ALLIANCE GLOBAL

BLAZING NEW TRAILS

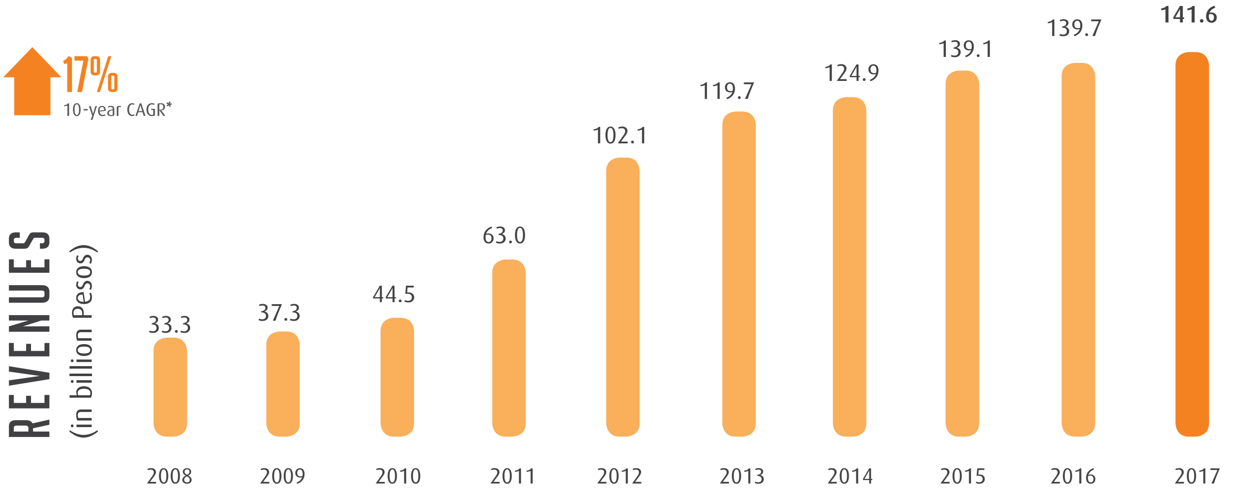
ANNUAL REPORT 2017

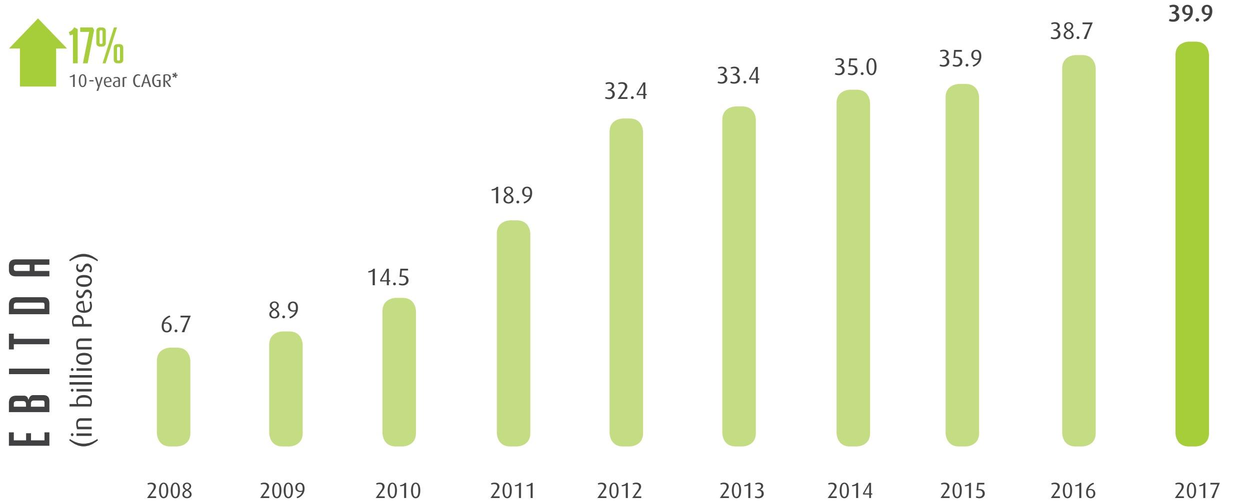
WHAT'S INSIDE

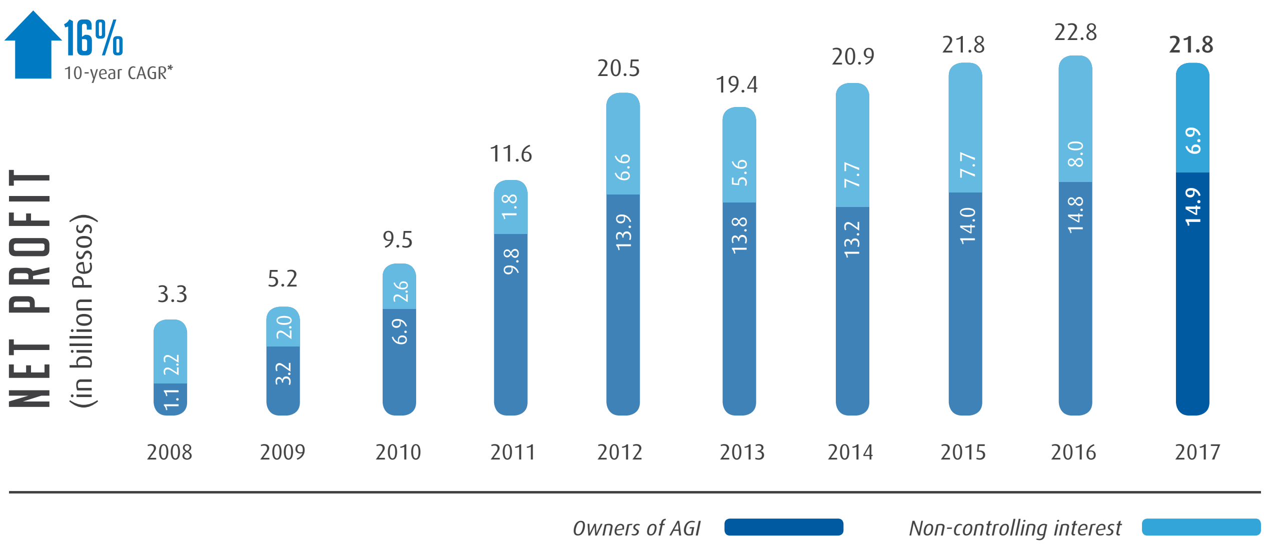
Our Cover

The cover design depicts AGI as a hi-tech shuttle, entering a threshold like a portal to the future, bringing the country into a whole new world. With its bright headlights illuminating visions of milestone achievements, emerging along its path, it continues blazing new trails as it moves headstrong, fast and sure into the far horizons.

FINANCIAL HIGHLIGHTS







All figures exclude non-recurring items

**CAGR is compound annual growth rate*

CHAIRMAN'S MESSAGE

P141.6 B
CONSOLIDATED REVENUES

P21.8 B
NET INCOME

P14.9 B
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS

VISIONING BEYOND TOMORROW

The year 2017 was marked by trailblazing achievements, unprecedented in the history of Alliance Global Group, Inc (AGI). Our subsidiaries continued to record new performance milestones, surpassing everyone's expectations.

Overall, we have made further inroads to become a uniquely diversified global conglomerate, a position we have deliberately carved out for ourselves less than a decade ago when we decided to pursue an aggressive expansion program. AGI ended 2017 with a net income of P21.8 billion, reflecting a compounded annual growth rate of 16% for the past 10 years as consolidated revenues reached P141.6 billion. Attributable profit stood at P14.9 billion, also growing at an annual clip of 16% for the same period.

Our property arm, Megaworld Corporation, posted another stellar performance as net income reached P13.2 billion on revenues of P50.1 billion. It attained its target of launching 20 real estate projects during the year and then exceeded expectations with reservation sales of P105 billion, a first in its 28-year history. Megaworld now has 667 residential towers, 57 office buildings and 15 lifestyle malls all over the Philippines, and still has over 4,400 hectares in 30 cities for future development.

Its rental income amounted to P11.8 billion, well on its way to achieving its target of P20 billion in 2020. As of end-2017, Megaworld's inventory of office and retail spaces totals 1.3 million square meters. Its world-class and high-tech office buildings are home to a number of multinationals belonging to the Fortune 500 companies. Megaworld's distinctive lifestyle malls offer a range of unique features and experiences, having established themselves as major retail, dining and entertainment destinations.

AGI continues to gain headway in the tourism industry as our hotel operations raked in P4.2 billion in revenues. The Group currently has a total capacity of 3,200 room keys spread over a diversified portfolio of renowned global hotel brands under Travellers International Hotel Group, Inc. (Travellers) and our own prestigious hotel brands under Megaworld. Our target is to bring this number to 12,000 keys within the next three to five years.

"Through the years, AGI has banked on the unwavering commitment of all our stakeholders to sustain corporate growth while contributing significantly to the country's economy. I once again rely on this dedication to galvanize our subsidiaries in being more innovative in developing and implementing strategic initiatives in the pursuit of our business objectives for 2018 and beyond."

In the near-term, the Group is set to expand its international hotel brands with the addition of the Hilton, Sheraton, Okura and Ritz-Carlton to complement our existing Marriott and Holiday Inn hotels. Our own hotel brands also got a boost with the launch in 2017 of Savoy Hotel in Boracay, allowing us to expand our strategic foothold in one of the country's prime tourist destinations. Savoy is a welcome addition to our existing hotel brands Richmonde and Belmont.

Our spirits business through Emperador Inc. registered total revenues of P42.7 billion in 2017 as it continued its brandy dominance in the local and international markets, while also expanding its presence in the global whisky segment through Scotland-based Whyte and Mackay (WMG).

WMG has been breaking new records in sales, making its mark as a significant growth driver of Group performance. This was led by its single malt whisky brands, The Dalmore and Jura, which have been enjoying brisk sales in Europe and Asia, mainly in China. In 2017, WMG launched a new blended malt brand, Shackleton, which gained strong market response. It is scheduled for broader distribution in 2018.

Emperador has also strengthened its portfolio of world-renowned brandies through Bodegas Fundador, whose premium brands like Fundador Supremo 18YO won the 2017 "Brandy of the Year" award. To further grow its dominance in the global brandy category, Emperador also acquired the Domecq brandies and wines during the year.

In the Philippines, the "Tama Ka Dyan" campaign was launched to help improve sales and strengthen the position of our flagship Emperador Light as brand of choice for Filipinos.

Our leisure and entertainment business under Travellers saw Resorts World Manila (RWM) continue to set the benchmark for gaming thrills and excitement. In 2017, Travellers, a joint venture between AGI and Genting Hong Kong, recorded P21.1 billion in revenues.

In the coming months, Travellers is set to unveil the Grand Wing, which we believe will raise the bar in the industry. Once fully operational, the 14,000-square meter premium gaming facility under Phase 3 Expansion Program should help regain Travellers' leading position in the country's fast-growing gaming sector.

Our quick service restaurant business, Golden Arches Development Corporation (GADC), marked another sterling year as net income reached P1.7 billion on revenues of P25.5 billion. This was attributed to the healthy 5.8% growth in systemwide same-store sales. Also, in 2017, GADC opened 52 McDonald's restaurants all over the country, bringing its total store count to 566 and making inroads in new territories such as Antique, Sorsogon, Masbate and Agusan del Sur. McDonald's is set to bring its number of restaurants in the Philippines to 1,000 within the next few years, riding high on its popular brand and growing patronage.

AGI's unique and diversified business has now come to a whole new level, with its foray into transport infrastructure development through our new wholly-owned subsidiary, Infracorp Development, Inc. (Infracorp). Its first undertaking is a 2-kilometer Skytrain monorail project that will link the MRT Guadalupe Station to our township in Uptown Bonifacio, thereby improving access to and in Fort Bonifacio. The project is expected to be operational by 2021.

Infracorp, through AGI, is also a party to the mega consortium that will rehabilitate the Ninoy Aquino International Airport (NAIA). The project is expected to bring the NAIA annual capacity to 47 million passengers by 2020 and then raise this further to 65 million by 2022.

Through the years, AGI has banked on the unwavering commitment of all our stakeholders to sustain corporate growth while contributing significantly to the country's economy. I once again rely on this dedication to galvanize our various subsidiaries in being more innovative in developing and implementing strategic initiatives in the pursuit of our business objectives for 2018 and beyond.

ANDREW L. TAN
Chairman

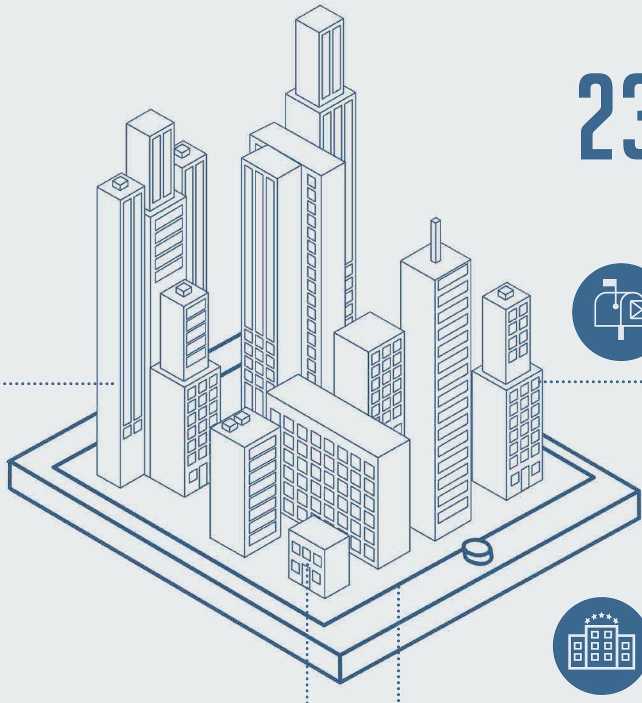
AGI AT A GLANCE

ALLIANCE GLOBAL

3,198 Operational Hotel Room Keys

42,055 Employees Groupwide

MEGAWORLD



23 Townships and Integrated Lifestyle Communities

57 Office Towers

667 Residential Developments Launched

15 Lifestyle Malls

4,400 Hectares of Developable Landbank

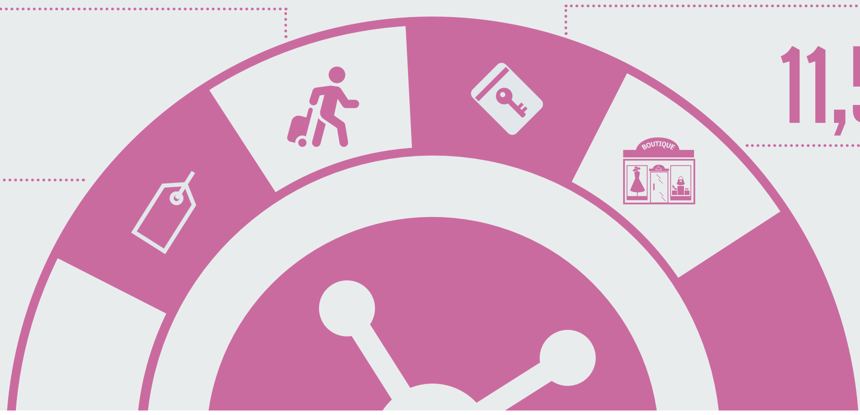
TRAVELLERS INTERNATIONAL

26,000 Average Daily Visitors

1,454 Hotel Room Keys

91 Retail Outlets

11,534 Retail Space (sqm)



EMPERADOR INC.

