

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended
Dec 31, 2017
2. SEC Identification Number
167423
3. BIR Tax Identification No.
000-477-103
4. Exact name of issuer as specified in its charter
MEGAWORLD CORPORATION
5. Province, country or other jurisdiction of incorporation or organization
Metro Manila
6. Industry Classification Code(SEC Use Only)
7. Address of principal office
30th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio,
Taguig City
Postal Code
1634
8. Issuer's telephone number, including area code
(632) 894-6300/6400
9. Former name or former address, and former fiscal year, if changed since last report
N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	32,239,445,872
Preferred	6,000,000,000

11. Are any or all of registrant's securities listed on a Stock Exchange?
Yes No
If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippine Stock Exchange, Common Shares
12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes No

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

Yes No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

Php50,912,176,169.40 based on the closing price of Php4.69 per share.

**APPLICABLE ONLY TO ISSUERS INVOLVED IN
INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS
DURING THE PRECEDING FIVE YEARS**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes No

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

N/A

(b) Any information statement filed pursuant to SRC Rule 20

N/A

(c) Any prospectus filed pursuant to SRC Rule 8.1

N/A

and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



MEGAWORLD CORPORATION

Megaworld Corporation

MEG

PSE Disclosure Form 17-1 - Annual Report
References: SRC Rule 17 and
Section 17.2 and 17.8 of the Revised Disclosure Rules

For the fiscal year ended	Dec 31, 2017
Currency	Philippine Pesos

Balance Sheet

	Year Ending	Previous Year Ending
	Dec 31, 2017	Dec 31, 2016
Current Assets	155,486,632,035	140,689,818,094
Total Assets	310,532,804,988	278,742,517,650
Current Liabilities	57,018,406,224	40,889,535,200
Total Liabilities	149,228,602,746	135,124,177,321
Retained Earnings/(Deficit)	91,603,349,430	80,540,887,249
Stockholders' Equity	161,304,202,242	143,618,340,329
Stockholders' Equity - Parent	138,777,877,700	125,480,239,117
Book Value Per Share	4.36	3.94

Income Statement

	Year Ending	Previous Year Ending
	Dec 31, 2017	Dec 31, 2016
Gross Revenue	47,788,947,207	44,305,440,617
Gross Expense	29,978,020,765	28,747,801,900
Non-Operating Income	2,619,362,346	2,512,103,855
Non-Operating Expense	3,358,481,495	2,871,041,738
Income/(Loss) Before Tax	17,071,807,293	15,198,700,834
Income Tax Expense	3,792,600,176	3,489,339,020
Net Income/(Loss) After Tax	13,279,207,117	11,709,361,814

Net Income/(Loss) Attributable to Parent Equity Holder	12,772,158,453	11,331,824,386
Earnings/(Loss) Per Share (Basic)	0.4	0.35
Earnings/(Loss) Per Share (Diluted)	0.4	0.35

Financial Ratios

	Formula	Fiscal Year Ended	Previous Fiscal Year
		Dec 31, 2017	Dec 31, 2016
Liquidity Analysis Ratios:			
; ; Current Ratio or Working Capital Ratio	Current Assets / Current Liabilities	2.73	3.44
; ; Quick Ratio	(Current Assets - Inventory - Prepayments) / Current Liabilities	1.06	1.27
; ; Solvency Ratio	Total Assets / Total Liabilities	2.08	2.06
Financial Leverage Ratios			
; ; Debt Ratio	Total Debt/Total Assets	0.48	0.48
; ; Debt-to-Equity Ratio	Total Debt/Total Stockholders' Equity	0.46	0.43
; ; Interest Coverage	Earnings Before Interest and Taxes (EBIT) / Interest Charges	4.94	5.63
; ; Asset to Equity Ratio	Total Assets / Total Stockholders' Equity	1.93	1.94
Profitability Ratios			
; ; Gross Profit Margin	Sales - Cost of Goods Sold or Cost of Service / Sales	46.26	46.11
; ; Net Profit Margin	Net Profit / Sales	26.34	25.01
; ; Return on Assets	Net Income / Total Assets	4.28	4.2
; ; Return on Equity	Net Income / Total Stockholders' Equity	8.23	8.15
Price/Earnings Ratio	Price Per Share / Earnings Per Common Share	12.86	10.02

Other Relevant Information

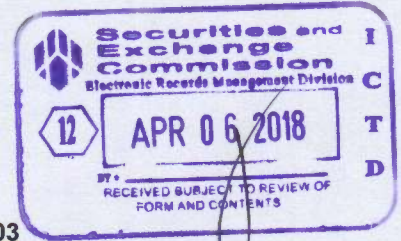
None

Filed on behalf by:

Name	Dominic Isberto
Designation	Vice President - Compliance Division

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE**

AND SECTION 141 OF THE CORPORATION CODE



1. For the fiscal year ended 31 December 2017
2. SEC Identification Number: 167423 3. BIR Tax Identification No.: 000-477-103

4. MEGAWORLD CORPORATION
Exact name of issuer as specified in its charter

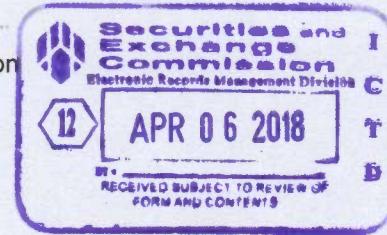
5. Metro Manila
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code

7. 30th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City 1634
Address of principal office

8. (632) 894-6300/6400
Issuer's telephone number, including area code

9. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA



Title of Each Class	Number of Shares of Stock Outstanding
Common	32,239,445,872
Preferred	6,000,000,000
Total	38,239,445,872

10. Are any or all of these securities listed on a Stock Exchange?

Yes No

Philippine Stock Exchange

Common Shares

11. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months.

Yes No

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

Yes No

12. Aggregate Market Value of Voting Common Stock held by Non-Affiliates as of **March 28, 2018** is **Php50,912,176,169.40** based on the closing price of **Php4.69 per share**.

PART I - BUSINESS AND GENERAL INFORMATION

BUSINESS

Business Development

The Company was founded by Andrew Tan and incorporated under Philippine law on 24 August 1989 under the name of Megaworld Properties & Holdings, Inc. The Company was primarily organised to engage in real estate development, leasing and marketing. In 1994, the Company spun off Empire East Land Holdings, Inc. which focused on the middle income market. On 19 August 1999, the Company changed its name to Megaworld Corporation to coincide with the Company's conversion from a purely real estate company into a holding company, although the Company continues to focus on its core competence in real estate development. The Company's common stock was first listed on the PSE on 15 June 1994.

From 1989 to 1996, the Company garnered a reputation for building high-end residential condominiums and office buildings on a standalone basis throughout Metro Manila. In 1996, the Company shifted its focus to providing office buildings to support BPO businesses when it began development of the Eastwood City township. In 1999, Eastwood City Cyberpark became the first IT park in the Philippines to be designated a Philippine Economic Zone Authority ("PEZA") special economic zone.

Since its incorporation in 1989, the Company and its affiliates have launched more than 660 residential buildings, 54 office towers, 15 lifestyle malls and 5 hotels.

The following are some of the major residential and office projects completed by the Company:

Residential

8 Newtown Boulevard (Cebu City)	150 Newport Boulevard (Pasay City)
Greenbelt Madison (Makati City)	Belmont Luxury Hotel (Pasay City)
Greenbelt Parkplace (Makati City)	Palmtree Villas (Pasay City)
Greenbelt Radissons (Makati City)	The Parkside Villas (Pasay City)
One and Two Lafayette Square (Makati City)	The Residential Resort (Pasay City)
One Central (Makati City)	Corinthian Hills (Quezon City)
Paseo Parkview 1 & 2 (Makati City)	Eastwood Excelsior (Quezon City)
The Manhattan Square (Makati City)	Eastwood Lafayette Square (Quezon City)
The Salcedo Park (Makati City)	Eastwood Le Grand (Quezon City)
Two Central (Makati City)	Eastwood Parkview (Quezon City)
8 Wack Wack Road (Mandaluyong City)	El Jardin del Presidente (Quezon City)
Wack-Wack Heights (Mandaluyong City)	Grand Eastwood Palazzo (Quezon City)
City Place (Manila)	Kentwood Heights (Quezon City)
Marina Square Suites (Manila)	Manhattan Heights – Tower A (Quezon City)
Brentwood Heights (Paranaque)	Manhattan Parkview (Quezon City)
Sherwood Heights (Paranaque)	Manhattan Parkview Garden (Quezon City)
Manhattan Parkway (Quezon City)	One Orchard Road (Quezon City)
Narra Heights (Quezon City)	Greenhills Heights (San Juan City)
One Central Park (Quezon City)	One Beverly Place (San Juan City)
115 Upper Mckinley (Taguig City)	The Bellagio (Taguig City)
8 Forbestown Road (Taguig City)	The Venice – Alessandro (Taguig City)
Forbeswood Heights (Taguig City)	The Venice – Bellini (Taguig City)
Mckinley West Subdivision (Taguig City)	The Venice – Carusso (Taguig City)
Morgan Suites Executive Residences (Taguig City)	The Venice – Domenico (Taguig City)
Manhattan Heights – Tower D (Quezon City)	The Venice – Emanuele (Taguig City)
Greenbelt Hamilton 1 (Makati City)	Iloilo Boutique Hotel (Iloilo City)
101 Newport Boulevard (Pasay City)	81 Newport Boulevard (Pasay City)
Golfhill Gardens (Quezon City)	Manhattan Heights – Tower B (Quezon City)
One Eastwood Avenue – Tower 1 (Quezon City)	One Pacific Residence (Cebu City)
Paseo Heights (Makati City)	Savoy Hotel Newport City (Pasay City)
The Venice – Fiorenzo (Taguig City)	Three Central (Makati City)
Viceroy Tower 1 (Taguig City)	Viceroy Tower 2 (Taguig City)

