 27,450,993,911	P 27,262,297,450
Realized gross profit on RE sales	2.16(b)	3,974,509,451	3,978,988,971	3,786,994,581
Interest income on RE sales	2.16(c), 6	<u>1,746,941,624</u>	<u>1,700,850,559</u>	<u>1,677,596,838</u>
		34,622,995,292	33,130,833,441	32,726,888,869
Sales of consumer goods	2.16(a)	<u>43,236,971,687</u>	<u>41,608,345,308</u>	<u>44,465,049,936</u>
		<u>P 77,859,966,979</u>	<u>P 74,739,178,749</u>	<u>P 77,191,938,805</u>
Rendering of Services:				
Sales by company-operated				
quick-service restaurants	2.16(h)	P 23,069,644,779	P 20,540,105,188	P 18,475,579,809
Gaming	2.16(f)	17,115,322,152	23,648,754,406	24,216,681,861
Rental income	2.16(j), 14	12,346,007,891	10,485,484,341	9,184,772,674
Hotel operations	2.16(g)	4,186,654,787	3,789,710,840	3,264,933,286
Franchise revenues	2.16(i)	2,470,290,662	2,089,063,803	1,864,243,896
Others		<u>1,532,695,852</u>	<u>1,619,313,567</u>	<u>1,475,299,647</u>
		<u>P 60,720,616,123</u>	<u>P 62,172,432,145</u>	<u>P 58,481,511,173</u>

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 10 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	2017	2016	2015
Cost of Goods Sold:	2.16			
Cost of consumer goods sold:				
Direct materials used		P 24,855,133,191	P 21,158,868,946	P 27,351,007,298
Change in work in process and finished goods		(690,800,019)	1,957,971,123	574,114,567
Salaries and employee benefits	27.1	1,629,500,129	1,032,839,073	758,345,142
Depreciation and amortization	13	707,755,935	646,844,347	520,867,517
Outside services		266,253,636	224,995,771	243,896,811
Utilities		265,495,168	205,292,917	199,722,841
Repairs and maintenance		227,177,596	199,587,113	118,267,079
Indirect materials and other consumables		191,137,843	265,936,525	285,586,448
Taxes and licenses		130,643,743	82,846,890	45,430,774
Supplies		103,698,826	80,688,274	90,219,850
Other direct and overhead costs		637,903,590	451,155,189	305,065,644
		<u>28,323,899,638</u>	<u>26,307,026,168</u>	<u>30,492,523,971</u>
Cost of RE sales:	2.16			
Actual costs		11,132,288,495	10,822,973,859	9,520,350,982
Estimated costs to complete	2.7	5,172,554,836	4,691,677,819	5,914,591,370
		<u>16,304,843,331</u>	<u>15,514,651,678</u>	<u>15,434,942,352</u>
Deferred gross profit on RE sales	2.7	3,354,104,833	4,197,865,236	4,515,385,332
		<u>P 47,982,847,802</u>	<u>P 46,019,543,082</u>	<u>P 50,442,851,655</u>
Cost of Services:	2.16			
Food, supplies and other consumables		P 10,610,845,688	P 9,682,901,580	P 9,232,150,550
Salaries and employee benefits	27.1	5,887,768,691	5,500,010,460	5,284,971,588
Gaming license fees	28.3	3,862,964,722	5,212,622,104	5,308,814,127
Rental		3,790,678,826	3,441,030,356	3,216,207,324
Promotional allowance	2.16	1,874,089,153	2,396,289,323	3,117,567,390
Depreciation and amortization	13, 14	1,453,838,831	1,407,397,031	1,365,736,393
Hotel operations		755,756,983	658,379,578	446,246,404
Casino operating expense		603,009,206	573,649,310	268,339,360
Outside services		584,135,049	523,816,634	409,244,645
Flight operations		108,444,291	338,691,065	373,707,628
Entertainment, amusement and recreation		36,206,352	30,287,816	63,601,073
Other direct and overhead costs		1,500,871,563	1,105,256,638	1,076,912,571
		<u>P 31,068,609,355</u>	<u>P 30,870,331,895</u>	<u>P 30,163,499,053</u>

Total cost of RE sales pertains to actual and estimated construction costs. A further analysis of these costs follows:

	Note	2017	2016	2015
Contracted services		P 14,111,686,268	P 13,467,972,535	P 12,851,666,636
Land cost		1,618,580,198	1,764,172,819	2,058,899,931
Borrowing costs	2.17	408,343,707	230,608,589	331,643,102
Other development costs		166,233,158	51,897,735	192,732,683
		<u>P 16,304,843,331</u>	<u>P 15,514,651,678</u>	<u>P 15,434,942,352</u>

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, among others, costs incurred for insurance, waste disposal, and meals.

25. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

	Notes	2017	2016	2015
Advertising and promotions	29.2	P 6,920,010,425	P 7,744,771,626	P 7,215,923,519
Salaries and employee benefits	21.6, 27.1	5,768,717,146	5,184,938,181	4,722,463,895
Depreciation and amortization	13, 15	3,677,958,014	3,046,470,352	2,599,551,395
Commissions		1,427,926,220	1,266,390,961	1,182,614,368
Taxes and licenses		1,182,031,021	852,537,538	842,717,343
Utilities		1,152,073,093	1,137,852,660	1,150,875,287
Royalty	29.5, 30.6	1,132,577,168	1,059,923,224	923,028,088
Rental		930,150,631	1,009,152,130	1,077,411,329
Professional fees and outside services		870,465,583	1,388,911,334	1,093,324,654
Transportation and travel		798,415,372	665,878,858	626,245,120
Repairs and maintenance		460,063,891	376,106,316	405,619,385
Freight and handling		417,206,996	437,708,284	888,372,559
Management fees	29.3, 30.5(a)	304,779,371	442,592,805	471,697,945
Representation and entertainment		231,226,865	171,311,998	152,860,046
Impairment of receivables	6	145,518,483	40,591,819	35,555,627
Write-down of inventories	8	73,266,813	38,718,861	15,631,536
Communication and office expenses		52,071,893	48,782,212	42,312,207
Insurance		13,472,816	7,044,281	7,339,131
Impairment of property, plant, and equipment	13	-	166,497,656	-
Miscellaneous		2,507,460,986	2,132,479,453	2,258,513,285
		<u>P 28,065,392,787</u>	<u>P 27,218,660,549</u>	<u>P 25,712,056,719</u>

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

These other operating expenses are classified by function as follows:

	2017	2016	2015
General and administrative expenses	P 18,217,525,783	P 16,735,925,815	P 15,492,506,948
Selling and marketing expenses	9,847,867,004	10,482,734,734	10,219,549,771
	<u>P 28,065,392,787</u>	<u>P 27,218,660,549</u>	<u>P 25,712,056,719</u>

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 consolidated statements of comprehensive income.

	Notes	2017	2016	2015
Finance and other income:				
Interest income	2.16(k), 5, 7	P 2,093,123,324	P 1,818,829,674	P 2,477,581,190
Gain on disposal of PPE and investment properties – net	13, 14	115,773,777	-	1,779,421
Gain on sale of investments in an associate	12.3	113,069,227	82,459,513	181,347,731
Gain on sale of investment in AFS financial assets – net	11	22,230,010	11,942,807	-
Dividend income	2.16(l)	12,423,602	6,312,863	15,376,038
Gain on sale of financial assets at FVTPL		4,799,290	-	-
Reversal of preacquisition loss		2,715,950	-	291,847
Fair value gains – net	7	-	159,134,466	257,633,748
Gain on acquisitions and deconsolidation of subsidiaries		-	53,333,760	3,758,167
Gain on reversal of liabilities		-	-	6,000,000
Miscellaneous – net	6, 8, 13	404,569,589	341,653,480	212,019,558
		<u>P 2,768,704,769</u>	<u>P 2,473,666,563</u>	<u>P 3,155,787,700</u>

	Notes	2017	2016	2015
Finance costs and other charges:				
Interest expense	2.16, 17, 18 19, 20, 28	P 5,554,066,867	P 4,856,184,716	P 4,030,183,353
Losses from casualty, net of insurance claims	13, 30.7	430,354,462	-	-
Foreign currency losses – net		238,147,779	1,789,065,678	1,551,620,605
Unrealized loss on interest rate swap	20	27,235,637	31,769,386	30,186,511
Fair value losses – net	7	9,126,926	-	-
Loss on disposal of PPE – net	13	-	35,820,601	-
Loss on sale of investment in AFS financial assets – net	11	-	-	34,615,950
Reversal of preacquisition income		-	3,314,788	-
Miscellaneous		123,862,620	216,509,404	205,890,592
		<u>P 6,382,794,291</u>	<u>P 6,932,664,573</u>	<u>P 5,852,497,011</u>

The recognized gain on sale of investment in an associate represents the difference between the proceeds from sale over the carrying amount of the Group's investment in BNHGI, partially sold in 2017, 2016 and 2015 (see Note 12.3).

Miscellaneous income includes gain on sale of non-current assets, marketing fees, reversal of impairment losses on receivables and others.

Miscellaneous expenses pertain to amortization of discounts on security deposits, bank charges 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	2017	2016	2015
Short-term employee benefits		P 12,585,532,010	P 11,167,948,376	P 9,990,150,534
Post-employment defined benefit	2.21(a), 21.6, 27.2	650,996,947	413,557,705	475,185,920
Share option benefit expense	2.21(d) 27.3, 29.7	49,457,009	136,281,633	300,444,171
		<u>P 13,285,985,966</u>	<u>P 11,717,787,714</u>	<u>P 10,765,780,625</u>

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

	Notes	2017	2016	2015
Cost of goods sold	24	P 1,629,500,129	P 1,032,839,073	P 758,345,142
Cost of services	24	5,887,768,691	5,500,010,460	5,284,971,588
Other operating expenses	25	5,768,717,146	5,184,938,181	4,722,463,895
		<u>P 13,285,985,966</u>	<u>P 11,717,787,714</u>	<u>P 10,765,780,625</u>

27.2 *Post-employment Defined Benefit*

(a) *Characteristics of the Defined Benefit Plan*

Megaworld group, EDI, ELI, GADC and WML maintain funded, tax-qualified, noncontributory post-employment benefit plans, except that ELI is partially-funded and GADC allows voluntary employee contribution. Each of the plans is being administered by a trustee bank that is legally separated from the Group. GERI and GADC's subsidiaries have unfunded, noncontributory post-employment benefit plans. In 2017, Travellers established a partially-funded, noncontributory, multi-employer post-employment benefit plan which is being administered by a trustee bank that is legally separated from the Group. All of plans mentioned cover all qualified regular and full-time employees.

The Parent Company and all other subsidiaries have no established corporate retirement plans. AWGI and TEI compute their retirement obligations based on the provisions of Republic Act (R.A.) No. 7641, *The Retirement Pay Law*. Whereas, the Parent Company and the other subsidiaries within the Group have not accrued any post-employment benefit obligation as each entity has less than ten employees. The Group's management believes that non-accrual of the estimated post-employment benefits will not have any material effect on the Group's consolidated financial statements.

(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 2017 and 2016.

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:

	<u>2017</u>	<u>2016</u>
Present value of the obligation	P15,565,665,635	P 14,156,797,542
Fair value of plan assets	(13,622,212,348)	(11,552,491,075)
	<u>P 1,943,453,287</u>	<u>P 2,604,306,467</u>

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 14,156,797,542	P 12,896,319,852
Effects of foreign currency adjustment	1,181,203,320	(443,156,000)
Current service and interest costs	818,183,504	718,528,665
Past service cost	141,787,489	-
Remeasurement losses (gains)	(139,045,469)	2,421,552,675
Availment of sabbatical leave	(3,989,427)	(1,882,829)
Additions due to consolidation of new subsidiary	-	7,964,658
Benefits paid	(589,271,324)	(1,442,529,479)
Balance at end of year	<u>P 15,565,665,635</u>	<u>P 14,156,797,542</u>

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 11,552,491,075	P 11,038,183,769
Effects of foreign exchange adjustment	1,101,654,000	(1,298,771,500)
Actuarial gain	809,565,124	1,502,635,070
Contributions paid into the plan	387,692,843	334,241,600
Actual return on plan assets	358,102,307	398,530,707
Benefits paid	(587,293,001)	(422,328,571)
Balance at end of year	<u>P 13,622,212,348</u>	<u>P 11,552,491,075</u>

The plan assets of MEG, EMP, GADC and Travellers as at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Investments in:		
Other securities and debt instruments	68.15%	68.27%
Long-term equity investments	24.41%	25.13%
Unit investment trust fund	1.50%	1.46%
Cash and cash equivalents	1.60%	0.87%
Property	4.26%	4.25%
Loans and receivables	0.08%	0.02%
	<u>100.00%</u>	<u>100.00%</u>

Actual returns in 2017 and 2016 amounted to P358.1 million and P398.5 million, respectively.

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 (see Note 33).

The amounts of post-employment benefits expense recognized as part of Salaries and employee benefits in profit or loss (see Note 27.1) and other comprehensive income are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Reported in consolidated profit or loss –</i>			
Current service cost	P 509,209,458	P 413,557,705	P 475,185,920
Past service cost	<u>141,787,489</u>	<u>-</u>	<u>-</u>
	<u>P 650,996,947</u>	<u>P 413,557,705</u>	<u>P 475,185,920</u>
<i>Reported in consolidated other comprehensive income:</i>			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	(P 176,408,792)	(P2,536,455,322)	P 852,331,941
Demographic assumptions	467,425,221	186,326,140	9,325,795
Experience adjustments	(150,077,980)	1,539,642,898	29,485,586
Return on plan assets (excluding amounts in net interest expense)	<u>809,565,124</u>	<u>2,789,394</u>	<u>(3,824,909)</u>
	950,503,573	(807,696,890)	887,318,413
Tax income (expense)	(189,305,616)	<u>130,194,376</u>	<u>(206,483,118)</u>
	<u>P 761,197,957</u>	<u>(P 677,502,514)</u>	<u>P 680,835,295</u>

In 2017, 2016 and 2015, post-employment benefits expense amounting to P158.3 million, P154.3 million and P179.0 million, respectively, were incurred for WML's defined contribution plan, thus will not be included in the current service cost presented under the movement of post-employment benefit obligation.

The amounts of post-employment benefits expense are included as part of Salaries and employee benefits under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

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

	<u>2017</u>	<u>2016</u>
Discount rates	2.64% - 5.83%	4.49% - 6.80%
Expected rates of salary increases	3.00% - 10.00%	4.00% - 10.00%

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, salary risk and inflation 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 plans have 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 and debt 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.

(iii) *Inflation Risk*

A significant portion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Group's liability.

(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 and in the succeeding page.

	<u>Change in Assumption</u>		<u>Impact on Post-employment Obligation</u>	
			<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2017</u>				
Discount rate	+/-0.25% to +/-1.00%	(P	807,161,010)	P 921,120,610
Salary increase rate	+/-1.0%		498,856,843	(384,636,791)
<u>December 31, 2016</u>				
Discount rate	+/-0.5% to +/-5.38%	(P	153,051,334)	P 156,509,283
Salary increase rate	+/-1.0% to +/-4.0%		227,152,534	(123,061,377)

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 P1.9 billion based on the Group's latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 22 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:

	<u>2017</u>	<u>2016</u>
Within one year	P 430,050,494	P 382,108,071
More than one year to five years	1,489,477,837	1,248,125,084
More than five years to ten years	1,617,308,541	1,311,752,719
More than ten years to 15 years	784,349,883	778,683,224
More than 15 years to 20 years	1,498,198,965	1,472,193,362
More than 20 years	<u>11,860,924,351</u>	<u>35,469,691,751</u>
	<u>P 17,680,310,071</u>	<u>P 40,662,554,211</u>

The Group expects to contribute in 2018, P27.0 million and P20.0 million to the retirement plan maintained for Megaworld and GADC, respectively. GERI and EMP have yet to decide the amount of future contributions to their existing retirement plans.

27.3 Share Option Benefits

The Group's share option benefit expense includes the amounts recognized by the Company, Megaworld, GERI and EMP over the vesting period of the options granted by them (Travellers has not yet granted any share options to its eligible optionees) (see Note 21.6). Options for 520.6 million shares and 388.9 million shares have vested as at December 31, 2017 and 2016, respectively. Share option benefits expense, included as part of Salaries and employee benefits amounted to P49.5 million in 2017, P136.3 million in 2016 and P300.4 million in 2015 (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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Reported in consolidated profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30% and 10%	P 4,760,326,805	P4,888,671,510	P 3,917,658,855
Final tax at 20% and 7.5%	97,022,486	94,301,242	103,732,980
Preferential tax rate at 5%	63,858,452	43,955,624	19,247,898
Minimum corporate income tax (MCIT) at 2%	54,410,799	30,142,769	23,850,865
Others	<u>15,630,199</u>	<u>52,836,625</u>	<u>41,356,179</u>
	4,991,248,741	5,109,907,770	4,105,846,777
Deferred tax expense relating to origination and reversal of temporary differences	<u>1,304,523,694</u>	<u>771,071,940</u>	<u>1,134,807,429</u>
	<u>P 6,295,772,435</u>	<u>P5,880,979,710</u>	<u>P 5,240,654,206</u>
<i>Reported in consolidated other comprehensive income –</i>			
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u>P 189,714,791</u>	<u>(P 117,125,824)</u>	<u>P 227,444,114</u>

ECOC, SEDI and Travellers 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 May 2014, the Board of Investments approved SPI's application for registration on a certain project. SPI is entitled to income tax holiday for four years from May 2014 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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Tax on consolidated pretax income at 30%	P 8,436,702,593	P 8,609,904,803	P 8,078,086,530
Adjustment for income subjected to different tax rates	(574,899,602)	(348,542,968)	(329,600,325)
Tax effects of:			
Income not subject to RCIT	(7,865,868,054)	(8,637,611,499)	(8,254,918,534)
Nondeductible expenses	5,865,696,299	6,264,672,750	5,871,926,109
Tax benefit arising from unrecognized deferred tax asset	617,264,763	494,620,447	355,488,785
Additional deduction with the use of Optional Standard Deduction (OSD)	(94,299,139)	(405,692,407)	(558,234,820)
Changes in tax rates	-	(100,089,472)	-
Adjustment to current tax from prior years	(27,237,835)	27,256,320	-
Others	(61,586,590)	(23,538,264)	77,906,461
Tax expense reported in consolidated profit or loss	<u>P 6,295,772,435</u>	<u>P 5,880,979,710</u>	<u>P 5,240,654,206</u>

The deferred tax assets and liabilities as at December 31 presented in the consolidated statements of financial position relate to the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Deferred tax assets:			
Retirement benefit obligation	P 583,234,571	P 567,259,624	P 356,887,221
Allowance for impairment losses	161,011,108	112,376,019	122,298,594
Net operating loss carry-over (NOLCO)	9,463,930	20,849,612	16,281,073
Allowance for inventory write-down	7,126,361	11,396,504	18,484,887
MCIT	4,423,918	150,326,920	150,733,088
Accrued rent	-	28,662,399	32,995,141
Unrealized income – net	-	3,078,688	13,771,175
Others	<u>35,669,064</u>	<u>86,806,482</u>	<u>40,106,946</u>
	<u>P 800,928,952</u>	<u>P 980,756,248</u>	<u>P 751,558,125</u>
Deferred tax liabilities – net:			
Uncollected gross profit	P 9,186,993,579	P 9,661,687,872	P 8,884,257,510
Capitalized interest	2,324,992,946	1,803,280,040	1,431,498,138
Brand valuation	1,639,406,000	1,489,925,000	1,797,409,000
Unrealized foreign currency loss – net	(1,038,041,801)	(1,220,035,435)	(667,367,207)
Retirement benefit obligation	(316,478,769)	(295,187,069)	(245,597,333)
Difference between the tax reporting base and financial reporting base of property, plant and equipment	(170,801,276)	287,572,150	258,790,669
Fair value adjustment	120,883,120	101,765,080	363,554,500
Translation adjustments	(110,210,396)	(109,801,221)	(96,732,669)
Uncollected rental income	53,538,885	52,328,557	7,882,177
Others	<u>426,105,158</u>	<u>(316,848,264)</u>	<u>(145,957,617)</u>
	<u>P 12,116,387,446</u>	<u>P 11,454,686,710</u>	<u>P 11,587,737,168</u>

The deferred tax expense reported in the consolidated statements of comprehensive income is shown below.

	Consolidated Profit or Loss			Consolidated Other Comprehensive Income		
	2017	2016	2015	2017	2016	2015
Deferred tax expense (income):						
Capitalized interest	P 521,712,906	P 371,781,902	P 433,152,800	P -	P -	P -
Fair value adjustments on AFS	(396,834,640)	(261,789,420)	(62,821,668)	-	-	-
Difference between the tax reporting base and financial reporting base of property, plant and equipment	(304,991,125)	28,781,481	24,613,876	-	-	-
Uncollected gross profit	242,109,769	1,679,877,371	1,266,941,802	-	-	-
Retirement benefit obligation	216,716,315	(210,775,818)	46,871,085	189,305,616	(130,194,376)	206,483,118
Unrealized foreign currency loss (gains) - net	183,905,853	(556,157,823)	(344,249,025)	-	-	-
Brand valuation	149,481,000	(307,484,000)	(197,019,801)	-	-	-
MCIT	143,325,455	1,144,098	(4,460,594)	-	-	-
Allowance for impairment losses	12,432,142	10,710,914	11,545,407	-	-	-
NOLCO	11,385,882	(4,568,539)	(6,406,446)	-	-	-
Accrued rent	7,394,970	-	3,218,349	-	-	-
Uncollected rental income	1,210,328	44,446,380	(21,544,891)	-	-	-
Translation adjustments	-	(13,068,552)	-	409,175	13,068,552	20,960,996
Others	516,674,839	(11,826,054)	(15,033,465)	-	-	-
Deferred tax expense (income)	<u>P 1,304,523,694</u>	<u>P 771,071,940</u>	<u>P 1,134,807,429</u>	<u>P 189,714,791</u>	<u>(P 117,125,824)</u>	<u>P 227,444,114</u>

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
2017	P 1,725,012,533	P -	P -	P 1,725,012,533	2020
2016	782,970,747	(50,246,229)	-	732,724,518	2019
2015	747,208,084	(21,165,822)	-	726,042,262	2018
2014	1,568,565,938	(47,521,961)	(1,521,043,977)	-	
	<u>P 4,823,757,302</u>	<u>(P 118,934,012)</u>	<u>(P 1,521,043,977)</u>	<u>P 3,183,779,313</u>	

Some companies within the Group are subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations. The details of excess MCIT over RCIT, 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	Original Amount	Applied	Expired Balance	Remaining Balance	Valid Until
2017	P 36,587,520	P -	P -	P 36,587,520	2020
2016	31,074,473	(570,567)	-	30,503,906	2019
2015	21,551,668	(45,256)	(500)	21,505,912	2018
2014	162,705,396	-	(162,705,396)	-	
	<u>P 251,919,057</u>	<u>(P 615,823)</u>	<u>(P 162,705,896)</u>	<u>P 88,597,338</u>	

The following summarizes the amount of NOLCO and other deductible temporary differences as at the end of 2017, 2016 and 2015 for which the related deferred tax assets— 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:

	2017		2016		2015	
	Amount	Tax Effect	Amount	Tax Effect	Amount	Tax Effect
NOLCO	P 3,152,232,880	P 945,669,864	P 3,020,075,070	P 906,022,521	P 4,371,152,888	P 1,311,345,866
Share-based compensation	647,239,210	194,171,763	175,780,739	52,734,222	175,780,739	52,734,222
Retirement benefit obligation	201,818,650	60,545,595	73,391,230	22,017,369	73,391,230	22,017,369
MCIT	84,173,420	84,173,420	55,435,303	55,435,303	55,087,856	55,087,856
Unrealized foreign currency losses – net	(18,684,900)	(5,605,470)	547,769,984	164,330,995	547,769,984	164,330,995
Allowance for inventory write-down	112,927	33,878	496,529	148,959	496,529	148,959
Allowance for impairment	13,667	4,100	28,167	8,450	28,167	8,450
Unrealized loss on interest rate swap	-	-	561,969,185	168,590,756	561,969,185	168,590,756
ARO	1,123,830	337,149	300,867	90,260	300,867	90,260
	<u>P 4,068,029,684</u>	<u>P 1,279,330,299</u>	<u>P 4,435,247,074</u>	<u>P 1,369,378,835</u>	<u>P 5,785,977,445</u>	<u>P 1,774,354,733</u>

The total amount of NOLCO and MCIT for which no deferred tax assets have been recognized as of December 31, 2017 and 2016, would expire in full at the end of 2020 and 2019, respectively. All other unrecognized deferred tax assets do not expire.