900 Bodegas Fundador Trademarks Worldwide

42 Percent in Domestic Volume Market Share

102 Countries Under the Global Distribution System

22 Domestic Sales Offices

700 Whyte and Mackay Trademarks Worldwide

GOLDEN ARCHES DEVELOPMENT CORPORATION

300~ Dessert Centers

300+ McDelivery Hubs

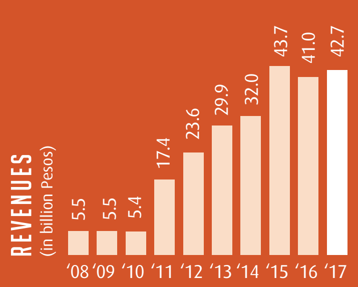
245 Stores with Drive-thru

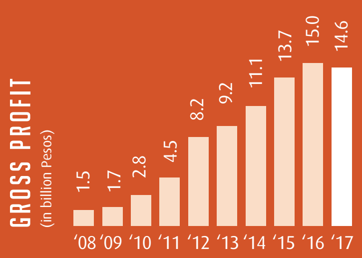
52 Number of New Stores in 2017

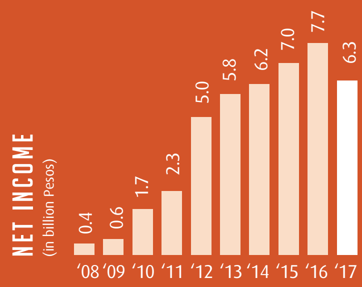
566 Number of Stores

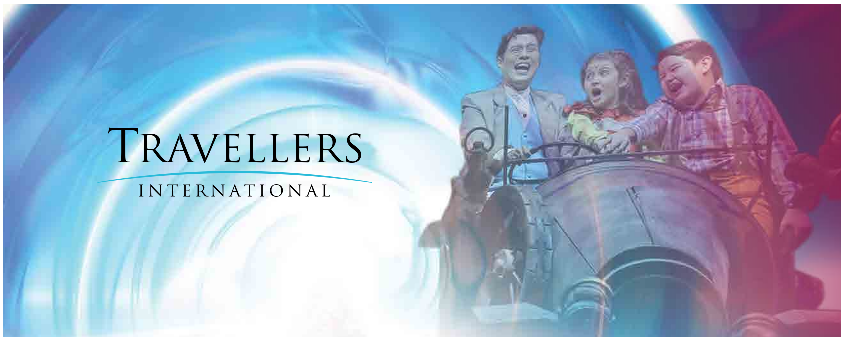
6 AGI SUBSIDIARIES

Megaworld Corporation
Megaworld is known as the country's leading township developer and office landlord. It pioneered the "Live, Work, Play" concept that integrates residential, office and commercial components within the lifestyle communities it develops.

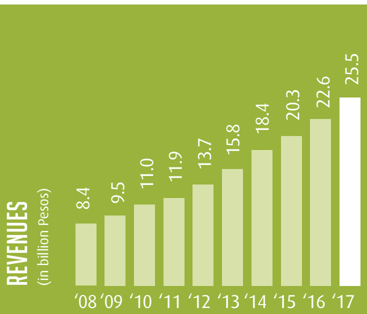


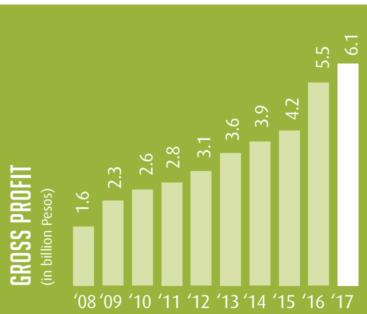


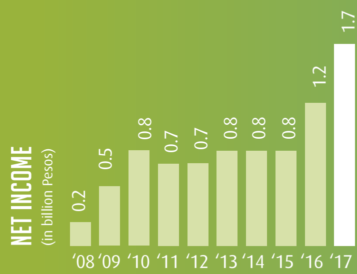




Travellers International Hotel Group, Inc.
Travellers International is the developer of Resorts World Manila, the first integrated tourism resort in the Philippines that operates a gaming facility with hotel, retail, dining, leisure and entertainment attractions to complement its gaming business.

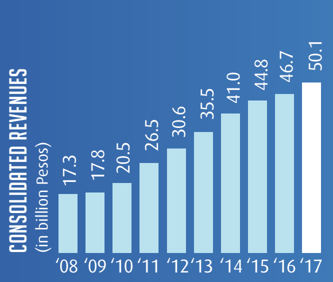


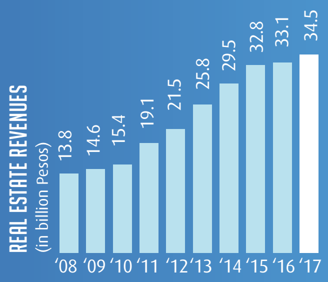


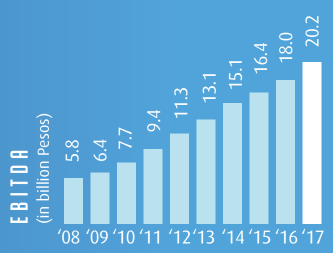


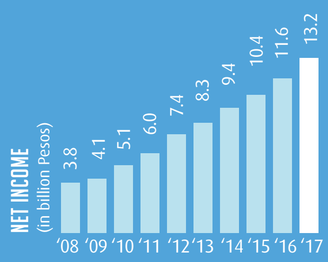
Infracorp Development, Inc.
Infracorp Development, Inc. is AGI's foray into infrastructure development that plans to provide transport solutions that will improve the connectivity of all AGI's properties and enhance the value of the Group's real estate and tourism developments.

**All figures are exclusive of non-recurring gains/losses*

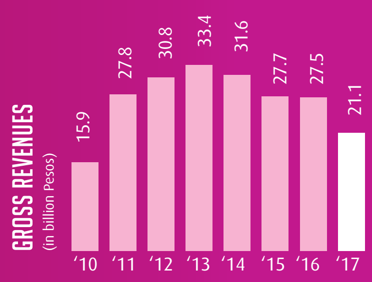


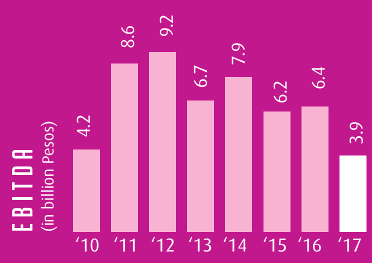


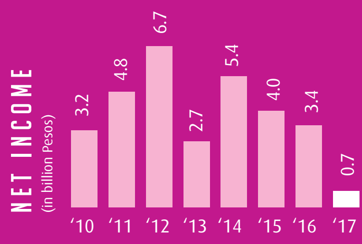




Emperador Inc.
Emperador Inc., the Philippines' largest liquor company and the world's largest brandy producer, operates an integrated business of manufacturing, bottling and distributing distilled spirits and other alcoholic beverages from the Philippines, United Kingdom, Spain and Mexico, through its subsidiaries, across all continents.







Golden Arches Development Corporation
Golden Arches Development Corporation is the master franchise holder of McDonald's in the Philippines, which is engaged in the operations and franchising of the quick service restaurant chain.

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AGI MILESTONES

JANUARY

Opening of 3 McDonald's stores in Dapitan (NCR), Dumaguete and Zamboanga

Launch of Richard Paterson 50YO limited edition bottles

Garvey acquisition

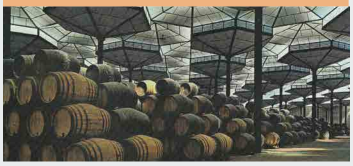
FEBRUARY

Opening of 2 McDonald's stores in Novaliches (NCR) and Antique

Opening of Savoy Hotel Boracay

MARCH

Completion of Domecq acquisition by Bodega Las Copas



Issuance of the 12B Series B fixed rate bonds (out of a total of 30B), due 2024

Opening of 2 McDonald's stores in Tagbilaran City and Sorsogon

APRIL

Opening of 4 McDonald's stores in Las Piñas City (NCR), Laguna, Batangas and Davao

Official opening at RunWay Manila, linking Resorts World Manila with NAIA Terminal 3

MAY

Launch of Emperador Hotshot

Opening of 2 McDonald's stores in Pasig City and Cagayan De Oro

Megaworld was named Best Developer for the second straight year plus 25 other awards at the Philippine Property Award

JUNE

Launch of Terry White

Opening of McDonald's store in Isabela

2017

Megaworld Corporation	Emperador Incorporated	Travellers International Hotel Group, Incorporated	Golden Arches Development Corporation	Infracorp Development, Incorporated

JULY

Opening of 2 McDonald's stores in Quezon City (NCR) and Masbate

AUGUST

Opening of 5 McDonald's stores in Manila (NCR), Rizal, Pampanga, Bulacan and Bacolod

SEPTEMBER

Run With Me 2017, A Race for Charity

Megaworld unveils new Corporate Headquarters in Uptown Bonifacio

Opening of 9 McDonald's stores in Marikina (NCR), Caloocan (NCR), Nueva Vizcaya, Cavite, Southwoods Mall (Laguna), Cagayan De Oro, Palawan, Cebu and Leyte; Reopening of McDonalds Newport

Southwoods Mall Grand Opening

Launch of Fundador Double Light

OCTOBER

International Wine & Spirit Competiton (IWSC) awards Whyte & Mackay as Scotch Whisky Producer of the Year and Richard Paterson Lifetime Achievement Award

IWSC awards Bodegas Fundador as Fortified Wine Producer of the Year

Submits unsolicited proposal to build Skytrain

Announcement of a regional headquarters for FactSet in McKinley West

First show of Chitty Chitty Bang Bang at Newport Performing Arts Theatre

Opening of 6 McDonald's stores in Isabela; Venice Grand Canal, NCR Taguig; Tarlac; Batangas; Laguna; and Quezon City (NCR)

Sale of Dalmore Paterson Collection for $1.3 million

Launched of Emperador Red

NOVEMBER

Launch of The Dalmore 40YO in the Philippines

Launch of Maple Grove Commercial District

Launch of Lumina, which has 100,000 multi-colored LED bulbs that brighten a 110-meter walkway

Belmont Hotel Manila played host for the Pilots and Crew of Air Force One during the ASEAN 2017 visit of US President Donald Trump

Opening of 4 McDonald's stores in Bulacan, Rizal, Quezon City (NCR), and Nueva Ecija

DECEMBER

Acquisition of Domecq brands of brandies and wines

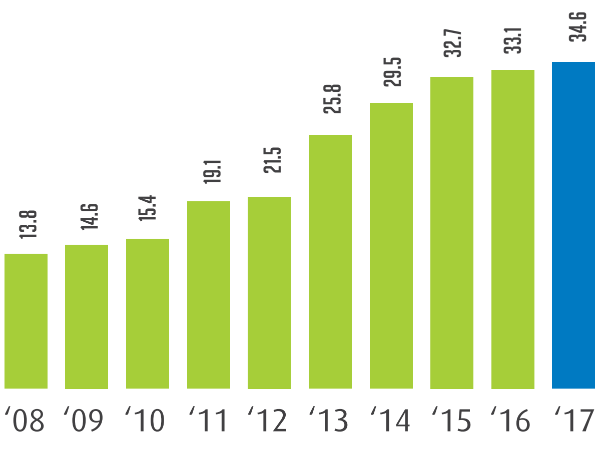
Record breaking Dalmore Kildemorie (aged 62 years) was sold for £114,000

Opening of 12 McDonald's stores in Quezon City (NCR); Manila (NCR); Caloocan City (NCR); Marikina City; Caloocan City (NCR); Cavite; Rizal; Batangas; Negros Occidental; Nueva Ecija; Leyte; and Agusan del Sur

RESIDENTIALS

RESIDENTIAL REVENUES

(in billion Pesos)



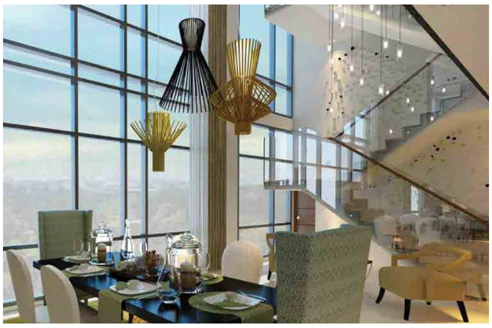
During its early years in the real estate industry, Megaworld's residential projects consisted primarily of high-rise condominiums designed to serve the housing demand of the upper and middle income market in Metro Manila. Eventually, the company ventured into the development of residential subdivisions, townhouse communities and medium rise condominiums across different brands: Megaworld, Global-Estate, Empire East and Suntrust.

In 2017, Megaworld reported a 5% increase in real estate revenues to P34.6 billion. This was fuelled by higher real estate sales and faster completion of residential projects which raised total realized gross profit by 12% to P14.7 billion. Megaworld further solidified its strong reputation in the real estate industry with P40 billion worth of residential launches and record high reservation sales of P105 billion.

Launched during the year, The Albany Luxury Residences is a 10-storey ultra-high-end condominium with English-inspired architecture, designed in consultation with UK-based architectural firm, Broadway Malyan. It features a modern façade, European luxury brands for home and fixtures, and an exquisite array of state-of-the-art amenities, with unmatched views of Forbes Park and the Fort Bonifacio skyline. The Albany's location is also one of the most sought-after addresses in Taguig City and the envy of homeseekers.

Another residential development in McKinley West is St. Moritz Private Estate, which was awarded "Best Universal Design in 2017" by the Philippine Property Awards. Pure opulence radiates from this unique collaboration of the world's leading European architects, designers and award-winning home innovators, making the development a class of its own.


The Albany Luxury Residences




St. Moritz Private Estate

As new trends come about, Megaworld continues to evolve the design, offerings, and overall components of its residential developments. Moving forward, it plans to incorporate digital technology, design innovations and connectivity to transform its residential projects into smarter homes.

"We add technology to our townships, basically to all facilities, including hi-tech security surveillance. We create smart homes with smart designs, and better connectivity. It is about sustainable development and unique customer experience," said Kevin L. Tan, AGI Chief Executive Officer.