Office and Retail

One World Center (Cebu City)	CyberOne (Quezon City)
Two World Center (Cebu City)	Eastwood Mall (Quezon City)
Mactan Alfresco (Cebu City)	Global One (Quezon City)
1800 Eastwood Avenue (Quezon City)	IBM Plaza (Quezon City)
1880 Eastwood Avenue (Quezon City)	ICITE (Quezon City)
Citibank Square (Quezon City)	One Global Center (Iloilo City)
Richmonde Hotel (Iloilo City)	Forbes Town Center (Taguig City)
Paseo Center (Makati City)	One Campus Place (Taguig City)
Petron Megaplaza (Makati City)	Science Hub (Taguig City)
The World Centre (Makati City)	The Venice Piazza (Taguig City)
Landbank Plaza (Manila)	Three World Square (Taguig City)
Lucky Chinatown Mall (Manila)	Two World Square (Taguig City)
Richmonde Plaza (Pasig City)	Uptown Parade (Taguig City)
Cybermall (Quezon City)	Uptown Place Towers (Taguig City)
Eastwood City Walk 1 & 2 (Quezon City)	Uptown Place Mall (Taguig City)
Techno Plaza 1 & 2 (Quezon City)	Venice Corporate Center (Taguig City)
8 Campus Place (Taguig City)	Venice Grand Canal Mall (Taguig City)
Commerce and Industry Plaza (Taguig City)	8 Newtown Boulevard (Cebu City)
Emperador Steel Parking Building (Taguig City)	One Techno Place (Iloilo City)
One West Campus (Taguig City)	Two Global Center (Iloilo City)
Two West Campus (Taguig City)	331 Building (Makati City)
Three West Campus (Taguig City)	Belmont Luxury Hotel (Pasay City)
Festive Walk Parade 2B (Iloilo City)	Festive Walk Mall (Iloilo City)
Tower One Plaza Magellan (Cebu City)	Five West Campus (Taguig City)
Six West Campus (Taguig City)	Three Techno Place (Iloilo City)
Eight West Campus (Taguig City)	

Subsidiaries and Associates¹

As of December 31, 2017, the Company holds interests in the following subsidiaries and associates:

<u>Subsidiaries and Associates</u>	<u>Date of Incorporation</u>	<u>Percentage Ownership</u>
Subsidiaries		
Megaworld Land, Inc.	May 26, 1994	100%
Prestige Hotels & Resorts, Inc.	February 16, 1999	100%
Mactan Oceanview Properties and Holdings, Inc.	August 16, 1996	100%
Megaworld Cayman Islands, Inc.	August 14, 1997	100%
Richmonde Hotel Group International Ltd.	June 24, 2002	100%
Eastwood Cyber One Corporation	October 21, 1999	100%
Megaworld Cebu Properties, Inc.	February 6, 2002	100%
Megaworld Newport Property Holdings, Inc.	October 6, 2003	100%
Oceantown Properties, Inc.	August 15, 2006	100%
Piedmont Property Ventures, Inc.	August 28, 1996	100%
Stonehaven Land, Inc.	August 21, 1996	100%
Streamwood Property, Inc.	August 21, 1996	100%
Suntrust Properties, Inc.	November 14, 1997	100%
Arcovia Properties, Inc.	March 28, 1985	100%
Luxury Global Hotels and Leisure, Inc.	July 17, 2013	100%
Global One Integrated Business Services, Inc.	September 25, 2014	100%
Luxury Global Malls, Inc.	September 18, 2014	100%
Davao Park District Holdings, Inc.	April 14, 2014	100%
Belmont Newport Luxury Hotels, Inc.	March 5, 2015	100%

¹ Please refer to pages 1 to 4 of the attached Audited Financial Statements ended December 31, 2017 for a complete lists.

Global One Hotel Group, Inc.....	May 4, 2015	100%
Landmark Seaside Properties, Inc.....	January 6, 2011	100%
San Vicente Coast, Inc.....	March 7, 2016	100%
Megaworld Bacolod Properties, Inc.....	May 12, 1918	91.55%
Empire East Land Holdings, Inc.....	July 15, 1994	81.73%
Global-Estate Resorts, Inc.....	May 18, 1994	82.32%
Megaworld Central Properties Inc.	September 15, 2005	76.55%
Megaworld Capital Town, Inc.....	June 26, 2012	76.28%
Soho Café and Restaurant Group, Inc.....	February 15, 2005	75%
La Fuerza, Inc.	January 24, 1958	66.67%
Megaworld-Daewoo Corporation	November 29, 1996	60%
Northwin Properties, Inc.....	December 14, 2016	60%
Gilmore Property Marketing Associates, Inc.....	September 5, 1996	52.14%
Megaworld Resort Estates, Inc.....	April 30, 2007	51%
Manila Bayshore Property Holdings, Inc.....	October 14, 2011	50.92%
Megaworld-Globus Asia, Inc.....	March 17, 1995	50%
Integrated Town Management Corporation.....	March 25, 2002	50%
Maple Grove Land, Inc.....	July 20, 2016	50%

Associates

Bonifacio West Development Corporation.....	November 15, 2001	46.11%
Suntrust Home Developers, Inc.	January 18, 1956	45.67%
Palm Tree Holdings & Development Corporation	August 15, 2005	40%

Set out below is a description of each subsidiary or associate and its main activity.

Empire East Land Holdings, Inc. is a publicly-listed company that is engaged in the development and marketing of affordable housing projects either in the form of condominium communities or house-and-lot packages, and to a limited extent, commercial and office space and mixed-use complexes.

Global-Estate Resorts, Inc. is a publicly-listed company which is engaged in diversified portfolio including integrated tourism estates development; horizontal residential subdivision lots and residential/commercial complexes; residential communities integrated with golf, resort and other leisure-related and commercial complexes; residential, office and commercial high rise; business park; and low cost housing.

Suntrust Home Developers, Inc. is a publicly-listed company which owns interests in a property management company.

Megaworld Land, Inc. provides a leasing service to the Company by locating tenants for rental properties and coordinating relations with brokers primarily in relation to the Eastwood Cyberpark.

Prestige Hotels & Resorts, Inc. owns and operates Richmonde Hotel located in Ortigas Center, Pasig City, Eastwood Richmonde Hotel located in Eastwood, Bagumbayan, Quezon City and Richmonde Hotel located in Mandurriao, Iloilo City.

Mactan Oceanview Properties and Holdings, Inc. was organized to develop a resort property in Cebu.

Megaworld Cayman Islands, Inc. was incorporated in the Cayman Islands to act as a promoter and entrepreneur, carry on the business as a financier, broker, dealer, agent, and importer and to undertake investments, financial, trading and other operations.

Richmonde Hotel Group International Ltd. was incorporated in the British Virgin Islands to undertake various investments on behalf of the Company and engage in trading, hotel, restaurant and related businesses.

Eastwood Cyber One Corporation was set up as a special purpose entity to own and develop certain Business Process Outsourcing (BPO) rental properties located in the Eastwood City CyberPark.

Megaworld Cebu Properties, Inc. was organized primarily to act as a principal agent or broker, on commission basis or otherwise, and to acquire by purchase or lease, construct, manage or sell real estate properties.

Megaworld Newport Property Holdings, Inc. provides a sales and marketing service for development of the Newport City projects.

Oceantown Properties, Inc. is a company that was incorporated to own land in Mactan, Cebu.

Piedmont Property Ventures, Inc. was incorporated on 28 August 1996 and was acquired by the Company in 2008.

Stonehaven Land, Inc. was incorporated on 21 August 1996 and was acquired by the Company in 2008.

Streamwood Property, Inc. was incorporated on 21 August 1996 and was acquired by the Company in 2008.

Suntrust Properties, Inc. which was incorporated on 14 November 1997, is a company that is engaged in the development of affordable real estate projects.

Arcovia Properties, Inc. is engaged primarily in real estate activities which include leasing out of real properties.

Luxury Global Hotels and Leisure, Inc. was formed to own, lease and manage hotels.

Global One Integrated Business Services, Inc. was incorporated on 25 September 2014 and is engaged in BPO business.

Luxury Global Malls, Inc. was incorporated on 18 September 2014 and is engaged in BPO business.

Davao Park District Holdings, Inc. is engaged in the real estate business and was incorporated on 14 April 2014.

Belmont Newport Luxury Hotels, Inc. is engaged in owning, leasing, operation and management of hotels.

Global One Hotel Group, Inc. is engaged in owning, leasing, operation and management of hotels.

Landmark Seaside Properties, Inc. is engaged primarily in real estate activities.

San Vicente Coast, Inc. is engaged primarily in real estate activities.

Megaworld Bacolod Properties, Inc. is engaged primarily in real estate activities.

Megaworld Central Properties Inc. was formed to provide sales services in respect of residential units in the Manhattan Garden City project.

Megaworld Capital Town, Inc. is engaged in real estate business and was incorporated on 26 June 2012 and was acquired by the Company in 2017.

Soho Café and Restaurant Group, Inc. is engaged primarily in business of restaurants, cafes, cocktail bars, lounges, inns, apartments, private clubs and other allied businesses.

La Fuerza, Inc. is engaged in the real estate business, including leasing of real estate properties.

Megaworld-Daewoo Corporation is a joint venture between the Company and Daewoo Corporation which developed three residential condominium towers in Eastwood City.

Northwin Properties, Inc. was incorporated on 14 December 2016 and is engaged primarily in real estate activities.

Gilmore Property Marketing Associates, Inc. was incorporated on 5 September 1996 primarily to act as a principal agent or owner, on commission basis or otherwise, and to acquire, lease and construct or dispose of buildings and other real estate properties.

Megaworld Resort Estates, Inc. is a company that was incorporated to engage in the real estate business.

Manila Bayshore Property Holdings, Inc. was organized to engage in real estate development. It started commercial operations on 1 January 2012.

Megaworld-Globus Asia, Inc. was formed to develop and sell “The Salcedo Park”, a twin-tower residential condominium project located in Makati City which has been completed.

Integrated Town Management Corporation is a company that was incorporated to develop, sell, lease and hold for investment or otherwise, real estate properties to establishing or pursuing the business of owning, developing, managing, administering or otherwise dealing in any and all kinds of real property whether used for residential office, industrial, or commercial/retail purposes, and in relation thereto, nursery/plant growth building and to provide or render management and specialized technical services to the owners or users of such real property.

Maple Grove Land, Inc. is engaged primarily in real estate activities.

Bonifacio West Development Corporation is engaged in real estate business and was incorporated on 15 November 2001.

Palm Tree Holdings & Development Corporation is a company that was acquired in connection with its landholdings adjacent to the Company’s Eastwood City township. It is currently engaged in the real estate business.