28.2 Optional Standard Deduction

Philippine 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 at the beginning of the year, it shall be irrevocable for that particular taxable year.

In 2017, 2016 and 2015, the Philippine companies within the Group opted to continue claiming itemized deductions in computing for its income tax due, except for EDI, AWGI and MDC, which opted to claim OSD during the same taxable years.

28.3 Taxation of Casino Operations

Under the Provisional License Agreement with PAGCOR, Travellers is subject to 25% and 15% license fees, inclusive of franchise tax and in lieu of all taxes, with reference to the income component of the gross gaming revenues. The license fees are directly remitted by Travellers to PAGCOR as required under the Provisional License Agreement.

In April 2013, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) 33-2013 declaring that PAGCOR and its contractees and its licensees are no longer exempt from corporate income tax under the National Internal Revenue Code of 1997, as amended. Effective April 1, 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 ITA over the actual tax paid on the gaming revenues. In 2016, the ITA ceased to be effective as a result of the SC Decision in the succeeding page.

In August 2016, the Philippine Supreme Court (SC), in *Bloomberry Resorts and Hotels, Inc. vs. BIR*, (the SC Decision) confirmed that “all contractees and licensees of PAGCOR, upon payment of the 5% franchise tax, shall be exempted from all other taxes, including income tax realized from the operation of casinos.” The SC Decision has been affirmed with finality by SC in a resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the BIR.

Total license fees recognized amounted to P3.9 billion, P5.2 billion and P5.3 billion in 2017, 2016 and 2015, respectively, and are presented as Gaming license fees as part of Cost of Services account in the consolidated statements of comprehensive income (see Note 24). The outstanding liabilities are presented as Gaming license fees payable under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

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 (see Note 2.25). The summary of the Group’s transactions and balances with its related parties as of and for the years ended December 31, 2017, 2016 and 2015 are as follows:

Related Party Category	Notes	Amount of Transaction			Outstanding Balance Receivable (Payable)	
		2017	2016	2015	2017	2016
Parent Company and subsidiaries’ stockholders:						
Casino transactions	29.2	P 278,977,739	P 343,690,659	P 2,878,377,127	P 6,441,882	(P 16,989,712)
Management fees	29.3	201,402,916	379,568,801	376,529,493	(12,806,175)	(65,125,989)
Accounts payable	29.5	(33,000,002)	2,500,000	9,000,000	(347,670,510)	(380,670,512)
Incidental rebate charges	29.2	-	-	155,568,762	-	-
Related party under common ownership:						
Purchase of raw materials	29.1	2,659,080,044	3,368,144,240	3,014,462,087	(388,836,242)	(1,256,577,065)
Advances granted	29.4	(119,707,370)	(1,297,135,789)	1,553,845,244	1,274,276,211	1,393,983,581
Purchase of imported goods	29.1	11,318,183	10,684,018	4,686,357	(205,786)	(1,059,608)
Associates –						
Advances granted	29.4	143,592,779	(154,505,925)	2,996,218	1,269,864,981	1,126,272,202
Others:						
Advances from joint venture partners and others	29.6	588,719,285	250,094,875	588,008,586	(2,329,974,989)	(1,741,255,704)
Accounts receivable	29.5	(562,586,208)	538,920,305	(1,559,905,766)	249,464,102	812,050,310
Sales of investment property	14	148,726,340	-	-	-	-
Accounts payable	29.5	(123,054,492)	211,103,622	(173,165,011)	(140,208,430)	(263,262,922)

Unless otherwise stated, the outstanding balance of the Group’s transactions with its related parties are unsecured, noninterest-bearing and payable or collectible on demand.

29.1 Purchase of Goods

Emperador imports raw materials such as alcohol, flavorings and other items, and finished goods through Andresons Global, Inc. and Condis, related parties under common ownership. These transactions are payable within 30 days.

Emperador also imports raw materials from Alcoholera dela Mancha Vinicola, S.A.U., a wholly owned subsidiary of BLC.

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 Joint Co-operation Agreement with Genting Hongkong, Ltd. (GHL)

In 2014, the Travellers and GHL executed a joint co-operation agreement for certain services of GHL to Travellers whereby the consideration is a certain percentage of net turnover from casino operations. In 2015, the Travellers and GHL discontinued the joint co-operation agreement. Incidental charges arising from this transaction are presented as part of Advertising and promotions under the Other Operating Expenses account in the 2015 consolidated statement of comprehensive income (see Note 25). There are no outstanding balances arising from this agreement as of December 31, 2017 and 2016.

Travellers also recognized outstanding accounts to and from GHL representing show money received by GHL from foreign patrons which GHL will later remit to Travellers. The outstanding balances, which are unsecured, noninterest-bearing and payable in cash upon demand, are presented as part of Trade receivables under Trade and Other Receivables account in the 2017 consolidated statement of financial position and Trade payables under Trade and Other Payables account in the 2016 consolidated statement of financial position (see Notes 6 and 16).

29.3 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. These transactions 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, which is unsecured, noninterest-bearing and payable in cash upon demand, arising from this transaction is presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

29.4 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]:

	<u>2017</u>	<u>2016</u>
Associates	P 1,269,864,981	P 1,126,272,202
Other related parties	<u>1,274,276,211</u>	<u>1,393,983,581</u>
	<u>P 2,544,141,192</u>	<u>P 2,520,255,783</u>

The movements in the Advances to Associates and Other Related Parties account are as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 2,520,255,783	P 3,971,897,497
Cash advances granted	308,966,472	35,162,769
Collections	(285,081,063)	(386,790,457)
Advances eliminated through consolidation	<u>-</u>	<u>(1,100,014,026)</u>
Balance at end of year	<u>P 2,544,141,192</u>	<u>P 2,520,255,783</u>

As at December 31, 2017 and 2016, 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.

29.5 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:

	<u>2017</u>	<u>2016</u>
<i>Due from Related Parties</i>		
Officers and employees	P 194,393,129	P 222,313,986
Other related parties	<u>55,070,973</u>	<u>589,736,324</u>
	<u>P 249,464,102</u>	<u>P 812,050,310</u>

	<u>2017</u>	<u>2016</u>
<i>Due to Related Parties</i>		
Stockholder	P 347,670,510	P 380,670,512
Other related parties	<u>140,208,430</u>	<u>263,262,922</u>
	<u>P 487,878,940</u>	<u>P 643,933,434</u>

The details of the due from/to related parties are as follows:

	<u>2017</u>	<u>2016</u>
<i>Due from Related Parties</i>		
Balance at beginning of year	P 812,050,310	P 273,130,005
Additions	74,687,948	649,883,409
Collections	<u>(637,274,156)</u>	<u>(110,963,104)</u>
Balance at end of year	<u>P 249,464,102</u>	<u>P 812,050,310</u>
<i>Due to Related Parties</i>		
Balance at beginning of year	P 643,933,434	P 430,329,812
Additions	107,725,172	969,670,936
Repayments	<u>(263,779,666)</u>	<u>(756,067,314)</u>
Balance at end of year	<u>P 487,878,940</u>	<u>P 643,933,434</u>

As at December 31, 2017 and 2016, based on management's assessment, the outstanding balances of Due from officers and employees and related parties are not impaired; hence, no impairment losses were recognized.

29.6 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 in cash or through offsetting arrangements.

Advances from JV partners pertain to advances from golf share partners and lot owners which amounted to P396.4 million and P471.1 million in 2017 and 2016, respectively, net of deferred interest expense amounting to P11.3 million and P31.1 million, respectively (see Note 10.2).

The amortization of deferred interest amounting to P19.8 million in 2017, 2016 and 2015 is presented as part of Interest expense under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

Details of Advances from Related Parties and JV Partners are presented as follows:

	<u>2017</u>	<u>2016</u>
Advances from related parties	P1,933,600,038	P1,270,198,038
Advances from JV partners	<u>396,374,951</u>	<u>471,057,666</u>
	<u>P2,329,974,989</u>	<u>P1,741,255,704</u>

29.7 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows (see Note 27.1):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term employee benefits	P 855,629,967	P 730,699,750	P 598,151,482
Share-option benefit expense	17,507,035	94,630,786	295,951,143
Retirement benefit expense	<u>87,428,665</u>	<u>74,849,437</u>	<u>44,846,176</u>
	<u>P 960,565,667</u>	<u>P 900,179,973</u>	<u>P 938,948,801</u>

29.8 Transactions with the Retirement Plans

The Group has a formal retirement plan established separately for each significant subsidiary, particularly Megaworld, GERI, ELI, Travellers, 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) that are legally separated from the Group. The retirement funds do not provide any guarantee or surety for any obligation of the Group and their investments are not covered by any restrictions or liens. The fair value, carrying amount and the composition of the plan assets as at December 31, 2017 and 2016 are shown in Note 27.2.

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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one-year	P 11,550,444,399	P 10,862,959,288	P 8,249,672,567
After one year but not more than five years	62,792,070,703	56,270,960,545	44,341,754,362
More than five years	<u>19,363,948,200</u>	<u>18,267,699,701</u>	<u>14,314,334,326</u>
	<u>P 93,706,463,302</u>	<u>P 85,401,619,534</u>	<u>P 66,905,761,255</u>

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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one year	P 299,466,940	P 374,066,033	P 375,258,419
After one year but not more than five years	676,697,887	685,514,740	875,894,424
More than five years	<u>815,218,784</u>	<u>591,096,671</u>	<u>1,316,633,971</u>
	<u>P 1,791,383,611</u>	<u>P 1,650,677,444</u>	<u>P 2,567,786,814</u>

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 WCRWI are required to complete its U.S.\$1.3 billion (about P64.8 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 P54.8 billion) and U.S.\$216.0 million (about P10.8 billion), respectively (collectively, the Project).

Travellers and WCRWI 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 P5.0 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 P2.5 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, 2017, Travellers has spent P74.2 billion for its casino projects pursuant to its investment commitment under the License. It has short-term placements amounting to U.S.\$62.1 million (about P3.1 billion) and U.S.\$62.4 million (about P3.1 billion) as at December 31, 2017 and 2016, respectively, to meet its requirements with PAGCOR in relation to these 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 Resorts World Philippines Cultural Heritage Foundation Inc. (or the Foundation), formerly Manila Bayshore Heritage Foundation, Inc., 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 recognized accrual based on 2% of total gross gaming revenues from non-junket tables. PAGCOR sets the guidelines for the utilization of funds as it approves, monitors the implementation, and conducts a post-audit of the projects the Foundation undertakes.

Pursuant to PAGCOR's guidelines, the Foundation is tasked to undertake projects in line with the following disciplines: (i) restoration of cultural heritage; (ii) education infrastructure; and, (iii) environment and health. As of December 31, 2017, the following are the completed and on-going projects of the Foundation:

- Construction of school buildings in partnership with the Philippine Department of Education (DepEd) whereby five school buildings in various public schools in Metro Manila and Luzon were completed and turned over to DepEd and the collegiate universities, while one more school building is currently being constructed;
- Computerization project with DepEd through providing a computer laboratory to various public schools in various parts of the country whereby all phases of the said project covering 27 schools have been completed;
- Funding of the construction of a cadet barracks at the Philippine Military Academy (PMA) in Baguio City in a joint effort with another PAGCOR licensee's foundation, which was completed and turned over to PMA;
- Agreements with various universities to provide scholarship opportunities to poor but deserving students enrolled in the field of performing arts whereby the related funds have been granted for the scholars in each school;
- Construction of treatment and rehabilitation centers in coordination with the Department of Health in Davao City and Taguig City; and,
- Donation of funds for medicines, medical supplies and equipment for Philippine National Police Camp Crame General Hospital and Paranaque City.

(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. No. 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. The BIR's Motion for Reconsideration of the foregoing pronouncement was denied with finality in a resolution issued by the SC dated March 10, 2015.

In August 2016, the SC confirmed that "all contractees and licensees of PAGCOR, upon payment of the 5% franchise tax, shall be exempted from all other taxes, including income tax realized from the operation of casinos." The SC Decision has been affirmed with finality by the SC in a Resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the BIR.

30.4 Participation in the Incorporation of Entertainment City Estate Management, Inc. (ECEMI)

As a PAGCOR licensee, Travellers committed itself to take part in the incorporation of ECEMI in 2012, a non-stock, non-profit entity that shall be responsible for the general welfare, property, services and reputation of the Bagong Nayong Pilipino Entertainment City Manila. As at December 31, 2017 and 2016, contributions made to ECEMI booked in favor of Travellers amounted to P1.3 million and is presented as part of Others under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

30.5 Various Hotel Agreements Entered by Travellers

(a) *Marriott Group*

Travellers has various service, license and royalty agreements with Marriott International B.V., Marriott International Design and Construction Services Inc., and International Hotel Licensing Company S.A.R.L., and Marriott International Licensing Company B.V. (collectively hereafter referred to as Marriott Group) for the license, supervision, direction, control and management of operations of the Travellers' Marriott, including the monitoring of its compliance with Marriott Group's standards.

The service agreements also include certain services in support of Marriott outside the Philippines. Such services are generally made available to hotels in the Marriott System and shall include the international advertising, promotion and sales programs, core training programs and other training programs for the benefit of the Marriott employees, special services and programs for the benefit of the Marriott System, and the reservations system, property management system and other systems.

Further, the license and royalty agreement with Marriott Group grants Travellers a nonexclusive and nontransferable right and license within Metro Manila to use the Marriott Trademarks for hotel services and other related goods and services offered only in connection with Travellers' Marriott.

Payments to be made by Travellers shall be computed based on the provisions of the above agreements. Total amounts recognized from these transactions in 2017, 2016 and 2015 totaled P81.4 million, P62.8 million and P63.2 million, respectively, and are presented as part of Management fees under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding liabilities, which are unsecured, noninterest-bearing and payable in cash upon demand, as at December 31, 2017 and 2016 amounted to P7.5 million and P7.2 million, respectively, and are presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

(b) *Holiday Inn*

In 2017, Travellers also entered into a Hotel Management Agreement (HMA) with Holiday Inns (Philippines), Inc. for the license, supervision, direction, control and management of operations of Holiday Inn Express (formerly Remington Hotel), including the monitoring of its compliance with the hotel group standards. The HMA includes security arrangements, refurbishment of the existing structure, rebranding, advertising, promotion and sales programs, core training programs and other training programs for the benefit of the employees, special services, the reservations system, property management system and other systems.

The parties also entered into a Franchise Agreement for the non-exclusive use and non-transferable license to use the brand marks for the hotel services and other related goods offered in connection with Travellers' Holiday Inn Express, which started operating in January 2018.

As of December 31, 2017, there were no payments yet for the agreements with Holiday Inn.

(c) *Okura*

Also in 2017, Travellers and Hotel Okura Co., Ltd (Okura) signed another HMA for the license, supervision, direction, control and management of operations of the Hotel Okura Manila, which includes advertising, promotion and sales programs, core training programs and other training programs for the benefit of the employees, special services, the reservations system, property management system and other systems.

The HMA with Okura grants Travellers a nonexclusive and nontransferable right to use the Okura trademarks for hotel services and other related goods and services offered only in connection with the Hotel Okura Manila, which is expected to open in 2018.

As of December 31, 2017, there were no payments yet for the agreement with Okura.

(d) *Sheraton Manila Hotel*

In 2017, an Operating Services Agreement (OSA) was executed between LSHRI and Starwood Asia Pacific Hotels & Recreation PTE. LTD (Starwood), a fully-owned company of Marriott Group, for the license, supervision, direction, control and management of operations of the Sheraton Manila Hotel, including the monitoring of its compliance with Marriott Group's standards.

The OSA also includes certain services similar to those covered by the existing agreement with the Marriott Group. Likewise, the license and royalty agreement with Starwood grants LSHRI similar rights provided by Marriott Group to Travellers. Sheraton Manila Hotel is expected to start its operations in 2018.

As of December 31, 2017, there were no payments yet for the agreement with Starwood.

(e) *Hilton Manila Hotel*

Also in 2017, a Management Agreement (MA) was executed between DHRI and Hilton International Manage LLC (Hilton) for the license, supervision, direction, control and management of operations of Hilton Manila Hotel, including the monitoring of its compliance with Hilton's standards.

The MA includes design and decoration of the Hilton Manila Hotel, advertising, promotion and sales programs, core training programs and other training programs for the benefit of the Hilton employees, special services and programs, and the reservations system, property management system and other systems.

The MA grants DHRI a nonexclusive and nontransferable right to use the Hilton Trademarks for hotel services and other related goods and services offered only in connection with the Hilton Manila Hotel. The Hilton Manila Hotel is expected to start its operations in 2018.

As of December 31, 2017, there were no payments yet for the agreement with Hilton.

30.6 License Agreements with MRO

MRO 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 gross sales from the operations of GADC's restaurants, including those operated by the franchisees. GADC recognized royalty expenses amounting to P1,132.6 million, P1,059.9 million and P923.0 million for 2017, 2016 and 2015, respectively, which are presented under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding payable to MRO relating to royalty expenses amounted to P204.1 million and P197.9 million as at December 31, 2017 and 2016, respectively, and presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

30.7 Others

As at December 31, 2017 and 2016, the Group has unused lines of credit from banks and financial institutions totaling P23.7 billion and P19.1, billion respectively.

In 2016, Travellers was granted a right by the Philippine Government to construct RunWay Manila, a pedestrian link bridge that connects Ninoy Aquino International Airport Terminal 3 and Newport City, and which is accessible to the public, free of charge. RunWay Manila is fully financed by Travellers and was completed in April 2017.

On June 2, 2017, a certain individual entered Travellers' premises, fired his assault rifle, and set ablaze gaming furniture and equipment in the casino which resulted to physical damages on a portion of the properties [see Notes 3.1(j) and 13]. The individual forcibly entered the casino area with a clear motive to rob and he started fires as a diversionary tactic. The smoke from the fires caused the death of several employees and guests, as well as physical injuries to a number of people. As opined by Travellers' external counsel, based on the reports from the insurer's adjusters, and taking into consideration the reports of the pertinent government agencies, there is strong legal ground to believe that the insurance claims related to the June 2 incident will not be disallowed. Consequently, property damages and losses were recognized and presented as Losses from casualty, net of insurance claims under Finance and Other Charges account in the 2017 consolidated statement of comprehensive income (see Note 26). The related receivable representing the reimbursement from expected minimum insurance claims and recoveries from the third party insurance company is presented as Claims receivables under Trade and Other Receivables account in the 2017 consolidated statement of financial position (see Note 6).

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 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 Philippine pesos, Euros, UK pounds and US dollars, which are 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 at each entity level.

Foreign currency denominated financial assets and liabilities, translated into Philippine pesos at period-end closing rate are as follows:

	2017		2016	
	U.S. Dollars	HK Dollars	U.S. Dollars	HK Dollars
Financial assets	P 5,735,896,982	P 1,654,695,454	P 2,668,826,850	P 1,875,066,204
Financial liabilities	(28,240,870,131)	(508,438,210)	(37,979,525,901)	(427,946,562)
	<u>(P 22,504,973,149)</u>	<u>P 1,146,257,244</u>	<u>(P 35,310,699,051)</u>	<u>P 1,447,119,642</u>

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 +/- 8.65% and +/- 7.50% changes in exchange rate for the years ended December 31, 2017 and 2016, respectively. The HK dollar – Philippine peso exchange rate assumes +/- 8.99% and +/- 9.10% changes for the year ended December 31, 2017 and 2016. 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 P1.9 billion for the year ended December 31, 2017 and increased by P2.6 billion for the year ended December 31, 2016. If in 2017 and 2016, the Philippine peso had strengthened against the HK dollar, with all other variables held constant, consolidated profit before tax would have decreased by P0.1 billion in both years.

However, if the Philippine peso had weakened against the U.S. dollar and the HK dollar by the same percentages; then consolidated profit before tax would have change at the opposite direction by the same amounts.

The Group periodically reviews the trend of the foreign exchange rates and monitors its non-functional currency cash flows.

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 borrowing 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 +/- 0.97 % for Philippine peso and +/- 1.14% and U.S. dollar in 2017 and +/- 0.30% for Philippine peso and +/- 1.24% for U.S. dollar in 2016 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, 2017 and 2016, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P1.0 billion and P0.3 billion for the years ended December 31, 2017 and 2016, 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.

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. 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:

	<u>2017</u>	<u>2016</u>
Not more than 30 days	P 4,735,123,751	P 4,384,989,691
31 to 60 days	2,449,926,782	1,081,873,257
Over 60 days	<u>1,861,518,762</u>	<u>2,184,716,830</u>
	<u>P 9,046,569,295</u>	<u>P 7,651,579,778</u>

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 six-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, 2017, the Group's financial liabilities have contractual maturities which are presented below.

	<u>Current</u>		<u>Non-current</u>	
	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>	<u>Later than 5 Years</u>
Trade and other payables	P 24,419,879,816	P 7,899,686,237	P -	P -
Interest-bearing loans	24,704,119,788	10,276,295,554	112,904,905,599	2,484,095,007
Bonds payable	10,533,444,945	548,844,945	4,691,407,500	25,709,595,938
ELS	-	-	5,525,331,862	-
Advances from related parties	-	-	2,329,974,989	-
Redeemable preferred shares	-	251,597,580	1,006,390,320	1,574,159,348
Guaranty deposits	-	-	129,185,721	256,772,125
Derivative liabilities	-	132,764,451	-	-
Other liabilities	-	-	175,863,371	-
	<u>P 59,657,444,549</u>	<u>P 19,109,188,767</u>	<u>P126,763,059,362</u>	<u>P 30,024,622,418</u>

As at December 31, 2016, 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 31,743,193,261	P 5,379,255,873	P -	P -
Interest-bearing loans	13,793,727,560	9,037,005,807	59,565,861,374	1,054,328,785
Bonds payable	1,116,433,863	40,744,406,381	12,945,153,375	12,717,881,563
ELS	-	-	-	6,738,766,650
Advances from related parties	-	-	-	2,424,926,309
Redeemable preferred shares	-	-	1,848,898,877	251,597,580
Guaranty deposits	-	-	241,114,566	-
Derivative liabilities	356,819,015	-	-	-
Other liabilities	233,357,843	-	-	-
	<u>P 47,243,531,542</u>	<u>P 55,160,668,061</u>	<u>P 74,601,028,192</u>	<u>P 23,187,500,887</u>

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, 2017 and 2016 are summarized as follows:

	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
2017 - Investment in equity securities	+23.39%	-23.39%	P 32,014,364	(P 32,014,364)
2016 - Investment in equity securities	+37.30%	-37.30%	153,909,820	(153,909,820)

The maximum additional estimated loss in 2017 and 2016 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.