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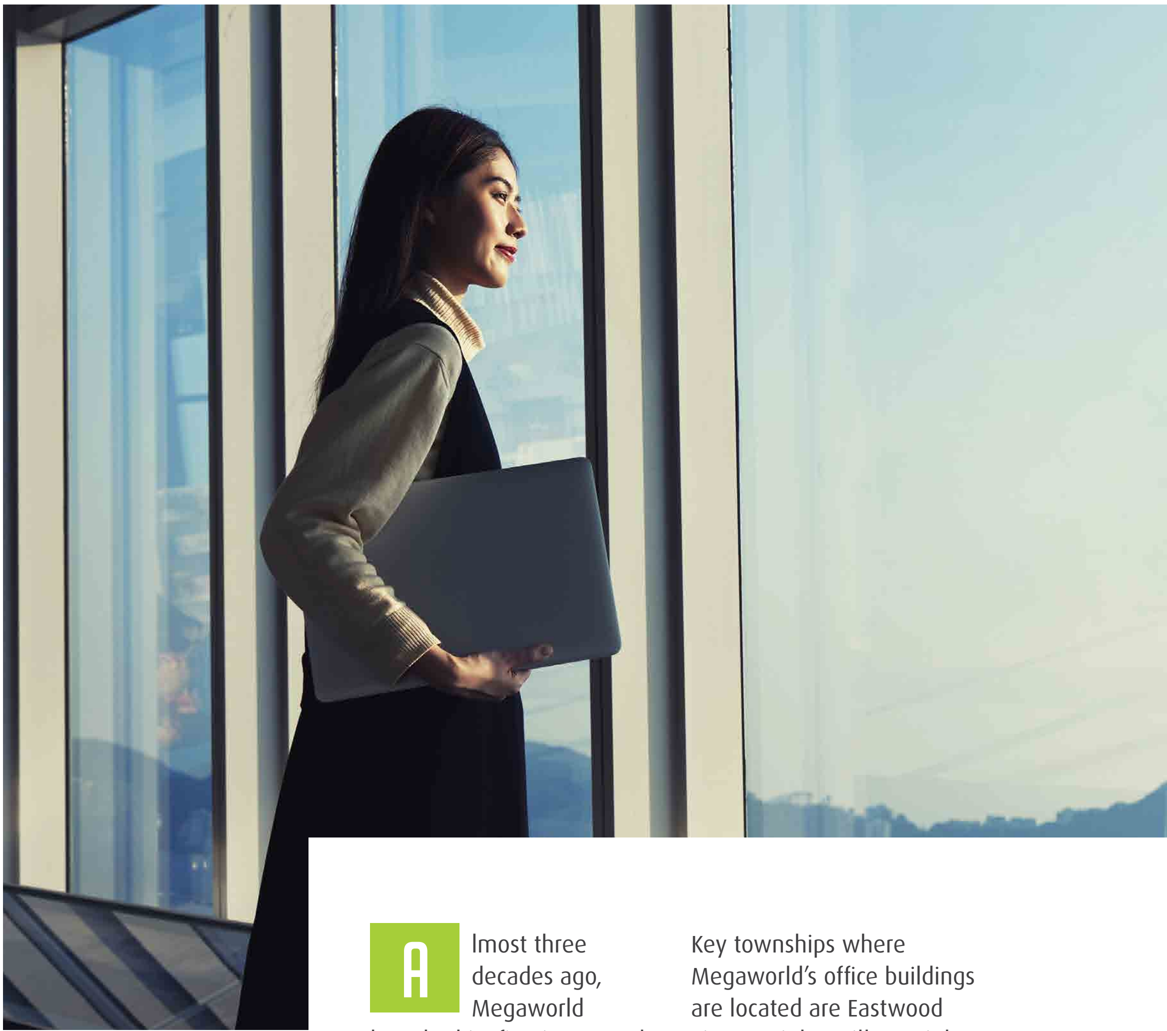
OFFICES



Almost three decades ago, Megaworld launched its first integrated township development, Eastwood City. That brought with it an influx of foreign investments in the country, especially in the Business Process Outsourcing (BPO) sector. Eastwood City CyberPark is one of its first office buildings to be certified as a special economic zone by the Philippine Economic Zone Authority (PEZA).

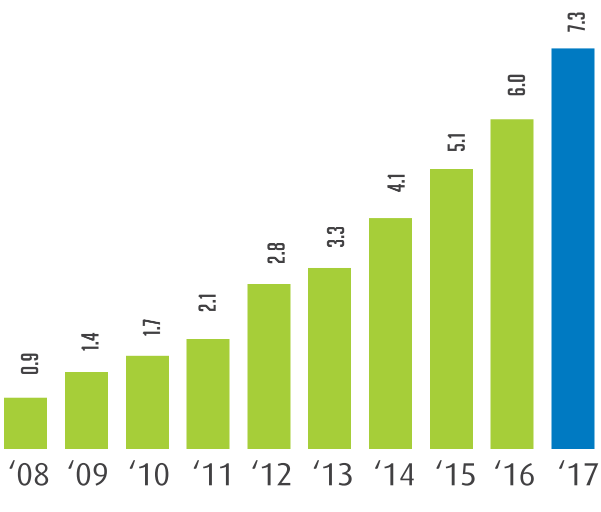
Over the years, Megaworld has developed 57 office towers in around 10 different cities, home to a host of multinationals belonging to the Fortune 500 companies.

Key townships where Megaworld's office buildings are located are Eastwood City, McKinley Hill, McKinley West, Uptown Bonifacio, Iloilo Business Park, and The Mactan Newtown.

Today, Megaworld is in the midst of developing One Le Grand Tower, a state-of-the-art green office building that will rise at the McKinley West township in Fort Bonifacio, Taguig City. This iconic tower will be constructed in accordance with the Leadership in Energy and Environmental Design (LEED) rating system devised by the United States Green Building Council.

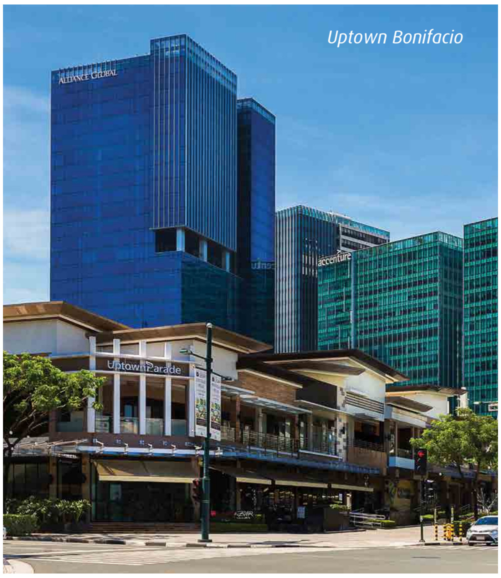
OFFICE RENTAL REVENUES

(in billion Pesos)

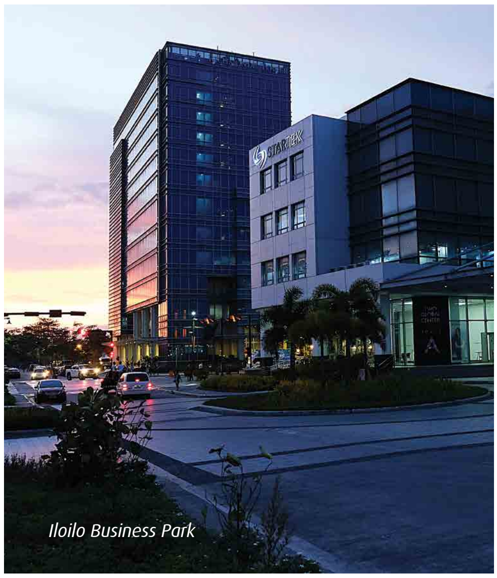


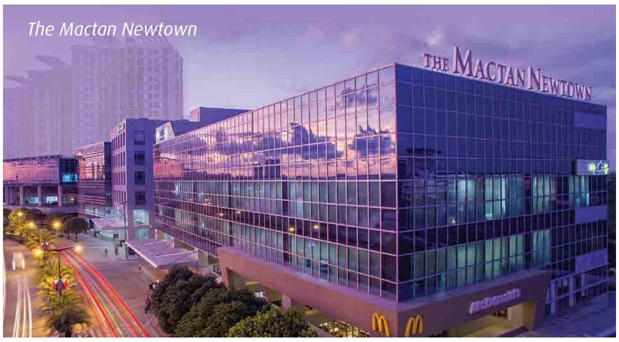
LEED is the most widely used green building rating system in the world. Available for virtually all building, community and home project types, LEED provides a framework to create healthy, highly efficient and cost-saving green buildings. LEED certification is a globally recognized symbol of sustainability achievement.

In 2017, Megaworld recorded P7.3 billion in office rental revenue, a jump of 21% compared to the prior year. The growth in rental revenue came on the back of a significant addition of 162,000 square meters in office space during the year, which brings Megaworld's gross leasable area (GLA) to over 1 million square meters.



Uptown Bonifacio


Iloilo Business Park



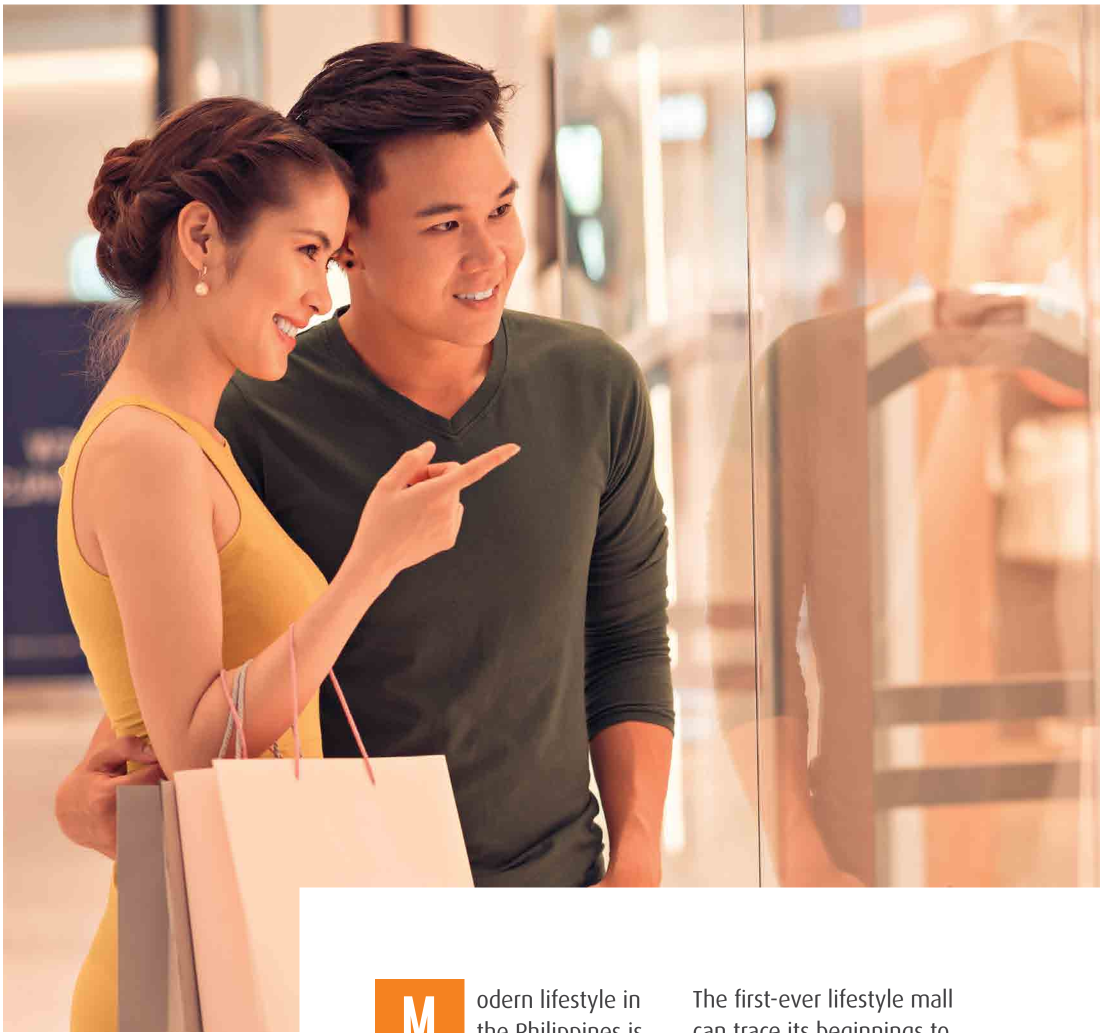
The Mactan Newtown

One Le Grand Tower

Tagged as the largest office developer in the country, setting the trend in modern office development, Megaworld will continue to develop state-of-the-art office towers within its townships in the coming years, targeting to breach the 1.5 million square meters in total office space by the year 2020.

"If it didn't work, Megaworld could not have expanded its vast townships and integrated lifestyle communities. Megaworld is a solid testament to the concept that continues to be relevant," said Kingson U. Sian, President of AGI.

LIFESTYLE MALLS



Modern lifestyle in the Philippines is distinctly marked by the presence and growth of shopping malls. Offering a selection of food, shopping, dining and entertainment, these one-stop-shop hubs have enjoyed the patronage of Filipinos from all walks of life.

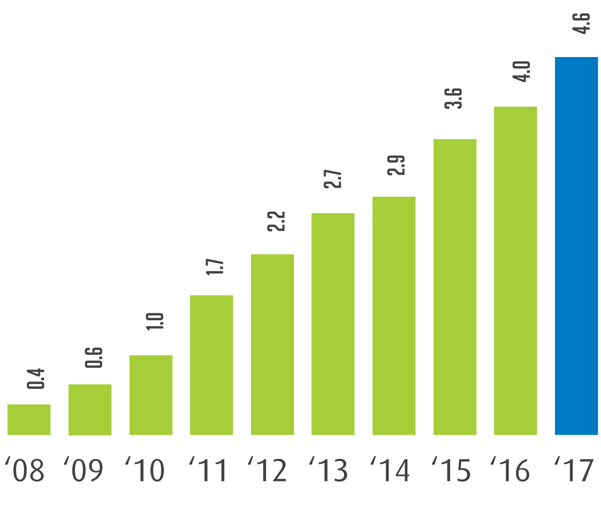
In time, malls have evolved into destinations that are more unique and holistic, with the arrival of Megaworld Lifestyle Malls. Megaworld has pioneered the concept of lifestyle malls not just as attractions, but as vital components of its integrated townships.

The first-ever lifestyle mall can trace its beginnings to Eastwood City, the flagship integrated township of Megaworld. Within Eastwood City, world-class attractions for shopping, dining and entertainment came together to create a one-of-a-kind destination: Eastwood Mall. It offers a whole range of dining hotspots, a fashion haven for trend setters and state-of-the-art cinemas, all while upgrading its experiences to become more personalized.

Eastwood City Walk, on the other hand, is the soul of Eastwood City's nightlife, and has a reputation as the

LIFESTYLE MALL RENTAL INCOME

(in billion Pesos)



place to party on a weekend or just about every night. It's where you can find the best-selling beverages, served in restaurants and clubs open until the wee hours of the morning.

The success of Eastwood City's lifestyle malls has set a trend and a way of life in Megaworld's townships. In keeping up with that trend, it has grown to 15 lifestyle malls all over the country.

A recent addition is its newly-launched Southwoods Mall, which is unique in many aspects: with its stunning architecture, a roof deck garden, green spaces and al fresco dining, a 24-hour food hall, four state-of-the-art cinemas, a department store, supermarket, a variety of shops, and its own transport hub.

Megaworld Lifestyle Malls garnered more recognitions in 2017. In the recently concluded PropertyGuru Philippines Property Awards, Uptown Mall garnered two major awards: Best Retail Architectural Design and Best Retail Landscape Architectural Design. Venice Grand Canal, on the other hand, bagged the Highly Commended Awards in the Best Retail Development and also in the Best Retail Architectural Design categories.

Southwoods City

Megaworld Lifestyle Malls posted P4.6 billion in rental revenue, up 14% compared to that of 2016. Through its continued expansion, it added another 54,200 square meters of Gross Floor Area (GFA) to its retail portfolio.

In 2018, Megaworld is set to open seven lifestyle malls and commercial properties, including the expansion of existing malls, particularly in McKinley Hill, Uptown Bonifacio, Makati City, Alabang West, ArcoVia City, Las Piñas City, and Iloilo Business Park.

Keeping on track with its growing momentum, Megaworld is targeting to hit 1,000,000 square meters GFA of mall space by the year 2020.