Neither the Company nor any of its subsidiaries have, during the past 3 years, been the subject of a bankruptcy, receivership or similar proceeding, or involved in any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

Description of Business

The Company is one of the leading property developers in the Philippines and is primarily engaged in the development of large scale mixed-use planned communities, or community townships, that comprise residential, commercial and office developments and integrate leisure, entertainment and educational/training components. Founded in 1989, the Company initially established a reputation for building high quality residential condominiums and commercial properties located in convenient urban locations with easy access to offices as well as leisure and entertainment amenities in Metro Manila. Beginning in 1996, in response to demand for the lifestyle convenience of having quality residences in close proximity to office and leisure facilities, the Company began to focus on the development of mixed-use communities, primarily for the middle-income market, by commencing the development of its Eastwood City project. In addition, the Company engages in other property related activities such as project design, construction oversight and property management.

The Company's real estate portfolio includes residential condominium units, subdivision lots and townhouses as well as office projects and retail space. The Company has the following three primary

business segments: (i) real estate sales of residential developments (ii) leasing of office space, primarily to Business Process Outsourcing ("BPO") enterprises and retail space and (iii) management of hotel operations. The Company's consolidated revenues for the year ended 31 December 2017 were ₱50 million compared to ₱47 million for the year ended 31 December 2016. Real estate sales of residential developments accounted for 57 per cent. of the Company's consolidated revenues in 2017 and 58 per cent. in 2016. Rental income from leasing operations accounted for approximately 23 per cent. of the Company's consolidated revenues in 2017 and 21 per cent. 2016. The Company's consolidated net profit for the year ended 31 December 2017 was ₱13.3 million compared to ₱11.7 million for the year ended 31 December 2016.

As of 31 December 2017, the Company owns or has development rights to over 4,400 hectares of land located throughout the Philippines.

The Company was voted among Asia's Best Property Companies by the Euromoney Best Asian Companies Awards for 2003, 2004 and 2005. The Company also received the following awards for excellence from Euromoney: the Philippines' Best in Corporate Governance in 2003; among Asia's Most Improved Companies in 2005; and among Asian Companies with the Most Convincing and Coherent Strategy in 2005. In 2004, the Company received the Agora Awards for Marketing Company of the Year; was voted among Asia's Best Managed Companies and the Philippines' Best in Investor Relations by FinanceAsia Best-managed Asian Companies Awards; and was voted the Philippines' Best in Investor Relations, Best Website and the Philippines' Best in Clearest Corporate Strategy by Asia Money Polls. In addition, the Company was voted among the Philippines' Superbrands in the Superbrands Awards 2004/2005. In each of 2008 to 2012, the Company was awarded Best Managed Philippine Company and Best Investor Relations by FinanceAsia; in 2009, FinanceAsia also recognised the Company with an Asia's Best Managed Company award. In 2012, the Company was awarded Best Mid-Cap Company by FinanceAsia, and was also recognised by Corporate Governance Asia for Best Investor Relations. In 2013, the Company garnered awards for Asia's Best CEO, Best Investor Relations and Best CSR from Corporate Governance Asia's Asian Excellence Awards. It was also recognised as Asia's Icon on Corporate Governance during the 9th Corporate Governance Asia Recognition Awards. The Alpha Southeast Asia also recognised the company as Most Organised Investor Relations, Best Senior Management IR Support and Strong Adherence to Corporate Governance. Similarly, the Company also garnered the gold award for Investor Relations, Corporate Governance and Financial Performance in the 2013 Asset Excellence in Management and Governance Awards. In 2014, the Company was recognised as the Philippines' Best Company for Leadership – Property Management by IAIR. It was also awarded as Asia's Best CEO and Best Investor Relations in the 2014 Corporate Governance Asia's 4th Asian Excellence Awards and again the following year, 2015. In 2017, the Company received 73 awards from both local and international award-giving bodies. The Company received three best developer awards, three executive awards, 37 project awards, nine corporate awards, 11 CSR awards and 10 communication awards. Dr. Andrew L. Tan received the hall of fame award as Property Man of the Year at the Property and Real Estate Awards and was awarded the Special Achievement Award at the Asia Pacific Entrepreneurship Awards

The Company's common shares were listed on the PSE in 1994 and as of 31 December 2017, the Company had a market capitalisation of ₱150 billion.

Foreign sales contributed approximately 23%, 16.5% and 18% to the Company's consolidated sales and revenues for the years 2017, 2016 and 2015. The percentage of sales broken down by major markets is as follows:

Market	2017	2016	2015
North America	26%	28%	26%
Europe	18%	46%	40%
Asia	55%	14%	19%
Middle East	1%	12%	15%
Total	100%	100%	100%

Current Property Development Projects

The Company's current development projects are mostly mixed-use township developments that typically have residential, office, and commercial components. These projects are located in key areas located throughout the Philippines. The objective of each of the mixed-use developments is to provide an integrated community with high quality "live-work-play" amenities within close proximity to each other. For each development, the Company's real estate strategy is to lease all office and commercial properties and sell all residential units. Where the Company is not able to sell 100 per cent. of its residential units, upon completion of the residential project, it rents these unsold units on a lease-to-own basis or pursuant to a lease with an option to buy. Each of the Company's township projects is described in detail below.

Eastwood City

Eastwood City is the first township to implement the Company's "live-work-play-learn" concept. Its 18.50-hectare community property in Libis, Quezon City has 19 completed luxury condominium towers, 10 first-class corporate office buildings, and a modern IT park. The planning of Eastwood City adopts an integrated approach to urban planning, with an emphasis on the development of the Eastwood City Cyberpark to provide offices with infrastructure such as high-speed telecommunications and 24-hour power supply that support BPO and other technology-driven businesses. The township provides education/training, restaurants, leisure and retail facilities and residences. It is currently home to more than 25,000 residents and 55,000 workers. Eastwood city is also home to the four-level Eastwood Mall – a shopping and dining destination which has been declared the "Best Shopping Center" by the Philippine Retailers Association. Eastwood City has three malls and around 500 commercial and retail shops.

Forbes Town Center

Forbes Town Center is located in a 5-hectare land in Bonifacio Global City, Taguig, Metro Manila adjacent to the Manila Golf Club, Manila Golf and Country Club, the prestigious Forbes Park residential subdivision and Dasmariñas Village. Forbes Town Center has 12 residential towers which house more than 3,500 residential units. Upon completion, Forbes Town Center is expected to consist of residential, retail and entertainment properties. The focal point of activity in Forbes Town Center is the aptly named Forbes Town Road, a retail strip with 37 restaurants and shops that cater to the diverse needs of the residents of the community's three Bellagio towers, six towers of Forbeswood Heights, two towers of Forbeswood Parklane, and the 53-storey Eight Forbes Town Road. This is connected to another Fort Bonifacio landmark, Burgos Circle, a leisure spot with residential condominiums and a small park. These commercial centers along with each of the condominiums' convenient location and top-notch resort-style amenities form a lifestyle of absolute leisure.

McKinley Hill

McKinley Hill is a community township located on approximately 50 hectares of land in Fort Bonifacio, Taguig City, Metro Manila. McKinley Hill consists of office, residential, retail, educational, entertainment and recreational centres. The residential zone consists of subdivision lots for low-density single-detached homes, clusters of low-rise residential garden villas and residential condominiums. The office properties will include the McKinley Hill Cyberpark which is a PEZA-designated IT special economic zone. Tenants of the office properties will largely comprise of software developers, data encoding and conversion centres, call centres, system integrations, IT and computer system support. The leisure and entertainment zone will consist of bars, restaurants, specialty shops, cinemas and sports complex. Three international schools, the Chinese International School, the Korean International School and Enderun College, a hotel management institution affiliated with *Les Roches* of Switzerland, comprise the "learn" component of the township. McKinley Hill is also home to the British Embassy and the Korean Embassy.

Newport City

Newport City is a community township located on 25 hectares of land at the Villamor Air Base, Pasay City, Metro Manila, across from the NAIA Terminal 3 and adjacent to the Villamor golf course. It will be targeted towards tenants and buyers who consider proximity to the NAIA Terminal 3 an advantage. The residential zone consists of eight to nine-storey medium-rise buildings. The corporate zone comprised of office buildings. The Company expects to establish a PEZA special economic zone cyberpark at Newport City. The leisure and entertainment zone consist of bars, restaurants, retail and tourist oriented shops, which are

designed to complement the office and residential buildings in the community township. Newport City is home to Resorts World Manila, which is a leisure and entertainment complex comprising gaming facilities, restaurants, hotels and shopping outlets. The hotel zone comprises the Marriott Hotel, Maxims Hotel, Holiday Inn Express Hotel, Belmont Luxury Hotel and Savoy Hotel.

McKinley West

The Company is developing McKinley West, an “ultra high-end” township on a 34.5-hectare portion of the JUSMAG property in Fort Bonifacio which is directly beside Forbes Park and Manila Polo Club and across McKinley Hill in Taguig, Metro Manila. The development of McKinley West into a mixed-use project is another joint venture undertaking with BCDA. McKinley West will have rows of luxury residential estates with some properties having their own swimming pools, state-of-the-art security features and first-of-its-kind luxury amenities designed by some of the world’s leading European architects to have state-of-the-art security features and luxury amenities. The upscale residential enclave will be supplemented by a modern business district of sustainable office buildings, an international school, and a chic commercial centre, which will all be complemented by open spaces and lush greenery. Ingress and egress points of the estate are conveniently along Lawton Avenue which connects Fort Bonifacio to Pasay City and Makati City.

The Mactan Newtown

Megaworld’s first township venture outside Luzon, Mactan Newtown is a mixed-use development on a 30-hectare property near Shangri-La’s Mactan Resort and Spa in Mactan, Cebu, Mactan Newtown combines high-end office towers, luxury condominiums, leisure amenities, retail shops, a school, and upscale hotels. It will also have its own exclusive, world-class beach club at the township’s beachfront, and sports facilities at the 11-hectare beachfront property formerly known as Portofino Beach. It is also near the Mactan-Cebu International Airport, making the township ideal for residence, business or leisure. The first phase of the project is expected, on completion, to comprise high-tech BPO offices, and retail centres, luxury condominiums, leisure facilities and beach resort frontage. The Mactan Newtown is approximately 10 minutes away from the Mactan-Cebu International Airport, the Philippines’ second largest airport. Soon to rise are 5 hotels, two of which are at the beachfront.