The Group is also exposed to other price risk in respect of its financial instruments at FVTPL which pertain to marketable debt securities, quoted equity securities and derivative financial assets and liabilities arising from foreign exchange margins trading spot and forward. These financial instruments will continue to be measured at fair value based on quoted prices for marketable debt and equity securities, and index reference provided by certain foreign financial institution for derivative financial assets.

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	2017		2016		
	Carrying Values	Fair Values	Carrying Values	Fair Values	
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	P 55,672,960,546	P 55,672,960,546	P 48,672,938,017	P 48,672,938,017
Trade and other receivables	6	91,134,734,166	91,134,734,166	80,832,484,761	80,832,484,761
Other financial assets	9	4,940,470,057	4,870,141,094	4,341,310,463	4,282,208,534
		<u>P 151,748,164,769</u>	<u>P 151,677,835,806</u>	<u>P 133,846,733,241</u>	<u>P 133,787,631,312</u>
Financial assets at FVTPL:					
Marketable debt and equity securities	7	P 13,496,901,752	13,496,901,752	P 10,465,266,604	P 10,465,266,604
Derivative assets	7	19,572,259	19,572,259	-	-
		<u>P 13,516,474,011</u>	<u>P 13,516,474,011</u>	<u>P 10,465,266,604</u>	<u>P 10,465,266,604</u>
AFS financial assets:					
Debt securities	11	P -	P -	P 260,449,586	P 260,449,586
Equity securities	11	431,645,289	431,645,289	412,665,700	412,665,700
		<u>P 431,645,289</u>	<u>P 431,645,289</u>	<u>P 673,115,286</u>	<u>P 673,115,286</u>
Financial Liabilities					
Financial liabilities at FVTPL –					
Derivative liabilities	20	<u>P 132,764,451</u>	<u>P 132,764,451</u>	<u>P 356,819,015</u>	<u>P 356,819,015</u>
Financial liabilities at amortized cost:					
Current:					
Trade and other payables	16	P 42,669,505,961	P 42,669,505,961	P 36,907,266,143	P 36,907,266,143
Interest-bearing loans	17	32,700,476,157	32,393,555,681	21,095,657,317	20,841,333,554
Bonds payable	18	9,976,270,876	9,041,946,581	39,734,990,308	39,734,990,308
Redeemable preferred shares	19	251,597,580	251,597,580	-	-
Other current liabilities	20	407,308,225	407,308,225	999,524,921	999,524,921
		<u>P 86,005,158,799</u>	<u>P 84,763,914,028</u>	<u>P 98,737,438,689</u>	<u>P 98,483,114,926</u>
Non-current:					
Bonds payable	18	P 24,388,714,176	P 22,104,597,349	P 22,330,589,969	P 21,903,559,527
Interest-bearing loans	17	108,273,087,029	107,186,186,697	55,500,216,708	54,220,874,817
ELS	20	5,227,114,518	5,227,114,518	5,262,906,379	5,262,906,379
Redeemable preferred shares	19	1,857,022,802	2,238,796,220	2,013,695,292	2,294,930,163
Due to related parties	29	2,329,974,989	2,329,974,989	1,741,255,704	1,741,255,704
Security deposits	20	311,203,121	267,734,123	294,114,566	265,419,703
		<u>P 142,387,116,635</u>	<u>P 139,354,403,896</u>	<u>P 87,142,778,618</u>	<u>P 85,688,946,293</u>

See Notes 2.4 and 2.13 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 and in the succeeding page 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, 2017 and 2016.

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL –				
Debt and equity securities	P 13,496,901,752	P -	P -	P 13,496,901,752
Derivative asset	-	19,572,259	-	19,572,259
AFS financial assets –				
Equity securities	136,872,015	78,200,000	216,573,274	431,645,289
	<u>P 13,633,773,767</u>	<u>P 97,772,259</u>	<u>P 216,573,274</u>	<u>P 13,948,119,300</u>
Financial liabilities:				
Financial liability at FVTPL –				
Derivative liabilities	<u>P -</u>	<u>P 132,764,451</u>	<u>P -</u>	<u>P 132,764,451</u>
	2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL –				
Debt and equity securities	P 10,465,266,604	P -	P -	P 10,465,266,604
AFS financial assets:				
Debt securities	260,449,586	-	-	260,449,586
Equity securities	66,501,898	69,900,000	276,263,802	412,665,700
	<u>P 10,792,218,088</u>	<u>P 69,900,000</u>	<u>P 276,263,802</u>	<u>P 11,138,381,890</u>

	2016			Total
	Level 1	Level 2	Level 3	
<i>Financial liabilities:</i>				
Financial liability at FVTPL –				
Derivative liabilities	P -	P 356,819,015	P -	P 356,819,015

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

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, 2017 and 2016, 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.

(c) *Derivative Financial Instruments*

The fair value of derivative financial instruments is measured at inputs other than quoted prices that are indirectly observable for the financial instruments and are categorized within Level 2. The fair value is derived from prices set in the derivative contracts.

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 consolidated statements of financial position on a recurring basis as at December 31, 2017 and 2016.

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 55,672,960,546	P -	P -	P 55,672,960,546
Trade and other receivables	-	169,231,906	90,965,502,260	91,134,734,166
Other financial assets	-	352,142,852	4,517,998,242	4,870,141,094
	<u>P 55,672,960,546</u>	<u>P 521,374,758</u>	<u>P 95,483,500,502</u>	<u>P 151,677,835,806</u>
Financial liabilities:				
Current:				
Trade and other payables	P -	P -	P 42,669,505,961	P 42,669,505,961
Interest-bearing loans	-	387,203,538	32,006,352,143	32,393,555,681
Bonds payable	9,041,946,581	-	-	9,041,946,581
Redeemable preferred shares	-	-	251,597,580	251,597,580
Other current liabilities	-	-	407,308,225	407,308,225
Non-current:				
Bonds payable	22,104,597,349	-	-	22,104,597,349
Interest-bearing loans	-	757,977,570	106,428,209,127	107,186,186,697
ELS	-	-	5,227,114,518	5,227,114,518
Redeemable preferred shares	-	1,232,405,901	1,006,390,319	2,238,796,220
Due to related parties	-	-	2,329,974,989	2,329,974,989
Security deposits	-	267,734,123	-	267,734,123
	<u>P 31,146,543,930</u>	<u>P 2,645,321,132</u>	<u>P 190,326,452,862</u>	<u>P 224,118,317,924</u>
2016				
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 48,672,938,017	P -	P -	P 48,672,938,017
Trade and other receivables	-	4,602,144	80,827,882,617	80,832,484,761
Other financial assets	-	450,431,554	3,831,776,980	4,282,208,534
	<u>P 48,672,938,017</u>	<u>P 455,033,698</u>	<u>P 84,659,659,597</u>	<u>P 133,787,631,312</u>
Financial liabilities:				
Current:				
Trade and other payables	P -	P -	P 36,907,266,143	P 36,907,266,143
Interest-bearing loans	-	370,788,498	20,470,545,056	20,841,333,554
Bonds payable	39,734,990,308	-	-	39,734,990,308
Other current liabilities	-	-	999,524,921	999,524,921
Non-current:				
Bonds payable	21,903,559,527	-	-	21,903,559,527
Interest-bearing loans	-	1,096,632,498	53,124,242,319	54,220,874,817
ELS	-	-	5,262,906,379	5,262,906,379
Redeemable preferred shares	-	1,036,942,263	1,257,987,900	2,294,930,163
Due to related parties	-	-	1,741,255,704	1,741,255,704
Security deposits	-	265,419,703	-	265,419,703
	<u>P 61,638,549,835</u>	<u>P 2,769,782,962</u>	<u>P 119,763,728,422</u>	<u>P 184,172,061,219</u>

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 Group's investment property was determined by calculating the present value of the cash inflows anticipated until the life of the investment property using a discount rate that reflects the risks and uncertainty in cash flows. 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 Groups investment property is their current use.

As at December 31, 2017 and 2016, the fair value of the Group's investment property amounted to P310.1 billion and P260.8 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 2017 and 2016.

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.

	<u>2017</u>	<u>2016</u>
Total liabilities	P 289,979,745,091	P 245,193,291,467
Total equity	<u>271,842,047,791</u>	<u>246,103,671,448</u>
Debt-to-equity ratio	<u>1.07:1</u>	<u>1.00:1</u>

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for both periods.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation of liabilities arising from financing activities in 2017 is presented below. The details of net cash flows are presented in the consolidated statements of cash flows.

	<u>Interest-bearing Loans and Borrowings</u>	<u>Bonds Payable</u>	<u>Derivative Liabilities</u>	<u>ELS</u>	<u>Redeemable Preferred Shares</u>	<u>Total</u>
Balance as of January 1, 2017	P 76,595,874,025	P 62,065,580,277	P 356,819,015	P 5,262,906,379	P 2,013,695,292	P 146,294,874,988
Cash flows from financing activities:						
Borrowings availed	86,287,218,583	11,943,791,282	-	-	-	98,231,009,865
Payment of borrowings	(21,732,549,674)	(40,595,136,549)	(360,478,688)	-	-	(62,688,164,911)
Non-cash activities:						
Foreign currency adjustment	(253,138,621)	806,309,336	63,245,608	-	-	616,416,323
Amortization of direct cost	76,158,874	144,440,706	-	100,359,525	-	320,959,105
Recognition of conversion option	-	-	-	(136,151,386)	-	(136,151,386)
Unrealized loss on swaps	-	-	27,235,637	-	-	27,235,637
Unrealized loss on cash flow hedges	-	-	45,942,879	-	-	45,942,879
Accretion of redeemable preferred shares	-	-	-	-	94,925,091	94,925,091
Balance at December 31, 2017	<u>P 140,973,563,187</u>	<u>P 34,364,985,052</u>	<u>P 132,764,451</u>	<u>P 5,227,114,518</u>	<u>P 2,108,620,383</u>	<u>P 182,807,047,591</u>

36. SUBSEQUENT EVENTS

36.1 Consortium Agreement for Ninoy Aquino International Airport

In February 2018, AGI as a member of a consortium of seven (7) conglomerates, submitted a P350-billion unsolicited proposal to the Department of Transportation (DOTr) for the improvement, upgrade, enhancement, expansion, operation and maintenance, and management of the Ninoy Aquino International Airport. As of the date of approval of the consolidated financial statements, the consortium is awaiting the grant of the “Original Proponent Status” from the DOTr. No significant expenses have been incurred in relation to the proposal.

36.2 Megaworld Issuance of Perpetual Bonds

On April 5, 2018, Megaworld has priced its issuance of US\$200.0 million of fixed-for-life senior perpetual notes to yield 5.375%. The notes are unrated and will be listed on Singapore Exchange Securities Trading Limited. The notes will not be registered with the Philippine Securities and Exchange Commission and any future sale or offer of the securities in the Philippines is subject to registration requirements unless such sale or offer qualifies as an exempt transaction under the Securities Regulations Code of the Philippines. Proceeds from the notes will be used for general corporate purposes and refinancing of existing indebtedness. The securities will be accounted for as equity instruments in the consolidated financial statements of the Group.



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**Report of Independent Auditors
to Accompany Supplementary
Information Required by the
Securities and Exchange
Commission Filed Separately
from the Basic Consolidated
Financial Statements**

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**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 in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alliance Global Group, Inc. and subsidiaries (the Group) for the year ended December 31, 2017, on which we have rendered our report dated April 6, 2018. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 6616014, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 6, 2018

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

**Independent Auditors' Report on the SEC Supplementary Schedules
Filed Separately from the Basic Financial Statements**

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

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Alliance Global Group, Inc. and Subsidiaries
Schedule A - Financial Assets (Marketable Securities)
December 31, 2017

Financial Asset/Name of Banks	Amount Shown in Statement of Financial Position	Income Received and Accrued
Financial Assets at Fair Value Through Profit or Loss		
HSBC Private Bank	P 12,271,744,356	P 80,264,047
Bank of Singapore	585,784,610	8,562,913
Various quoted equity securities	639,372,786	-
Derivative financial assets	19,572,259	-
	<u>13,516,474,011</u>	<u>88,826,960</u>
Available-for-sale Securities		
Various unquoted equity instruments	216,573,274	205,272
Various quoted equity instruments	136,872,015	-
Various club shares	78,200,000	8,650,000
	<u>431,645,289</u>	<u>8,855,272</u>
Total Financial Assets	<u>P 13,948,119,300</u>	<u>P 97,682,232</u>

Alliance Global Group, Inc. and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2017

<i>Name and Designation of Debtor</i>	<i>Balance at the Beginning of Period</i>		<i>Deductions</i>		<i>Ending Balance</i>		<i>Balance at the End of Period</i>	
			<i>Additions</i>	<i>Amounts Collected</i>	<i>Amounts Written off</i>	<i>Current</i>		<i>Non-current</i>
Advances to Officers and Employees:								
Travellers - Officers and employees	P	70,058,193	P -	P 365,821	P -	P 69,692,372	P -	P 69,692,372
- Other related parties		54,696,362	2,573,699	2,199,088	-	55,070,973	-	55,070,973
Megaworld - Officers and employees		1,125,069	7,772,600	2,992,181	-	5,905,488	-	5,905,488
- Other related parties		535,039,962	-	535,039,962	-	-	-	-
Emperador - Officers and employees		22,402,245	64,341,649	49,107,295	-	37,636,599	-	37,636,599
GADC - Officers and employees		128,728,479	-	47,569,809	-	81,158,670	-	81,158,670
	P	812,050,310	P 74,687,948	P 637,274,156	P -	P 249,464,102	P -	P 249,464,102

Legend:

Megaworld - Megaworld Corporation
Travellers - Travellers International Hotel Group, Inc.
Emperador - Emperador Inc.
GADC - Golden Arches Development Corporation

Alliance Global Group, Inc. and Subsidiaries
Schedule C - Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements
December 31, 2017

<i>Name and Designation of Debtor</i>			<i>Deductions</i>		<i>Ending Balance</i>		<i>Balance at End of Period</i>	
			<i>Amounts Collected</i>	<i>Amounts Written off</i>	<i>Current</i>	<i>Not current</i>		
<i>Due from Related Parties</i>								
New Town Land Partners, Inc.	P	3,024,403,740	P	-	P	-	P	3,024,403,740
Venezia Universal, Ltd.		953,547,757		731,750,199		-		1,685,297,956
Greenspring Investment Holdings Properties Ltd.		2,927,501,861		11,166,942		-		2,938,668,803
First Centro, Inc.		11,797,972		-	8,597,972	-		3,200,000
Alliance Global Brands, Inc.		626,572,744		-		-		626,572,744
Alliance Global Group Cayman Islands, Inc.		16,246,550		812,502,500		-		828,749,050
McKester Pik-nik International Limited		14,387,319,208		8,449,384,360		-		22,836,703,568
ProGreen AgriCorp, Inc.		-		250,000,000		-		250,000,000
Empire East Land Holdings Inc.		-		500,000,000		-		500,000,000

Alliance Global Group, Inc. and Subsidiaries
Schedule D - Intangible Assets - Other Assets
December 31, 2017

<i>Description</i>	<i>Beginning Balance</i>	<i>Additions at Cost</i>	<i>Deduction</i>		<i>Other Changes - Additions (Disposals)</i>	<i>Ending Balance</i>
			<i>Charged to Cost and Expenses</i>	<i>Charged to Other Accounts</i>		
Intangible Assets						
Goodwill	P 19,848,347,372	P -	P -	P -	P 241,819,514	P 20,090,166,886
Trademarks	16,655,559,198	3,226,080,050	(11,199,938)	-	646,181,370	20,516,620,680
Leasehold Rights	1,018,050,679	-	(59,257,588)	-	-	958,793,091
Computer Software	2,256,980	18,317,329	(2,063,548)	-	-	18,510,761
Franchise Fee	-	55,649,677	(2,081,824)	-	-	53,567,853
	<u>P 37,524,214,229</u>	<u>P 3,300,047,056</u>	<u>(P 74,602,898)</u>	<u>P -</u>	<u>P 888,000,884</u>	<u>P 41,637,659,271</u>

Alliance Global Group, Inc. and Subsidiaries
Schedule E - Long-Term Debt
December 31, 2017

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Statement of Financial Position	Amount Shown Under Caption "Long-Term Debt" in Related Statement of Financial Position
Loans:			
Interest-bearing loans	P 75,208,042,849	P 29,039,149,317	P 46,168,893,532
Foreign borrowings:			
AG Cayman	\$ 700,000,000	-	34,843,099,448
Emperador	€ 370,000,000	-	22,055,700,000
Emperador	€ 88,675,132	80,530,550	5,205,394,050
Emperador	£ 53,349,170	3,580,796,290	-
		<u>32,700,476,157</u>	<u>108,273,087,030</u>
Bonds Payable:			
Issuer:			
Megaworld	P 11,949,813,646	-	11,949,813,646
Megaworld	\$ 450,000,000	9,976,270,876	12,438,900,530
		<u>9,976,270,876</u>	<u>24,388,714,176</u>
		P 42,676,747,033	P 120,711,987,560

- a** Interest-bearing loans include loans obtained by Megaworld pertaining to the following:
- 1.) Loan obtained by Megaworld from a local bank in two tranches in March and June 2015 to fund various real estate projects and retire currently maturing obligations. Principal repayment on this seven-year loan commenced in June 2016 and interest is paid quarterly.
 - 2.) Loan obtained by Megaworld from a local bank in November 2016 for a five-year term. The principal repayments shall commence in February 2018 and interest is paid quarterly.
 - 3.) Loan obtained by Megaworld from a local bank amounting to US\$98.87 million payable quarterly for a term of five years with a grace period of one year upon availment. The principal repayment on the loan shall commence in March 2019 and a floating interest is paid quarterly. Megaworld entered into a cross-currency swap transaction to hedge the U.S. dollar exposure of the loans.
 - 4.) Loan obtained by Megaworld from a local bank in November 2015. The principal repayments on this seven-year loan commenced in November 2016 and interest is payable semi-annually.
 - 5.) Loan obtained by Megaworld from a local bank in December 2015 for a five-year term. The principal repayments commenced in March 2017 and interest is paid quarterly.
 - 6.) Loan obtained by Megaworld from a local bank in 2014. The principal repayments on this seven-year loan commenced in August 2015 while interest is paid semi-annually.
 - 7.) Loan obtained by Megaworld in August 2016 from a local bank payable for a term of five years with a grace period of two years upon availment. The principal repayment on the loan shall commence in November 2018 and interest is paid quarterly.
- b** Interest-bearing loans include loans obtained by EELHI pertaining to the following:
- 1.) Loan obtained by EELHI from a local bank released in three tranches.
 - 2.) Loan obtained by EELHI from a local bank in 2017 used to fund the development of various real estate projects. Principal is payable upon maturity and interest is payable monthly in arrears.
 - 3.) Loans obtained by EELHI through assignment of receivables. Certain residential and condominium units for sale with carrying value of P110.7 million and P188.4 million as of December 31, 2017 and 2016, respectively, were used as collateral for the loans.
- c** Five-year loan obtained by LFI from a local bank in December 2015. Quarterly installments began in March 2017, plus interest.

Alliance Global Group, Inc. and Subsidiaries
Schedule E - Long-Term Debt (continuation)
December 31, 2017

- d** *Interest-bearing loans obtained by SPI include the following:*
- 1.) *Five-year loan obtained by SPI from a local bank in 2015, payable in monthly installments after two years from draw down.*
 - 2.) *Loans obtained by SPI from a local bank in 2015 through assignment of trade receivables.*
 - 3.) *Five-year loan obtained by SPI from a local bank in 2017 and 2016, payable on a monthly basis after a grace period of two years from the date of availment. The loan bears floating interest which is subject to repricing every 30-180 days.*
 - 4.) *Five-year loan obtained by SPI from a local bank. Quarterly repayment of the loan began in 2017.*
 - 5.) *Outstanding balance of short-term loans availed by SPI from local banks in 2017 and 2016.*
- e** *Interest-bearing loans obtained by GERI include the following:*
- 1.) *Loan availed by GERI from a local bank payable quarterly for a term of five years commencing on the beginning of the fifth quarter from the initial drawdown date.*
 - 2.) *Five-year loan obtained by GERI from a local bank in 2016, with a grace period of two years on principal installment. The loan is payable in quarterly installments of P125.0 million commencing on the 9th quarter from the date of initial drawdown and balloon payment at the end of five years.*
 - 3.) *Five-year loan obtained by GERI from a local bank in 2015. The loan is payable quarterly commencing on the 9th quarter from the date of initial drawdown.*
- f** *Five-year loan obtained by OFPI from a local bank in 2015.*
- g** *Loans denominated in foreign currency obtained by EIL from international financial institutions.*
- h** *Loans availed by EDI from a local bank for a term of five years payable over 12 quarterly payments.*
- i** *Loan denominated in foreign currency obtained by WMG from a foreign bank. The loan is secured by way of floating charge against WMG's inventories.*
- j** *Foreign-currency-denominated loans of DBLC totaling P3.0 billion used in relation to asset acquisition.*
- k** *In 2017, GES obtained an unsecured five-year foreign-currency-denominated loan from certain financial institution for asset acquisitions.*
- l** *Interest-bearing loans obtained by G.ADC include the following:*
- 1.) *Loans drawn by G.ADC from a P1.0 billion credit facility granted by a local bank. Principal is payable in quarterly installments.*
 - 2.) *Loans obtained by G.ADC from local banks. Quarterly principal payments commenced in September 2016.*
 - 3.) *Loan obtained by G.ADC from a local bank in June 2015 in relation to the P500.0 million loan facility. Principal repayments began in June 2016 and every quarter thereafter.*
 - 4.) *Balance from loan granted to G.ADC in December 2011 by a local bank for the purchase of land and building from the latter, payable monthly starting on the third year of the loan. The acquired land and building served as collateral on the loan.*

Alliance Global Group, Inc. and Subsidiaries
Schedule E - Long-Term Debt (continuation)
December 31, 2017

- m** Interest-bearing loans also include loans obtained by Travellers which includes the following:
- 1.) Short-term loan obtained by Travellers from the credit line of P21.0 billion from a local bank, which is payable within 60 days and bears interest which is payable monthly.
 - 2.) Seven-year loans obtained by Travellers in 2017 from the credit line agreements with certain local banks for the support of its expansion projects. Principal payments shall be made in lump sum upon maturity and interest is payable quarterly.
 - 3.) Short-term loan availed by Travellers from a local bank payable upon maturity of 180 days and with interest payable monthly.
 - 4.) Omnibus line credit facility obtained by Travellers with the term of up to 90 days, payable upon maturity and with interest payable monthly.
 - 5.) Short-term loans availed by Travellers from a certain local bank with terms of up to 360 days, payable upon maturity and with interest payable monthly.
- n** Five-year U.S. dollar-denominated loans obtained by AG Cayman in 2017 from a foreign bank totaling to US\$700.0 million with interest payable semi-annually in arrears. The loans are unconditionally and irrevocably guaranteed by AGI.
- o** On March 28, 2017, Megaworld issued seven-year term bonds totaling P12.0 billion inclusive of P4.0 billion oversubscription. The bond carries a coupon rate of 5.3535% per annum and interest is payable semi-annually in arrears every March 28 and September 28. The bonds shall mature on March 28, 2024.
- p** Bonds payable denominated in foreign currency obtained by Megaworld which includes the following:
- 1.) On April 17, 2013, Megaworld issued 10-year term bonds with semi-annual interest payments every April 17 and October 17. The proceeds of the bond issuance are being used by Megaworld for general corporate purposes.
 - 2.) On April 15, 2011, Megaworld issued seven-year term bonds with accrued interest semi-annually in arrears every April 15 and October 15 each year. The proceeds received from these bonds are being used by Megaworld to finance its capital expenditures for its real estate projects.