Venice Grand Canal, McKinley Hill

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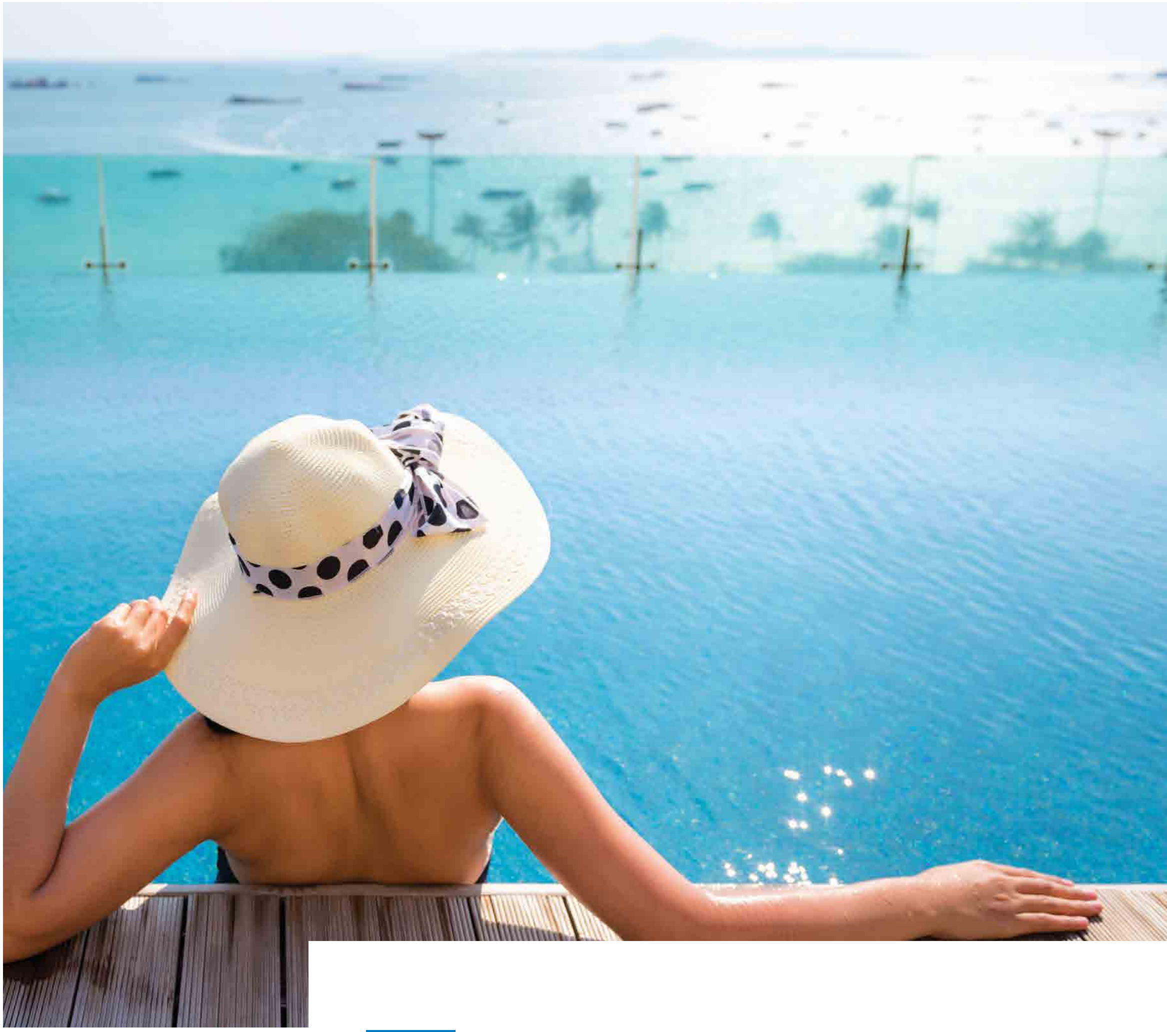
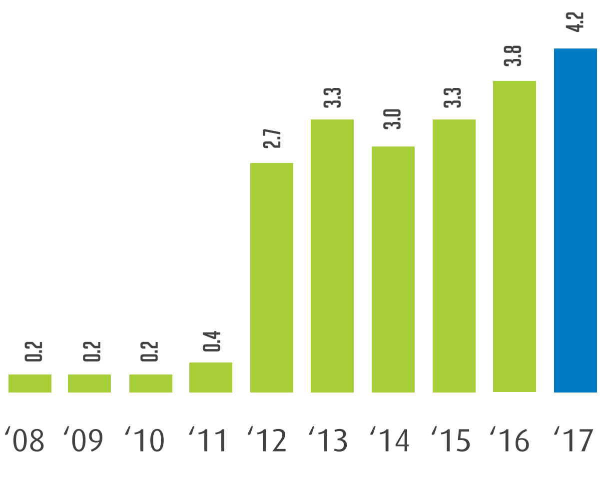
HOTELS



HOTEL REVENUES

(in billion Pesos)



AGI views the tourism sector as the next most exciting segment for the Philippine economy. Through the combined hotel operations of Travellers and Megaworld, AGI has made its mark to become the largest hotel developer in the country, with about 3,200 hotel rooms at the end of 2017. It is now poised to bring its industry leadership into an entirely new dimension.

With a keen foresight, AGI's game-changing partnerships with global brands gave birth to Marriott, Maxims and Holiday Inn hotels. With its aggressive thrust, the Group has taken a groundbreaking initiative, leading to the development of its own homegrown brands, Richmonde, Belmont and Savoy, which was recently launched in Boracay.

In just less than a decade, AGI has developed a portfolio of world-class hotels in major tourism destinations in the country, something almost unimaginable years before. In 2017, AGI posted P4.2 billion in hotel revenues, up 10% from the level a year ago.

Savoy Hotel Boracay

Sheraton Manila Hotel

Hilton Manila

Since the beginning, AGI has aimed to develop different brands to make the experience for every customer special and unique. From its architecture, elegant features and amenities, each brand has an identity all of its own.

It goes further beyond, with the development of other leisure and entertainment attractions around the hotel complex.

Notably so, it defines the Group's distinctive brand of hotel development, one that is truly customer-oriented.

Leveraging on its success in the hotel business, AGI has reached a new turning point, as it embraces its new partnerships with global hotel brands Hilton, Sheraton, Okura and Ritz Carlton.

The launching pad has been laid for AGI to set its hotel development trajectory on a grand scale, nationwide. As the leading hotel developer in the country, it stands firm on its commitment to be a major factor in the development of the Philippines' tourism industry, targeting a total of 12,000 hotel rooms in its portfolio in the next three to five years.

Hotel Okura, Manila

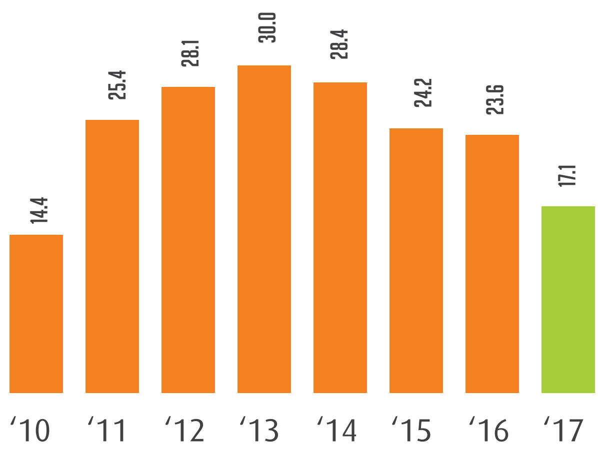
18

LEISURE AND ENTERTAINMENT

Chitty Chitty Bang Bang

GROSS GAMING REVENUES

(in billion Pesos)

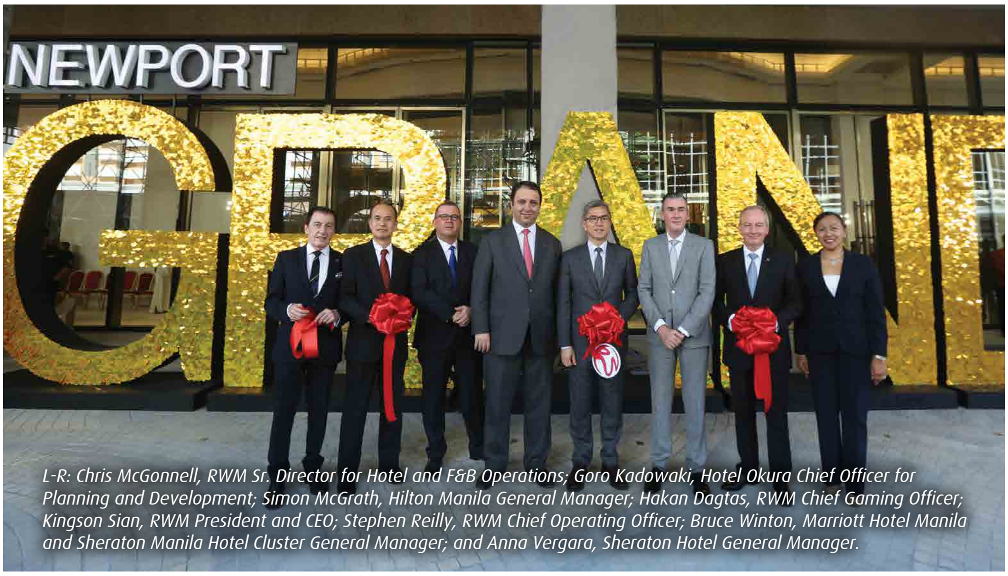


Resorts World Manila (RWM) of Travellers International is the first integrated resort in the Philippines that offers world-class gaming experience across a variety of non-gaming offerings.

The existing gaming facility called The Garden Wing, has an aggregate area of 16,076 square meters, accommodating 244 casino tables and 1,381 slot machines.

The non-VIP area is located on the ground floor with themed high-energy zone and live entertainment. At the third floor is the VIP area that includes the exclusive Genting Club, an invitation-only private gaming facility that features luxurious furnishings, fine dining options, and a high-end lounge.

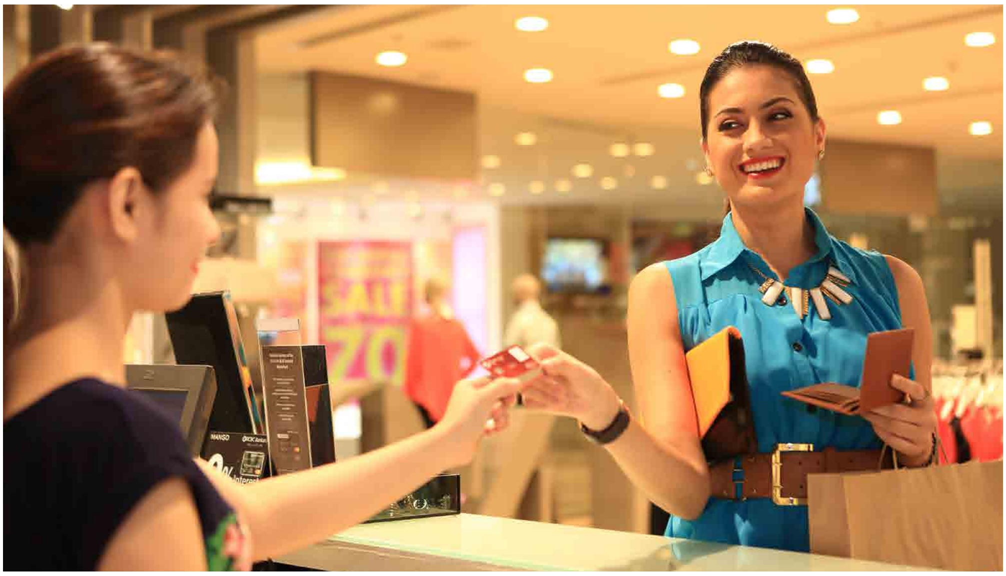
In 2017, gross gaming revenue of Travellers reached P17.1 billion with blended win rate of 5.7% from 5.2% in 2016.



L-R: Chris McGonnell, RWM Sr. Director for Hotel and F&B Operations; Goro Kadowaki, Hotel Okura Chief Officer for Planning and Development; Simon McGrath, Hilton Manila General Manager; Hakan Dagtas, RWM Chief Gaming Officer; Kingson Sian, RWM President and CEO; Stephen Reilly, RWM Chief Operating Officer; Bruce Winton, Marriott Hotel Manila and Sheraton Manila Hotel Cluster General Manager; and Anna Vergara, Sheraton Hotel General Manager.

Travellers continues to develop other leisure and entertainment attractions to complement its gaming business with its commitment to bring its guests to a whole new world of unique gaming experience. The new facility under Phase 3 expansion at RWM will be named The Grand Wing and will comprise of three luxury hotels — Hilton Manila, Sheraton Manila Hotel, and Hotel Okura Manila. This facility will add approximately 14,000 square meters of gaming space, allowing RWM to almost double its gaming capacity.

With the completion of Phase 3 development, RWM will be the largest integrated resort in the country, comprising of approximately 30,000 square meters of gaming space, 126,000 square meters of MICE area, and six international hotel brands spanning different hotel classes with a total room count of approximately 2,400 rooms.

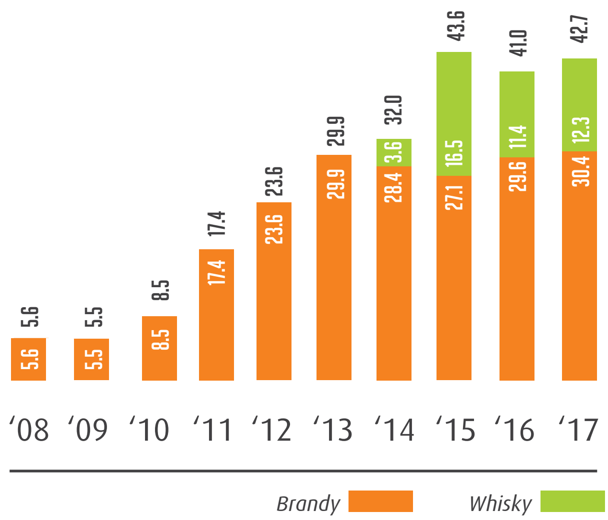


20

SPIRITS

REVENUES

(in billion Pesos)



Emperador Inc. is a pioneer in the brandy business in the Philippines. Through its strategic initiatives and keen foresight, it has built an empire in the spirits industry as it continues its dominance in the country. It has also established its footprint in the global markets by investing in world-renowned brands under Whyte and Mackay (WMG) and Bodegas Fundador. Emperador posted revenues of P42.7 billion in 2017.

In the whisky category, 2017 was another great year for WMG, which continues to gain global recognition. It won the Scotch Producer of the Year award in the 2017 IWSC.

In the Single Malt category, WMG's luxury brand, The Dalmore, sold every 50-year old bottle available for sale during the year, which only goes to show its growing popularity in the Scotch whisky industry.

Jura was also a major profit contributor with a significant launch of the redesigned range across the United States. Tamnavulin, likewise had a very successful second year since launch, with distribution gains across the United Kingdom and Europe. In 2018, WMG intends to take the brand to other markets.

A new blended malt brand called Shackleton was also launched during the year. The brand was inspired by a 1907 whisky which was supplied to the British Antarctic Expedition led by Sir Ernest Shackleton.

WMG expects to take this brand into broader distribution next year following strong market reception after its initial introductions in the United Kingdom, United States and Travel Retail.

In the international brandy category, things are looking up for Fundador. In the 2017 San Francisco World Spirits Competition, America's most prestigious wines and spirits awards event, Fundador Supremo 15YO Amontillado Cask bagged the Gold Award while Fundador Exclusivo Solera Gran Reserva received the Bronze Award. It is a firm testimonial of the company's clear vision of a grand scheme in the spirits world.

Fundador Supremo 12YO, 15YO, and 18YO were successfully launched in the Asian markets. Fundador Supremo 18YO was named "Brandy of the Year" at the 2017 China Wines and Spirits Award.

In 2017, Emperador acquired the iconic Domecq brandies and wines through Bodega Las Copas. This move solidifies the company's growing strength in the global brandy category, more significantly so with the purchase of Fundador just the year before.

In the Philippines, Emperador has yet again raised the bar, with its "*Tama Ka Dyan*" campaign, bringing its flagship brand Emperador Light Brandy into a new level of distinction.