Uptown Bonifacio

The Company is developing Uptown Bonifacio, an approximately 15.4-hectare property in Fort Bonifacio in Taguig, Metro Manila. Modeled after the most progressive cities around the world – Paris, London, Milan, New York and Tokyo, Uptown Bonifacio is comprised of a residential portion in the northern part of Fort Bonifacio, and a portion for mixed-use, comprising office and retail space. It is well placed to cater to the fast-paced lives of today’s young professionals and growing families. Set in the heart of Fort Bonifacio, the township will be close to several of the new CBD’s popular landmarks, such as Forbes Town Center, Burgos Circle, the Mind Museum, Bonifacio High Street, and The Fort Strip. First class health care and education will never be far with St. Luke’s Medical Center and the institutional zone mere footsteps away. Within the township is a complete community of its own: live luxuriously in the residences of Uptown Bonifacio; work in the top grade office sites; and play at its very own high-end commercial center, Uptown Place Mall. The township is easily accessible via Kalayaan Avenue, C-5 Road and EDSA.

Boracay Newcoast

Boracay Newcoast is a 150-hectare mixed-use leisure and resort development. It is envisioned to be the next world-class tourism destination in the paradise island. Soon to rise in the tropical tourism development are luxury and boutique hotels, commercial and retail district, upscale villas, and an exclusive residential village. Among the first residential towers to rise is Oceanway Residences, a cluster of mid-rise condominiums offering amazing views of the Sibuyan Sea, Mt. Luho, the island’s highest peak, as well as the Fairways & Bluewater Golf Course. Aside from Oceanway Residences, among the upcoming projects here include four hotels and an Ibiza-inspired commercial and retail strip, all the more making it the most anticipated destination in Boracay.

Twin Lakes

Twin Lakes is a 1,200-hectare mixed-use leisure and resort community that raises the bar of living in Tagaytay. The tourism estate will feature the best of Europe at the first residential cluster called The Vineyard Residences, which will be composed of three mid-rise condominium towers named after famous grape varieties: Shiraz, Merlot, and Chardonnay. Twin Lakes also has a unique mixed-use community development called The Vineyard, which spans 177-hectare of natural landscape that offers the perfect view of the famous Taal Volcano, along with a view of the man-made lake within the estate. The Vineyard will have its own sports club and spa, wedding venue, and the 10-hectare vineyard that will produce real grapes that can be processed, stored, and aged in a very own chateau. The township will also have commercial and retail hubs (The Village and Lakeshore Town Center), a university park, as well as a nature park. Other developments in Twin Lakes include a retirement community, wellness center, hotel and chateau, among others. With these developments, one can enjoy both the natural and man-made wonders at Twin Lakes.

Iloilo Business Park

Iloilo Business Park is a mixed-planned community in a 72-hectare property in Mandurriao, Iloilo. When completed, it will be a mixed-use business, tourism, commercial and residential hub with a residential community, BPO office buildings, hotels, a convention center, retail centers and a lifestyle center, all at the heart of Iloilo, a new growth center in the Visayas. The entire Iloilo Business Park development was registered as a special economic zone with the Government, which allows it to benefit from a tax holiday period as well as other incentives for investors. It also features The Street of Festive Walk, a 1.1-kilometer retail strip inspired by outlet shops in America and envisioned to be the longest shop-and-dine street outside of Metro Manila. Iloilo Business Park has launched three residential condominium developments to date – One Madison Place Luxury Residence, Lafayette Park Square and The Palladium, the tallest building in the region at 22 storeys high. With Iloilo Business Park, Megaworld aims to transform Western Visayas into the next central district in the region.

Suntrust Ecotown

Sitting on a 350-hectare land in Tanza, Cavite, the Suntrust Ecotown will be Megaworld's first mixed-use development with an industrial park, also a first in the country. The industrial park is the country's first to be accredited by PEZA with lifestyle amenities. It is also positioned to be the major hub for world-class light to medium export-oriented industries, residential, commercial, and institutional establishments in the south. At Suntrust Ecotown, 111 hectares will be allotted for the industrial park, another 40 hectares is dedicated for the expansion of the industrial park and the integration of lifestyle amenities such as a hotel, commercial and retail hubs, driving range, mini golf course, putting greens, swimming pool, jogging path, basketball and badminton courts, and open parks, and another 200 hectares of future development that may include residential and other recreational facilities.

Davao Park District

Davao Park District is the Company's first township development in Mindanao, specifically on an 11-hectare property along S.P. Dakudao Loop in Lanang, Davao City which used to be the Lanang Golf and Country Club. The township is envisioned to be the Mindanao's new central business district, by being a center for BPO and other corporate entities over the next seven years. Also located in Davao Park District are the themed residential condominiums that will be built by Suntrust Properties, a wholly-owned subsidiary of Megaworld. The township will also have a lifestyle mall, commercial and retail strips, open parks, a lagoon, and a school. The first office tower to rise is the iconic 15-storey Davao Finance Center, which is due for completion by 2017. The first tower in One Lakeshore Drive, a 4-tower condominium cluster, started selling in 2014.

Southwoods City

Southwoods City is the largest and only fully-integrated township with a golf course located in the south of Metro Manila. The 561-hectare property is a mixed-use development that features the Jack Nicklaus-designed Manila Southwoods Golf and Country Club, a central business district, a mall, schools, a church, and a medical facility among others. It maintains its suburban feel while being conveniently accessible via the South Luzon Expressway. Within Southwoods City is Pahara, a 26-hectare residential village consisting of over 600 lots, each having a spectacular view of the golf course and the Laguna de Bay. Pahara, which is a Bengali term for hills, was named due to its landscape and terrain. This residential village has a Mediterranean-inspired architectural theme with green open spaces and its own clubhouse, swimming pool, function halls, children's playground, an outdoor circuit gym, and parks.

Alabang West

Alabang West is a 62-hectare township located at the heart of Alabang's leisure, business and commercial district. It delivers the glitz and glamor of Beverly Hills by offering high-end shopping boutiques and world-class amenities, all in a posh neighborhood. It is easily accessible to and from Metro Manila via the South Luzon Expressway and the Daang Hari Exit. Alabang West has a 1.3-kilometer commercial and retail row inspired by Hollywood's famous Rodeo Drive and an exclusive Alabang West Village that features over 700 residential lots. The village will have a clubhouse with badminton and basketball courts, function rooms, game room, a fitness center, and an infinity pool.

ArcoVia City

Envisioned as an environment-friendly community, the 12.4-hectare ArcoVia City is located along the C-5 Road in Pasig City. A main "green" feature of the township is the approximately 1,000 trees that will be planted around the development. This greening feature will help provide an outdoor thermal comfort for the future residents, workers, tenants and visitors of the township. Sustainable buildings registered under Leadership in Energy and Environmental Design (LEED) are the standard of office developments in this township, with the first two to rise designed by world-renowned architectural firm Skidmore, Owings & Merrill. Other green features of ArcoVia City are a rainwater catchment facility, a network of bicycle lanes, and wide tree-lined sidewalks. Aside from office towers, the township will have residential condominiums, a lifestyle mall, retail and commercial strips, and open parks.

The Upper East

The Upper East sits on a 34-hectare property in Bacolod City, Negros Occidental and is bound by Burgos Avenue on the north, Lopez Jaena Street on the west, the Circumferential Road on the east, and is just across the New Government Center. Modeled after New York City's Upper East Side district, its prime location is geared to be Bacolod's own version of an upscale lifestyle district where residential condominiums, malls and commercial centers, BPO office towers, tourism and leisure facilities as well as recreational parks and open spaces are integrated to create an exciting Live-Work-Play township, which Megaworld pioneered in the Philippines.

Northhill Gateway

Northhill Gateway will rise in the northern part of Bacolod, where the famous Sugar Road was built. Sitting on a 53-hectare property along the new Circumferential Road on the boundaries of Talisay City and Bacolod City, it has direct access to the new Bacolod-Silay Airport. It will rise in an area that has a direct link to The Upper East via the Circumferential Road. Northhill Gateway is envisioned to be a refreshing lifestyle district that will house upscale residential villages, mixed-use office and retail developments, leisure and recreational amenities as well as institutional facilities. Megaworld is constructing a 'commercial town center' on the Bacolod side of the rising Northhill Gateway township occupying around 7.5 hectares, the Northhill Town Center will be a sprawling horizontal commercial development composed mostly of stand-alone two-storey structures of retail shops and dining establishments, surrounded by landscaped parks and open spaces. The town center, which will be accessible along the Bacolod-Silay Airport Access Road, will also have a central plaza, an events venue, 'pasalubong' centers featuring local Negrense delicacies, a supermarket, and wellness and sports facilities.

Sta. Barbara Heights

Sta. Barbara Heights is a 173-hectare mixed-use development has 34 hectares allocated for residential lots, which offer a backdrop of a nearby natural lake and rolling hills in Sta. Barbara, Iloilo. The township is adjacent to the historic Santa Barbara Church and Convent and the Iloilo Golf Course and Country Club, the oldest golf course in Asia. Sta. Barbara Heights will have a direct access to the road leading to the Iloilo International Airport via the Iloilo International Avenue, a six-lane “spine” highway featuring rows of mixed-use and commercial buildings, retail shops, restaurants, boutique hotels and institutional facilities. Half of the entire development is allocated for the Sta. Barbara Heights Residential Estates, a residential village with three phases offering around 1,000 lots. The village will feature a five-hectare Village Center with amenities that include a 260-meter swimming pool, tennis and basketball courts, children’s park and picnic ground overlooking a lake beside the Iloilo Golf and Country Club.

The Capital Town Pampanga

This 35.6-hectare prime property beside the provincial capitol of the City of San Fernando, Pampanga is the fourth township launched by Megaworld in 2015. It is just approximately 70 kilometers away from Metro Manila and accessible via the North Luzon Expressway and the Jose Abad Santos Avenue, also known as the Olongapo-Gapan Road. It is also around 20 kilometers away from Clark International Airport and will have residential, office, commercial, and institutional components integrated within its walls. The township’s prime location is strategic to tapping the large pool of skilled BPO talents in Pampanga.