Legend:

AGI - Alliance Global Group, Inc.
Megaworld - Megaworld Corporation
EELHI - Empire East Land Holdings, Inc.
LFI - La Fuerza, Inc.
SPI - Suntrust Properties, Inc.
GERI - Global-Estates Resorts, Inc.
OFPI - Oceanfront Properties, Inc.
EIL - Emperador International Ltd.
EDI - Emperador Distillers, Inc.
WMG - Whyte and Mackay Group Limited
GES - Grupo Emperador Spain, S.A.U.
CBSP - Complejo Bodeguero San Patricio, S.L.U.
DBLC - Domecq Bodega Las Copas, S.L.
GADC - Golden Arches Development Corporation
Travellers - Travellers International Hotel Group, Inc.
AG Cayman - Alliance Global Group Cayman Islands, Inc.

Alliance Global Group, Inc. and Subsidiaries
Schedule F - Indebtedness to Related Parties (Long-Term Loans from Related Companies)
December 31, 2017

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Balance at the beginning of year</i>	<i>Balance at the end</i>
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-nothing to report-

Alliance Global Group, Inc. and Subsidiaries
Schedule G - Guarantees of Securities of Other Issuers
December 31, 2017

<i>Name of Issuing Entity of Securities Guaranteed by the Company for which this statement is Filed</i>	<i>Title of Issue of Each Class of Securities Guaranteed</i>	<i>Total Amount Guaranteed and Outstanding</i>	<i>Amount Owned by Person for which this Statement is Filed</i>	<i>Nature of Guarantee</i>
Alliance Global Group Cayman Islands, Inc. by Alliance Global Group, Inc.	US\$ 700.0 million, 5-year loans, 3.8330% to 4.1456% interest	P 34,843,099,448	P 34,843,099,448	Guarantee of Principal and Interest

Alliance Global Group, Inc. and Subsidiaries
Schedule H - Capital Stock
December 31, 2017

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Common shares - P1 par value	12,950,000,000	10,230,017,479	105,600,000	5,889,690,932	68,690,940	4,271,635,607

ALLIANCE GLOBAL GROUP, INC.
7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark,
188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City

**SCHEDULE I - Reconciliation of Parent Company Retained Earnings
Available for Dividend Declaration
For the Year Ended December 31, 2017**

Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year	P	13,621,742,555
Net Profit Realized during the Year		
Net profit per audited financial statements		4,126,348,208
Retained Earnings Restricted for Treasury Shares*		<u>(629,988,966)</u>
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	P	<u>17,118,101,797</u>

*In 2017, the Company entered into a two-year share repurchase program of up to P5.0 billion worth of common shares.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
SCHEDULE J - FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2017 and 2016

	12/31/17	12/31/16
Current ratio	2.40	1.87
Quick ratio	1.28	0.95
Liabilities-to-equity ratio	1.07	1.00
Interest-bearing debt to total equity	0.66	0.58
Asset-to-equity ratio	2.07	2.00
Interest rate coverage ratio	612%	688%
Net profit margin	15.41%	16.33%
Return on assets	3.88%	4.64%
Return on equity/investment	8.03%	9.27%
Return on investment of equity owners	9.18%	10.06%

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.

Current ratio - computed as current assets divided by current liabilities

Quick ratio - computed as cash, marketable securities, accounts receivable divided by current liabilities.

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.

Liabilities-to-equity ratio - computed as total liabilities divided by stockholders' equity.

Interest-bearing debt to total equity ratio - computed as interest-bearing debt divided by total equity.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by stockholders' equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments. It is computed as profit before income tax and interest expense (EBIT) divided by interest.

In the computation, non-recurring gain is excluded from EBIT.

PROFITABILITY RATIOS

Net margin - computed as net profit divided by revenues

Return on assets - net profit divided by total assets

Return on investment - net profit divided by total stockholders' equity

Return on investment of equity owners - net profit attributable to owners of the parent divided by equity attributable to owners of the parent company

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES

**SCHEDULE K - Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2017**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
<i>Philippine Financial Reporting Standards (PFRS)</i>				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* (<i>effective January 1, 2018</i>)	✓		
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation (<i>effective January 1, 2019</i>)			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4, <i>Insurance Contracts</i> * (<i>effective January 1, 2018</i>)			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (<i>effective when PFRS 9 is first applied</i>)			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (2014)* (<i>effective January 1, 2018</i>)			✓
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* (<i>effective January 1, 2019</i>)			✓

PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* <i>(effective date deferred indefinitely)</i>	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation <i>(effective January 1, 2019)</i>			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers* <i>(effective January 1, 2018)</i>			✓
PFRS 16	Leases* <i>(effective January 1, 2019)</i>			✓
PFRS 17	Insurance Contracts* <i>(effective January 1, 2021)</i>			✓
<i>Philippine Accounting Standards (PAS)</i>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* <i>(effective January 1, 2019)</i>			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓

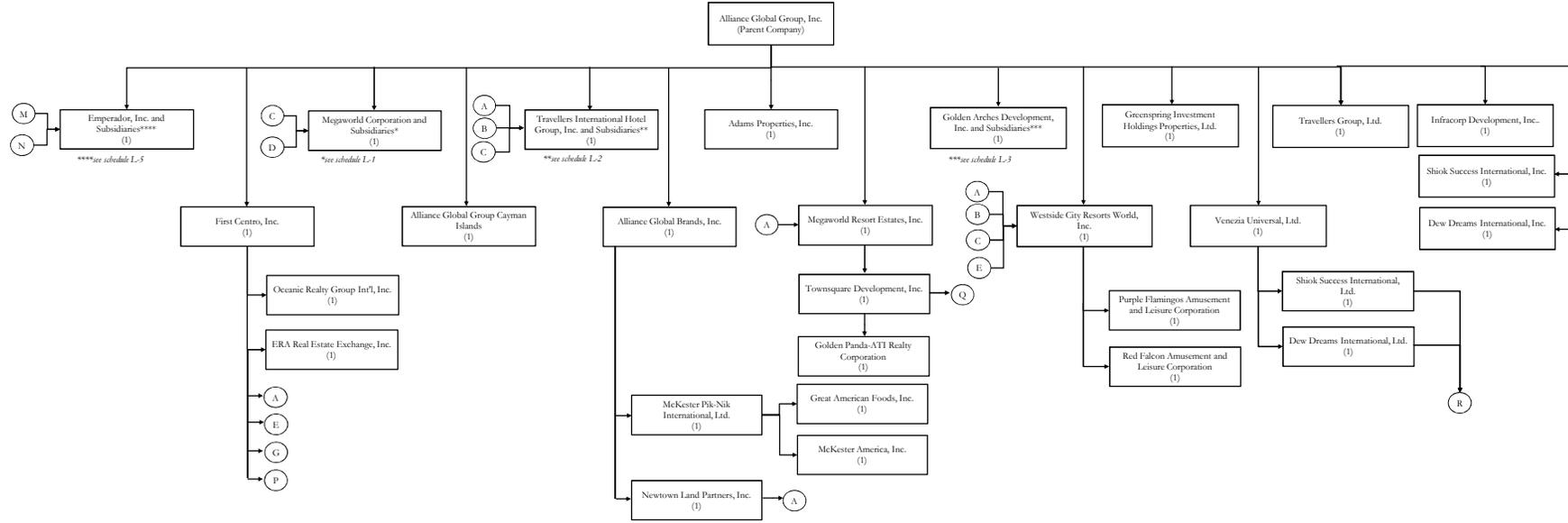
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Amendment to PAS 23: Eligibility for Capitalization	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (<i>effective date deferred indefinitely</i>)			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss (<i>effective January 1, 2018</i>)			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture (<i>effective January 1, 2019</i>)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property (<i>effective January 1, 2018</i>)			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)			✓
IFRIC 23	Uncertainty Over Income Tax Treatments (effective January 1, 2019)			✓
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs**			✓

* These standards will be effective for periods subsequent to 2017 and are not early adopted by the Group.

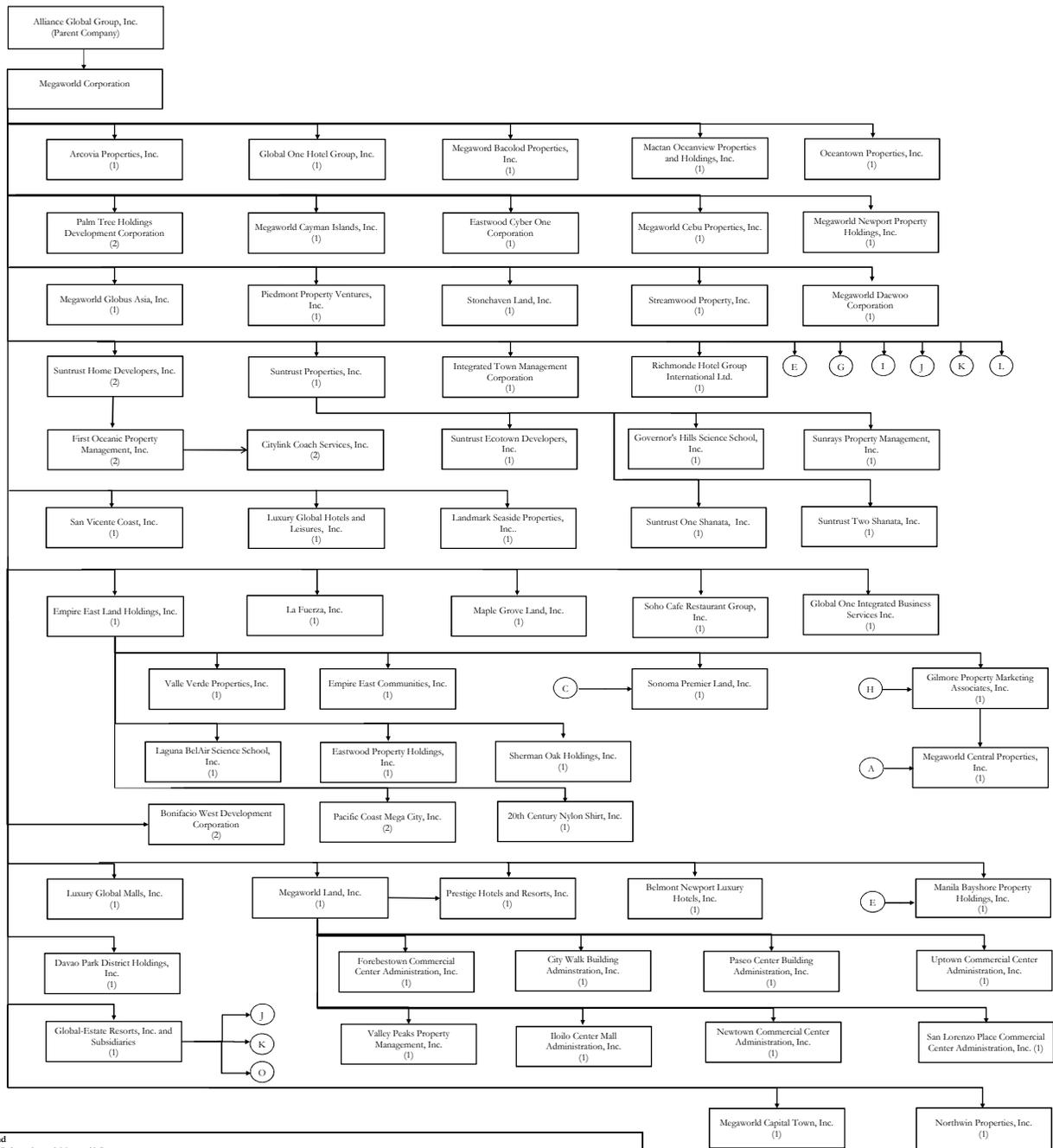
** These standards have been adopted in the preparation of consolidated financial statements but the Group has no significant transactions covered in both years presented.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
 Schedule L – Map Showing the Relationship Between Alliance Global Group, Inc.
 and its Related Parties
 December 31, 2017



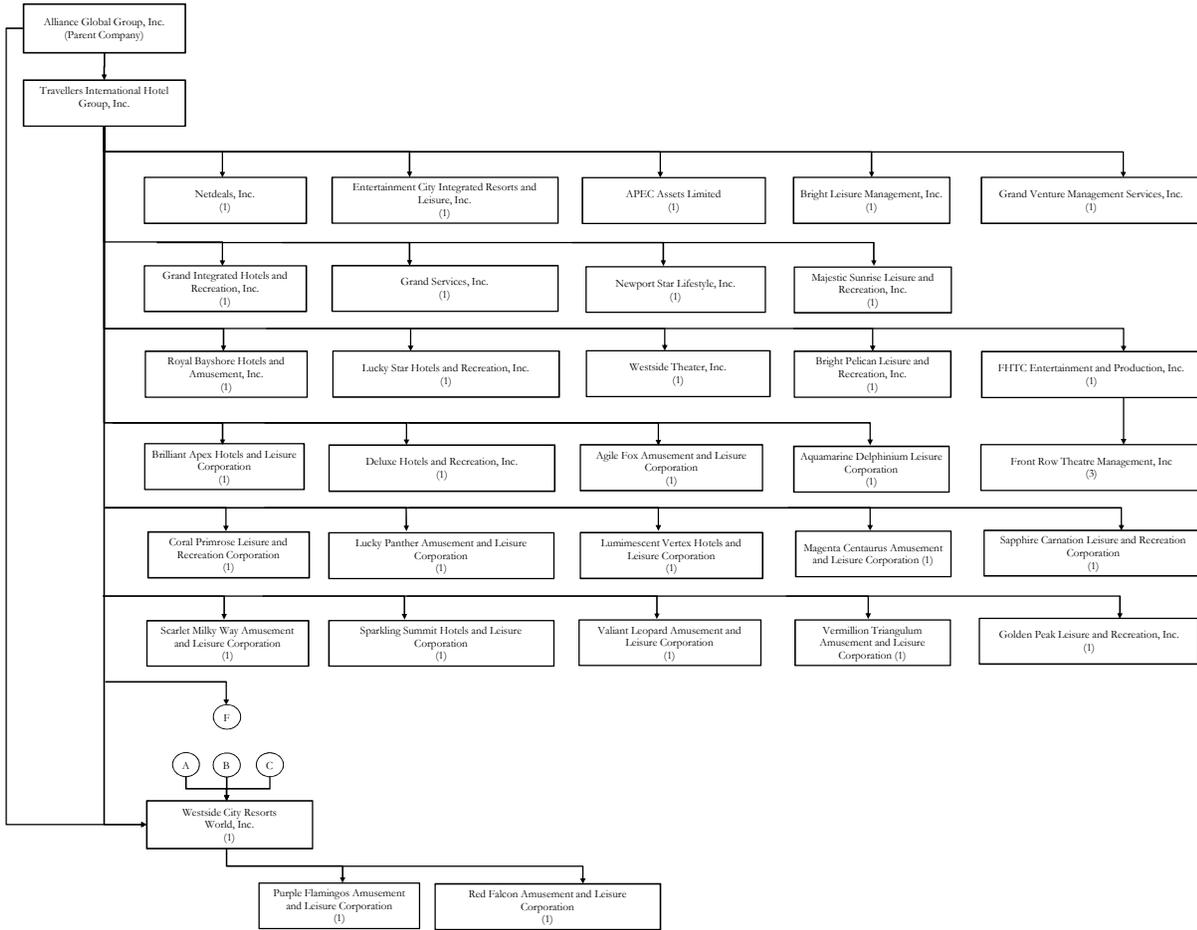
Legend					
(1) Subsidiary	A Megaworld Corporation	F Manila Bayshore Property Holdings, Inc.	K Megaworld Global Estates, Inc.	P Sonoma Premier Land, Inc.	
(2) Associate	B Adams Properties, Inc.	G Westside City Resorts World, Inc.	L Megaworld Central Properties, Inc.	Q Gilmore Property Marketing Associates, Inc.	
(3) Jointly Controlled Entity	C First Centro, Inc.	H Townsquare Development, Inc.	M Shiok Success International, Ltd.	R Emperor Inc.	
	D Newtown Land Partners, Inc.	I Megaworld Resort Estates, Inc.	N Dew Dreams International, Ltd.		
	E Travellers International Hotel Group, Inc.	J Twin Lakes Corporation	O Fil-Estate Properties, Inc.		

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
 Schedule L-1 – Map Showing the Relationship Between Alliance Global Group, Inc.
 and Megaworld Corporation Group
 December 31, 2017



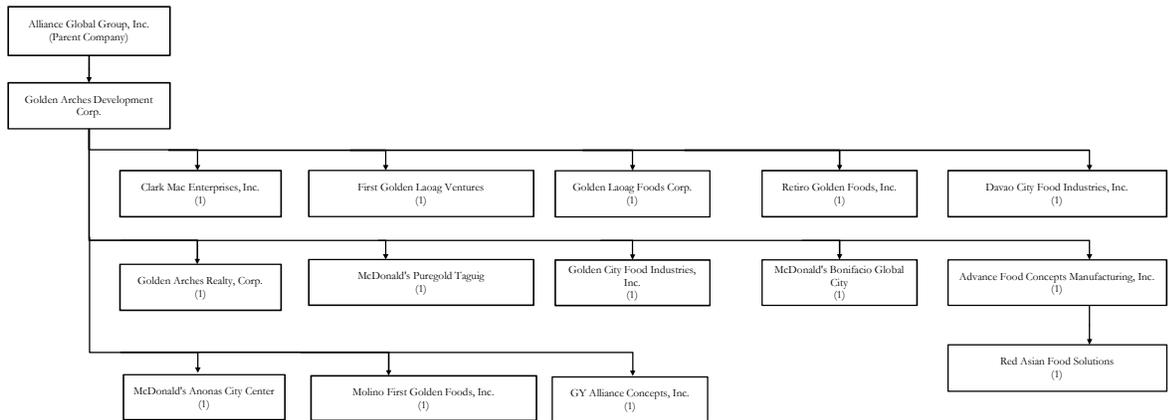
Legend	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centro, Inc.
D	Newtown Land Partners, Inc.
E	Travellers International Hotel Group, Inc.
F	Manila Bayside Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shlok Success International, Ltd.
N	Daw Dreams International, Ltd.
O	Fil-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Emperador Inc.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
 Schedule I-2 – Map Showing the Relationship Between Alliance Global Group, Inc.
 and Travellers Group
 December 31, 2017



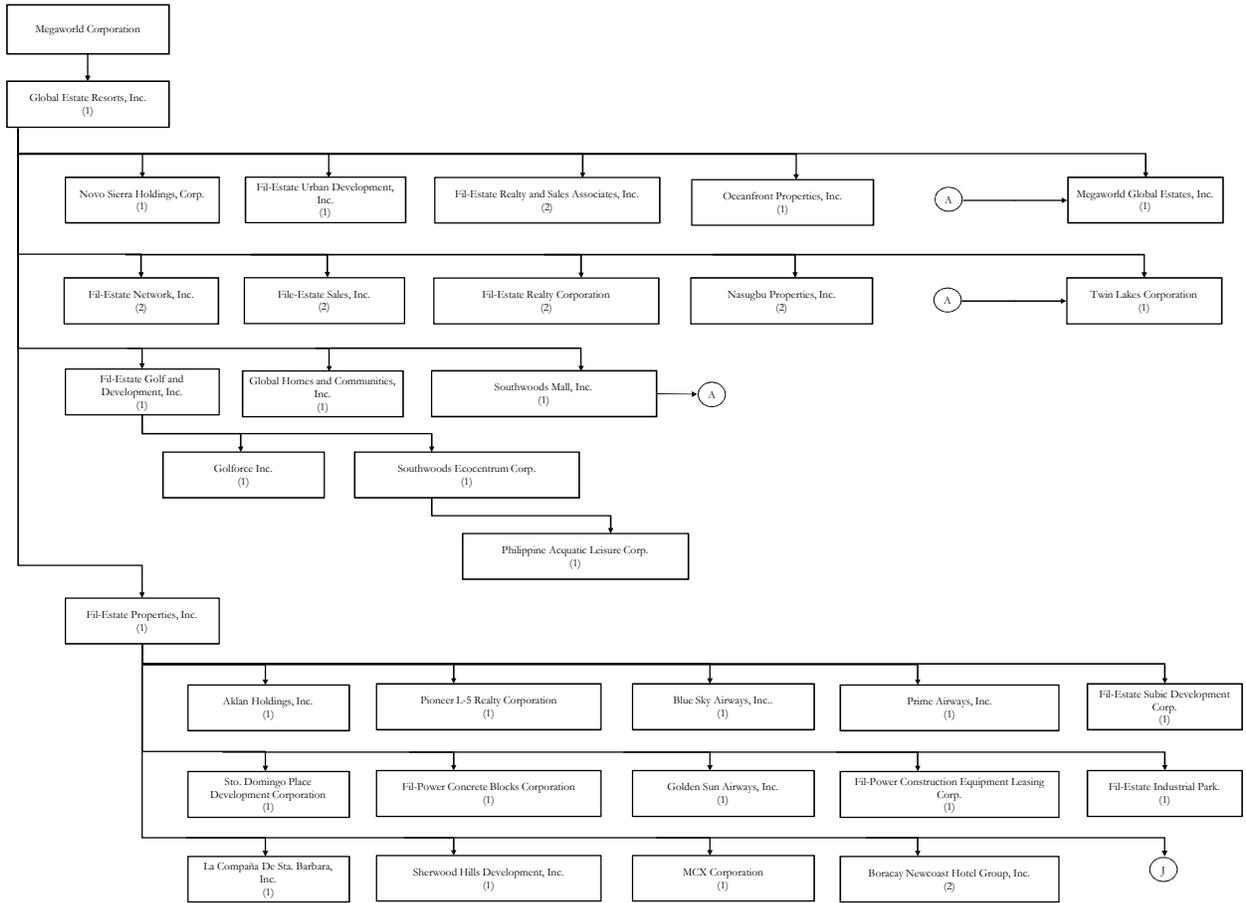
Legend	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centro, Inc.
D	Newtown Land Partners, Inc.
E	Travellers International Hotel Group, Inc.
F	Manila Bayshore Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shiok Success International, Ltd.
N	Dew Dreams International, Ltd.
O	File-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Emperor Inc.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
 Schedule L-3 – Map Showing the Relationship Between Alliance Global Group, Inc.
 and Golden Arches Development Corporation Group
 December 31, 2017