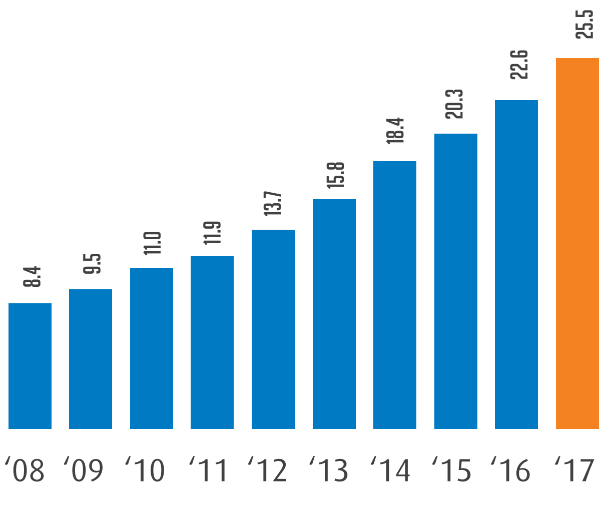
Through the development of innovative products, Emperador continues to redefine its dominance with the launch of Emperador Hotshot in May and Emperador Red in October.

Emperador continues to be a market leader, building on memorable drinking experiences, and establishing a reputation as the brand of choice among its target markets. With the acquisition of iconic brands under WMG and Fundador, it has gained strong leverage to set a firm foothold in all continents around the globe. Indeed, Emperador is well on its way to become among the fastest-growing companies in the global spirits world.

QUICK SERVICE RESTAURANTS

QSR REVENUES

(in billion Pesos)



**All figures are lifted from GADC's consolidated audited FS.*

In the highly competitive Quick Service Restaurants (QSR) market, McDonald's has maintained a reputation for quality food, cleanliness and service excellence. Everywhere, the golden arches is a symbol of happiness, with all the fun of enjoying great-tasting food.

Golden Arches Development Corporation — master franchise holder of McDonald's brand - continues to enjoy a sustained rise in revenue to P25.5 billion, reflecting a growth of 13% from its level a year ago.

Through its strategic initiatives, McDonald's in the Philippines has gained leverage by introducing more variety to its menu, together with an array of exciting promotional offers.

McDonald's continues its stronghold in breakfast by giving customers a delicious and affordable choice for their busy mornings. In 2017, the Burgerdesal was launched, which gave Filipinos the goodness of filling pandesal with a savory burger patty and a sweet-tangy sauce.

McDonald's promoted its affordable offers by pairing two well-loved and iconic products together for a complete chicken meal experience — McDonald's best-tasting Chicken McDo paired with its World Famous Fries.

Customers continued to be delighted by local burger favorites through the Burger McSavers line. This features the all-time classic Burger McDo, with a beefy patty and a sweet, tasty sauce, along with the Crispy Chicken Sandwich, made with a juicy chicken patty topped with creamy mayo and sandwiched in a soft, tasty bun.

McDonald's understands that the game is all about providing the best experience with value for money and great tasting food. It remained firm and committed to giving customers value and convenience solutions.

In response to the demands of a fast-paced world, McDonald's was the first QSR to set up a delivery service in the 90s, the first online delivery site in 2009 and the first to launch a delivery app in 2014. Using the latest advances in digital technology, it continues to improve the customer online ordering experience with its McDelivery channels.
It is now offering cashless and online payments as the next frontier for its transactions.

With its numerous memorable and effective marketing campaigns, McDonald's garnered various recognitions from prestigious award-giving bodies, including The Grand PANAta and Hall of Fame Award, the highest honors given by the Philippine Association of National Advertisers for the online video, "The Boy Who Loved to Study."

McDonald's Philippines was also recognized during the 18th Annual Franchise Excellence Awards for Best Overall Marketing Program.

In 2017, building on its strong momentum of growth, McDonald's opened 52 new restaurants in new territories such as Antique, Sorsogon, Masbate, and Agusan del Sur.

It now has a total of 566 restaurants nationwide with close to 300 kiosks serving the famous McFloat, sundae and other delicious desserts. McDonald's is looking forward to expanding its business to reach 1,000 restaurants in the Philippines in the next few years.

Savano Park,
San Jose del Monte City,
Bulacan

San Francisco, Agusan del Sur

Since the beginning, the story of McDonald's has been all about offering the best customer experience: from its great tasting, value for money food offers, to fast and friendly service in a clean, modern and welcoming restaurant environment. These are the key success factors in growing McDonald's and ensuring that it will continue to be a strong force in the QSR business in the country.

INFRASTRUCTURE

AGI has brought its highly diversified business to a whole new level with its newest subsidiary, Infracorp Development, Inc. This will handle infrastructure projects, particularly mass transport, to improve connectivity of AGI's properties.
The diversification into infrastructure building is aligned with the government's goal to usher in a golden age of infrastructure in the country.

In 2017, Infracorp submitted a proposal to the Department of Transportation (DOTr) to build a 2-kilometer monorail called Skytrain. The project will link Fort Bonifacio and Makati City, the two largest business districts in the country.
It involves the construction of a station in Guadalupe, Makati, near the MRT station, and another one in Uptown Bonifacio, a township development of AGI's property arm, Megaworld.

Using automated cable-propelled monorail technology, Skytrain will reduce travel time between the two destinations to just five minutes. With a carrying capacity of 350 passengers per trip, it is estimated to serve around 60,000 to 100,000 commuters daily. The project will also make provisions to interconnect with other transport hubs operating within the area where the monorail passes through.

"We want our townships to be connected and efficient. Our first project will not only benefit Uptown Bonifacio, but also the whole of Fort Bonifacio," said Kevin L. Tan, Infracorp Chairman and President.

As a project under the Public-Private-Partnership (PPP) program, construction of the stations will be at no cost to the government, with Infracorp having the sole right to operate the Skytrain. Infracorp is targeting to start construction in the 4th quarter of 2018, with full operation expected by 2021.
The proposal is awaiting DOTr's endorsement prior to a review by the Investment Coordination Committee of the National Economic Development Authority.

AGI's entry in the infrastructure business opens the door to the vast opportunities in the industry, most especially in the development of mass transport system in the general area of Makati City, Taguig City and Pasay City business districts, where most of its subsidiaries operate.


Uptown

CORPORATE SOCIAL RESPONSIBILITY

AGI's various advocacies in uplifting the lives of people have come a long way, achieving a significant measure of success through its corporate social responsibility initiatives. It has always been the Group's driving force to continuously give back to the society through its ongoing efforts in the fields of education, health, environment, people empowerment and other noble undertakings.

AGI Chairman, Dr. Andrew L. Tan, believes that providing a person of humble birth the opportunity of education gives him the chance to a better life. This is why AGI, through its various socio-civic arms, continues to support the education of the youth.

Megaworld Foundation, the Group's socio-civic arm, offers scholarship programs to the youth. To date, it has given out 5,800 grants and over 530 of these scholars have graduated – many with honors, some becoming board topnotchers. The students are also equipped with leadership and corporate values, as well as a sense of stewardship, as they engage in various intervention seminars and charitable activities.

The Group also promotes the value of education through flagship programs of Golden Arches — Ronald McDonald Read To Learn and Ronald McDonald Bahay Bulilit programs — that focus on different but equally essential aspects of a child's development.

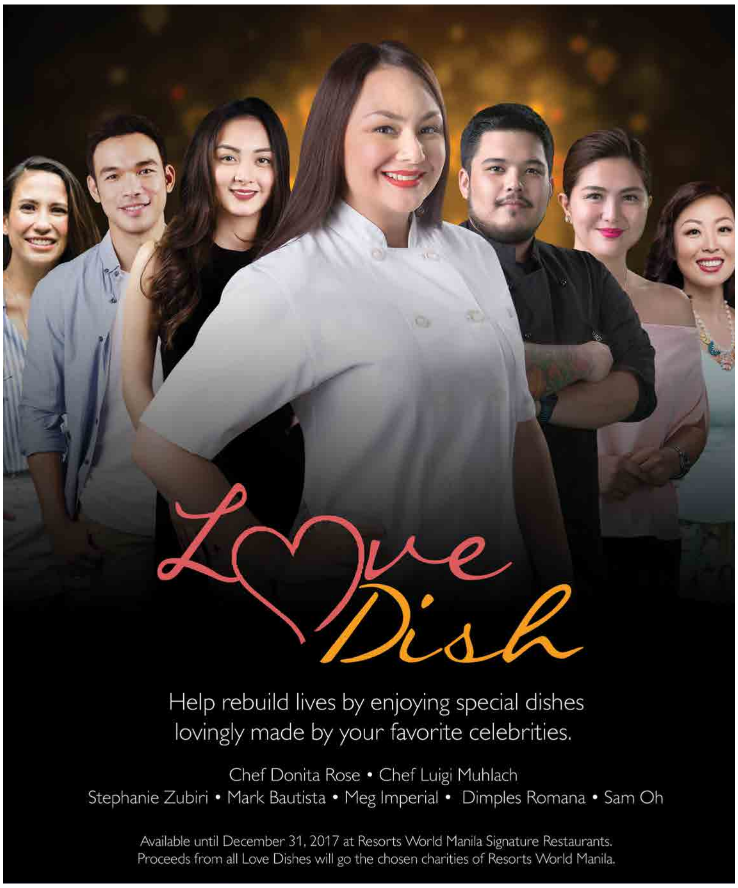
Ronald McDonald Read To Learn is a beginning reading program in partnership with the Department of Education. It provides reading materials to grade 1 and 2 multigrade school pupils and conducts training for educators on teaching beginning reading. As of 2017, the program has benefited more than 8,500 multigrade and monograde public schools nationwide, helping over 11.9 million children. Read To Learn also provides training to over 25,000 educators in the country.

Ronald McDonald Bahay Bulilit program, on the other hand, builds learning centers in areas where they are most needed. In partnership with the Department of Social Welfare and Development and local government units, the program aims to provide low-income families with a safe environment for their children to learn and play. In the program, children ages two to five years old are taught basic skills in learning centers in preparation for formal schooling. Each learning center has books and other educational materials to aid the children's learning journey. Accredited social workers and community volunteers also facilitate lessons and group activities. As of 2017, there are 28 Active Ronald McDonald Bahay Bulilit Learning Centers nationwide. The newest Bahay Bulilit learning center was opened in Quezon City in 2017.

AGI also supports activities that raise awareness for the environment. For seven years now, Megaworld Foundation and ABS-CBN Lingkod Kapamilya Foundation have joined hands in helping save the La Mesa Nature Reserve through the "Green Thumbs-up!" campaign. In 2017, about 75 Megaworld employees successfully planted 600 seedlings near La Mesa Dam, and signified their lifelong commitment to environmental conservation by affixing their marks on the fingerprint tree and commitment board.

The Group likewise extended humanitarian efforts that have helped cushion the impact of catastrophes and sustain lives. Resorts World Manila (RWM) formed the League of Volunteer Employees (LOVE) for Marawi campaign who came together in The Plaza at Newport Mall to deliver over 18,000 food packs to the victims of the Marawi conflict. The volunteers, comprising of more than 400 personnel mostly of RWM and HP Philippines, worked with Rise Against Hunger, an international NGO that works to bring food and life-changing aid to vulnerable areas. Their efforts yielded over 500 boxes of food, which were delivered to Marawi refugee centers by logistics partner, LBC.

RWM also launched the LOVE Dish Project, where members and guests had the opportunity to experience the culinary expertise of select celebrity chefs, while allowing them to contribute to charity. Seven celebrity chefs, led by former MTV Asia VJ Donita Rose, developed new recipes that were donated to RWM for inclusion in the menus of its signature restaurants. Proceeds of every order from the LOVE Dish lineup were donated to three partner charities: COR Foundation, Right Start Foundation, and the Pasay Social Welfare Development Department.



Also during the year, close to 5,000 early risers assembled at McKinley West in Taguig City to participate in RWM's second Run With Me celebrity charity race. What started out in 2016 as an initiative for employees to promote health, wellness, and camaraderie is now a major charity event that attracts fitness enthusiasts and novice runners alike. Attendance of the second Run With Me was over six times more than in 2016, and almost 2,000 more than RWM's 3,000 target. Through the collective efforts of all participants, sponsors, and celebrity leaders, a generous total of P3 million was raised for the various beneficiaries chosen by participating celebrity leaders.

AGI also supports advocacies that focus on the children's welfare. The Ronald McDonald House Charities (RMHC) is a global organization on a mission to make a difference in the lives of Filipino children, through programs that support their need for shelter, education, and happiness. Since the local chapter in the Philippines began its operations in 1995, RMHC has raised over P215 million and helped over 12 million children across the country. The organization regularly holds fundraising events such as golf tournaments, and celebrates the annual McHappy Day through the Stripes Run in order to raise awareness and support for children-related causes.

As AGI, together with its subsidiaries, continues with a myriad of life-changing advocacies, it leads the way to a better future. It defines AGI group as a catalyst towards inclusive growth, by empowering people and communities in many ways, in many areas of our society.

Ronald McDonald House Charities®
Philippines

2017 Real Estate Awards (Euromoney)

Megaworld Corporation
Best overall developer (PH)
Best developer mixed used (PH)
Best office/business developer (PH)
Best retail developer (PH)
Best residential developer (PH)
Best leisure/hotel developer (PH)

BCI Asia Awards 2017

Megaworld Corporation
Top Developer of the Philippines
(4 straight years)

2017 Real Estate and Property Awards - FIABCI

Dr. Andrew L. Tan
Personality of the year

Megaworld Corporation
Most Outstanding Developer of the Year

- Eastland Heights for Environmental Rehabilitation
- Iloilo Business Park for Masterplanned Development
- Alliance Global Tower for Sustainable Development (office)
- Savoy Hotel Boracay for Resort
- Uptown Mall for Retail Development
- Boracay Newcoast for Sustainable Development

Asia Pacific Entrepreneurship Awards 2017

Dr. Andrew L. Tan
Special Achievement Award

2017 Philippines Property Awards

Developer Awards

Megaworld Corporation
Best Developer

Special Awards

Megaworld Corporation
Special Recognition in CSR

Development Awards

Alliance Global Tower
Best Office Development

8 Forbes Town Road
Best Mixed Use Development

Design Awards

One Uptown Residence
Best Residential Architectural Design

Uptown Mall
Best Retail Architectural Design
Best Retail Landscape Architectural Design

The Florence
Best Residential Landscape Architectural Design

St. Moritz Private Estates
Best Universal Design Development

The Outlook Lamudi

Megaworld Corporation
Best Mixed Used Developer - Visayas (The Mactan Newtown)

The Venice Luxury Residences
Best Condo Architecture

Quill Awards

Megaworld Corporation
Excellence Award, Employee Engagement

Megaworld Corporation
Excellence Award, Cause for a New Coast

Anvil Awards

Megaworld Corporation

Gold Anvil Award

- Public Relations Programs: On A Sustained Basis

Silver Anvil Award

- Public Relations Programs Directed at Specific Stakeholders
- Public Relations Tools - First Smile Day Philippines
- Public Relations Tools - Lanterns of Hope
- Public Relations Tools - Megaworld Annual Report

Megaworld Foundation

Silver Anvil Award

- Public Relations Programs: Directed at Specific Stakeholders
- Public Relations Programs: On a Sustained Basis
- Good Governance / Social Responsibility / Responsible Citizenship
- Internal Employees, Shareholders, and Suppliers

Golden Globe Annual Awards for Business Excellence and Filipino Achiever 2017

Belmont Hotel
Best Leading Hotel and Resort

Asia Pacific Communications Awards

Megaworld Corporation
Gold Award (Social Media & Viral Communications)

9th Global CSR Awards 2017 (Malaysia)

Megaworld Foundation
Gold Award, Excellence in Provision of Literacy and Education

The International CSR Excellence Awards (UK)

Megaworld Foundation
Excellence Award, Employee Engagement

The International CSR Excellence Awards (UK)