Westside City

Westside City will be the second site of Resorts World Manila in the Philippines. The 31-hectare leisure and entertainment township at the booming Entertainment City in Parañaque will also have international hotels, a luxury mall, and residential condominiums. The launch of Westside City marked Megaworld’s 20th integrated urban township, the most by any developer in the country. The township will also be home to Megaworld’s upscale residential condominiums, a luxury mall as well as international hotel brands such as The Westin Hotel of the Starwood Asia Pacific Hotels & Resorts Group, Hotel Okura Manila of the Okura Hotels & Resorts, the Genting Grand and Crockfords Tower of the Genting Group, and Kingsford Hotel. These hotels will have a total of around 1,500 rooms. Part of the Company’s vision for Westside City is to become the “Broadway of Asia” as the township highlights facilities for the performing arts. It will be home to the Philippines’ first Grand Opera House that has a total capacity of approximately 3,000 persons.

Maple Grove

Megaworld 21st township, called Maple Grove, is a 140-hectare property in General Trias, Cavite. This vast property will be developed into another world-class mixed-use development, where relaxation and nature perfectly blend with the urban lifestyle. Just 45 minutes away from Makati and other Metro Manila CBDs via Coastal Road and Cavite, Maple Grove is at the entry point of the booming industrial and residential center of the Cavite-Batangas corridor. The Company is allocating ₱10-billion in the next 10 years to develop Maple Grove. The township will have an eclectic mix of residential, retail, office and institutional components.

Eastland Heights

Through its subsidiary, GERI, Megaworld is building Eastland Heights, an ‘integrated lifestyle community’ in Antipolo, Rizal on an expansive 640 hectares of land along Marcos Highway with some areas overlooking Metro Manila’s panoramic skyline. The vast property has its own iconic 36-hole golf course and country club, which will occupy around 20% of the entire development. It is also known for its rolling terrains on the foot of the scenic Sierra Madre Mountain Range. The Company is spending ₱5-billion to develop Eastland Heights in the next five to seven years. Aside from the golf course, the community will have residential, commercial and retail, and institutional components such as a school.

The Hamptons Caliraya

The Hamptons Caliraya is located in Lumban-Cavinti, Laguna, surrounding Lake Caliraya, The Hamptons Caliraya is a 300-hectare development set to feature a lakeside residential villages and villas, a town centre, two 18-hole golf courses and clubhouse, and a Marina Club that offers a wide range of water sports activities such as boating, jet ski and kayaking, as well as a shophouse district and resort hotel district.

Marketing and Sales

The Company maintains an in-house marketing and sales division for each of its projects. The marketing and sales division is staffed by a trained group of property consultants who exclusively market the Company's projects. All property consultants are trained prior to selling and the Company also provides skills enhancement program intended to further develop the sales and marketing staff into high-caliber marketing professionals. Property consultants are required to meet the criteria set by the Company. The Company also works with outside agents who compete directly with the Company's in-house personnel.

The Company also employs a marketing services staff whose job is to provide auxiliary services required by the marketing division for its sales and promotional activities. The group is also responsible for monitoring the latest developments in the economy and the real estate property markets as well as conducting market research studies for the marketing division.

In addition, the Company has an international marketing division based in Manila who oversees a global network of sales offices which market the projects of the Company and its affiliates to overseas Filipino professionals and retirees throughout Asia, Europe, North America, the Middle East and Australia. The Company enters into marketing agreements with various brokers based in the different overseas markets, which will then market the Company projects overseas through their respective marketing networks.

Construction

The Company has its own architectural and engineering teams and engages independent groups to carry out the design of its high profile development projects. The Company has a team of project managers who work closely with outside contractors in supervising the construction phase of each project. The Company has also established relationships with Philippine architectural firms as well as with international architectural firms.

Competition

The Company competes with other property investment, development, leasing and property holding companies to attract purchasers as well as tenants for its properties in Metro Manila. The principal bases of competition in the real estate development business are location, product, price, financing, execution, completion, quality of construction, brand and service. The Company believes it has several competitive advantages in each of these categories due to the prime locations of its properties, innovative projects, a reputation for high quality designs, affordable pre-sales financing, after-sales service and a consistent track record of completion. Total Assets of the Group for the year ended 31 December 2017 is ₱310.53 billion while Net Profit for the same year is ₱13.28 billion.

The Company attributes its strong residential sales to two main factors – the popularity of its live-work-play communities in Metro Manila and the Company's proven track record of delivering more than 374 buildings to its customers over the last two decades.

With respect to community township developments, the Company considers ALI to potentially be its only significant competitor. ALI is present in Fort Bonifacio, which is where the Company's Forbes Town Center, McKinley Hill, McKinley West and Uptown Bonifacio properties are located.

With respect to its office and retail leasing business, the Company believes that it has many competitors in the industry such as Robinsons Land Corporation ("RLC"), ALI and SM Prime Holdings, Inc. ("SMPHI").

With respect to high-end and middle income land and condominium sales, ALI claims to compete for buyers primarily on the basis of reputation, reliability, price, quality and location. With respect to its office rental properties, ALI claims to compete for tenants primarily based on the quality and location of the relevant building, reputation of the building's owner, quality of support services provided by the property manager, and rental and other charges. Total Assets of ALI and subsidiaries for the period ended 31 December 2017 is ₱573.99 billion while their Net Income for the same period is ₱28.16 billion¹.

RLC believes that its strength is in its mixed-use, retail, commercial and residential developments. For its commercial center business, RLC claims to compete on the basis of its flexibility in developing malls with different sizes. For its residential business, RLC claims to compete in terms of industry-specific technological know-how, capital, reputation and sales and distribution network. Total Assets of RLC and subsidiaries as of the period ended 30 September 2017 is ₱120.04 billion while their Net Income for the same period is ₱6.15 billion.²

SMPHI believes that it has certain significant competitive advantages which include the very good location of its malls, proven successful tenant mix and selection criteria and the presence of SM stores as anchor tenants. Total Assets of SMPHI and subsidiaries as of the period ended 31 December 2017 is ₱538.42 billion while their Net Income for the same period ₱28.12 billion.³

Sources and Availability of Raw Materials

The Company has a broad base of suppliers from which it sources its construction materials. The Company is not dependent on any one or a limited number of suppliers. The Company also has no plans on being dependent on any one or a limited number of suppliers.

Transactions with and/or dependence on related parties

The Company and its subsidiaries, in their ordinary course of business, engage in transactions with its affiliates. The Company's policy with respect to related party transactions is to ensure that these transactions are entered into on terms comparable to those available from unrelated third parties.

Transactions with related parties include investments in and advances granted to or obtained from subsidiaries, associates and other related parties. Other related parties include joint venture partners (See Note 10 to the Audited Financial Statements, Advances to/from Landowners and Joint Ventures) and investees which investments are accounted for at cost and other entities which are owned and managed by investors/owners of the Company (See Note 11 to the Audited Financial Statements, Investments in and Advances to Associates and Other Related Parties). Advances granted to joint venture partners are in the nature of cash advances made to landowners under agreements covering the development of parcels of land, which are to be used for pre-development expenses such as relocation of existing occupants. Repayment of these advances shall be made upon completion of the project development either in the form of the developed lots corresponding to the landowner's share in saleable lots or in the form of cash to be derived from sales of the landowner's share in the saleable lots and residential and condominium units. The commitment for cash advances under the agreements has been fully granted by the Company.

Advances granted to and obtained from subsidiaries, associates and other related parties are for purposes of working capital requirements. For more information, see Note 27 to the Audited Financial Statements.

Other related party transactions include collections from sales of land made in prior years to an associate company on an instalment basis. As part of the transaction, the related party entered into a management agreement with the Company, whereby the Company provides overall administration services in relation to the property.

The Company avails of marketing services of Eastwood Property and Holdings, Inc. (EPHI), a wholly-owned subsidiary of Empire East Land Holdings, Inc. (EELHI), Megaworld Newport Property Holdings, Inc.

¹ 2018 Definitive Information Statement of ALI.

² 2017 Information Statement of RLC.

³ 2017 Information Statement of SMPHI.

(MNPHI) and Megaworld Land, Inc. (MLI), which acts as a manager and leasing agent for the commercial properties of the Company. (See Note 27 to the Audited Financial Statements, Related Party Transactions). As consideration for said marketing services, the Company pays commission based on contracted terms. Commission expenses charged by EPHI, MNPHI and MLI are based on prevailing market rates.

Other than those disclosed in the Company's Financial Statements, the Company has not entered into any other related party transactions.

Intellectual Property

In the Philippines, certificates of registration of trademarks issued by the Philippine Intellectual Property Office prior to the effective date of the Philippine Intellectual Property Code in 1998 are generally effective for a period of 20 years from the date of the certificate, while those filed after the Philippine Intellectual Property Code became effective are generally effective for a shorter period of 10 years, unless terminated earlier.

The Company owns the registered trademark over its name and logo which was renewed in March 2015 and valid until March 2025. However, although the brand is important, the Company does not believe that its operations or its subsidiaries' operations depend on its trademarks or any patent, license franchise, concession or royalty agreement. The Company has also applied to register trademarks over the names of its development projects and some approvals are pending.

Regulatory and Environmental Matters

PD 957, RA 4726 and Batas Pambasa Blg. 220 ("BP 220") are the principal statutes which regulate the development and sale of real property as part of a condominium project or subdivision. PD 957, RA 4726 and BP 220 cover subdivision projects for residential, commercial, industrial or recreational purposes and condominium projects for residential or commercial purposes. The Housing and Land Use Regulatory Board ("HLURB") is the administrative agency of the Government which, together with local government units ("LGUs"), enforces these decrees and has jurisdiction to regulate the real estate trade and business.

All subdivision and condominium plans for residential, commercial, industrial and other development projects are required to be filed with the HLURB and the pertinent LGU of the area in which the project is situated. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans, which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant government body or agency.

The development of subdivision and condominium projects can commence only after the relevant government body has issued the required development permit.