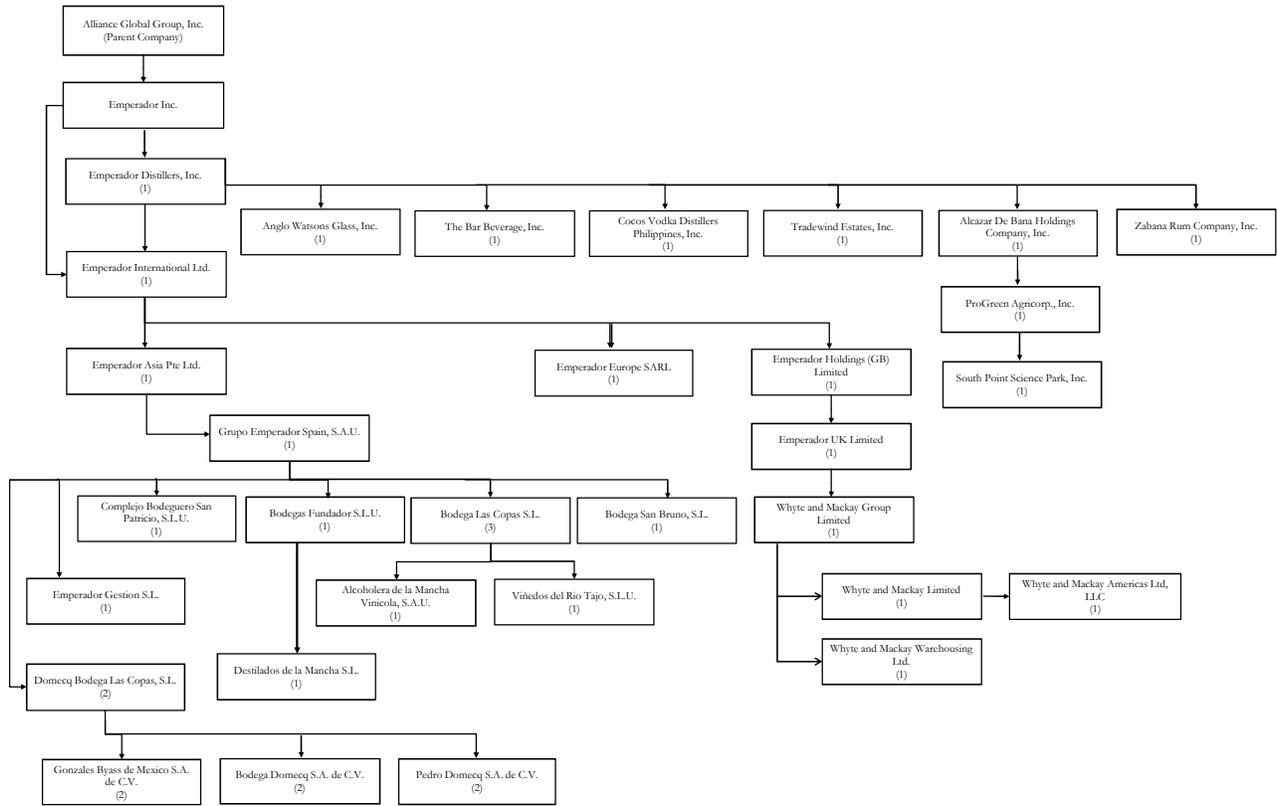
Legend	
Relationship with Golden Arches Development Corporation	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centro, Inc.
D	Newtown Land Partners, Inc.
E	Travellers International Hotel Group, Inc.
F	Manila Bayshore Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shook Success International, Ltd.
N	Dew Dreams International, Ltd.
O	File-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Emperador Inc.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
 Schedule L-4 – Map Showing the Relationship Between and
 Among Megaworld and Global Estate Resorts Inc. Group
 December 31, 2017



Legend	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centro, Inc.
D	Newtown Land Partners, Inc.
E	Travellers International Hotel Group, Inc.
F	Manila Bayside Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shiok Success International, Ltd.
N	Dew Dreams International, Ltd.
O	Fil-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Emperador, Inc.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
 Schedule L-5 – Map Showing the Relationship Between Alliance Global Group, Inc.
 and Emperador Group
 December 31, 2017



Legend	
<i>Relationship with Emperador Inc.</i>	
(1)	Subsidiary (100%)
(2)	Subsidiary (50%)
(3)	Jointly Controlled Entity

COVER SHEET

SEC Registration Number

A	S	0	9	3	-	7	9	4	6
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COMPANY NAME

A	L	L	I	A	N	C	E		G	L	O	B	A	L		G	R	O	U	P	,		I	N	C	.		
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PRINCIPAL OFFICE (No./Street/Barangay/City/Town)Province)

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C	Y	B	E	R	P	A	R	K	,																			
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B	A	G	U	M	B	A	Y	A	N	,		Q	U	E	Z	O	N		C	I	T	Y					
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Form Type

1	7	-	Q
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Department requiring the report

S	E	C
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Secondary License Type, If Applicable

Certificate of Permit to Offer Securities for Sale

COMPANY INFORMATION

Company's Email Address

intingdin@gmail.com

Company's Telephone Number/s

709-2038 to 41

Mobile Number

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No. of Stockholders

864

Annual Meeting
Month/Day

SEPTEMBER 3RD TUESDAY

Fiscal Year
Month/Day

DECEMBER 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

DINA INTING

Email Address

intingdin@gmail.com

Telephone Number/s

709-2038 to 41

Mobile Number

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Contact Person's Address

7th Floor, 1880 Eastwood Avenue, Eastwood City Cyberpark, 188 E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City
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Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. *For the quarterly period ended* **June 30, 2018**
2. *SEC Identification Number* **AS093-7946**
3. *BIR Tax Identification No.* **003-831-302-000**
4. *Exact name of issuer as specified in its charter* **ALLIANCE GLOBAL GROUP, INC.**
5. **METRO MANILA, PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. *(SEC Use Only)*
Industry classification code
7. **7thFloor, 1880 Eastwood Avenue, Eastwood City CyberPark
188 E. Rodriguez Jr. Ave., Bagumbayan, 1110 Quezon City**
Address of principal office
8. **(632) 70920-38 to -41**
Registrant's telephone number, including area code
9. *Securities registered pursuant to Sections 8 and 12 of the SRC, or secs. 4 and 8 of the RSA*

<i>Title of Each Class</i>	<i>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</i>
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Common	10,077,016,479 (net of 192,811,500 treasury shares held by AGI)
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10. *Are any or all of these securities listed on a Stock Exchange?* **Yes, on the Philippine Stock Exchange.**
11. (a) *AGI has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months.*

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

PART I – FINANCIAL INFORMATION

1. FINANCIAL STATEMENTS

Consolidated Statements of Financial Position
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Equity
Consolidated Statements of Cash Flows
Notes to Interim Consolidated Financial Statements
Schedule of Financial Soundness Indicators
Aging Schedule of Trade and Other Receivables Under Current Assets

The interim consolidated financial statements (ICFS) have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standard 34, *Interim Financial Reporting*. As such, they do not include all of the information and disclosures required for full annual consolidated financial statements, and thus should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended December 31, 2017 (ACFS). The accounting policies and methods used in the ICFS are consistent with those applied in ACFS, except for changes brought about by the adoption of new standards that become effective on January 1, 2018 (see Note 2.2 to the ICFS and Note 2.3(c) to the ACFS).

Accounting estimates, assumptions and judgments are used in preparing these statements; and while these are believed to be reasonable under the circumstances, actual results may ultimately differ from such estimates (see Note 3 to the ACFS).

The ICFS comprise the financial statements of the Company and its subsidiaries, after elimination of material intercompany transactions. In addition, shares of stock of the Company acquired by any of these subsidiaries are recognized as treasury shares and these are presented at cost as a deduction in the consolidated statements of changes in equity. 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.

Business Segments

The Group is organized into four major business segments, which aptly correspond to its operating subsidiaries, namely Megaworld, Emperador, Travellers or RWM, and GADC, which in turn represent the main products and services provided by the Group and the lines of business in which the Group operates, i.e. real estate development and leasing, manufacture and distribution of distilled spirits, tourism-entertainment and gaming, and quick-service restaurants operations (see Note 4 to the ICFS).

Please refer to Note 1 to the ICFS and ACFS for a comprehensive list of subsidiaries, associates and joint ventures.

2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF INTERIM FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Key Performance Indicators

Presented below are the top five (5) key performance indicators:

In Million Pesos

	Jan-June 2018	Jan- June 2017	Quarter 2 2018	Quarter 2 2017	Quarter 1 2018	Quarter 1 2017
REVENUES	73,160	66,843	37,857	33,140	35,303	33,703
NET PROFIT	12,431	10,084	6,987	4,703	5,444	5,381
NET PROFIT TO OWNERS OF AGI	7,857	6,719	4,357	3,153	3,499	3,567
Revenue Growth	9.45%	-0.34%	14.23%	-2.51%	4.75%	1.88%
Net Profit Growth	23.27%	-11.11%	48.57%	-22.59%	1.17%	2.13%
NP Attributable to Parent Growth	16.93%	-7.76%	38.21%	-20.10%	-1.89%	6.82%
Net profit rate	16.99%	15.09%	18.46%	14.19%	15.42%	15.97%
NP Attributable to parent	10.74%	10.05%	11.51%	9.51%	9.91%	10.58%
Return on investment/assets [NP/TA]	2.13%	1.83%				
	Jan-June 2018	Dec-17	Growth	Jan-June 2017		
TOTAL ASSETS	583,539	561,822	3.87%	550,672		
CURRENT ASSETS	271,501	267,905	1.34%	275,795		
CURRENT LIABILITIES	96,386	111,714	-13.72%	140,891		
Current ratio	2.8X	2.4x		2.0x		
Quick ratio	1.5X	1.3x		1.1x		

Note: Numbers may not add up due to rounding.

- Revenue growth – measures the percentage change in sales/revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- Net profit growth – measures the percentage change in net profit over a designated period of time
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on 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
- 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.

Results of Operations – First Half

By Subsidiary groups:

<i>In Million Pesos</i>						
	MEG	EMP	RWM	GADC	Others	TOTAL
2018						
Revenues	26,771	19,474	12,630	13,604	2,782	75,261
Intercompany/ Adjustment	-87		-45		-1,969	
Consolidated	26,684	19,474	12,585	13,604	813	73,160
% contribution	36%	27%	17%	19%	1%	100%
Costs and expenses	16,984	15,699	10,405	12,516	1,515	57,119
Intercompany/ Adjustment		-17	-29	-41	-4	
Consolidated	16,984	15,682	10,376	12,475	1,511	57,028
Tax Expense	2,282	512	537	345	24.00	3,700
Net profit	7,505	3,263	1,688	743	1,242	14,441
Intercompany/ Adjustment	-87	17	-16	41	-1,965	
Consolidated	7,418	3,280	1,672	784	-723	12,431
% contribution	60%	26%	13%	6%	-5%	100%
Net profit to owners	7,251	3,190	1,690	741	1,243	14,115
Intercompany/ Adjustment	-2,462	-551	-943	-337	-1,965	
Consolidated	4,789	2,639	747	404	-722	7,857
% contribution	61%	34%	10%	5%	-10%	100%
2017						
Revenues	23,971	18,014	11,231	12,288	3,554	69,059
Intercompany/ Adjustment	-27		10		-2,198	
Consolidated	23,944	18,014	11,241	12,288	1,355	66,843
% contribution	36%	27%	17%	18%	2%	100%
Costs and expenses	15,224	14,753	10,665	11,391	1,634	53,666
Intercompany/ Adjustment	-3	-3	-22		-4	
Consolidated	15,221	14,750	10,643	11,391	1,630	53,634
Tax Expense	2,056	564	193	303	9	3,125
Net profit	6,692	2,698	373	595	1,910	12,268
Intercompany/ Adjustment	-24	3	32	0	-2,194	
Consolidated	6,667	2,700	405	595	-284	10,084
% contribution	66%	27%	4%	6%	-3%	100%
Net profit to owners	6,443	2,698	375	589	1,910	12,015
Intercompany/ Adjustment	-2,135	-490	-177	-300	-2,194	
Consolidated	4,309	2,208	198	289	-284	6,719
% contribution	64%	33%	3%	4%	-4%	100.0%
Year-on-year Change						
2018						
Revenues	11.44%	8.10%	11.96%	10.70%	-40.07%	9.45%
Costs and expenses	11.58%	6.32%	-2.50%	9.53%	-7.30%	6.33%
Tax Expense	11.00%	-9.17%	177.77%	14.12%	151.78%	18.40%
Net profit	11.26%	21.46%	312.92%	31.55%	154.57%	23.27%
Net profit to owners	11.15%	19.55%	277.15%	39.89%	154.53%	16.93%

*Notes: Numbers may not add up due to rounding. Percentages are taken based on full numbers, not from the presented rounded amounts.
-At AGI consolidated level, as presented above, revenues and costs and expenses may differ from the totals separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs or expenses to follow the group's consolidated presentation.*

Profit and loss accounts:

<i>In Million Pesos</i>	<u>2018</u>	<u>2017</u>	<u>2018 vs 2017</u>
REVENUES			
Sale of goods	37,955	35,106	8.11%
Consumer goods	19,737	18,337	7.64%
Revenues from real estate (RE) sales	18,218	16,769	8.64%
RE sales	14,665	13,624	7.64%
Realized gross profit on RE sales	2,597	2,193	18.43%
Interest income on RE sales	956	953	0.35%
Rendering of services	32,115	29,915	7.35%
Gaming	9,008	9,249	-2.61%
Sales by company-operated quick-service restaurant	12,238	10,972	11.54%
Franchise revenues	1,284	1,181	8.65%
Rental income	6,976	6,121	13.96%
Other services	2,609	2,391	9.14%
Hotel operations	2,235	2,104	6.27%
Other services	374	287	30.18%
Share in net profits of associates and joint ventures	147	135	9.30%
Finance and other income	2,943	1,687	74.43%
TOTAL	73,160	66,843	9.45%
COSTS AND EXPENSES			
Cost of goods sold	22,832	22,185	2.92%
Consumer goods sold	12,721	12,226	4.05%
RE sales	8,212	7,701	6.64%
Deferred gross profit on RE sales	1,899	2,258	-15.91%
Cost of services	15,588	14,586	6.86%
Gaming	3,677	3,743	-1.76%
Services	11,911	10,843	9.84%
Other operating expenses	15,362	13,666	12.41%
Selling and marketing	6,637	5,946	11.62%
General and administrative	8,725	7,720	13.01%
Finance costs and other charges	3,247	3,196	1.60%
TOTAL	57,029	53,634	6.33%
TAX EXPENSE	3,700	3,125	18.40%
NET PROFIT	12,431	10,084	23.27%

Note: Numbers may not add up due to rounding.

The Group raked in P12.4 billion net profit during the first half of the year, a 23% upturn from P10.1 billion a year ago, with revenues escalating 9% to P73.2 billion from P66.8 billion a year ago, as all business segments delivered double-digit net profit growths. Net profit attributable to owners jumped 17% to P7.9 billion from P6.7 billion a year ago. Quarter-on-quarter, business accelerated in the second quarter of the current year.

Megaworld, the country's largest developer and pioneer of integrated urban townships, attained P7.5 billion net profit during the first half, a 12% growth from P6.7 billion last year, with revenues rising 12% as well to P26.8 billion from P24.0 billion (as classified at AGI level) a year ago. Net profit attributable to its owners was reported at P7.2 billion, a 12% rise year-on-year. The residential business (real estate sales, realized gross profit and interest income on real estate sales), which accounted for more than two-thirds of revenues, was up 9% growing to P18.2 billion from P16.8 billion a year ago. Real estate sales pumped up 8% year-on-year to P14.7 billion from P13.6 billion. These mostly came from the group's township projects across the country with product mix recorded at 59%-15%-14%-12% for Megaworld- GERI (Global-Estate Resorts, Inc.)-Empire East (Empire East Land Holdings, Inc.)-Suntrust (Suntrust Properties, Inc.) brands. Rental income from leasing of office and commercial

retail spaces provided steady revenue stream as it continued to expand about 17% year-on-year in each of the two quarters, ending the first half at P6.8 billion compared to P5.8 billion a year ago. In its Lifestyle Malls, Megaworld opened its first full-scale mall outside of Luzon – the Festive Walk Mall in Iloilo – and three new community malls: The Village Square in Alabang, Three Central and San Lorenzo Place, both in Makati City. Office space inventory stood at 1.01million sqm. Hotel revenues rose 10% to P715 million from P648 million, with the expansion of homegrown hotel brands Savoy and Belmont to areas outside Metro Manila . Megaworld also announced earlier this year the ‘ITownships’ evolution of its developments, which is a step of incorporating digital technology, design innovations, connectivity and environmental sustainability into its township developments. These operating results brought in 36% and 60% to AGI’s consolidated revenues and net profit, respectively.

Emperador, the world’s largest brandy company and owner of the world’s 5th largest Scotch whisky manufacturer, realized a 21% leap in net profit to P3.3 billion from P2.7 billion a year ago, with revenues rising 8% to P19.5 billion from P18.1 billion a year ago. Net profit attributable to owners closed at P3.2 billion, up 18% year-on-year. In the second quarter, net profit soared 33% year-on-year to P1.6 billion from P1.2 billion while revenues rose 7% to P9.8 billion from P9.1 billion. These strong results were lifted up by the international business, especially the Scotch whisky segment. Revenues from the Scotch Whisky business in the interim period escalated 16% to P6.2 billion from P5.3 billion a year ago, with net profit skyrocketing 77% year-on-year to P890 million, propelled by the single malts. The Dalmore remains as the best seller, followed by single malt Jura and blended Whyte&Mackay. UK, Asia and Travel Retail were the top markets for the brands. Revenues from the Brandy business, which combined Philippines’ Emperador and Spain’s Grupo Emperador brands, on the other hand, grew 4% to P13.6 billion from P13.1 billion a year ago, realizing net profit rise of 8% year-on-year to P2.4 billion. The Spanish brandies (particularly Fundador, Terry Centenario, and Tres Cepas) sold predominantly in the Philippines, Spain, and UK. The local market posed to be a challenge as net profit remained at same level as a year ago. The Emperador group’s net profit margins went up to 17% from 15% as gross profit margins improved to 36% from 33% a year ago. For the first six months of the year, Emperador group accounted for 27% of AGI’s consolidated revenues and 26% of consolidated net profit.

Travellers, the owner and operator of Resorts World Manila (RWM), reaped quadrupled net profit of P1.7 billion during the first half of the year from its revenues of P12.6 billion (as classified at AGI level) which already expanded 12% year-on-year. Gaming revenues continued to improve quarter-on-quarter as it totaled P4.52 billion in the second quarter as compared to P4.48 billion and P4.3 billion in the previous two quarters. Blended win rate was 5.3% for the first half of the year. Non-gaming revenues climbed 4% year-on-year to P2.1 billion during the first half from P2.0 billion a year ago, and surged 18% year-on-year to P1.1 billion for the second quarter. Occupancy rate for the three hotels – Maxims Hotel, Marriott Hotel Manila and Holiday Inn Express Manila Newport City - averaged at 80%. Courtyard by Marriott opened in May 2018, and is the first international hotel in Western Visayas. A portion of the ground floor gaming area in the Grand Wing (RWM’s Phase 3 development) opened last May 9. The Grand Wing will be fully completed next year and is seen to enhance gaming capacity, add approximately 940 hotel rooms and more retail space. Travellers group contributed 17% and 13% to AGI’s consolidated revenues and consolidated net profit respectively.

GADC, the master franchise holder of McDonald’s quick-service restaurants brand in the Philippines, turned over P13.6 billion revenues, 11% higher than P12.3 billion a year ago, that escalated net profit by 25% to end at P742 million from P595 million a year ago. This is achieved from the opening of new restaurants, renovation of existing restaurants, new product launches and the continuous marketing and promotions of core menu. Fifty-nine new restaurants (twenty-one in 2018) were opened while seven (two in 2018) were closed from a year ago, bringing the total count to 585 restaurants at end of the interim period as compared to 533 a year ago (566 at end-2017). Company-owned and operated restaurants totaled 303 at end of current interim period as compared to 277 a year ago. Systemwide same-store sales grew 5.7% year-on-year. Happy Meals were bundled with the Justice League Action at the start of the year, followed by the Thomas & Friends and Barbie Fashionista, Hello Kitty & Yo-Kai Watch, and My Little Pony & Transformers during the year. New selections were added in the menu during the year: Longgadesal which was introduced in March, The New Spicy Chicken McDo in April, a new and improved McSpaghetti in May, and a new BBQ Mayo

Crispy Chicken Sandwich in June. Convenience channels continued to be accelerators for the business with the Drive-Thru, McDelivery, and dinner/midnight sales delivering double-digit growths. Gross profit margins improved to 22.6% from 22.5% a year ago weathering the impact of the new excise tax on sugar products. These operating results translated into 19% and 6% contribution to the consolidated revenues and net profit of AGI and subsidiaries, respectively.

Revenues for the first six months improved 9% to P73.2 billion as compared to P66.8 billion a year ago. Sales of goods (real estate, alcoholic beverages and snack products) at P38.0 billion expanded 8% compared to last year's P35.1 billion as a result of higher sales of Megaworld's condominium units and residential lots and Emperor's Scotch Whisky and Brandy products. Service revenues (gaming, hotel, quick-service restaurants, rentals) at P32.1 billion jumped 7% from P29.9 billion a year ago. The growth in hotel and rental operations of Megaworld and in the McDonald's stores of GADC countered the effect of slightly less gaming revenues of RWM.

Costs and expenses escalated to P57.0 billion which is 6% higher than P53.6 billion reported a year ago. Cost of goods sold and cost of services (which is a function of sales) moved at a slower pace of 3% and 7%, respectively, to P22.8 billion and P15.6 billion, respectively. Other operating expenses rose 12% year-on-year to P15.4 billion. Emperor had higher expenses this year in advertising and promotions, salaries and employee benefits and freight and handling. Megaworld had expended more on commissions, salaries and employee benefits plus higher depreciation.

Share in net profits of associates and joint ventures went up 9% to P147 million or P12 million higher this interim period from the take-up of share in net profit of Emperor's Spanish joint venture.

Finance and other income soared 74% to P2.9 billion or P1.2 billion higher than P1.7 billion a year ago from interest and dividend income earned during the period bolstered by the non-operating gain reported by Travellers. **Finance costs and other charges**, on the other hand, remained at same P3.2 billion level.

Income tax increased 18% this year or P575 million year-on-year from higher taxes expensed by Travellers, Megaworld and GADC this year.

Earnings before interest, taxes, depreciation and amortizations (EBITDA), computed as net profit before income taxes, interest expense, depreciation and amortizations and impairment provisions, and non-recurring loss/gains amounted to P20.3 billion this year as compared to P19.1 billion a year ago.

Net profit attributable to owners amounted to P7.8 billion from P6.7 billion a year ago.

Financial Condition

Consolidated total assets amounted to P583.5 billion at end of the interim period from P561.8 billion at beginning of year. The Group is strongly liquid with **current assets** exceeding **current liabilities** 2.82times. Current assets amounted to P271.5 billion while current liabilities amounted to P96.4 billion at end of the interim period.

Cash and cash equivalents shrank by P10.8 billion or 19% ending at P44.9 billion from P55.7 billion at the beginning of the year, primarily due to capital expenditures. Cash flows from operating, financing and investing activities during the period were presented in the interim consolidated statements of cash flows.

Financial assets at fair value through profit or loss soared 63% or P8.5 billion, due to additional marketable securities acquired during the quarter and marked-to-market valuation of financial assets.

Inventories swelled 8% or P7.2 billion increased fillings of Scotch whisky and Spanish brandy and real estate for-sale inventories.

Property development cost which represents the cost attributable to the development of various projects contracted by 10% or P2.3 billion as project units are completed by Megaworld group and transferred to inventory. Meanwhile, Megaworld launched new residential projects during the first half of the year: a tower of McKinley West in Fort Bonifacio; Chelsea Parkplace in Capital Town Pampanga; Bayshore Residential Resorts Phase 2 and Gentry Manor in Westside City; Tulip Gardens in Southwoods City; and The Fifth in Ortigas.

Non-current trade and other receivables increased by 9% or P3.2 billion attesting to Megaworld's robust business.

Advances to landowners and joint ventures decreased 13% or P755million mainly due to reclassification of account to land for future development.