Megaworld Foundation

Overall Top Award

- Champion of Champions

Gold Award

- Education
- Volunteering
- Charitable Giving
- Philanthropy

International Review of Spirits

Emperador Solera Reservada
Silver award (highly-recommended)
"Best Buy" excellence award

Emperador Light
Bronze award (recommended)
"Best Buy" excellence award

International Wine & Spirit Competition

Whyte & Mackay
Scotch Whisky Producer of the Year

Bodegas Fundador
Fortified Wine Producer of the Year

Harveys Fino
Gold Medal in Sherry Fino

Dalmore Valour Single Malt Scotch Whisky
Gold Outstanding Medal

Terry Primero
Silver Medal in Grape Brandy

World Spirits Competition

Fundador Supremo 15YO Amontillado Cask
Gold Medal

Fundador Exclusivo Solera Gran Reserva
Bronze Medal

The Dalmore 12YO
Double Gold Medal

The Dalmore 18YO
Silver Medal

Jura 10YO
Double Gold Medal

Fundador Supremo
Gold Medal

Zabana Premium White
Gold Medal

China Wines and Spirits Awards

Fundador Supremo 18YO
Brandy of the Year

Terry Primero
Double Gold Medal

Harveys Fino
Silver Medal

Monde World Selection

Zabana Single Barrel Reserve
Gold Medal

Zabana Premium White
Gold Medal

International Spirit Challenge

The Dalmore 25YO
The Dalmore Cigar Malt
Gold Medal

Tamnavulin
Double Gold Medal

The Dalmore 12YO
The Dalmore 15YO
The Dalmore 18YO
The Dalmore 35YO
The Dalmore 50YO
The Dalmore King Arthur III
The Dalmore Quintessence
The Dalmore Valour
Silver Medal

Shackleton Blended Scotch Whisky
Silver Medal

Zabana Single Barrel Reserve
Silver Medal

Zabana Premium White
Double Gold Medal

Broadway World Awards

Newport Performing Arts Theatre
Best Theatrical Venue

Gawad Buhay Awards

Annie
Outstanding Ensemble Performance
Outstanding Production for a Musical

28th Asia Pacific Stevie Awards

Annie #Brighter Tomorrow
Asia-Pacific Excellence Award
Bronze Award

30th Aliw Awards

Aegis na Aegis: The Story of Us
Best Major Concert (Group)

Drayber at Bar 360
Best Performance in Hotels, Music Lounges and Bars (Group)

AON Best Employers Philippines Awards

McDonald's Philippines

- Best Employer for Commitment to Employer Brand
- Best Employer for Commitment to Generation Y

18th Annual Franchise Excellence Awards

McDonald's Philippines

- Best Over-All Marketing Program under the food category
- International Master Franchise Award

RMHC's Read To Learn Program
Best Corporate Social Responsibility Program

PANAta Marketing Effectiveness Awards

"The Boy Who Loved to Study"
Grand PANAta Award - Hall of Fame Award

"Doing business is all about providing a good product or service to your customers. A good businessman is he who knows that what is successful today may not be so tomorrow. Technology changes so fast, and so do people's needs and wants. That's why it would do well for a businessman to know how to adapt to change. He must constantly reinvent the business, or it won't last."

- DR. ANDREW L. TAN
Chairman of the Board

Dr. Tan, 68 years old, Filipino, has served as Chairman of the Board since September 2006 and as Vice Chairman of the Board from August 2003 to September 2006. He is also the Chairman of Emperador Inc. Dr. Tan is the Chairman and President of Megaworld Corporation from August 1989 to present. He is also the Chairman of subsidiaries of Megaworld – Global-Estate Resorts, Inc. and Empire East Land Holdings, Inc. He was also elected as Director of Travellers International Hotel Group, Inc. on July 2008. He is concurrently the Chairman of the Board and President of Megaworld Land, Inc., Richmonde Hotel Group International Limited, and Yorkshire Holdings, Inc. He is also chairman of Emperador Distillers, Inc., Alliance Global Brands, Inc., Consolidated Distillers of the Far East, Inc., Eastwood Cyber One Corporation, Megaworld Central Properties, Inc., Megaworld Foundation, Inc., Townsquare Development, Inc., and Adams Properties, Inc. He also serves as Vice Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation. He sits in the boards of Andresons Global, Inc. and Twin Lakes Corporation. Dr. Tan pioneered the live-work-play-learn model in the real estate development through the Megaworld Corporation's integrated township communities, fueling the growth of the business process outsourcing (BPO) industry, food and beverage, and quick service restaurants industries. Dr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

BOARD OF DIRECTORS

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

Mr. Ortiz-Luis, Jr., 74 years old, Filipino, has served as Independent Director and Vice Chairman of the Board since September 2007. He is the President of the Philippine Exporters Confederation, Inc. (PHILEXPORT) and Honorary Chairman and Treasurer of the Philippine Chamber of Commerce & Industry. He is also Honorary Chairman of Integrated Concepts & Solutions, Inc. and Vice Chairman of Export Development Council. He is a Director of Waterfront Philippines, Inc., Philippine Estate Corporation, B.A. Securities, Manila Exposition Complex, Inc., Calapan Ventures, Inc. and Jolliville Holdings Corporation. He is also an Independent Director of Forum Pacific, Inc.

KINGSON U. SIAN
President and Director

Mr. Sian, 56 years old, Filipino, has served as Director and President since February 20, 2007. He also holds the position as Director/Executive Director of Megaworld Corporation. He is also the Director and President of Travellers International Hotel Group, Inc. since June 2008 and as Chief Executive Officer since October 2014. Mr. Sian also served as the Director of Emperador Inc. from August 2013 to 2017. He is also the Chairman & President of Asia Finest Hotels & Resorts, Inc., Megaworld Resort Estates, Inc., Prestige Hotels & Resorts, Inc., and Manila Bayshore Property Holdings, Inc. He is Director/President of Adams Properties, Inc., Eastwood Cyber One Corporation, Eastwood Locator's Assistance Center, Inc., and Forbestown Properties Holdings, Inc. He is also a Director of Asia E-Commerce, Inc., Citywalk Building Administration, Inc., Eastwood Corporate Plaza Building Administration, Inc., Eastwood City Estates Association, Inc., Forbes Town Commercial Center Administration, Inc., ICITE Building Administration, Inc., Paseo Center Building Administration,Inc.,Techno Plaza One Building Administration, Inc., and World Café, Inc. and also the Senior Vice President & Chief Executive Officer of Megaworld Land, Inc. Mr. Sian graduated from the University of the Philippines with the degree of Bachelor

of Science in Business Economics. He obtained his Masters Degree in Business Administration for Finance and Business Policy from the University of Chicago.

KEVIN ANDREW L. TAN
Chief Executive Officer and Director

Mr. Tan, 38 years old, Filipino, has served as Director since April 20, 2012. He also holds the position as Director of Global-Estate Resorts, Inc. since June 2014. He serves as Director of Emperador Inc. and subsidiaries of Megaworld Corporation, Global-Estate Resorts, Inc. and Empire East Land Holdings, Inc. He is concurrently a Director of Emperador Distillers, Inc., Alliance Global Brands, Inc., Anglo Watsons Glass, Inc., Yorkshire Holdings, Inc., The Bar Beverage, Inc., Emperador Brandy, Inc., and New Town Land Partners, Inc. He has over 11 years of experience in retail leasing, marketing and operations. He currently heads the Commercial Division of Megaworld Corporation, which markets and operates the Megaworld Lifestyle Malls, including Eastwood Mall and The Clubhouse at Corinthian Hills in Quezon City, Venice Grand Canal at McKinley Hill and Burgos Circle at Forbes Town, both in Fort Bonifacio, Newport Mall at Resorts World Manila in Pasay City, Lucky Chinatown Mall in Binondo, Manila, Uptown Mall in Uptown Bonifacio and Southwoods Mall in Laguna. Mr. Tan holds a Bachelor of Science Business Administration degree, major in Management, from the University of Asia and the Pacific.

KATHERINE L. TAN
Treasurer and Director

Ms. Tan, 66 years old, Filipino, has served as Director and Treasurer since February 2007. She also holds the position as Director and Treasurer of Emperador Inc. since August 2013. She has served as Director of Megaworld Corporation from August 1989 to present where she previously was the Treasurer from August 1989 to June 1995. Ms. Tan is also the Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc. She is also Director/President of Consolidated Distillers of the Far East, Inc., Raffles and Company, Inc., and The Andresons Group, Inc. She is the Director/Treasurer of Alliance Global Brands, Inc., Emperador Brandy, Inc., Emperador Distillers, Inc., and Yorkshire Holdings, Inc. She is a Director of Emperador International Limited, Kenrich Corporation, McKester Pik-Nik International Limited, Megaworld Cayman Islands, Inc., Venezia Universal Limited, and The Bar Beverage, Inc. She is the Treasurer of Newtown Land Partners, Inc. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

BOARD OF DIRECTORS

WINSTON S. CO
Director

Mr. Co, 60 years old, Filipino, has served as Director since 1998 where he previously was Vice Chairman of the Board from November 1999 to August 2003 and Chairman from June 1998 to October 1999. He also holds the position of President and Chief Executive Officer of Emperador Inc. since August 2013. He is the Chairman and President of New Town Land Partners, Inc., Chairman of Anglo Watsons Glass, Inc. and Director/ President of Emperador Distillers, Inc. He sits in the boards of Alliance Global Brands, Inc., Forbes Town Properties & Holdings, Inc., McKester Pik-Nik International Limited, Raffles & Company, Inc., and The Bar Beverage, Inc. and also Senior Vice President of The Andresons Group, Inc. Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce.

ALEJO L. VILLANUEVA, JR.
Independent Director

Mr. Villanueva, 75 years old, Filipino, has served as Independent Director since August 2001. He also held the position of Independent Director of Emperador Inc. from August 2013 to present, of Empire East Land Holdings, Inc. from June 2007 to present, and of Suntrust Home Developers, Inc. from October 2012 to present. He is the Chairman of Ruru Courier Systems, Inc. and Vice Chairman of Public Relations Counsellors Foundation of the Philippines, Inc. He is Director of First Capital Condominium Corporation, a non-stock non-profit corporation. He is a professional consultant who has more than twenty years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse BOT program (a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, graduating 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.

KEY OFFICERS

DINA D.R. INTING
Chief Financial Officer

Ms. Inting has served as Chief Financial Officer of the company since January 1995 and at present its Compliance Officer and Corporate Information Officer. She also holds position as the Chief Financial Officer, Compliance Officer and Corporate Information Officer of Emperador Inc. She is currently director of Progreen Agricorp, Inc. She gained an 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.

ATTY. DOMINIC V. ISBERTO
Corporate Secretary

Mr. Isberto has served as the Corporate Secretary of the company since September 14, 2007. He also served as Corporate Secretary and Assistant Corporate Information Officer for Global-Estate Resorts, Inc. He is also the Corporate Secretary of Emperador Inc, Twin Lakes Corporation, Eastwood City Estates Association, Inc., Suntrust Properties, Inc. and Fil-Estate Properties, Inc. He also serves as Assistant Corporate Secretary of Adams Properties, Inc. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

a. Key Performance Indicators

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

				Percent	Growth
In Million Pesos	2017	2016	2015	2017	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%		
	31-Dec-17	31-Dec-16	31-Dec-15		
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		

[1]Non-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/ Adjusment	-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	MEG	EMP	RWM	GADC	Others	TOTAL
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	MEG	EMP	RWM	GADC	Others	TOTAL
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:

In Million Pesos	2017	2016	2015	2017 vs 2016	2016 vs 2015
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 the 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, 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 inspite 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 21^{st} integrated urban township, the 140-hectare Maple Grove in General Trias, Cavite and, later in 2016, the 22^{nd} 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 – Richmonde, 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% 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% in 2016 because of lower cash level during the year as compared to 2015 which resulted in lower interest income earnings in 2016. **Finance costs and other charges** went up 18% due to higher interest expense in 2016 as new loans were obtained during the year.

Income tax increased by 12% in 2016 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%.

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 Emperador 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 Emperador 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 Emperador'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** 1.9 times. Current assets amounted to P230.0 billion while current liabilities amounted to P123.1 billion at the end of 2016.

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 2016, primarily due to cash outlaid in the completion of Emperador'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 in 2016 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. Emperador 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 Hotel Okura Manila, 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 in 2016.

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 in 2016. 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 in 2016 and the free-up of Megaworld bonds held by the Group. Last yearend 2015, such bonds were deducted from the bonds payable balance in consolidation, and at end-2016, 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.

*b.2. **Liquidity and Capital Resources***

The consolidated statements of financial position showed strong liquidity with current assets exceeding current liabilities 2.4 times and 1.9 times 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 2 times and equity 2 times 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.

Amounts in Million Pesos	31-Dec-17	31-Dec-16	31-Dec-15
Cash and equivalents	55,673	48,673	68,594
FVTPL/AFS financial assets	13,948	11,138	10,260
Total Available	69,621	59,811	78,854
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*	5,227	5,263	5,259
Total Debt	180,566	143,924	117,755
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 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 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 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.

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 April 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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Series of 2018

Notary Public

ATTY. FRANCISCO G. ZARATE
Notary Public Until Dec. 31, 2018
Notarial Commission No. 2017051-Manila
TIN No. 180-238-3581/Roll No. 17574
IBP O.R. No. 1051177-Mla. 11/14/16-Yr. 2018
PTR No. 5995223/Manila/1-3-2017
MCLE Exemption No. V-000114 until 2019

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.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
ASSETS			
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
Total Current Assets		**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
Total Non-current Assets		**293,916,355,234**	261,222,671,530
TOTAL ASSETS		P **561,821,792,882**	P 491,296,962,915
LIABILITIES AND EQUITY			
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	**22,178,277,568**	22,151,381,020
Total Current Liabilities		**111,714,388,678**	123,071,629,749
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	**27,356,716,682**	26,476,910,868
Total Non-current Liabilities		**178,265,356,413**	122,121,661,718
Total Liabilities		**289,979,745,091**	245,193,291,467
EQUITY	21		
Equity attributable to owners of the parent company		**162,574,974,361**	147,140,151,266
Non-controlling interest		**109,267,073,430**	98,963,520,182
Total Equity		**271,842,047,791**	246,103,671,448
TOTAL LIABILITIES AND EQUITY		P **561,821,792,882**	P 491,296,962,915

See Notes to Consolidated Financial Statements.