The issuance of a development permit is dependent on, among other things: (i) compliance with required project standards and technical requirements which may differ depending on the nature of the project and (ii) issuance of the barangay clearance, the HLURB locational clearance, Department of Environment and Natural Resources ("DENR") permits and Department of Agrarian Reform ("DAR") conversion or exemption orders, as discussed below. A bond equivalent to 10% of the total project cost is required to be posted by the project developer to ensure commencement of the project within one year from the issuance of the development permit.

Developers who sell lots or units in a subdivision or a condominium project are required to register the project with and obtain a license to sell from the HLURB. Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. As a prerequisite for the issuance of a license to sell by the HLURB, developers are required to file with the HLURB any of the following to guarantee the construction and maintenance of the roads, gutters, drainage, sewerage, water system, lighting systems, and full development of the subdivision or condominium project and compliance with the applicable laws, rules and regulations:

- a surety bond callable upon demand equivalent to 20.0% of the development cost of the unfinished portion of the approved plan, issued by a duly accredited surety company (whether private or government), and acceptable to the HLURB;

- a real estate mortgage executed by the developer as mortgagor in favor of the Republic of the Philippines as mortgagee, represented by the HLURB, over property other than the land used for the project for which the license to sell is being obtained, free from any liens and encumbrance and the value of such property, computed on the basis of the zonal valuation of the BIR, must be at least 20.0% of the total development cost; or
- other forms of security equivalent to 10.0% of the development cost of the unfinished portion of the approved plan which may be in the form of the following:
 - a cash bond;
 - a fiduciary deposit made with the cashier and/or disbursing officer of the HLURB;
 - a certificate of guaranty deposit issued by any bank or financing institution of good standing in favor of the HLURB for the total development cost;
 - a letter from any bank of recognized standing certifying that so much has been set aside from the bank account of the developer in favor of the HLURB, which amount may be withdrawn by the Chief Executive Officer of HLURB or his authorized representative, at any time the developer fails or refuses to comply with his duties and obligations under the bond contract; or
 - any irrevocable credit line to be utilized in the development of the project from any bank of recognized standing and a refinancing re-structuring program indicating sources of funding from duly accredited funding institutions.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, by itself or upon a verified complaint from an interested party, for reasons such as involvement in fraudulent transactions, misrepresentation about the subdivision project or condominium project in any literature which has been distributed to prospective buyers. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

Real estate dealers, brokers and salesmen are also required to register and secure a certificate of registration with the HLURB before they can sell lots or units in a registered subdivision or condominium project. The certificate of registration will expire on the first day of December of each year.

On June 29, 2009, Republic Act No. 9646 or the Real Estate Service Act of the Philippines ("RA 9646") was signed into law. RA 9646 strictly regulates the practice of real estate brokers by requiring licensure examinations and attendance in continuing professional education programs.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate ("ECC") prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau ("EMB"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement ("EIS") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("IEE") to the proper DENR regional office. In case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandated.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the projects' environmental effects. The entire process of organization, administration and

assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Government certification, indicating that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase. The ECC also provides for other terms and conditions, any violation of which would result in a fine or the cancellation of the ECC.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund ("EGF") when the ECC is issued to projects determined by the DENR to pose a significant public risk to life, health, property and the environment. The EGF is intended to answer for damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are mandated to include a commitment to establish an Environmental Monitoring Fund ("EMF") when an ECC is eventually issued. The EMF shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Aside from the EIS and IEE, engineering, geological and geo-hazard assessment are also required for ECC applications covering subdivisions, housing and other development and infrastructure projects.

All development projects, installations and activities that discharge liquid waste into and pose a threat to the environment of the Laguna de Bay Region are also required to obtain a discharge permit from the Laguna Lake Development Authority.

The Company incurs expenses for purposes of complying with environmental laws that consist primarily of payments for government regulatory fees. Such fees are standard in the industry and are minimal.

Research and Development

The Company incurs minimal amounts for research and development activities which do not amount to a significant percentage of revenues.

Employees

As of December 31, 2017, the Company has 1,234 employees. The Company intends to hire additional employees if the present workforce becomes inadequate to handle the Company's operations.

The table below shows the breakdown of employees as of December 31, 2017:

Type	Number
Senior Management	34
Middle Management	296
Staff	904
Total	1,234

The Company has no collective bargaining agreements with employees and there are no organized labor organizations in the Company. The Company maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees.

The Company upholds professional and personal advancement of its employees through Megaworld Learning Academy. MLA offers a slew of leadership and training workshops that are facilitated by the Company's "Learning Ambassadors", who are all experts in their own fields, or third party consultants. Various programs have been specially designed to enable its employees to upgrade their skills and perform at optimum levels. It endeavours the progress of the Company's workforce by offering training and workshops covering career, management and leadership development.

Risks Associated with the Company's Business

Historically, the Company has derived substantially all of its revenues and operating profits from sales of its real estate products in the Philippines, and its business is highly dependent on the state of the Philippine economy. Demand for new residential projects in the Philippines, in particular, has also fluctuated in the past as a result of prevailing economic conditions in both the Philippines and in other countries, such as the United States (including overall growth levels and interest rates), the strength of overseas markets (as a substantial portion of demand comes from OFWs and expatriate Filipinos), the political and security situation in the Philippines and other related factors. For example, the global financial crisis in 2008 and 2009 resulted in a generally negative effect on real estate property prices globally, including the Philippines. The Company expects this general cyclical trend to continue, which means that the Company's results of operations may fluctuate from period to period in accordance with fluctuations in the Philippine economy, the Philippine property market and the global property market in general. There can be no assurance that such variances will not have a material adverse effect on the business, financial condition or results of operations of the Company. There is no assurance that there will be no recurrence of an economic slowdown in the Philippines or abroad.

The Company may be unable to acquire land for future development.

The Company's business is dependent, in large part, on the availability of large tracts of land suitable for development by the Company. As the Company and its competitors attempt to locate sites for development, it may become more difficult to locate parcels of suitable size in locations and at prices acceptable to the Company.

The Company is exposed to risks associated with real estate development.

The Company is subject to risks inherent in property development. Such risks include, among other things, the risks that financing for development may not be available on favourable terms, that construction may not be completed on schedule or within budget (for reasons including shortages of equipment, material and labor, work stoppages, interruptions resulting from inclement weather, unforeseen engineering, environmental and geological problems and unanticipated cost increases), that development may be affected by governmental regulations (including changes in building and planning regulations and delays or failure to obtain the requisite construction and occupancy approvals), and that developed properties may not be leased or sold on profitable terms and the risk of purchaser and/or tenant defaults.

The Company is exposed to risks that it will be unable to lease its properties in a timely manner or collect rent at profitable rates or at all.

The Company is subject to risks incidental to the ownership and operation of office and related retail properties including, among other things, competition for tenants, changes in market rents, inability to renew leases or re-let space as existing leases expire, inability to collect rent from tenants due to bankruptcy or insolvency of tenants or otherwise, increased operating costs and the need to renovate, repair and re-let space periodically and to pay the associated costs. In particular, the Company relies on the growth of the BPO business as a continued source of revenue from its rental properties. If the BPO business does not grow as the Company expects or if the Company is not able to continue to attract BPO-based tenants, it may not be able to lease its office space or as a consequence, its retail space, in a timely manner or otherwise at satisfactory rents.

Services rendered by independent contractors may not always match the Company's requirements for quality or be available within its budget.

The Company relies on independent contractors to provide various services, including land clearing and infrastructure development, various construction projects and building and property fitting-out works. Although the Company invites contractors to tender bids according to their reputation for quality and track record, and although once a contract is awarded the Company supervises the construction progress, there can be no assurance that the services rendered by any of its independent contractors will always be satisfactory or match the Company's requirements for quality. Contractors may also experience financial or other difficulties, and shortages or increases in the price of construction materials may occur, any of which could delay the completion or increase the cost of certain development projects.

The interests of joint development partners for the Company's development projects may differ from the Company's and they may take actions that adversely affect the Company.

The Company obtains a significant portion of its land bank through joint development agreements with landowners, as part of its overall land acquisition strategy and intends to continue to do so. A joint venture involves special risks where the venture partner may have economic or business interests or goals inconsistent with or different from those of the Company's.

Risks Management and Business Strategy

To manage the risks associated with the business of the Company, the Company has adopted a business strategy that is based on conservative financial and operational policies and controls, revenue and property diversification, availability of quality land banks and strategic partners, as well as product innovation.

Maximize earnings through integrated community township developments. The Company intends to maximize earnings by developing integrated residential, business and retail property communities. This allows the Company to capitalise on the "live-work-play-learn" concept, which has become popular in the Philippines. The Company's position as a leader in crafting and delivering community township developments has strengthened over the years and continues to be its key strategy in bringing new projects to the market and entering into new joint venture developments. In 2007, the Company acquired properties in Iloilo and Cebu to expand its BPO office developments and community townships in the Visayas. In 2009 and 2010, the Company increased its property portfolio through the acquisition of rights to develop the Uptown Bonifacio and McKinley West properties. In 2014, all the real estate interests of Alliance Global, Inc. was consolidated into the Company. The consolidation aggregated the Company's township properties by virtue of Global Estate Resorts, Inc.'s developments in Boracay Newcoast, Southwoods City, Twin Lakes, and Alabang West. During the same year, The Company also launched Arcovia City, Suntrust Ecotown, and Davao Park District. In 2015, the Company launched The Upper East, Northhill Gateway, Capital Town Pampanga, Westside City, and Sta. Barbara Heights through Global Estate Resorts, Inc. In 2016, the Company launched two more townships namely Maple Grove and Eastland Heights. The Company will seek opportunities to develop land in prime locations to further enhance its real estate portfolio and targets to achieve 2 million square metres of leasable space and ₱20 billion in rental income by 2020.

Capitalize on brand and reputation. The Company believes that its strong brand name and reputation are key to its continued success, and will continue to build on them. Since pre-selling is an industry practice in the Philippines, buyers place great importance on the track record and reputation of developers to reduce the completion risk relating to their properties. The Company intends to continue using its brand name and reputation to attract purchasers, tenants and joint development partners. The Company continues to enhance its reputation by employing and training a dedicated marketing staff and extensive sales network for its residential sales businesses. In addition, the Company is strategically involved in the aftersales market for the properties it develops by providing building management and other aftersales services such as interior design services.