Investments in and advances to associates and other related parties went up 5% or P438million mainly due to additional advances made by Megaworld to related parties.

Property, plant and equipment increased by P9.2 billion or 9%, primarily from the on-going construction of Grand Wing in RWM. Three luxury hotels in RWM – Sheraton Manila Hotel, Hilton Manila and Hotel Okura Manila - are expected to be fully operational by next year and would add approximately 940 rooms, new gaming area, retail spaces, and six basement parking decks. Also, Courtyard by Marriott opened in May in Western Visayas.

Investment property went up 5% or P4.0 billion, from project cost of malls, commercial centers and office buildings intended for lease.

Deferred tax assets climbed 10% or P81 million principally from temporary tax differences of MEG and GADC while **deferred tax liabilities** went down 6% or P709million from temporary tax differences of MEG and EMP.

Trade and other payables expanded 9% or P3.9 billion from dividends payable of MEG and trade payables of Travellers.

Current interest-bearing loans decelerated 22% or P7.3 billion and **non-current interest-bearing loans** accelerated 13% or P13.8 billion mainly due to shift from short-term to term loan by Travellers.

Current bonds payable was closed at end-period as Megaworld settled it during the interim period.

Other current liabilities shrank 8% or P1.9 billion from Megaworld's customer deposits and other accounts.

Non-current advances from related parties depleted 9% or P215 million due to payment of advances made by Megaworld during the interim period.

Retirement benefit obligation plunged 41% or P800 million from the actuarial gains booked in UK in the interim period.

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 4% or P7.4 billion from net profit share less cost of treasury shares during the interim period. Non-controlling interest grew 13% or P14.2 billion, primarily from the issuance of Megaworld perpetual bonds and net profit share for the interim period.

Liquidity and Capital Resources

The consolidated statements of financial position showed strong liquidity with current assets exceeding current liabilities 2.8times. Total-liabilities-to-equity ratio is at 1:1 while interest-bearing-debt-to-equity stands at 0.6:1. Assets exceeded liabilities 2times, and equity 2times as well.

In general, working capital was sourced internally from operations and debts during the period. The Group may also from time to time seek other sources of funding, if necessary, depending on its financing needs and market conditions.

<i>Amounts in Million Pesos</i>	30-Jun-18	31-Dec-17
Cash and equivalents	44,868	55,673
FVTPL/AFS financial assets	<u>22,436</u>	<u>13,948</u>
Total Available	67,304	69,621
Interest-bearing debt –current	25,369	42,677
Interest-bearing debt- noncurrent	147,142	132,662
Equity-linked securities- non- current*	<u>5,181</u>	<u>5,227</u>
Total Debt	177,692	180,566
Net cash (debt)	-110,388	-110,945
Available Cash and financial assets to interest-bearing debt	38%	39%
Interest-bearing debt to total equity	61%	66%

*Presented under Other Non-current liabilities

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 recognizes the various opportunities that will enhance the overall profitability of the group while maintaining established products and markets.

Emperador is best positioned to capitalize on premiumization opportunities, with its much bigger product portfolio and inventory of high quality brandy and Scotch whisky and greater global reach. The group is looking forward into an exciting integration.

Megaworld has a strong roster of townships nationwide that are backed by adequate land banking and carefully-thought masterplans. Its aggressive thrust to grow its investment properties has resulted in increased recurring income stream. It continues to innovate its real estate development as it introduced the ‘integrated lifestyle community’ and the ‘Township’ concepts. It intends to acquire more land and other investment properties.

Travellers sees a lot of potential for further growth, as it continues to expand its non-gaming facilities and offerings. It is looking forward to the completion of its Grand Wing in RWM which should boost its hotel and overall gaming capacity.

GADC will continue its brand promise of making delicious feel-good moments easy for every customer. It aims to sustain its business momentum as it targets more new store openings with continuous focus on operational excellence leveraging on its taste heritage and technology, espousing the role of family and community in delivering business while exemplifying good corporate citizenship.

The Group is optimistic about its infrastructure pursuit in line with the government’s aggressive push for infrastructure developments.

Others

There were no known material events subsequent to the end of the interim period that would have a material impact in the interim period.

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 Company's liquidity increasing or decreasing in any material way. The Company does not have nor anticipate having any cash flow or liquidity problems within the year. 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 Company, 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 of operations of the Group.

SIGNATURE

Pursuant to the requirements of Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Alliance Global Group, Inc.
Issuer

By:


DINA D.R. INTING
*Chief Financial Officer/
Corporate Information Officer/
Principal Accounting Officer*
August 9, 2018

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
June 30, 2018

	6/30/18	12/31/17
Current Assets	271,500,585,253	267,905,437,648
Quick assets	141,027,034,441	143,001,603,709
Total Assets	583,539,146,299	561,821,792,882
Current Liabilities	96,385,556,372	111,714,388,678
Total Liabilities	290,034,510,474	289,979,745,091
Debt	177,692,224,182	180,565,662,757
Stockholders' equity	293,504,635,825	271,842,047,791
Equity to controlling interest	169,938,672,650	162,561,368,090
Cash	44,868,227,824	55,672,960,546
EBT	16,131,021,069	28,122,341,976
Nonrecurring gain (loss):		
Gain on revaluation of investment in associate	-	-
Income (loss) from acquisition of a subsidiary	-	-
Gain on sale of investment in an associate	-	113,069,227
Gain on divestment of interest in subsidiary/EMP	-	-
Preacquisition income - deducted	-	-
Gain on deconsolidation of a subsidiary	-	-
Loss from casualty	955,725,047	(430,354,462)
Interest Expense	1,953,307,972	5,554,066,867
EBIT, excl non-recurring gain	17,128,603,994	33,993,694,078
NP	12,430,773,787	21,826,569,541
NP- controlling	7,856,875,563	14,931,132,276
Revenues	73,159,704,684	141,621,986,211
Current ratio	2.82	2.40
Quick ratio	1.46	1.28
Liabilities-to-equity ratio	0.99	1.07
Interest-bearing debt to total capitalization ratio	0.61	0.66
Asset -to-equity ratio	1.99	2.07
Interest rate coverage ratio	877%	612%
Net profit margin	16.99%	15.41%
Return on assets	2.13%	3.88%
Return on equity/investment	4.24%	8.03%
Return on equity/investment of owners	4.62%	9.18%

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.

Current ratio - computed as current assets divided by current liabilities

Quick ratio - computed a cash, marketable securities, accounts receivable divided by current liabilities.

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.

Liabilities-to-equity ratio - computed as total liabilities divided by stockholders' equity.

Interest-bearing debt to total capitalization ratio - computed as interest-bearing debt divided by interest-bearing debt + stockholder's equity attributable to controlling interest

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by stockholders' equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments. It is computed as profit before income tax and interest expense ("EBIT") divided by interest.

In the computation, non-recurring gain is excluded from EBIT.

PROFITABILITY RATIOS

Net margin - computed as net profit divided by revenues

Return on assets - net profit divided by total assets

Return on investment - net profit divided by total stockholders' equity

Return on investment of equity owners- net profit attributable to owners of the parent divided by equity attributable to owners of the parent company

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND DECEMBER 31, 2017
(Amounts in Philippine Pesos)

	<u>June 30, 2018</u> <u>(UNAUDITED)</u>	<u>December 31, 2017</u> <u>(AUDITED)</u>
<u>A S S E T S</u>		
CURRENT ASSETS		
Cash and cash equivalents	P 44,868,227,824	P 55,672,960,546
Trade and other receivables - net	74,174,439,557	73,812,169,152
Financial assets at fair value through profit or loss	21,984,367,060	13,516,474,011
Inventories - net	98,770,020,598	91,579,134,140
Property development costs	20,790,297,557	23,111,103,124
Other current assets	<u>10,913,232,657</u>	<u>10,213,596,675</u>
 Total Current Assets	 <u>271,500,585,253</u>	 <u>267,905,437,648</u>
NON-CURRENT ASSETS		
Trade and other receivables - net	37,968,150,249	34,775,424,756
Advances to landowners and joint ventures	5,234,035,255	5,988,892,593
Available-for-sale financial assets - net	451,362,248	431,645,289
Land for future development	25,779,636,619	25,469,878,369
Investments in and advances to associates and other related parties	9,103,720,577	8,665,615,820
Property, plant and equipment - net	107,215,006,850	98,026,484,627
Investment property - net	76,992,299,226	72,999,467,061
Intangible assets - net	43,068,463,323	41,637,659,271
Deferred tax assets - net	881,613,711	800,928,952
Other non-current assets	<u>5,344,272,988</u>	<u>5,120,358,496</u>
 Total Non-current Assets	 <u>312,038,561,046</u>	 <u>293,916,355,234</u>
 TOTAL ASSETS	 <u>P 583,539,146,299</u>	 <u>P 561,821,792,882</u>

	June 30, 2018	December 31, 2017
	(UNAUDITED)	(AUDITED)
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES		
Trade and other payables	P 49,571,240,926	P 45,648,707,657
Interest-bearing loans	25,368,786,647	32,700,476,157
Bonds payable	-	9,976,270,876
Income tax payable	920,132,229	959,058,840
Redeemable preferred shares	251,597,580	251,597,580
Other current liabilities	<u>20,273,798,990</u>	<u>22,178,277,568</u>
Total Current Liabilities	<u>96,385,556,372</u>	<u>111,714,388,678</u>
NON-CURRENT LIABILITIES		
Interest-bearing loans	122,068,916,064	108,273,087,030
Bonds payable	25,073,176,173	24,388,714,176
Advances from related parties	2,115,200,556	2,329,974,989
Retirement benefit obligation	1,143,221,189	1,943,453,287
Redeemable preferred shares	1,909,154,404	1,857,022,803
Deferred tax liabilities - net	12,825,361,722	12,116,387,446
Other non-current liabilities	<u>28,513,923,994</u>	<u>27,356,716,682</u>
Total Non-current Liabilities	<u>193,648,954,102</u>	<u>178,265,356,413</u>
Total Liabilities	<u>290,034,510,474</u>	<u>289,979,745,091</u>
EQUITY		
Equity attributable to owners of the parent company	169,987,359,153	162,574,974,361
Non-controlling interest	<u>123,517,276,672</u>	<u>109,267,073,430</u>
Total Equity	<u>293,504,635,825</u>	<u>271,842,047,791</u>
TOTAL LIABILITIES AND EQUITY	P <u>583,539,146,299</u>	P <u>561,821,792,882</u>

See Notes to Interim Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(UNAUDITED)

	2018		2017	
	Year-to-Date	Quarter	Year-to-Date	Quarter
REVENUES				
Sale of goods	P 37,954,855,473	P 19,515,360,062	P 35,106,161,615	P 17,521,281,750
Rendering of services	32,114,895,532	16,261,500,778	29,915,222,034	14,427,945,750
Share in net profits of associates and joint ventures - net	147,319,871	30,236,224	134,789,346	121,007,427
Finance and other income	2,942,633,808	2,049,673,156	1,686,953,020	1,070,214,610
	<u>73,159,704,684</u>	<u>37,856,770,220</u>	<u>66,843,126,015</u>	<u>33,140,449,537</u>
COSTS AND EXPENSES				
Cost of goods sold	22,832,396,571	11,418,218,397	22,185,277,524	10,823,015,644
Cost of services	15,587,818,617	7,936,126,809	14,586,650,204	7,290,895,139
Other operating expenses	15,361,408,242	7,879,487,950	13,666,042,538	6,695,543,029
Finance costs and other charges	3,247,060,185	1,365,383,367	3,196,034,562	1,864,513,291
	<u>57,028,683,615</u>	<u>28,599,216,523</u>	<u>53,634,004,828</u>	<u>26,673,967,103</u>
PROFIT BEFORE TAX	<u>16,131,021,069</u>	<u>9,257,553,697</u>	<u>13,209,121,187</u>	<u>6,466,482,434</u>
TAX EXPENSE	<u>3,700,247,282</u>	<u>2,270,687,741</u>	<u>3,125,311,735</u>	<u>1,763,817,942</u>
NET PROFIT	<u>12,430,773,787</u>	<u>6,986,865,956</u>	<u>10,083,809,452</u>	<u>4,702,664,492</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains on remeasurement of retirement benefit obligation	542,745,300	481,730,340	344,777,477	262,416,386
Items that will be reclassified subsequently to profit or loss				
Translation adjustments	1,696,594,122	(269,487,074)	(197,821,756)	(166,778,743)
Net unrealized fair value gain on cash flow hedge	177,119,803	4,909,170	-	-
Net unrealized fair value gains (losses) on available-for-sale financial assets	(64,450,325)	18,162,183	28,226,274	24,220,990
	<u>1,809,263,600</u>	<u>(246,415,721)</u>	<u>(169,595,482)</u>	<u>(142,557,753)</u>
TOTAL COMPREHENSIVE INCOME	<u>P 14,782,782,687</u>	<u>P 7,222,180,575</u>	<u>P 10,258,991,447</u>	<u>P 4,822,523,125</u>
Net profit attributable to:				
Owners of the parent company	P 7,856,875,563	P 4,357,413,548	P 6,719,427,993	P 3,152,700,526
Non-controlling interest	4,573,898,224	2,629,452,408	3,364,381,459	1,549,963,966
	<u>P 12,430,773,787</u>	<u>P 6,986,865,956</u>	<u>P 10,083,809,452</u>	<u>P 4,702,664,492</u>
Total comprehensive income attributable to:				
Owners of the parent company	P 9,524,725,122	P 4,380,759,624	P 6,774,396,127	P 3,125,418,175
Non-controlling interest	5,258,057,565	2,841,420,951	3,484,595,320	1,697,104,950
	<u>P 14,782,782,687</u>	<u>P 7,222,180,575</u>	<u>P 10,258,991,447</u>	<u>P 4,822,523,125</u>
Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company:				
Basic	<u>P 0.7893</u>	<u>P 0.4378</u>	<u>P 0.6622</u>	<u>P 0.3107</u>
Diluted	<u>P 0.7877</u>	<u>P 0.4368</u>	<u>P 0.6554</u>	<u>P 0.3075</u>

See Notes to Interim Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(UNAUDITED)

	Attributable to Owners of the Parent Company														
	Capital Stock	Additional Paid-in Capital	Treasury Shares – at cost	Net Actuarial Losses on Retirement Benefit Plan	Net Fair Value Gains (Losses) on Available-for-Sale Financial Assets	Accumulated Translation Adjustments	Revaluation Reserves on Cash Flow Hedge	Dilution Gain	Share Options	Other Reserves	Retained Earnings			Noncontrolling Interest	Total Equity
											Appropriated	Unappropriated	Total		
Balance at January 1, 2018	P 10,269,827,979	P 34,395,380,979	(P 1,566,146,040)	(P 36,537,800)	P 199,947,413	(P 3,761,144,930)	(P 30,896,586)	P 20,039,138,973	P 744,676,052	P -	P 2,748,722,000	P 99,572,006,321	P 162,574,974,361	P 109,267,073,430	P 271,842,047,791
Transactions with owners:															
Acquisition of treasury shares	-	-	(2,108,532,422)	-	-	-	-	-	-	-	-	-	(2,108,532,422)	-	(2,108,532,422)
Issuance of perpetual securities	-	-	-	-	-	-	-	-	-	-	-	-	-	10,315,886,577	10,315,886,577
Share-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	11,631,331	11,631,331
Change in percentage ownership	-	-	-	-	-	-	-	-	-	-	-	-	-	(903,711,150)	(903,711,150)
Dividend from investee	-	-	-	-	-	-	-	-	-	-	-	-	-	(428,786,081)	(428,786,081)
Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,875,000)	(2,875,000)
	-	-	(2,108,532,422)	-	-	-	-	-	-	-	-	-	(2,108,532,422)	8,992,145,677	6,883,613,255
Reclassification adjustment	-	-	-	-	-	-	-	-	9,689,175	-	(9,689,175)	-	-	-	-
Deductions during the year	-	-	-	-	-	-	-	-	(37,776,804)	-	(37,776,804)	-	(37,776,804)	-	(37,776,804)
Additions during the year	-	-	-	-	-	-	-	-	33,968,896	-	33,968,896	-	33,968,896	-	33,968,896
Total comprehensive income	-	-	-	446,190,911	(12,863,077)	1,115,408,657	119,113,068	-	-	-	-	7,856,875,563	9,524,725,122	5,258,057,565	14,782,782,687
Balance at June 30, 2018	P 10,269,827,979	P 34,395,380,979	(P 3,674,678,462)	P 409,653,111	P 187,084,336	(P 2,645,736,273)	P 88,216,482	P 20,039,138,973	P 744,676,052	P 5,881,267	P 2,748,722,000	P 107,419,192,709	P 169,987,359,153	P 123,517,276,672	P 293,504,635,825
Balance at January 1, 2017	P 10,269,827,979	P 34,395,380,979	(P 936,157,074)	(P 585,429,112)	P 477,744,138	(P 4,595,890,425)	p -	P 19,980,402,684	P 744,676,052	P -	P 2,532,837,400	P 84,856,758,645	P 147,140,151,266	P 98,963,520,182	P 246,103,671,448
Transactions with owners:															
Share-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	15,286,551	15,286,551
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	1,335,490,134	1,335,490,134
Change in percentage ownership	-	-	-	-	-	-	-	-	-	-	-	-	(19,506,901)	(19,506,901)	
Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,875,000)	(2,875,000)
Dividends from Investees	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,718,082,659)	(1,718,082,659)
	-	-	-	-	-	-	-	-	-	-	-	-	-	(389,687,875)	(389,687,875)
Appropriation of retained earnings	-	-	-	-	-	-	-	-	-	-	1,996,387,400	(1,996,387,400)	-	-	-
Reversal of appropriation	-	-	-	-	-	-	-	-	-	-	(2,084,587,400)	2,084,587,400	-	-	-
Total comprehensive income	-	-	-	281,833,652	(70,721,307)	(156,144,211)	-	-	-	-	-	6,719,427,993	6,774,396,127	3,484,595,320	10,258,991,447
Balance at June 30, 2017	P 10,269,827,979	P 34,395,380,979	(P 936,157,074)	(P 303,595,460)	P 407,022,831	(P 4,752,034,636)	P -	P 19,980,402,684	P 744,676,052	P -	P 2,444,637,400	P 91,664,386,638	P 153,914,547,393	P 102,058,427,627	P 255,972,975,020

See Notes to Interim Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(UNAUDITED)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	P 16,131,021,069	P 13,209,121,187
Adjustments for:		
Depreciation and amortization	3,151,723,065	2,802,297,023
Interest expense	1,953,307,972	2,925,068,971
Unrealized foreign currency losses - net	1,014,077,230	165,057,242
Interest income	(935,092,069)	(895,713,486)
Share in net profits of associates and joint ventures	(147,319,871)	(134,789,346)
Gain on disposal of property, plant and equipment and investment property	(60,950,308)	(17,622,219)
Dividend income	(42,061,134)	(12,249,789)
Fair value losses (gains) - net	31,358,575	(3,277,453)
Stock option benefit expense	11,631,331	15,286,551
Losses from property damages	-	158,829,931
Gain on reversal of impairment losses	-	(18,802,423)
Unrealized loss on interest rate swap	-	16,533,829
Operating profit before working capital changes	21,107,695,860	18,209,740,018
Increase in trade and other receivables	(3,041,295,186)	(5,302,246,472)
Increase in financial assets at fair value through profit or loss	(7,995,822,495)	(357,479,171)
Increase in inventories	(5,029,691,413)	(2,448,988,030)
Increase (decrease) in trade and other payables	4,159,907,236	(2,253,200,806)
Increase in property development costs	(146,235,974)	(613,154,830)
Increase in other current assets	(1,501,094,412)	(1,828,355,194)
Increase (decrease) in retirement benefit obligation	16,186,633	(142,700,975)
Increase (decrease) in other current liabilities	(1,727,358,775)	1,253,201,426
Increase in other non-current liabilities	1,111,438,092	2,062,039,562
Cash generated from operations	6,953,729,566	8,578,855,528
Cash paid for taxes	(2,116,227,360)	(2,712,648,036)
Net Cash From Operating Activities	4,837,502,206	5,866,207,492
<i>Balance carried forward</i>	P 4,837,502,206	P 5,866,207,492

	<u>2018</u>	<u>2017</u>
<i>Balance brought forward</i>	P 4,837,502,206	P 5,866,207,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment and investment property	(11,512,438,455)	(11,555,684,621)
Land for future development	(193,767,436)	(478,924,164)
Intangible assets	(25,767,899)	-
Subsidiaries, associates and business units	-	(213,859,496)
Proceeds from:		
Disposal of property, plant and equipment and investment property	205,388,039	1,325,966,095
Collections of advances from associates and other related parties	-	225,151,521
Collection from (advances to) landowners, joint ventures and other related parties	192,390,094	(50,900,944)
Interest received	612,940,894	647,524,757
Decrease (increase) in other non-current assets	(344,086,302)	100,478,414
Additional advances granted to associates	(302,129,228)	(304,271,003)
Cash dividends received	<u>139,553,646</u>	<u>95,268,969</u>
Net Cash Used in Investing Activities	(<u>11,227,916,647</u>)	(<u>10,209,250,472</u>)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of perpetual bonds	10,315,886,577	-
Payment of interest-bearing loans and bonds	(16,031,845,133)	(8,123,692,323)
Proceeds from interest-bearing loans and bonds	8,481,642,448	55,676,669,428
Interest paid	(3,821,762,647)	(3,986,688,717)
Acquisition of treasury shares	(2,108,532,422)	-
Buyback of shares from non-controlling interest by a subsidiary	(707,701,399)	(4,041,468)
Dividends paid	(428,786,081)	(866,705,114)
Advances granted and paid to related parties	(279,274,982)	(275,848,812)
Advances collected and received from related parties	168,930,358	555,904,923
Redemption of preferred shares	(2,875,000)	(2,875,000)
Payments of derivative liabilities	<u>-</u>	<u>(175,310,632)</u>
Net Cash From (Used in) Financing Activities	(<u>4,414,318,281</u>)	<u>42,797,412,285</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,804,732,722)	38,454,369,305
CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARY	-	4,014,630
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>55,672,960,546</u>	<u>48,672,938,017</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P <u>44,868,227,824</u>	P <u>87,131,321,952</u>

Supplemental Information on Non-cash Investing and Financing Activities:

In the normal course of business, the Group enters into non-cash activities which are not reflected in the cash flows, including the following: (a) exchanges or purchases or sale on account of real estate and other assets that remain unpaid at end of period; (b) reclassifications or transfers of property as it goes through its various stages of development, such as incurred costs from Land for Future Development to Property Development Costs or to Investment Property or to Inventories; (c) borrowing costs capitalized under Property Development Costs or Construction in Progress; (d) prior period's deposits applied during the period.