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	**2,768,704,769**	2,473,666,563	3,155,787,700
		141,621,986,211	139,740,882,774	139,097,859,538
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	**6,382,794,291**	6,932,664,573	5,852,497,011
		113,499,644,235	111,041,200,099	112,170,904,438
PROFIT BEFORE TAX		**28,122,341,976**	28,699,682,675	26,926,955,100
TAX EXPENSE	28	**6,295,772,435**	5,880,979,710	5,240,654,206
NET PROFIT		**21,826,569,541**	22,818,702,965	21,686,300,894
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)
		795,114,452	(705,477,989)	719,579,439
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)
		681,516,672	(2,614,301,965)	(1,911,052,113)
TOTAL COMPREHENSIVE INCOME		**P 23,303,200,665**	P 19,498,923,011	P 20,494,828,220
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		**6,895,437,265**	8,017,693,426	7,721,535,577
		P 21,826,569,541	P 22,818,702,965	P 21,686,300,894
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		**7,297,124,893**	6,259,491,289	6,912,947,303
		P 23,303,200,665	P 19,498,923,011	P 20,494,828,220
Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company:	22			
Basic		**P 1.4773**	P 1.4587	P 1.3763
Diluted		**P 1.4740**	P 1.4437	P 1.3715

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Philippine Pesos)

							Attributable to
	Notes	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
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)
Transactions with owners:							
Acquisition of treasury shares		-	-	(629,988,966)	-	-	-
Share-based compensation	21, 27	-	-	-	-	-	-
Change in percentage ownership		-	-	-	-	-	-
Acquisition and incorporation of new subsidiaries		-	-	-	-	-	-
Dividend from investee		-	-	-	-	-	-
Recognition of conversion options		-	-	-	-	-	-
Retirement of preferred shares		-	-	-	-	-	-
		-	-	(629,988,966)	-	-	-
Appropriation of retained earnings	21	-	-	-	-	-	-
Reversal of appropriation	21	-	-	-	-	-	-
Total comprehensive income		-	-	-	548,891,312	(277,796,725)	834,745,495
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)**
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)
Transactions with owners:							
Share-based compensation	21, 27	-	-	-	-	-	-
Reclassification adjustment		-	-	-	(11,091,008)	1,100,000	-
Change in percentage ownership		-		-	-	-	-
Acquisition and incorporation of new subsidiaries		-	-	-	-	-	-
Dividend from investee		-	-	-	-	-	-
Cash dividends declared	21	-	-	-	-	-	-
		-	-	-	(11,091,008)	1,100,000	-
Appropriation of retained earnings	21	-	-	-	-	-	-
Reversal of appropriation	21	-	-	-	-	-	-
Total comprehensive income		-	-	-	(503,068,166)	1,167,147,883	(2,225,657,534)
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)
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)
Transactions with owners:							
Share-based compensation	21, 27	-	-	-	-	-	-
Change in percentage ownership		-	-	-	-	-	-
Acquisition of a subsidiary		-	-	-	-	-	-
Dividend from investee		-	-	-	-	-	-
Cash dividends declared	21	-	-	-	-	-	-
		-	-	-	-	-	-
Appropriation of retained earnings	21	-	-	-	-	-	-
Reversal of appropriation	21	-	-	-	-	-	-
Total comprehensive income		-	-	-	479,870,969	(184,840,938)	(677,914,431)
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)

See Notes to

Owners of the Parent Company							
Revaluation Reserves on Cash Flow Hedge	Dilution Gain	Share Options	Retained Earnings: Appropriated	Retained Earnings: Unappropriated	Total	Noncontrolling Interest	Total Equity
-	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
-	-	-	-	-	(629,988,966)	-	(629,988,966)
-	-	-	-	-	-	49,457,009	49,457,009
-	58,736,289	-	-	-	58,736,289	40,140,199	98,876,488
-	-	-	-	-	-	4,503,257,026	4,503,257,026
-	-	-	-	-	-	(1,719,702,265)	(1,719,702,265)
-	-	-	-	-	-	136,151,386	136,151,386
-	-	-	-	-	-	(2,875,000)	(2,875,000)
-	58,736,289	-	-	-	(571,252,677)	3,006,428,355	2,435,175,678
-	-	-	2,748,722,000	(2,748,722,000)	-	-	-
-	-	-	(2,532,837,400)	2,532,837,400	-	-	-
(30,896,586)	-	-	-	14,931,132,276	16,006,075,772	7,297,124,893	23,303,200,665
(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
-	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
-	-	88,261,583	-	-	88,261,583	48,020,050	136,281,633
-	-	(71,077,821)	-	(113,265,968)	(194,334,797)	194,334,797	-
-	-	-	-	95,823,396	95,823,396	(112,820,053)	(16,996,657)
-	-	-	-	-	-	143,598,107	143,598,107
-	-	-	-	-	-	(1,700,800,865)	(1,700,800,865)
-	-	-	-	(3,145,527,772)	(3,145,527,772)	-	(3,145,527,772)
-	-	17,183,762	-	(3,162,970,344)	(3,155,777,590)	(1,427,667,964)	(4,583,445,554)
-	-	-	2,084,587,400	(2,084,587,400)	-	-	-
-	-	-	(1,542,340,660)	1,542,340,660	-	-	-
-	-	-	-	14,801,009,539	13,239,431,722	6,259,491,289	19,498,923,011
-	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
-	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
-	-	149,679,010	-	-	149,679,010	150,322,881	300,001,891
-	-	-	-	-	-	(2,291,217,054)	(2,291,217,054)
-	-	-	-	-	-	254,687,970	254,687,970
-	-	-	-	-	-	(1,907,995,136)	(1,907,995,136)
-	-	-	-	(3,145,527,772)	(3,145,527,772)	-	(3,145,527,772)
-	-	149,679,010	-	(3,145,527,772)	(2,995,848,762)	(3,794,201,339)	(6,790,050,101)
-	-	-	1,990,590,660	(1,990,590,660)	-	-	-
-	-	-	(1,225,000,000)	1,225,000,000	-	-	-
-	-	-	-	13,964,765,317	13,581,880,917	6,912,947,303	20,494,828,220
-	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

Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEARS 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
Balance carried forward		**P 13,583,913,546**	P 9,418,921,227	P 9,317,468,701

	Notes	2017	2016	2015
Balance brought forward		**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**	1,330,728,915	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:

1. 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.
2. 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).
3. 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.

(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%
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%

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI 2017	2016	2015
Subsidiaries					
Megaworld and subsidiaries					
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 Compaña 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%
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%
Tradewind Estates, Inc.	TEI	(n)	**82%**	82%	100%
Zabana Rum, Inc.		(o)	**82%**	-	-
Emperador International Ltd.	EIL	(e)	**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.	DDLM	(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%

(Amounts in Philippine Pesos)

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI 2017	2016	2015
Subsidiaries					
Emperador and subsidiaries					
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%
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%

Subsidiaries/Associates/ Joint Ventures	Short Name	Notes	Percentage of Effective Ownership of AGI 2017	2016	2015
Subsidiaries					
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.	NTLPI		**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.	FRTMI	(z)	**50%**	50%	50%
Bodega Las Copas, S.L.	BLC	(aa), 12.4	**41%**	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) 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) AGI'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.

(Amounts in Philippine Pesos)

(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).

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.

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	(	55,744,865)
Net assets acquired		5,727,067,762
Non-controlling interest	(	3,655,374,576)
Preacquisition loss	(	2,715,950)
Net equity acquired	P	2,068,977,236
Fair value of cash consideration transferred	P	2,068,977,236

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.

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

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	(21,796,134)
Net assets acquired	3,114,046,398
Non-controlling interest	(254,687,970)
Preacquisition loss	(291,847)
Net equity acquired	2,859,066,581
Fair value of cash consideration transferred	2,855,308,414
Gain on acquisition	P 3,758,167

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	(	118,647,500)
Total net assets		77,450,334
Total consideration received in cash		199,900,330
Cash and cash equivalents disposed of	(	75,643,883)
Net cash received		124,256,447
Derecognized non-controlling interest	(	4,500,000)
Gain on deconsolidation	P	51,306,113

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.

(Amounts in Philippine Pesos)

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.

(Amounts in Philippine Pesos)

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 acquire 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).

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

(a) 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 form 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		
	Megaworld	**Travellers**	**GADC**	**Emperador**	**Total**
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	1,600,392,938	172,363,323	366,821,027	397,730,690	2,537,307,978
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	(28,189,136,661)	(17,637,976,799)	(22,079,908,123)	(32,562,510,354)	(100,469,531,937)
	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	(1,733,622,248)	(1,274,812,002)	(172,099,662)	(1,424,757,176)	(4,605,291,088)
Profit before tax	18,653,285,096	496,787,902	2,494,562,667	7,866,158,701	29,510,794,366
Tax expense	(3,792,600,176)	(218,395,439)	(754,517,341)	(1,503,052,461)	(6,268,565,417)
SEGMENT PROFIT	**P 14,860,684,920**	**P 278,392,463**	**P 1,740,045,326**	**P 6,363,106,240**	**P 23,242,228,949**
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		
	Megaworld	Travellers	GADC	Emperador	Total
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	1,529,137,444	85,896,223	182,258,141	444,501,068	2,241,792,876
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	(27,260,830,172)	(21,036,434,023)	(19,714,018,727)	(30,053,548,917)	(98,064,831,839)
	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	(2,867,726,950)	(1,458,618,238)	(231,718,113)	(713,874,962)	(5,271,938,263)
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	(3,489,339,020)	(64,314,408)	(529,208,455)	(1,742,331,316)	(5,825,193,199)
SEGMENT PROFIT	P 11,712,676,602	P 3,432,477,720	P 1,233,498,609	P 7,719,943,699	P 24,098,596,630
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

(Amounts in Philippine Pesos)

	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	1,791,188,160	116,287,960	81,529,137	350,349,040	2,339,354,297
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	(27,039,717,335)	(21,557,822,114)	(18,064,249,651)	(34,027,719,502)	(100,689,508,602)
	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	(2,722,669,407)	(775,371,564)	(184,499,714)	(543,116,587)	(4,225,657,272)
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	(3,284,678,495)	(49,370,190)	(365,972,332)	(1,489,782,064)	(5,189,803,081)
SEGMENT PROFIT	P 10,596,245,959	P 4,017,608,731	P 760,491,115	P 6,960,056,286	P 22,334,402,091
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.

	2017	2016	2015
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	**P 141,621,986,211**	P 139,740,882,774	P 139,097,859,538
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	**P 21,826,569,541**	P 22,818,702,965	P 21,686,300,894
Assets			
Segment assets	**P 525,915,518,632**	P 466,041,845,285	P 430,656,017,547
Unallocated corporate assets	**35,906,274,250**	25,255,117,630	18,068,736,840
Total assets reported in the consolidated statements of financial position	**P 561,821,792,882**	P 491,296,962,915	P 448,724,754,387
Liabilities			
Segment liabilities	**P 241,491,572,813**	P 202,075,641,645	P 179,310,481,810
Unallocated corporate liabilities	**48,488,172,278**	43,117,649,822	38,226,078,586
Total liabilities reported in the consolidated statements of financial position	**P 289,979,745,091**	P 245,193,291,467	P 217,536,560,396

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

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

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:

	Note		2017		2016
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)
			73,812,169,152		57,600,956,140
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)
			34,775,424,756		35,678,314,324
		P	**108,587,593,908**	P	93,279,270,464

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.

(Amounts in Philippine Pesos)

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.

	Note	2017	2016
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		P 896,930,482	P 762,954,888

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:

	2017	2016
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	19,572,259	-
	P 13,516,474,011	P 10,465,266,604

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)].

	Notes	2017	2016
At cost –			
Real estate for sale	17(j)	P 62,117,798,015	P 60,091,240,355
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		2,318,195,098	2,548,122,730
		29,778,747,005	25,095,278,332
Allowance for inventory write-down	2.6	(317,410,880)	(258,399,045)
		29,461,336,125	24,836,879,287
		P 91,579,134,140	P 84,928,119,642

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	2017	2016
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		P 317,410,880	P 258,399,045

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).

(Amounts in Philippine Pesos)

9. OTHER ASSETS

The composition of this account is shown below.

	Notes	2017	2016
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		**414,053,043**	305,217,647
		10,213,596,675	8,235,312,421
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		**566,737,009**	324,348,271
		5,120,358,496	4,969,404,868
		P 15,333,955,171	P 13,204,717,289

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:

	2017	2016
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	**P 7,189,243,600**	P 6,310,683,171

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
- Northill 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
- Gentri 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:

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

This account comprises the following:

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

The securities can be further analyzed as follows:

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

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

	2017	2016
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)	26,875,114	(10,848,693)
Balance at end of year	P 431,645,289	P 673,115,286

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 below and in the succeeding pages.

	Notes	2017	2016
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		**4,000,000**	4,000,000
		3,124,742,371	3,094,906,084
Accumulated share in net losses:			
Balance at beginning of year		(**424,655,817**)	(561,522,560)
Share in net profits for the year		**118,829,303**	136,866,743
Balance at end of year		(**305,826,514**)	(424,655,817)
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		**33,916,495**	(27,975,475)
Balance at end of year		**44,685,164**	10,768,669
		2,863,601,021	2,681,018,936
Investment of EMP in BLC, a joint venture – acquisition cost	12.4	**3,703,721,965**	3,703,721,965
Withdrawal		(**858,354,900**)	-
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		(**60,952,241**)	(93,391,294)
Balance at end of year		**388,577,700**	295,428,091
		3,233,944,765	3,999,150,056
Investment of Travellers in FRTMI, a joint venture – acquisition cost		**10,000,000**	10,000,000
Accumulated share in net losses:			
Balance at beginning of year		(**538,345**)	-
Share in net losses for the year		(**232,813**)	(538,345)
Balance at end of year		(**771,158**)	(538,345)
		9,228,842	9,461,655
Balance carried forward		P **6,106,774,628**	P 6,689,630,647

(Amounts in Philippine Pesos)

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

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)
	P 19,425,453	**P 5,769,193**	**P 3,567,529**	**P 608,128**

	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)
	P 20,241,210	P 7,230,197	P 5,003,207	P 755,693

(Amounts in Philippine Pesos)

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)]

	Land and Land Improvements	Buildings and Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Condominium Units, Fixtures and Other Equipment	Construction in Progress	Total
December 31, 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	**P 13,047,809,066**	**P 38,604,643,208**	**P 11,234,985,946**	**P 558,776,633**	**P 6,234,556,887**	**P 28,345,712,887**	**P 98,026,484,627**
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	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
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	P88,951,168,007
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	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

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

	Land and Land Improvements	Buildings and Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Condominium Units, Fixtures and Other Equipment	Construction in Progress	Total
Balance at January 1, 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	**P 13,047,809,066**	**P 38,604,643,208**	**P 11,234,985,946**	**P 558,776,633**	**P 6,234,556,887**	**P 28,345,712,887**	**P 98,026,484,627**
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	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

(Amounts in Philippine Pesos)

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)]

	Land and Land Improvements	Buildings and Improvements	Total
December 31, 2017			
Cost	P 9,946,455,829	P 72,023,251,889	P 81,969,707,718
Accumulated depreciation	-	(8,970,240,657)	(8,970,240,657)
Net carrying amount	**P 9,946,455,829**	**P 63,053,011,232**	**P 72,999,467,061**
December 31, 2016			
Cost	P 10,044,499,117	P 59,686,451,713	P 69,730,950,830
Accumulated depreciation	-	(7,424,181,679)	(7,424,181,679)
Net carrying amount	P 10,044,499,117	P 52,262,270,034	P 62,306,769,151
January 1, 2016			
Cost	P 9,823,058,912	P 44,538,546,995	P 54,361,605,907
Accumulated depreciation	-	(6,190,659,719)	(6,190,659,719)
Net carrying amount	P 9,823,058,912	P 38,347,887,276	P 48,170,946,188

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

	Land and Land Improvements	Buildings and Improvements	Total
Balance at January 1, 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	-	(1,619,168,429)	(1,619,168,429)
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	(169,245,563)	-	(169,245,563)
Depreciation charges for the year	-	(1,546,058,978)	(1,546,058,978)
Balance at December 31, 2017, net of accumulated depreciation	**P 9,946,455,829**	**P 63,053,011,232**	**P 72,999,467,061**
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	-	(457,721,767)	(457,721,767)
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	-	(766,776)	(766,776)
Reclassifications – net	36,009,879	2,796,263,277	2,832,273,156
Depreciation charges for the year	-	(1,239,429,762)	(1,239,429,762)
Balance at December 31, 2016, net of accumulated depreciation	P 10,044,499,117	P 52,262,270,034	P 62,306,769,151

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.

(Amounts in Philippine Pesos)

15. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of the reporting periods are shown below (see Note 2.12 and 2.19).