Continue to evaluate projects for synergies. The Company intends to continue to evaluate potential projects, particularly with respect to opportunities among the Company itself and its various subsidiaries and affiliates, in order to maximize cost efficiencies, resources and other opportunities to derive synergies across the Megaworld group and the larger AGI group of companies.

Maintain a strong financial position. The Company intends to maintain its strong financial position by controlling costs and maintaining its net cash position, as well as continuing to grow its recurring income base. The Company is able to control funding requirements for development costs by generating a significant portion of its project financing from pre-sales of residential units. By securing post-dated checks and providing a variety of financing options to buyers, the Company limits its cash outlays prior to obtaining project funds. The Company also controls development costs by entering into joint development agreements with landowners, which is a cost-effective means of obtaining rights to develop land as initial costs are fixed and future payments are a fixed percentage of revenue from sales and leasing activity. With respect to its recurring income base, the Company intends to maximize opportunities for further build-out of its leasing portfolio and targets a recurring income of ₱20 billion by 2020.

Sustain a diversified development portfolio. An important part of the Company's long-term business strategy is to continue to maintain a diversified earnings base. As the Company's community townships include a

mix of BPO offices, retail, middle-income residential, educational/training facilities, leisure and entertainment properties within close proximity to each other, the Company is able to capitalize on the complementary nature of such properties. In addition, the community township developments enable the Company to generate profits from selling residential projects as well as invest in office and retail assets retained by the Company to generate recurring income and long-term capital gains. The Company intends to continue to pursue revenue and geographical diversification as it develops community townships with the "live-work-play-learn" concept in various stages and in strategic locations both within and outside Metro Manila. The Company also intends to continue pursuing innovative product lines that may complement its existing developments, while maintaining a well-diversified earnings base.

Capitalize on growing opportunities in tourism development. The Company has further developed and diversified its real estate business to include integrated tourism development projects through its subsidiary, Global-Estate Resorts, Inc. Due to growth in the number of tourist visits to the Philippines and the Company's real estate development expertise, the Company believes it is well-positioned to capitalize on opportunities in this growing sector. The Company is also actively exploring and evaluating possible joint venture opportunities with an affiliate which focuses on tourism-related property developments.

Pre-Sales and Customer Financing

The Company conducts pre-sales of its property units prior to project completion and often, prior to construction. The Company's pre-selling process provides buyers with a variety of payment schemes, with down-payment plans ranging from 50% to no money down. A typical payment scheme includes progressive payments over the period in advance of property construction, including a balloon payment to coincide with buyers' expected cash flows. The Company collects post-dated checks to cover the entire purchase price based on an amortization schedule. Transfer of title to the property occurs only once all payments have been received. The payment structures are designed to appeal to middle-class buyers.

The Company provides a significant amount of in-house financing to qualified buyers. The Company has established processes and procedures designed to screen buyers applying for in-house financing to ensure that they are employed and/or are financially capable of paying their monthly amortizations.

PROPERTIES

Description of Principal Properties

The principal properties of the Company as of 31 December 2017 consist of projects under development, condominium units in completed projects, and land for future development, rental properties and hotels, including the following:

TYPE	LOCATION	Owned/Leased/ Limitations on Ownership
A. Condominium Units and Subdivision Lots Under Development		
Noble Place	Binondo, Manila	Joint Venture
Eastwood Global Plaza Luxury Residence	Eastwood, Quezon City	Owned
One Eastwood Avenue 2	Eastwood, Quezon City	Owned
Salcedo SkySuites	Gil Puyat Ave., Makati City	Owned
San Antonio Residences East & West	Gil Puyat Ave., Makati City	Owned
The Ellis	Salcedo Village, Makati City	Owned
Greenbelt Hamilton 2	Legaspi Street, Makati City	Owned
Lafayette Park Square	Iloilo Business Park, Iloilo City	Owned
One Madison Place 1-3	Iloilo Business Park, Iloilo City	Owned
The Palladium	Iloilo Business Park, Iloilo City	Owned
Saint Honore	Iloilo Business Park, Iloilo City	Owned

Belmont Hotel Mactan Newtown	Mactan Newtown, Cebu	Owned
One Manchester Place	Mactan Newtown, Cebu	Owned
Savoy Hotel Mactan Newtown	Mactan Newtown, Cebu	Owned
Forbes Hill	Northhill Gateway, Bacolod	Joint Venture
Manhattan Heights Tower C	Manhattan Garden City, Quezon City	Joint Venture
Manhattan Plaza	Manhattan Garden City, Quezon City	Joint Venture
The Florence	McKinley Hill, Fort Bonifacio, Taguig City	Owned
The Venice Luxury Residences - Giovanni	McKinley Hill, Fort Bonifacio, Taguig City	Owned
Viceroy Tower 3	McKinley Hill, Fort Bonifacio, Taguig City	Owned
Viceroy East Tower	McKinley Hill, Fort Bonifacio, Taguig City	Owned
St. Moritz Private Estate Cluster One & Two	McKinley West, Fort Bonifacio, Taguig City	Joint Venture
One Uptown Residence	Uptown Bonifacio, Fort Bonifacio, Taguig City	Joint Venture
Uptown Parksuites Residence	Uptown Bonifacio, Fort Bonifacio, Taguig City	Joint Venture
Uptown Ritz Residence	Uptown Bonifacio, Fort Bonifacio, Taguig City	Joint Venture
The Albany Luxury Residences	McKinley West, Fort Bonifacio, Taguig City	Joint Venture
Saint Dominique	Iloilo Business Park, Iloilo City	Owned
Maple Grove Commercial District	General Trias, Cavite	Joint Venture

B. Condominium Units in Completed Projects

8 Wack Wack Road	Wack Wack Road, Mandaluyong City	Owned
8 Forbestown Road	Forbestown Center, Fort Bonifacio, Taguig City	Joint Venture
Wack Wack Heights	Lee St., Mandaluyong City	Owned
Cityplace Binondo A & B	Binondo, Manila	Owned
Eastwood Le Grand 1-3	Eastwood, Quezon City	Owned
Eastwood Parkview 1 & 2	Eastwood, Quezon City	Owned
Grand Eastwood Palazzo	Eastwood, Quezon City	Owned
One Central Park	Eastwood, Quezon City	Owned
One Orchard Road	Eastwood, Quezon City	Owned
The Eastwood Excelsior	Eastwood, Quezon City	Owned
The Eastwood Lafayette 1-3	Eastwood, Quezon City	Owned
One Lafayette Square	Makati City	Owned
Two Lafayette Square	Makati City	Owned
The Bellagio 1-3	Forbestown Center, Fort Bonifacio, Taguig City	Joint Venture
Forbeswood Heights	Forbestown Center, Fort Bonifacio, Taguig City	Joint Venture
Forbeswood Parklane	Forbestown Center, Fort Bonifacio, Taguig City	Joint Venture
Marina Square Suites	Pedro Gil, Manila	Owned
Greenbelt Madison	Legaspi Village, Makati City	Owned
Greenbelt Chancellor	Rada St., Legaspi Village, Makati City	Owned
Greenbelt Parkplace	Palanca St., Legaspi Village, Makati City	Owned
Greenbelt Radissons	Aguirre St., Legaspi Village, Makati City	Owned
Greenbelt Excelsior	Palanca St., Legaspi Village, Makati City	Joint Venture
Paseo Parkview Suites 1&2	Valero St. Salcedo Village, Makati City	Owned
One Central	Sen. Gil Puyat Ave., Makati City	Owned
Two Central	Valero St., Makati City	Owned
Greenbelt Hamilton Tower 1	Legaspi St., Legaspi Village, Makati City	Owned
115 Upper McKinley	McKinley Hill, Fort Bonifacio, Taguig City	Joint Venture
McKinley Hill Garden Villas	McKinley Hill, Fort Bonifacio, Taguig City	Joint Venture
The Woodridge 1 & 2	McKinley Hill, Fort Bonifacio, Taguig City	Joint Venture
Tuscany Private Estate	McKinley Hill, Fort Bonifacio, Taguig City	Joint Venture
Morgan Suites Executive	McKinley Hill, Fort Bonifacio, Taguig City	Owned

Residences

Stamford Executive Residences	McKinley Hill, Fort Bonifacio, Taguig City	Owned
McKinley West Subdivision	McKinley West, Taguig City	Joint Venture
150 Newport Boulevard	Newport, Pasay City	Joint Venture
Palm Tree Villas 1 & 2	Newport, Pasay City	Joint Venture
The Parkside Villas	Newport, Pasay City	Joint Venture
The Residential Resort at Newport	Newport, Pasay City	Joint Venture
Belmont Luxury Hotel	Newport, Pasay City	Joint Venture
Greenhills Heights	Pinaglabanan San Juan	Joint Venture
One Beverly Place	Greenhills, San Juan	Joint Venture
El Jardin Del Presidente 1 & 2	Sgt. Esguerra Ave., Quezon City	Owned
Manhattan Parkway	Manhattan Garden City, Quezon City	Joint Venture
Manhattan Parkview 1-3	Manhattan Garden City, Quezon City	Joint Venture
Manhattan Parkview Garden	Manhattan Garden City, Quezon City	Joint Venture
Manhattan Heights Tower A	Manhattan Garden City, Quezon City	Joint Venture
Manhattan Heights Tower D	Manhattan Garden City, Quezon City	Joint Venture
The Venice Luxury Residences - Alessandro	McKinley Hill, Fort Bonifacio, Taguig City	Owned
The Venice Luxury Residences - Bellini	McKinley Hill, Fort Bonifacio, Taguig City	Owned
The Venice Luxury Residences - Carusso	McKinley Hill, Fort Bonifacio, Taguig City	Owned
The Venice Luxury Residences - Domenico	McKinley Hill, Fort Bonifacio, Taguig City	Owned
The Venice Luxury Residences - Emanuele	McKinley Hill, Fort Bonifacio, Taguig City	Owned
8 Newtown Boulevard	Mactan Newtown, Cebu City	Owned
Iloilo Boutique Hotel	Iloilo Business Park, Iloilo City	Owned
Viceroy Tower 1	McKinley Hill, Fort Bonifacio, Taguig City	Owned
Viceroy Tower 2	McKinley Hill, Fort Bonifacio, Taguig City	Owned
The Venice Luxury Residences – Fiorenzo	McKinley Hill, Fort Bonifacio, Taguig City	Owned
Manhattan Heights Tower B	Manhattan Garden City, Quezon City	Joint Venture
One Eastwood Avenue Tower 1	Eastwood, Quezon City	Owned
Golfhill Gardens	Old Balara, Quezon City	Owned
Paseo Heights	Salcedo Village, Makati City	Owned
Three Central	Valero St., Makati City	Owned
One Pacific Residence	Mactan Newtown, Cebu City	Owned
Savoy Hotel Newport City	Newport, Pasay City	Joint Venture
101 Newport Boulevard	Newport, Pasay City	Joint Venture
81 Newport Boulevard	Newport, Pasay City	Joint Venture