See Notes to Interim Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(With Comparative Figures as of December 31, 2017)
(Amounts in Philippine Pesos)
(Unaudited)

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, associates and joint ventures (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 Note 4):

Subsidiaries/Associates/Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI	
			June 2018	December 2017
Subsidiaries				
Megaworld and subsidiaries				
Megaworld Corporation	Megaworld	(a)	67%	67%
Megaworld Resort Estates, Inc.		(b)	83%	83%
Townsquare Development, Inc.			50%	50%
Golden Panda-ATI Realty Corporation			50%	50%
Sonoma Premiere Land, Inc.		(c), (d)	73%	73%
Arcovia Properties, Inc.			67%	67%
Belmont Newport Luxury Hotels, Inc.			67%	67%
Davao Park District Holdings Inc.			67%	67%
Eastwood Cyber One Corporation			67%	67%
Global One Hotel Group, Inc.			67%	67%
Global One Integrated Business Services, Inc.			67%	67%
Landmark Seaside Properties, Inc.			67%	67%
Luxury Global Hotels and Leisures, Inc.			67%	67%
Luxury Global Malls, Inc.			67%	67%
Mactan Oceanview Properties and Holdings, Inc.		(d)	67%	67%
Megaworld Cayman Islands, Inc.		(e), (d)	67%	67%
Megaworld Cebu Properties, Inc.			67%	67%
Megaworld Land, Inc.			67%	67%
Citywalk Building Administration, Inc.			67%	67%
Forbestown Commercial Center Administration, Inc.			67%	67%
Ilo-ilo Center Mall Administration, Inc.			67%	67%
Newtown Commercial Center Administration, Inc.			67%	67%
Paseo Center Building Administration, Inc.			67%	67%
San Lorenzo Place Commercial Center Administration Inc.			67%	67%
Uptown Commercial Center Administration, Inc.			67%	67%
Valley Peaks Property Management, Inc.			67%	67%
Southwoods Lifestyle Mall Management, Inc.	SLMMI	(f)	67%	-
Megaworld Newport Property Holdings, Inc.			67%	67%
Oceantown Properties, Inc.			67%	67%
Piedmont Property Ventures, Inc.		(d)	67%	67%

Subsidiaries/Associates/Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI	
			June 2018	December 2017
Subsidiaries				
Megaworld and subsidiaries				
Prestige Hotels and Resorts, Inc.			67%	67%
Richmonde Hotel Group International Ltd.		(g)	67%	67%
San Vicente Coast, Inc.		(d)	67%	67%
Stonehaven Land, Inc.		(d)	67%	67%
Streamwood Property, Inc.		(d)	67%	67%
Suntrust Properties, Inc.			67%	67%
Suntrust Ecotown Developers, Inc.			67%	67%
Governor's Hills Science School, Inc.			67%	67%
Sunrays Properties Management, Inc.			67%	67%
Suntrust One Shanata, Inc.		(d)	67%	67%
Suntrust Two Shanata, Inc.		(d)	67%	67%
Megaworld Bacolod Properties, Inc.			62%	62%
Southwoods Mall Inc.			61%	61%
Twin Lakes Corp.	TLC	(h)	61%	56%
Megaworld Global-Estate, Inc.		(i)	60%	60%
Manila Bayshore Property Holdings, Inc.		(j)	57%	57%
Global-Estate Resorts, Inc.	GERI	(k)	55%	55%
Fil-Estate Properties, Inc.			55%	55%
Aklan Holdings Inc.		(d)	55%	55%
Blu Sky Airways, Inc.		(d)	55%	55%
Fil-Estate Subic Development Corp.		(d)	55%	55%
Fil-Power Construction Equipment Leasing Corp.		(d)	55%	55%
Golden Sun Airways, Inc.		(d)	55%	55%
La Compañía De Sta. Barbara, Inc.			55%	55%
MCX Corporation		(d)	55%	55%
Pioneer L-5 Realty Corp.		(d)	55%	55%
Prime Airways, Inc.		(d)	55%	55%
Sto. Domingo Place Development Corp.		(d)	55%	55%
Fil-Power Concrete Blocks Corp.		(d)	55%	55%
Fil-Estate Industrial Park, Inc.		(d)	44%	44%
Sherwood Hills Development Inc.			30%	30%
Fil-Estate Golf and Development, Inc.			55%	55%
Golforce, Inc.			55%	55%
Southwoods Ecocentrum Corp.			33%	33%
Philippine Aquatic Leisure Corp.		(d)	33%	33%
Fil-Estate Urban Development Corp.			55%	55%
Novo Sierra Holdings Corp.		(d)	55%	55%
Global Homes and Communities, Inc.		(d)	55%	55%
Oceanfront Properties, Inc.			28%	28%
Empire East Land Holdings, Inc.	EELHI		55%	55%
Eastwood Property Holdings, Inc.			55%	55%
Valle Verde Properties Inc.		(d)	55%	55%
Empire East Communities, Inc.		(d)	55%	55%
Sherman Oak Holdings, Inc.		(d)	55%	55%
20th Century Nylon Shirt, Inc.		(d)	55%	55%
Laguna Bel-Air School, Inc.			40%	40%
Megaworld Central Properties, Inc.			51%	51%
Megaworld Capital Town Inc.			51%	51%
Soho Cafe and Restaurant Group, Inc.			50%	50%
La Fuerza, Inc.			45%	45%
Megaworld-Daewoo Corporation			40%	40%
Northwin Properties, Inc.		(d)	40%	40%
Gilmore Property Marketing Associates Inc.		(d)	35%	35%
Megaworld Globus Asia, Inc.			34%	34%
Integrated Town Management Corporation (formerly Philippine International Properties, Inc.)			34%	34%
Maple Grove Land, Inc.		(d)	34%	34%
Emperador and subsidiaries				
Emperador Inc.	EMP or Emperador		82%	82%
Emperador Distillers, Inc.	EDI		82%	82%
Alcazar De Bana Holdings Company, Inc.			82%	82%
ProGreen AgriCorp, Inc.			82%	82%

Subsidiaries/Associates/Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI	
			June 2018	December 2017
Subsidiaries				
Emperador and subsidiaries				
South Point Science Park, Inc.			82%	82%
Anglo Watsons Glass, Inc.			82%	82%
Cocos Vodka Distillers Philippines, Inc.			82%	82%
The Bar Beverage, Inc.			82%	82%
Tradewind Estates, Inc.			82%	82%
Zabana Rum, Inc.			82%	82%
Emperador International Ltd.	EIL	(g)	82%	82%
Emperador Europe SARL	EES	(l)	82%	82%
Emperador Asia Pte Ltd.	EA	(l)	82%	82%
Grupo Emperador Spain, S.A.U.	GES	(l)	82%	82%
Bodega San Bruno, S.L.	BSB	(l)	82%	82%
Bodegas Fundador SLU	BFS	(l)	82%	82%
Destilados de la Mancha S.L.			82%	82%
Complejo Bodeguero San Patricio, SLU	CBSP	(l)	82%	82%
Emperador Gestion S.L.	GEG	(l)	82%	82%
Domecq Bodega Las Copas, S.L.	DBLC	(m)	41%	41%
Pedro Domecq S.A. de C.V.	PDSC	(m)	41%	41%
Bodega Domecq S.A. de C.V.	BDSC	(m)	41%	41%
Gonzales Byass de Mexico S.A. de C.V.	GBMS	(m)	41%	41%
Emperador Holdings (GB) Limited	EGB	(l)	82%	82%
Emperador UK Limited	EUK	(l)	82%	82%
Whyte and Mackay Group Limited	WMG	(l)	82%	82%
Whyte and Mackay Limited	WML	(l)	82%	82%
Whyte and Mackay Warehousing Ltd.	WMWL	(l)	82%	82%
GADC and subsidiaries				
Golden Arches Development Corporation	GADC		49%	49%
Golden Arches Realty Corporation			49%	49%
Clark Mac Enterprises, Inc.			49%	49%
Advance Food Concepts Manufacturing, Inc.			49%	49%
GY Alliance Concepts, Inc.			19%	19%
Molino First Golden Foods, Inc.			26%	26%
Red Asian Food Solutions			37%	37%
Golden Laoag Foods Corporation			38%	38%
Davao City Food Industries, Inc.			37%	37%
First Golden Laoag Ventures, Inc.			34%	34%
Retiro Golden Foods, Inc.			34%	34%
McDonald's Anonas City Center			34%	34%
McDonald's Puregold Taguig			29%	29%
Golden City Food Industries, Inc.			29%	29%
McDonald's Bonifacio Global City			27%	27%
Travellers and subsidiaries				
Travellers International Hotel Group, Inc.	Travellers	(n)	47%	47%
APEC Assets Limited		(g)	47%	47%
Brightleisure Management, Inc.			47%	47%
Deluxe Hotels and Recreation, Inc.		(d)	47%	47%
Entertainment City Integrated Resorts & Leisure, Inc.		(d)	47%	47%
Grand Integrated Hotels and Recreation, Inc.			47%	47%
Grandservices, Inc.			47%	47%
Grandventure Management Services, Inc.			47%	47%
Lucky Star Hotels and Recreation, Inc.		(d)	47%	47%
Majestic Sunrise Leisure & Recreation, Inc.		(d)	47%	47%
Netdeals, Inc.	NDI	(o)	47%	47%
Newport Star Lifestyle, Inc.		(d)	47%	47%
Royal Bayshore Hotels & Amusement, Inc.		(d)	47%	47%
FHTC Entertainment & Production, Inc.	FHTC		47%	47%
Bright Pelican Leisure and Recreation, Inc.		(d)	47%	47%
Golden Peak Leisure and Recreation, Inc.		(s)	47%	47%

Subsidiaries/Associates/Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI	
			June 2018	December 2017
Subsidiaries				
Travellers and subsidiaries				
Westside City Resorts World Inc.		(p), (d)	47%	47%
Purple Flamingos Amusement and Leisure Corporation		(d)	47%	47%
Red Falcon Amusement and Leisure Corporation		(d)	47%	47%
Agile Fox Amusement and Leisure Corporation	AFALC	(d)	47%	47%
Fortune Pearl Leisure and Recreation Inc.	FPLRI	(q), (d)	47%	-
Aquamarine Delphinium Leisure and Recreation Corporation		(d)	47%	47%
Brilliant Apex Hotels and Leisure Corporation		(d)	47%	47%
Coral Primrose Leisure and Recreation Corporation		(d)	47%	47%
Lucky Panther Amusement and Leisure Corporation		(d)	47%	47%
Luminescent Vertex Hotels and Leisure Corporation		(d)	47%	47%
Magenta Centaurus Amusement and Leisure Corporation		(d)	47%	47%
Sapphire Carnation Leisure and Recreation Corporation		(d)	47%	47%
Scarlet Milky Way Amusement and Leisure Corporation		(d)	47%	47%
Sparkling Summit Hotels and Leisure Corporation		(d)	47%	47%
Valiant Leopard Amusement and Leisure Corporation		(d)	47%	47%
Vermillion Triangulum Amusement and Leisure Corporation		(d)	47%	47%
Westside Theatre Inc.		(d)	47%	47%
Corporate and Others				
Alliance Global Brands, Inc.			100%	100%
McKester Pik-nik International Limited	MPIL	(g)	100%	100%
Great American Foods, Inc.		(r)	100%	100%
New Town Land Partners, Inc.	N'TLPI		100%	100%
Alliance Global Group Cayman Islands, Inc.		(c)	100%	100%
Dew Dreams International, Inc.			100%	100%
Dew Dreams International, Ltd.		(g)	100%	100%
First Centro, Inc.	FCI		100%	100%
ERA Real Estate Exchange, Inc.			100%	100%
Oceanic Realty Group International, Inc.			100%	100%
Greenspring Investment Holdings Properties Ltd.		(g)	100%	100%
Infracorp Development, Inc.			100%	100%
Shiok Success International, Inc.			100%	100%
Shiok Success International, Ltd.		(g)	100%	100%
Travellers Group Ltd.		(g)	100%	100%
Venezia Universal Ltd.		(g)	100%	100%
Adams Properties, Inc.	Adams		60%	60%
Associates				
First Premiere Arches Restaurant Inc.			49%	49%
Bonifacio West Development Corporation			31%	31%
Suntrust Home Developers, Inc.	SHDI		31%	31%
First Oceanic Property Management, Inc.		(s)	31%	31%
Citylink Coach Services, Inc.		(s)	31%	31%
Palm Tree Holdings and Development Corporation		(d)	27%	27%
Fil-Estate Network, Inc.			11%	11%
Fil-Estate Sales, Inc.			11%	11%
Fil-Estate Realty and Sales Associates, Inc.			11%	11%
Fil-Estate Realty Corp.			11%	11%

Subsidiaries/Associates/Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI	
			June 2018	December 2017
Associates				
Pacific Coast Mega City, Inc.			11%	11%
Boracay Newcoast Hotel Group, Inc.			8%	8%
Nasugbu Properties, Inc.			8%	8%
Joint Ventures				
Front Row Theatre Management, Inc.		(t)	50%	50%
Bodegas Las Copas, S.L.	BLC	(u)	41%	41%

Explanatory notes:

- (a) AGI's effective ownership interest is derived from its 44% direct ownership, 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 through 60% and 40% direct ownership of EELHI and FCI, respectively.
- (d) Subsidiaries and associate which have not yet started commercial operations as of June 30, 2018.
- (e) Foreign subsidiaries operating under the laws of the Cayman Islands.
- (f) New subsidiary in 2018.
- (g) Foreign subsidiaries operating under the Business Companies Act of the British Virgin Islands.
- (h) GERI subscribed to additional common shares in TLC resulting to increase in effective ownership.
- (i) A subsidiary through 60% and 40% direct ownership of GERI and Megaworld, respectively.
- (j) A subsidiary through 50/50 ownership of Travellers and Megaworld.
- (k) AGI's effective ownership interest represents its indirect holdings through Megaworld, which owns 82% of GERI.
- (l) Subsidiaries under EIL. EA is operating under the laws of Singapore while GES and its subsidiaries, BSB, BFS, GEG, CBSP and DBLC, are operating under the laws of Spain. EES is operating under the laws of Luxembourg. EGB [the ultimate United Kingdom (UK) parent] is operating under the laws of England and Wales. EUK, WMG, WML and WMWL are operating under the laws of Scotland. EA, EES and EGB are direct subsidiaries of EIL.
- (m) DBLC is operating under the laws of Spain and its subsidiaries, PDSC, BDSC and GBMS, are operating under the laws of Mexico.
- (n) Travellers' common shares are directly owned 15% by AGI, 3% by FCI, 2% by Megaworld, 46% by Adams, 24% by Genting Hongkong Limited (GHL) and 10% by the public.
- (o) NDI has ceased operations as of June 30, 2018.
- (p) AGI's effective ownership is through 1% direct ownership, 45% through 95% ownership of Travellers, and 1% through ownership of other subsidiaries within the Group (i.e., FCI, Megaworld and Adams).
- (q) A new subsidiary through AFALC who owns 100% of FPLRI.
- (r) Foreign subsidiary of MPIL operating under the laws of United States of America.
- (s) Subsidiaries of SHDI, an associate of Megaworld.
- (t) A joint venture through FHTC.
- (u) A foreign joint venture under GES and operating under the laws of Spain.

The Company, its subsidiaries, associates and joint ventures were incorporated and operating in the Philippines, except for such foreign subsidiaries and joint venture as identified in the preceding table (see explanatory notes e, g, l, m, r and r above).

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 August 9, 2018, the release of the interim consolidated financial statements (ICFS) of the Group as of and for the six months ended June 30, 2018 (including the comparative financial statements as of December 31, 2017 and for the six months ended June 30, 2017).

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these ICFS are consistent with those applied in the audited consolidated financial statements (ACFS) as of and for the year ended December 31, 2017 except for the application of standards that became effective on January 1, 2018 (see Note 2.2).

2.1 Basis of Preparation of Interim Consolidated Financial Statements

These ICFS have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the Group's ACFS as of and for the year ended December 31, 2017.

The ICFS 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 ICFS of the Group are measured using the Company's functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

The presentation of the ICFS is consistent with the most recent ACFS presentation, except for the amendments introduced by the new accounting standards mentioned in Note 2.2. The consolidated statement of comprehensive income for the six months ended June 30, 2017 reflect certain reclassifications, which have no effect on previously reported net profit, to conform with the current period presentation.

The Group presents all items of income and expense in a single consolidated statement of comprehensive income.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to the Group

In 2018, the Group adopted for the first time the following new PFRS, amendments, interpretation and annual improvements to existing standards that are relevant to the Group and effective for financial statements with annual periods beginning on or after January 1, 2018:

PAS 40 (Amendment)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Classification and Measurement of Share-based Payment
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration
Annual Improvements	:	Annual Improvements to PFRS (2014 – 2016 cycle)

PFRS 9 (2014), *Financial Instruments*, and PFRS 15, *Revenue from Contracts with Customers*, are effective for financial statements with annual periods beginning on or after January 1, 2018.

(b) *Effective Subsequent to 2018 but are not Adopted Early*

There are new PFRS, amendments, interpretation and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the Financial Reporting Standards Council. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

PAS 28	:	Investment in Associates – Long-term Interest in Associates and Joint Venture
PFRS 9 (Amendment)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
IFRIC 23	:	Uncertainty over Income Tax Treatments
PFRS 10 and PAS 28 (Amendments)	:	Consolidated Financial Statements, and Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture
Annual Improvements	:	Annual Improvements to PFRS (2015 – 2017 cycle)

Management is currently assessing the impact of these standards and interpretation on the Group's consolidated financial statements and it will conduct a comprehensive study of the potential impact of these standards prior to their mandatory adoption date to assess the impact of all changes.

3. JUDGMENTS AND ESTIMATES

The preparation of the Group's ICFS in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the policies applied and amounts reported in the ICFS and related explanatory notes. Judgments and estimates are based on historical experience and management's best knowledge of current events and actions, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates. There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current interim period.

The judgments, estimates and assumptions applied in the ICFS, including the key sources of estimation uncertainty, were the same as those applied in the ACFS for the year ended December 31, 2017.

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. 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.
- (b) 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.
- (c) 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.
- (d) 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.

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.

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 six months ended June 30, 2018 and 2017.

	For six months ended June 30, 2018 (Unaudited)				
	<u>Megaworld</u>	<u>Travellers</u>	<u>GADC</u>	<u>Emperador</u>	<u>Total</u>
REVENUES					
Sales to external customers	P 25,748,680,898	P 11,048,704,903	P 13,521,579,634	P 19,164,487,962	P 69,483,453,397
Intersegment sales	87,350,638	44,478,543	-	-	131,829,181
Finance and other revenues	<u>935,137,485</u>	<u>1,536,779,799</u>	<u>81,976,831</u>	<u>310,049,857</u>	<u>2,863,943,972</u>
Segment revenues	26,771,169,021	12,629,963,245	13,603,556,465	19,474,537,819	72,479,226,550
Cost of sales and expenses excluding depreciation and amortization	(<u>14,035,275,772</u>)	(<u>9,429,607,975</u>)	(<u>11,785,698,450</u>)	(<u>14,862,392,235</u>)	(<u>50,112,974,432</u>)
	12,735,893,249	3,200,355,270	1,817,858,015	4,612,145,584	22,366,252,118
Depreciation and amortization	(<u>1,060,590,763</u>)	(<u>1,027,999,896</u>)	(<u>571,390,340</u>)	(<u>463,546,304</u>)	(<u>3,123,527,303</u>)
Finance cost and other charges	(<u>1,887,639,172</u>)	<u>80,914,862</u>	(<u>118,474,171</u>)	(<u>356,301,772</u>)	(<u>2,281,500,253</u>)
Profit before tax	9,787,663,314	2,253,270,236	1,127,993,504	3,792,297,508	16,961,224,562
Tax expense	(<u>2,282,179,249</u>)	(<u>536,716,163</u>)	(<u>345,226,549</u>)	(<u>512,521,916</u>)	(<u>3,676,643,877</u>)
SEGMENT PROFIT	<u>P 7,505,484,065</u>	<u>P 1,716,554,073</u>	<u>P 782,766,955</u>	<u>P 3,279,775,592</u>	<u>P 13,284,580,685</u>
SEGMENT ASSETS AND LIABILITIES					
Segment assets	P 322,842,516,431	P 92,412,272,678	P 18,009,909,513	P 114,485,510,406	P 547,750,209,028
Segment liabilities	128,687,644,449	48,559,802,136	10,559,727,962	52,095,654,831	239,902,829,378

	For six months ended June 30, 2017 (Unaudited)				
	<u>Megaworld</u>	<u>Travellers</u>	<u>GADC</u>	<u>Emperador</u>	<u>Total</u>
REVENUES					
Sales to external customers	P 23,297,641,599	P 11,223,130,233	P 12,153,629,565	P 17,805,997,243	P 64,480,398,640
Intersegment sales	24,494,897	(10,150,507)	-	-	14,344,390
Finance and other revenues	<u>646,255,657</u>	<u>18,021,389</u>	<u>134,488,795</u>	<u>208,489,317</u>	<u>1,007,255,158</u>
Segment revenues	23,968,392,153	11,231,001,115	12,288,118,360	18,014,486,560	65,501,998,188
Cost of sales and expenses excluding depreciation and amortization	(<u>13,549,526,008</u>)	(<u>9,013,738,285</u>)	(<u>10,713,139,897</u>)	(<u>13,961,160,294</u>)	(<u>47,237,564,484</u>)
	10,418,866,145	2,217,262,830	1,574,978,463	4,053,326,266	18,264,433,704
Depreciation and amortization	(820,704,233)	(954,570,977)	(588,105,229)	(376,535,860)	(2,739,916,299)
Finance cost and other charges	(<u>853,301,438</u>)	(<u>674,681,974</u>)	(<u>89,301,969</u>)	(<u>412,249,006</u>)	(<u>2,029,534,387</u>)
Profit before tax	8,744,860,474	588,009,879	897,571,265	3,264,541,400	13,494,938,018
Tax expense	(<u>2,055,926,930</u>)	(<u>193,223,145</u>)	(<u>302,518,749</u>)	(<u>564,268,140</u>)	(<u>3,115,936,964</u>)
SEGMENT PROFIT	<u>P 6,688,933,544</u>	<u>P 394,786,734</u>	<u>P 595,052,516</u>	<u>P 2,700,273,260</u>	<u>P 10,379,046,054</u>

The following presents the segment assets and liabilities of the Group as of December 31, 2017 (audited):

SEGMENT ASSETS AND LIABILITIES					
Segment assets	P 313,882,958,265	P 84,365,114,201	P 17,013,429,201	P 110,654,016,965	P 525,915,518,632
Segment liabilities	137,948,130,312	42,186,793,445	10,242,056,765	51,114,592,291	241,491,572,813

4.5 Reconciliations

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

	June 30, 2018 <u>(Unaudited)</u>	June 30, 2017 <u>(Unaudited)</u>
Revenues		
Total segment revenues	P 72,479,226,550	P 65,501,998,188
Unallocated corporate revenue	812,307,315	1,355,472,217
Elimination of intersegment revenues	(131,829,181)	(14,344,390)
Revenues as reported in interim consolidated profit or loss	<u>P 73,159,704,684</u>	<u>P 66,843,126,015</u>
Profit or loss		
Segment operating profit	P 13,284,580,685	P 10,379,046,054
Unallocated corporate loss	(721,977,717)	(280,892,212)
Elimination of intersegment revenues	(131,829,181)	(14,344,390)
Profit as reported in interim consolidated profit or loss	<u>P 12,430,773,787</u>	<u>P 10,083,809,452</u>
	June 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Assets		
Segment assets	P 547,750,209,028	P 525,915,518,632
Unallocated corporate assets	<u>35,788,937,271</u>	<u>35,906,274,250</u>
Total assets reported in the consolidated statements of financial position	<u>P 583,539,146,299</u>	<u>P 561,821,792,882</u>
Liabilities		
Segment liabilities	P 239,902,829,378	P 241,491,572,813
Unallocated corporate liabilities	<u>50,131,681,096</u>	<u>48,488,172,278</u>
Total liabilities reported in the consolidated statements of financial position	<u>P 290,034,510,474</u>	<u>P 289,979,745,091</u>

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 periods presented.

5. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of property, plant and equipment as of June 30, 2018 and December 31, 2017 are shown below.