	Goodwill	Trademarks	Leasehold Rights	Computer Software	Franchise Fee	Total
December 31, 2017						
Cost	P 19,848,347,372	P 20,889,925,571	P 1,193,783,886	P 48,075,687	P 55,649,677	P 42,035,782,193
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	**P 20,090,166,886**	**P 20,516,620,680**	**P 958,793,091**	**P 18,510,761**	**P 53,567,853**	**P 41,637,659,271**
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	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
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	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

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

	Goodwill	Trademarks	Leasehold Rights	Computer Software	Franchise Fee	Total
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	**P 20,090,166,886**	**P 20,516,620,680**	**P 958,793,091**	**P 18,510,761**	**P 53,567,853**	**P 41,637,659,271**
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	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

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.

(Amounts in Philippine Pesos)

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
		P **45,648,707,657**	P 38,967,103,207

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.

	2017	2016
Current:		
Local	P **29,039,149,317**	P 18,420,889,667
Foreign	**3,661,326,840**	2,674,767,650
	32,700,476,157	21,095,657,317
Non-current:		
Local	**46,168,893,532**	36,075,216,708
Foreign	**62,104,193,498**	19,425,000,000
	108,273,087,030	55,500,216,708
	P **140,973,563,187**	P 76,595,874,025

The summarized terms and conditions of each availed loan as at December 31, 2017 and 2016 as follows:

Outstanding Principal Balance 2017	2016	Explanatory Notes	Interest Rate	Security	Maturity date
Megaworld					
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
P 29,692,439,523	P 29,211,538,461				
EELHI					
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
P 2,001,412,976	P 1,958,549,476				
LFI					
P 375,000,000	P 500,000,000	(k)	Fixed at 5.0% subject to repricing	Unsecured	2020
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
900,000,000	400,000,000	(n)	3.50% subject to repricing	Unsecured	2021-2022
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
Balance carried forward					
P 62,592,500,278	P 58,277,773,041				

(Amounts in Philippine Pesos)

Outstanding Principal Balance 2017	Outstanding Principal Balance 2016	Explanatory Notes	Interest Rate	Security	Maturity date
Balance brought forward					
P 62,592,500,278	P 58,277,773,041				
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				
Travellers					
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				
AGI Parent					
P -	P 5,000,000,000	(ll)	Fixed at 3.0%	Unsecured	2017
AG Cayman					
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).

(Amounts in Philippine Pesos)

(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:

	2017	2016
Current:		
Megaworld	P **9,976,270,876**	P -
AG Cayman	-	24,855,927,368
Travellers	-	14,879,062,940
	9,976,270,876	39,734,990,308
Non-current –		
Megaworld	**24,388,714,176**	22,330,589,969
	P 34,364,985,052	P 62,065,580,277

The significant terms of the bonds are discussed below and in the succeeding page.

Face Amount	Outstanding Principal Balance 2017	Outstanding Principal Balance 2016	Explanatory Notes	Interest Rate	Nature	Maturity
$ 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	-	14.9 billion	(e)	Fixed at 6.90%	Unsecured	2017
	P 34.4 billion	P 62.1 billion				

(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:

	Notes	2017	2016
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
		1,857,022,803	2,013,695,292
		P 2,108,620,383	P 2,013,695,292

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).

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

(Amounts in Philippine Pesos)

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		**771,559,859**	757,818,293
		22,178,277,568	22,151,381,020
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	**295,763,259**	293,887,597
		27,356,716,682	26,476,910,868
		P 49,534,994,250	P 48,628,291,888

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.

(Amounts in Philippine Pesos)

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2017	2016	2015	**2017**	2016	2015
Common shares – P1 par value						
Authorized	**12,950,000,000**	12,950,000,000	12,950,000,000	**P12,950,000,000**	P12,950,000,000	P 12,950,000,000
Issued:	**10,269,827,979**	10,269,827,979	10,269,827,979	**P10,269,827,979**	P10,269,827,979	P 10,269,827,979
Treasury stock – at cost	**(162,774,700)**	(122,964,200)	(122,964,200)	**(1,566,146,040)**	(936,157,074)	(936,157,074)
Total outstanding	**10,107,053,279**	10,146,863,779	10,146,863,779	**P 8,703,681,939**	P 9,333,670,905	P 9,333,670,905

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 Grant		December 2011 Grant
Option life		7 years		7 years
Share price at grant date	P	21.65	P	10.28
Exercise price at grant date	P	12.9997	P	9.175
Average fair value at grant date	P	9.18	P	2.70
Average standard deviation of share price returns		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 date of the Company's shares over a period of time within the life of the option.

(b) Of Megaworld

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

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

Pursuant to this ESOP, on November 6, 2012, Megaworld granted 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.

(Amounts in Philippine Pesos)

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 (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	Emperador
Non-current assets	P 138,052,700	P 56,933,340	P 9,400,729	P 52,012,431
Current assets	140,689,818	19,375,450	6,966,339	42,289,970
Total assets	P 278,742,518	P 76,308,790	P 16,367,068	P 94,302,401
Non-current liabilities	P 94,234,642	P 334,438	P 2,944,336	P 30,164,796
Current liabilities	40,889,535	31,349,290	7,275,925	11,913,117
Total liabilities	P 135,124,177	P 31,683,728	P 10,220,261	P 42,077,913
Revenues	P 46,817,544	P 25,094,629	P 22,629,169	P 41,018,101
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	377,537	(3,598)	13,487	-
Profit for the year	11,709,361	3,398,527	1,233,499	7,693,367
Other comprehensive loss attributable to:				
Owners of Parent	(968,850)	(6,073)	(31,718)	(2,857,728)
NCI	(67,978)	-	-	-
Other comprehensive loss for the year	(1,036,828)	(6,073)	(31,718)	(2,857,728)
Total comprehensive income for the year	P 10,672,533	P 3,392,454	P 1,201,781	P 4,835,639
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	2,710,193	(4,252,075)	(829,241)	(3,021,061)
Net cash inflow (outflow)	(P 6,369,302)	(P 7,753,807)	P 1,205,819	(P 19,003,634)

(Amounts in Philippine Pesos)

22. EARNINGS PER SHARE

Earnings per share is computed as follows:

	2017	2016	2015
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	**10,107,053,279**	10,146,863,779	10,146,863,779
	P 1.4773	P 1.4587	P 1.3763
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	**10,129,383,609**	10,252,463,779	10,181,954,022
	P 1.4740	P 1.4437	P 1.3715

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.

	Notes	**2017**	2016	2015
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	**1,746,941,624**	1,700,850,559	1,677,596,838
		34,622,995,292	33,130,833,441	32,726,888,869
Sales of consumer goods	2.16(a)	**43,236,971,687**	41,608,345,308	44,465,049,936
		P 77,859,966,979	P 74,739,178,749	P 77,191,938,805
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		**1,532,695,852**	1,619,313,567	1,475,299,647
		P 60,720,616,123	P 62,172,432,145	P 58,481,511,173

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
		28,323,899,638	26,307,026,168	30,492,523,971
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
		16,304,843,331	15,514,651,678	15,434,942,352
Deferred gross profit on RE sales	2.7	**3,354,104,833**	4,197,865,236	4,515,385,332
		P 47,982,847,802	P 46,019,543,082	P 50,442,851,655
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
		P 31,068,609,355	P 30,870,331,895	P 30,163,499,053

Total cost of RE sales pertains to actual and estimated construction costs. A further analysis of these costs follows:

	Notes	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
		P 16,304,843,331	P 15,514,651,678	P 15,434,942,352

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.

(Amounts in Philippine Pesos)

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
		P 28,065,392,787	P 27,218,660,549	P 25,712,056,719

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
	P 28,065,392,787	P 27,218,660,549	P 25,712,056,719

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	5,376,038
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
		P 2,768,704,769	P 2,473,666,563	P 3,155,787,700

	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
		P 6,382,794,291	P 6,932,664,573	P 5,852,497,011

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
		P 13,285,985,966	P 11,717,787,714	P 10,765,780,625

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
		P 13,285,985,966	P 11,717,787,714	P 10,765,780,625

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.

(Amounts in Philippine Pesos)

(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:

	2017	2016
Present value of the obligation	**P 15,565,665,635**	P 14,156,797,542
Fair value of plan assets	**(13,622,212,348)**	(11,552,491,075)
	P 1,943,453,287	P 2,604,306,467

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

	2017	2016
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	**P 15,565,665,635**	P 14,156,797,542

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

	2017	2016
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	**P 13,622,212,348**	P 11,552,491,075

The plan assets of MEG, EMP, GADC and Travellers as at December 31 consist of the following:

	2017	2016
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%
	100.00%	100.00%

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:

	2017	2016	2015
Reported in consolidated profit or loss –			
Current service cost	P 509,209,458	P 413,557,705	P 475,185,920
Past service cost	141,787,489	-	-
	P 650,996,947	P 413,557,705	P 475,185,920
Reported in consolidated other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	(P 176,408,792)	(P 2,536,455,322)	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)	809,565,124	2,789,394	(3,824,909)
	950,503,573	(807,696,890)	887,318,413
Tax income (expense)	(189,305,616)	130,194,376	(206,483,118)
	P 761,197,957	(P 677,502,514)	P 680,835,295

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:

	2017	2016
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.

(Amounts in Philippine Pesos)

(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.

		Impact on Post-employment Obligation	
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2017			
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)**
December 31, 2016			
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:

	2017	2016
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	**11,860,924,351**	35,469,691,751
	P 17,680,310,071	P 40,662,554,211

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:

	2017	2016	2015
Reported in consolidated profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30% and 10%	**P 4,760,326,805**	P 4,888,671,510	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	**15,630,199**	52,836,625	41,356,179
	4,991,248,741	5,109,907,770	4,105,846,777
Deferred tax expense relating to origination and reversal of temporary differences	**1,304,523,694**	771,071,940	1,134,807,429
	P 6,295,772,435	P 5,880,979,710	P 5,240,654,206
Reported in consolidated other comprehensive income –			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 189,714,791**	(P 117,125,824)	P 227,444,114

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:

	2017	2016	2015
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	**P 6,295,772,435**	P 5,880,979,710	P 5,240,654,206

(Amounts in Philippine Pesos)

The deferred tax assets and liabilities as at December 31 presented in the consolidated statements of financial position relate to the following:

	2017	2016	2015
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	**35,669,064**	86,806,482	40,106,946
	P 800,928,952	P 980,756,248	P 751,558,125
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	**426,105,158**	(316,848,264)	(145,957,617)
	P 12,116,387,446	P 11,454,686,710	P 11,587,737,168

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)	**P 1,304,523,694**	P 771,071,940	P 1,134,807,429	**P 189,714,791**	(P 117,125,824)	P 227,444,114

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)	-	
	P 4,823,757,302	(P 118,934,012)	(P 1,521,043,977)	P 3,183,779,313	

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)	-	
	P 251,919,057	(P 615,823)	(P 162,705,896)	P 88,597,338	

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
	P 4,068,029,684	**P 1,279,330,299**	P 4,435,247,074	P 1,369,378,835	P 5,785,977,445	P 1,774,354,733

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.

(Amounts in Philippine Pesos)

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 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]:

	2017	2016
Associates	**P 1,269,864,981**	P 1,126,272,202
Other related parties	**1,274,276,211**	1,393,983,581
	P 2,544,141,192	P 2,520,255,783

The movements in the Advances to Associates and Other Related Parties account are as follows:

	2017	2016
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	**-**	(1,100,014,026)
Balance at end of year	**P 2,544,141,192**	P 2,520,255,783

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.

(Amounts in Philippine Pesos)

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:

	2017	2016
Due from Related Parties		
Officers and employees	P 194,393,129	P 222,313,986
Other related parties	55,070,973	589,736,324
	P 249,464,102	P 812,050,310
Due to Related Parties		
Stockholder	P 347,670,510	P 380,670,512
Other related parties	140,208,430	263,262,922
	P 487,878,940	P 643,933,434

The details of the due from/to related parties are as follows:

	2017	2016
Due from Related Parties		
Balance at beginning of year	P 812,050,310	P 273,130,005
Additions	74,687,948	649,883,409
Collections	(637,274,156)	(110,963,104)
Balance at end of year	P 249,464,102	P 812,050,310
Due to Related Parties		
Balance at beginning of year	P 643,933,434	P 430,329,812
Additions	107,725,172	969,670,936
Repayments	(263,779,666)	(756,067,314)
Balance at end of year	P 487,878,940	P 643,933,434

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:

	2017	2016
Advances from related parties	P 1,933,600,038	P 1,270,198,038
Advances from JV partners	396,374,951	471,057,666
`	P 2,329,974,989	P 1,741,255,704

29.7 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows (see Note 27.1):

	2017	2016	2015
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	**87,428,665**	74,849,437	44,846,176
	P 960,565,667	P 900,179,973	P 938,948,801

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:

	2017	2016	2015
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	**19,363,948,200**	18,267,699,701	14,314,334,326
	P 93,706,463,302	P 85,401,619,534	P 66,905,761,255

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:

	2017	2016	2015
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	**815,218,784**	591,096,671	1,316,633,971
	P 1,791,383,611	P 1,650,677,444	P 2,567,786,814

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)
	(P 22,504,973,149)	**P 1,146,257,244**	(P 35,310,699,051)	P 1,447,119,642

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.

(Amounts in Philippine Pesos)

(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:

	2017	2016
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	**1,861,518,762**	2,184,716,830
	P 9,046,569,295	P 7,651,579,778

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.

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later than 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	-
	P 59,657,444,549	P 19,109,188,767	P 126,763,059,362	P 30,024,622,418

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	-	-	-
	P 47,243,531,542	P 55,160,668,061	P 74,601,028,192	P 23,187,500,887

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.

(Amounts in Philippine Pesos)

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.

		2017		2016	
	Notes	**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
		P 151,748,164,769	**P 151,677,835,806**	P 133,846,733,241	P 133,787,631,312
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**	-	-
		P 13,516,474,011	**P 13,516,474,011**	P 10,465,266,604	P 10,465,266,604
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
		P 431,645,289	**P 431,645,289**	P 673,115,286	P 673,115,286
Financial Liabilities					
Financial liabilities at FVTPL – Derivative liabilities	20	**P 132,764,451**	**P 132,764,451**	P 356,819,015	P 356,819,015
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
		P 86,005,158,799	**P 84,763,914,028**	P 98,737,438,689	P 98,483,114,926
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
		P 142,387,116,635	**P 139,354,403,896**	P 87,142,778,618	P 85,688,946,293

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 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
	P 13,633,773,767	**P 97,772,259**	**P 216,573,274**	**P 13,948,119,300**
Financial liabilities:				
Financial liability at FVTPL –				
Derivative liabilities	**P -**	**P 132,764,451**	**P -**	**P 132,764,451**

	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
	P 10,792,218,088,	P 69,900,000	P 276,263,802	P 11,138,381,890
Financial liabilities:				
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.

(Amounts in Philippine Pesos)

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 and in the succeeding page 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
	P 55,672,960,546	P 521,374,758	P 95,483,500,502	P 151,677,835,806
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
	P 31,146,543,930	P 2,645,321,132	P 190,326,452,862	P 224,118,317,924

	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
	P 48,672,938,017	P 455,033,698	P 84,659,659,597	133,787,631,312
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
	P 61,638,549,835	P 2,769,782,962	P 119,763,728,422	P 184,172,061,219

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.

(Amounts in Philippine Pesos)

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.

	2017	2016
Total liabilities	**P 289,979,745,091**	P 245,193,291,467
Total equity	**271,842,047,791**	246,103,671,448
Debt-to-equity ratio	**1.07:1**	1.00:1

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.

	Interest-bearing Loans and Borrowings	Bonds Payable	Derivative Liabilities	ELS	Redeemable Preferred Shares	Total
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	P140,973,563,187	P 34,364,985,052	P 132,764,451	P 5,227,114,518	P 2,108,620,383	P 182,807,047,591

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.

CORPORATE INFORMATION

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