	June 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Cost	P 138,781,895,907	P 126,531,276,317
Accumulated depreciation, amortization and impairment	(31,566,889,057)	(28,504,791,690)
Net carrying amount	<u>P 107,215,006,850</u>	<u>P 98,026,484,627</u>

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

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period, net of accumulated depreciation, amortization and impairment	P 98,026,484,627	P 82,993,671,075
Additions	10,431,754,336	20,446,934,673
Depreciation and amortization charges for the period	(2,408,586,140)	(4,491,766,954)
Reclassifications – net	1,309,791,758	1,533,587,085
Disposals – net	(144,437,731)	(1,869,096,966)
Reversal of impairment loss	-	60,504,846
Additions due to acquired subsidiaries	-	5,255,192
Write-off of damaged assets	<u>-</u>	<u>(652,604,324)</u>
Balance at end of period, net of accumulated depreciation, amortization and impairment	<u>P 107,215,006,850</u>	<u>P 98,026,484,627</u>

6. 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.

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cost	P 86,809,710,731	P 81,969,707,718
Accumulated depreciation	<u>(9,817,411,505)</u>	<u>(8,970,240,657)</u>
Net carrying amount	<u>P 76,992,299,226</u>	<u>P 72,999,467,061</u>

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

	<u>June 30, 2018</u> <u>(Unaudited)</u>	<u>December 31, 2017</u> <u>(Audited)</u>
Balance at beginning of period, net of accumulated depreciation	P 72,999,467,061	P 62,306,769,151
Additions	3,262,724,854	13,941,589,536
Reclassifications - net	1,577,278,159	(1,533,587,085)
Depreciation charges for the period	(847,170,848)	(1,546,058,978)
Disposals – net	<u>-</u>	<u>(169,245,563)</u>
Balance at end of period, net of accumulated depreciation	<u>P 76,992,299,226</u>	<u>P 72,999,467,061</u>

7. DIVIDENDS

There were no dividends declared and paid by the Company for the six months period ended June 30, 2018 and 2017.

8. EARNINGS PER SHARE

Earnings per share is computed as follows:

	<u>June 30, 2018</u> <u>(Unaudited)</u>	<u>June 30, 2017</u> <u>(Unaudited)</u>
Basic:		
Net profit attributable to owners of the parent company	P 7,856,875,563	P 6,719,427,993
Divide by the weighted average number of outstanding common shares	<u>9,954,052,279</u>	<u>10,146,863,779</u>
	<u>P 0.7893</u>	<u>P 0.6622</u>
Diluted:		
Net profit attributable to owners of the parent company	P 7,856,875,563	P 6,719,427,993
Divide by the weighted average number of outstanding common shares and potentially dilutive shares	<u>9,974,785,818</u>	<u>10,252,463,779</u>
	<u>P 0.7877</u>	<u>P 0.6554</u>

On September 19, 2017 the BOD approved a two-year share repurchase program allowing the Company to repurchase up to P5.0 billion shares from existing stockholders. As of June 30, 2018, the Company has repurchased 192,811,500 shares for P2.7 billion under this program which are reported as Treasury Shares. There was no similar transaction for the six months ended June 30, 2017. In addition, as of June 30, 2018 and 2017, certain subsidiaries held 122,964,200 shares which cost P936.2 million that are considered as part of Treasury Shares. Such treasury shares do not form part of outstanding common shares.

The actual number of outstanding common shares approximates the weighted average for each interim period. As of June 30, 2018 and 2017, there are 105.6 million potentially dilutive shares from the Company's Executive Stock Option Plan. However, such number of dilutive shares has no significant effect on the weighted average number of outstanding common shares and, consequently has no material effect on the 2018 and 2017 diluted EPS.

9. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, associates, joint ventures, the Group's key management personnel and retirement fund, and others. The summary of the Group's transactions with its related parties for the periods ended June 30, 2018 and 2017, and the related outstanding balances as of June 30, 2018 and December 31, 2017 are as follows:

Related Party Category	Notes	Amount of Transaction		Outstanding Balance Receivable (Payable)	
		June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Subsidiaries' stockholders:					
Casino transactions	9.2	P 6,802,047	P 254,670,810	P 16,227,919	P 6,441,882
Management fees	9.3	121,705,499	97,531,450	(8,775,804)	(12,806,175)
Accounts payable	9.5	-	-	(347,670,510)	(347,670,510)
Related party under common ownership:					
Purchase of raw materials	9.1	1,700,472,092	1,423,363,562	(794,438,330)	(388,836,242)
Purchase of imported goods	9.1	6,481,170	2,530,944	(132,098)	(205,786)
Advances granted	9.4	300,135,950	(91,233,457)	1,574,412,161	1,274,276,211
Associates –					
Advances granted	9.4	1,993,278	170,352,939	1,271,858,260	1,269,864,981
Others:					
Accounts receivable	9.5	45,570,191	(525,015,955)	295,034,293	249,464,102
Accounts payable	9.5	150,000,000	(44,718,866)	(290,208,430)	(140,208,430)
Advances from joint venture partners and others	9.6	(214,774,433)	(210,122,534)	(2,115,200,556)	(2,329,974,989)

Unless otherwise stated, the outstanding balance of the Group's transactions with its related parties are unsecured, noninterest-bearing and payable or collectible on demand.

9.1 Purchase of Goods

Emperador imports finished goods and raw materials such as alcohol, flavorings and other items, through Andresons Global, Inc. (AGL). A related party under common ownership. Emperador also imports raw materials from Alcoholera dela Mancha Vinicola, S.L., a wholly owned subsidiary of BLC, which is considered a related party under joint control.

These transactions are payable within 30 days. The outstanding balances as of June 30, 2018 and December 31, 2017 are shown as part of Trade Payables under the Trade and Other Payables account in the consolidated statements of financial position.

9.2 Casino Transactions with GHL

Travellers recognized outstanding accounts receivable from (payable to) GHL representing show money received by GHL from foreign patrons which GHL will later remit to Travellers. The outstanding balance as of June 30, 2018 and December 31, 2017 are presented as part of Trade receivables under Trade and Other Receivables account in the consolidated statement of financial position.

9.3 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. These transactions are presented as part of Management fees, under the Other Operating Expenses account in the consolidated statements of comprehensive income.

The outstanding liabilities arising from this transaction are presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position.

9.4 Advances to Associates and Other Related Parties

Entities within the Group grant advances to associates and other entities for working capital purposes. 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, and movement of the account are presented as follows (these mainly represent advances granted by Megaworld):

	June 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Balance at beginning of period	P 2,544,141,192	P 2,520,255,783
Cash advances granted	302,129,228	308,966,472
Collections	<u>-</u>	<u>(285,081,063)</u>
Balance at end of period	<u>P 2,846,270,421</u>	<u>P 2,544,141,192</u>

As of June 31, 2018 and December 31, 2017, 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.

9.5 Due from/to Related Parties

Transactions with related parties include the following: financing of opening of letters of credit and payment of progress billings, royalty fees, rentals, interest and certain expenses in behalf of the entities within Group or other related parties. Settlement is generally made in cash or through offsetting arrangements.

The details of the Due from/to Related Parties are presented under Trade and Other Receivables and Trade and Other Payables accounts, respectively, in the consolidated statements of financial position as follows:

	June 30, 2018	December 31, 2017
	<u>(Unaudited)</u>	<u>(Audited)</u>
<i>Due from Related Parties</i>		
Balance at beginning of period	P 249,464,102	P 812,050,310
Additions	64,500,549	74,687,948
Collections	(18,930,358)	(637,274,156)
Balance at end of period	<u>P 295,034,293</u>	<u>P 249,464,102</u>
<i>Due to Related Parties</i>		
Balance at beginning of period	P 487,878,940	P 643,933,434
Additions	150,000,000	107,725,172
Repayments	-	(263,779,666)
Balance at end of period	<u>P 637,878,940</u>	<u>P 487,878,940</u>

As at June 30, 2018 and December 31, 2017, based on management's assessment, the outstanding balances of Due from related parties are not impaired; hence, no impairment losses were recognized.

9.6 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 in cash or through offsetting arrangements. Advances from Joint Venture (JV) partners pertain to advances from golf share partners and lot owners.

Details of Advances from Related Parties and JV Partners are presented as follows:

	June 30, 2018	December 31, 2017
	<u>(Unaudited)</u>	<u>(Audited)</u>
Advances from related parties	P 1,718,825,605	P 1,933,600,038
Advances from JV partners	<u>396,374,951</u>	<u>396,374,951</u>
	<u>P 2,115,200,556</u>	<u>P 2,329,974,989</u>

9.7 Transactions with the Retirement Plans

The Group has formal retirement plans established separately for each significant subsidiary, particularly Megaworld, GERI, ELI, Travellers, 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) that are legally separated from the Group. The retirement funds do not provide any guarantee or surety for any obligation of the Group and their investments are not covered by any restrictions or liens.

10. COMMITMENTS AND CONTINGENCIES

10.1 Tax Contingencies of Travellers' Casino Operations

Travellers is subject to 25% and 15% license fees, inclusive of franchise tax and in lieu of all taxes, with reference to the income component of the gross gaming revenues, as provided under the Provisional License Agreement with Philippine Amusement and Gaming Corporation (PAGCOR).

In August 2016, the Supreme Court (SC) confirmed that “all contractees and licensees of PAGCOR, upon payment of the 5% franchise tax, shall be exempted from all other taxes, including income tax realized from the operation of casinos.” The SC Decision has been affirmed with finality by the SC in a Resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the Bureau of Internal Revenue.

10.2 Consortium Agreement for Ninoy Aquino International Airport

In February 2018, AGI as a member of a consortium of seven (7) conglomerates, submitted a P350-billion unsolicited proposal to the Department of Transportation (DOTr) for the improvement, upgrade, enhancement, expansion, operation and maintenance, and management of the Ninoy Aquino International Airport. In August 2018, the Manila International Airport Authority granted an Original Proponent Status (OPS) to the consortium.

10.3 Skytrain Project

In October 2017, the Group submitted a P3-billion unsolicited proposal to the government to build a 2-kilometer Skytrain monorail project and transfer its ownership title to the government. The Group was granted an OPS by the Department of Transportation in May 2018.

10.4 Other Commitments and Contingencies

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 ICFS. Management is of the opinion that losses, if any, from these items will not have any material impact on the ICFS.

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

11. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at fair value through profit or loss (FVTPL), available-for-sale (AFS) financial assets, interest-bearing loans, bonds payable, trade receivables and payables and derivative assets 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.

11.1 Market Risk

(a) Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, Euros, UK pounds and U.S. dollars, which are 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 at each entity level.

Foreign-currency denominated financial assets and financial liabilities, translated into Philippine pesos at period-end closing rate are as follows:

	<u>June 30, 2018 (Unaudited)</u>		<u>December 31, 2017 (Audited)</u>	
	<u>U.S. Dollars</u>	<u>HK Dollars</u>	<u>U.S. Dollars</u>	<u>HK Dollars</u>
Financial assets	P 2,970,028,181	P 2,157,412,606	P 5,735,896,982	P 1,654,695,454
Financial liabilities	(18,800,965,889)	(1,270,258,439)	(28,240,870,131)	(508,438,210)
	<u>(P 15,830,937,708)</u>	<u>P 887,154,167</u>	<u>(P 22,504,973,149)</u>	<u>P 1,146,257,244</u>

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 +/- 7.89% and +/- 8.65% changes in exchange rate for the six months ended June 30, 2018 and for the year ended December 31, 2017, respectively. The HK dollar – Philippine peso exchange rate assumes +/- 8.33% and +/- 8.99% changes in exchange rate for the six months ended June 30, 2018 and for the year ended December 31, 2017, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months 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 (or weakened) against the U.S. dollar, with all other variables held constant, consolidated profit before tax would have increased (or decreased) by P1.2 billion for the six-month period ended June 30, 2018 and P1.9 billion for the year ended December 31, 2017. If in 2018 and 2017, the Philippine peso had strengthened (or weakened) against the HK dollar, with all other variables held constant, consolidated profit before tax would have decreased (or increased) by P0.07 billion for the six-month period ended June 30, 2018 and P0.1 billion for the year ended December 31, 2017.

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's 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 profit before tax for the period to a reasonably possible change in interest rates of +/- 1.62% for Philippine peso and +/- 3.01% for U.S. dollar in 2018, and +/- 0.97% for Philippine peso and +/- 1.14% for U.S. dollar in 2017 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 12 months estimated at 95% level of confidence.

The sensitivity analysis is based on the Group's financial instruments held at June 30, 2018 and December 31, 2017, with effect estimated from the beginning of the period. All other variables held constant, the consolidated profit before tax would have increased by P1.6 billion for the six-month period ended June 30, 2018 and P1.0 billion for the year ended December 31, 2017. Conversely, if the interest rates decreased by the same percentage, consolidated profit before tax would have been lower by the same amount.

11.2 Credit Risk

Generally, the Group's credit risk is attributable to trade and other receivables arising mainly from transactions with approved franchisees, installment sales receivables, rental receivables and other financial assets. The carrying values of these financial assets subject to credit risk are disclosed in Note 12.

The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates 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. 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:

	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Not more than 30 days	P 4,545,111,462	P 4,735,123,751
31 to 60 days	1,999,740,739	2,449,926,782
Over 60 days	2,291,660,765	1,861,518,762
	<u>P 8,836,512,966</u>	<u>P 9,046,569,295</u>

11.3 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 six-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 of June 30, 2018, 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 37,512,861,537	P 9,694,295,880	P -	P -
Interest-bearing loans	16,407,915,518	10,926,917,692	129,619,816,096	-
Bonds payable	-	948,927,045	18,224,865,000	12,642,420,000
Equity-linked debt securities (ELS)	-	-	5,402,665,931	-
Advances from related parties	-	-	2,115,200,556	-
Redeemable preferred shares	-	251,597,580	1,006,390,320	1,574,159,348
Guaranty deposits	-	-	113,158,159	608,733,942
Derivative liabilities	16,502,956	90,113,840	-	-
Other liabilities	-	-	198,512,747	-
	<u>P 53,937,280,011</u>	<u>P 21,911,852,037</u>	<u>P 156,680,608,809</u>	<u>P 14,825,313,290</u>

As of December 31, 2017, the Group's financial liabilities have contractual maturities which are presented below.

	Current		Non-current	
	Within	6 to 12	1 to 5	Later than
	6 Months	Months	Years	5 Years
Trade and other payables	P 24,419,879,816	P 7,899,686,237	P -	P -
Interest-bearing loans	24,704,119,788	10,276,295,554	112,904,905,599	2,484,095,007
Bonds payable	10,533,444,945	548,844,945	4,691,407,500	25,709,595,938
ELS	-	-	5,525,331,862	-
Advances from related parties	-	-	2,329,974,989	-
Redeemable preferred shares	-	251,597,580	1,006,390,320	1,574,159,348
Guaranty deposits	-	-	129,185,721	256,772,125
Derivative liabilities	-	132,764,451	-	-
Other liabilities	-	-	175,863,371	-
	<u>P 59,657,444,549</u>	<u>P 19,109,188,767</u>	<u>P 126,763,059,362</u>	<u>P 30,024,622,418</u>

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.

11.4 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 of June 30, 2018 and December 31, 2017 are summarized as follows:

	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
2018 - Investment in equity securities	+29.38%	-29.38%	<u>P 40,291,431</u>	<u>(P 40,291,431)</u>
2017 - Investment in equity securities	+23.39%	-23.39%	<u>P 32,014,364</u>	<u>(P 32,014,364)</u>

The maximum additional estimated loss in 2018 and 2017 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 six months in 2018 and 12 months in 2017, 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.

12. 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.

	June 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets				
Loans and receivables:				
Cash and cash equivalents	P 44,868,227,824	P 44,868,227,824	P 55,672,960,546	P 55,672,960,546
Trade and other receivables	93,417,711,828	93,417,711,828	91,134,734,166	91,134,734,166
Other financial assets	5,521,066,778	5,435,591,096	4,940,470,057	4,870,141,094
	<u>P 143,807,006,430</u>	<u>P 143,721,530,748</u>	<u>P 151,748,164,769</u>	<u>P 151,677,835,806</u>
Financial assets at FVTPL:				
Marketable debt and equity securities	P 21,561,317,484	P 21,561,317,484	P 13,496,901,752	P 13,496,901,752
Derivative assets	423,049,576	423,049,576	19,572,259	19,572,259
	<u>P 21,984,367,060</u>	<u>P 21,984,367,060</u>	<u>P 13,516,474,011</u>	<u>P 13,516,474,011</u>
AFS financial assets –				
Equity securities	P 451,362,248	P 451,362,248	P 431,645,289	P 431,645,289
Financial Liabilities				
Financial liabilities at FVTPL –				
Derivative liabilities	P 106,616,796	P 106,616,796	P 132,764,451	P 132,764,451
Financial liabilities at amortized cost:				
Current:				
Trade and other payables	P 47,207,157,417	P 47,207,157,417	P 43,076,814,186	P 43,076,814,186
Interest-bearing loans	25,368,786,647	25,017,626,493	32,700,476,157	32,393,555,681
Bonds payable	-	-	9,976,270,876	9,041,946,581
Redeemable preferred shares	251,597,580	251,597,580	251,597,580	251,597,580
	<u>P 72,827,541,644</u>	<u>P 72,476,381,490</u>	<u>P 86,005,158,799</u>	<u>P 84,763,914,028</u>
Non-current:				
Interest-bearing loans	P 122,068,916,064	P 121,240,928,875	P 108,273,087,029	P 107,186,186,697
Bonds payable	25,073,176,173	24,523,576,193	24,388,714,176	22,104,597,349
ELS	5,181,345,298	5,181,345,298	5,227,114,518	5,227,114,518
Redeemable preferred shares	1,909,154,404	2,106,838,438	1,857,022,802	2,238,796,220
Due to related parties	2,115,200,556	2,115,200,556	2,329,974,989	2,329,974,989
Security deposits	402,218,021	369,337,360	311,203,121	267,734,123
	<u>P 156,750,010,516</u>	<u>P 155,537,226,720</u>	<u>P 142,387,116,635</u>	<u>P 139,354,403,896</u>

13. FAIR VALUE MEASUREMENT AND DISCLOSURES

13.1 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 financial liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets or 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.

13.2 Financial Instruments Measured 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 of June 30, 2018 and December 31, 2017.

	June 30, 2018 (Unaudited)			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Financial assets at FVTPL –				
Debt and equity securities	P 21,561,317,484	P -	P -	P 21,561,317,484
Derivative asset	-	423,049,576	-	423,049,576
AFS financial assets –				
Equity securities	137,138,974	100,600,000	213,623,274	451,362,248
	<u>P 21,698,456,458</u>	<u>P 523,649,576</u>	<u>P 213,623,274</u>	<u>P 22,435,729,308</u>
Financial liabilities:				
Financial liability at FVTPL –				
Derivative liabilities	<u>P -</u>	<u>P 106,616,796</u>	<u>P -</u>	<u>P 106,616,796</u>
December 31, 2017 (Audited)				
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL –				
Debt and equity securities	P 13,496,901,752	P -	P -	P 13,496,901,752
Derivative asset	-	19,572,259	-	19,572,259
AFS financial assets –				
Equity securities	136,872,015	78,200,000	216,573,274	431,645,289
	<u>P 13,633,773,767</u>	<u>P 97,772,259</u>	<u>P 216,573,274</u>	<u>P 13,948,119,300</u>
Financial liabilities:				
Financial liability at FVTPL –				
Derivative liabilities	<u>P -</u>	<u>P 132,764,451</u>	<u>P -</u>	<u>P 132,764,451</u>

13.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The table in the succeeding page 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 of June 30, 2018 and December 31, 2017.

		June 30, 2018 (Unaudited)			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:					
Cash and cash equivalents	P	44,868,227,824	P -	P -	P 44,868,227,824
Trade and other receivables		-	131,474,730	93,286,237,098	93,417,711,828
Other financial assets		-	<u>522,589,819</u>	<u>4,913,001,277</u>	<u>5,435,591,096</u>
		<u>P 44,868,227,824</u>	<u>P 654,064,549</u>	<u>P 98,199,238,375</u>	<u>P 143,721,530,748</u>
Financial liabilities:					
Current:					
Trade and other payables	P	-	P -	P 47,207,157,417	P 47,207,157,417
Interest-bearing loans		-	379,043,121	24,638,583,372	25,017,626,493
Bonds payable		-	-	-	-
Redeemable preferred shares		-	-	251,597,580	251,597,580
Non-current:					
Bonds payable		24,523,576,193	-	-	24,523,576,193
Interest-bearing loans		-	551,177,383	120,689,751,492	121,240,928,875
ELS		-	-	5,181,345,298	5,181,345,298
Redeemable preferred shares		-	1,100,448,188	1,006,390,250	2,106,838,438
Due to related parties		-	-	2,115,200,556	2,115,200,556
Security deposits		-	<u>345,224,222</u>	<u>24,113,138</u>	<u>369,337,360</u>
		<u>P 24,523,576,193</u>	<u>P 2,375,892,914</u>	<u>P 201,114,139,103</u>	<u>P 228,013,608,210</u>
		December 31, 2017 (Audited)			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:					
Cash and cash equivalents	P	55,672,960,546	P -	P -	P 55,672,960,546
Trade and other receivables		-	169,231,906	90,965,502,260	91,134,734,166
Other financial assets		-	<u>352,142,852</u>	<u>4,517,998,242</u>	<u>4,870,141,094</u>
		<u>P 55,672,960,546</u>	<u>P 521,374,758</u>	<u>P 95,483,500,502</u>	<u>P 151,677,835,806</u>
Financial liabilities:					
Current:					
Trade and other payables	P	-	P -	P 43,076,814,186	P 43,076,814,186
Interest-bearing loans		-	387,203,538	32,006,352,143	32,393,555,681
Bonds payable		9,041,946,581	-	-	9,041,946,581
Redeemable preferred shares		-	-	251,597,580	251,597,580
Non-current:					
Bonds payable		22,104,597,349	-	-	22,104,597,349
Interest-bearing loans		-	757,977,570	106,428,209,127	107,186,186,697
ELS		-	-	5,227,114,518	5,227,114,518
Redeemable preferred shares		-	1,232,405,901	1,006,390,319	2,238,796,220
Due to related parties		-	-	2,329,974,989	2,329,974,989
Security deposits		-	<u>267,734,123</u>	-	<u>267,734,123</u>
		<u>P 31,146,543,930</u>	<u>P 2,645,321,132</u>	<u>P 190,326,452,862</u>	<u>P 224,118,317,924</u>

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 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.

13.4 Investment Property Measured at Cost for which Fair Value is Disclosed

As of December 31, 2017, the fair value of the Group's investment property amounting to P310.1 billion 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. Also, there were no transfers into or out of Level 3 fair value hierarchy. There was no valuation update made for the current period.

14. 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.

There were no changes in the Group's approach to capital management during the period.

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Total liabilities	P 290,034,510,474	P 289,979,745,091
Total equity	293,504,635,825	271,842,047,791
Debt-to-equity ratio	P 0.99:1	P 1.07:1

15. SEASONAL FLUCTUATIONS

For Travellers, casino operations tend to experience seasonality in visitations during public holidays, festivals in the Philippines and around South East Asian region.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
AGING SCHEDULE OF CURRENT TRADE AND OTHER RECEIVABLES
JUNE 30, 2018
(Amounts in Philippine Pesos)

Current	P	65,042,892,298
1 to 30 days		4,545,111,462
31 to 60 days		1,999,740,739
Over 60 days		<u>2,291,660,765</u>
Total		73,879,405,264
Due from other related parties		<u>295,034,293</u>
Balance as at June 30, 2018	P	<u><u>74,174,439,557</u></u>