C. Rental Properties

City Place Retail Mall	Binondo, Manila	Owned
Hotel Lucky Chinatown (Chinatown Belmont)	Binondo, Manila	Owned
Lucky Chinatown Mall	Binondo, Manila	Owned
1800 Eastwood Avenue	Eastwood, Quezon City	Owned
1880 Eastwood Avenue	Eastwood, Quezon City	Owned
Cyber Mall	Eastwood, Quezon City	Owned
Cyber One Units	Eastwood, Quezon City	Owned
Eastwood Citywalk	Eastwood, Quezon City	Owned
Eastwood Mall	Eastwood, Quezon City	Owned

Eastwood Richmond Hotel	Eastwood, Quezon City	Owned
E-Commerce Plaza	Eastwood, Quezon City	Owned
Global One	Eastwood, Quezon City	Owned
IBM Plaza	Eastwood, Quezon City	Owned
ICITE	Eastwood, Quezon City	Owned
Techno Plaza 1	Eastwood, Quezon City	Owned
Techno Plaza 2 Units	Eastwood, Quezon City	Joint Venture
Burgos Circle	Forbestown Center, Fort Bonifacio, Taguig City	Joint Venture
The World Centre	Gil Puyat Ave., Makati City	Owned
One Beverly Place Retail	Greenhills, San Juan	Owned
Festive Walk Mall	Iloilo Business Park, Iloilo City	Owned
Festive Walk Parade 2B	Iloilo Business Park, Iloilo City	Owned
One Global Center	Iloilo Business Park, Iloilo City	Owned
One Techno Place	Iloilo Business Park, Iloilo City	Owned
Richmonde Hotel Iloilo & Richmond Tower	Iloilo Business Park, Iloilo City	Owned
Two Global Center	Iloilo Business Park, Iloilo City	Owned
California Garden Square Retail	Libertad cor Calbayog, Mandaluyong City	Owned
8 Newtown Boulevard	Mactan Newtown, Cebu	Owned
Mactan Alfresco	Mactan Newtown, Cebu	Owned
One World Center	Mactan Newtown, Cebu	Owned
Tower One Plaza Magellan	Mactan Newtown, Cebu	Owned
Two World Center	Mactan Newtown, Cebu	Owned
8 Campus Place	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
8 Upper McKinley	McKinley Hill, Fort Bonifacio, Taguig City	Owned
Commerce and Industry Plaza	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
Emperador Steel Parking Building	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
McKinley Hill (Phase 3) Lots	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
McKinley Parking Building	McKinley Hill, Fort Bonifacio, Taguig City	Owned
One Campus Place	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
One World Square	McKinley Hill, Fort Bonifacio, Taguig City	Owned
Science Hub Towers	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
The Venice Canal Mall	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
The Venice Piazza	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
Three World Square	McKinley Hill, Fort Bonifacio, Taguig City	Owned
Tuscany Retail	McKinley Hill, Fort Bonifacio, Taguig City	Joint Venture
Two World Square	McKinley Hill, Fort Bonifacio, Taguig City	Owned
Venice Corporate Center	McKinley Hill, Fort Bonifacio, Taguig City	Ground Lease
Woodridge Residences	McKinley Hill, Fort Bonifacio, Taguig City	Joint Venture
Five West Campus	McKinley West, Taguig City	Joint Venture
One West Campus	McKinley West, Taguig City	Joint Venture
Three West Campus	McKinley West, Taguig City	Joint Venture
Two West Campus	McKinley West, Taguig City	Joint Venture
Belmont Luxury Hotel	Newport City, Pasay City	Joint Venture
The Richmond Hotel	Ortigas, Mandaluyong City	Owned
Paseo Center	Paseo Center, Makati City	Owned
331 Building	Sen. Gil Puyat Ave., Makati City	Owned
Corinthian Hills Retail	Temple Drive, Quezon City	Owned
Uptown Parade	Uptown Bonifacio, Taguig City	Joint Venture
Uptown Place Mall	Uptown Bonifacio, Taguig City	Joint Venture
Uptown Place Towers	Uptown Bonifacio, Taguig City	Joint Venture
Six West Campus	McKinley West, Taguig City	Joint Venture
Eight West Campus	McKinley West, Taguig City	Joint Venture
Three Techno Place	Iloilo Business Park, Iloilo City	Owned

The Company's principal office is located on the 30th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City.

While the Company has sufficient land for future development, it continuously seeks opportunities to acquire and develop land in prime locations through purchase, joint venture arrangements or otherwise.

There are no mortgages, liens or encumbrances over any of the properties owned by the Company.

LEGAL PROCEEDINGS

No Material Pending Legal Proceedings

Neither the Company nor any of its subsidiaries or any of their properties is involved in or the subject of any legal proceedings which would have a material adverse effect on the business or financial position of the Company or any of its subsidiaries, or any of its or their properties.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of 2017 to a vote of security holders.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Price Information

The common shares of the Company are traded on the Philippine Stock Exchange ("PSE") under the symbol of MEG. The Company's common stock was first listed on the PSE on June 15, 1994.

The following table sets out, for the periods indicated, the high and low sales price for the Company's common shares as reported on the PSE:

Year		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016	High	4.30	4.78	5.51	4.88
	Low	3.00	3.51	4.36	3.21
2017	High	4.03	4.85	5.50	5.85
	Low	3.38	3.38	4.32	5.05
2018	High	5.34			
	Low	4.50			
3/28/18	Close	4.69			

Market price of the Issuer's Shares as at 29 December 2017 was ₱5.16 per share.

Holders

As of 31 December 2017, the Company had 2,502 shareholders of record worldwide. The following table sets forth the twenty largest shareholders of the Company as of 31 December 2017.

	Stockholder Name	No. of shares	% to Total
1	Alliance Global Group, Inc. (Common)	14,090,219,058	36.8473%

	(Preferred)	6,000,000,000	15.6906%
	Total:	20,090,219,058	52.5379%
2.	PCD Nominee Corporation (Non-Filipino)	6,128,546,697	16.0268%
3.	New Town Land Partners, Inc.	5,668,530,324	14.8238%
4.	PCD Nominee Corporation (Filipino)	4,572,263,579	11.9569%
5.	First Centro, Inc.	873,012,500	2.2830%
6.	Richmonde Hotel Group International Limited	420,000,000	1.0983%
7.	Megaworld Cebu Properties, Inc.	143,000,000	0.3740%
8.	Andrew L. Tan	95,000,000	0.2484%
9.	The Andresons Group, Inc.	89,760,000	0.2347%
10.	Simon Lee Sui Hee	8,845,200	0.0231%
11.	OCBC Securities Phils., Inc. Fao: Santiago J. Tanchan Jr.	7,371,000	0.0193%
12.	Luisa Co Li	5,525,697	0.0145%
13.	Evangeline Abdullah	5,400,000	0.0141%
14.	Jasper Karl Tanchan Ong	5,370,300	0.0140%
15.	Winston Co	5,180,760	0.0135%
16.	Luis U. Ang &/Or Teresa W. Ang	4,000,000	0.0105%
17.	Luis Ang &/Or Lisa Ang	3,785,532	0.0099%
18.	Lucio W. Yan	3,780,000	0.0099%
19.	Alberto Mendozas &/or Jeanie C. Mendoza	2,587,454	0.0068%
20.	Luis U. Ang &/or Teresa W. Ang	2,529,345	0.0066%

Dividend Policy

The payment of dividends, either in the form of cash or stock, will depend upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends only out of its unrestricted retained earnings. These represent the net accumulated earnings of the Company with its capital unimpaired, which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in cash are subject to the approval by the Board of Directors. Dividends paid in the form of additional shares are subject to approval by both the Board of Directors and at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose.

Cash dividends amounting to Php1.72 billion, Php1.61 billion and Php1.94 billion were declared on the Company's common shares in 2017, 2016 and 2015, respectively. The dividends were paid in July 2017, July 2016 and July 2015, respectively. Cash dividends were declared on the Company's Series "A" Preferred Shares in 2017, 2016 and 2015 in the amount of Php600,000 for each year. The dividends were paid in July 2017, July 2016 and July 2015.

The Company declares cash dividends to shareholders of record usually in the first half of each year. These dividends are paid from unrestricted retained earnings. The Company intends to maintain an annual cash dividend payment ratio of 20% of its net income from the preceding year, subject to the requirements of applicable laws and regulations and the absence of circumstances that may restrict the payment of such dividends, such as where the Company undertakes major projects and developments. The Company's

Board of Directors may, at any time, modify its dividend payout ratio depending upon the results of operations and future projects and plans of the Company.

Recent Sales of Unregistered or Exempt Securities

The following securities were issued as exempt from the registration requirements of the Securities Regulation Code (SRC) and therefore have not been registered with the SEC:

- (a) In 2013, the Company issued US\$250,000,000 worth of corporate notes due in 2023 with a coupon of 4.25%. UBS acted as sole global coordinator and bookrunner for the issue. The corporate notes are listed in the Singapore Exchange Securities Trading Limited.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

(Based on Financial Statements adopted in accordance with the Philippine Financial Reporting Standards)

Review of December 31, 2017 versus December 31, 2016

Megaworld, the country's largest developer of integrated urban townships, grew its net income by 13.41% to Php13.28 billion (including nonrecurring gains of Php113.07 million) in 2017 from Php11.63 billion (including non-recurring gain of Php82.46 million) the previous year. Net income attributable to parent company ended at Php12.77 billion by end-December 2017, a 12.71% jump from Php11.33 billion during the same period last year.

Consolidated revenues of the Megaworld Group, which includes subsidiary brands Global-Estate Resorts, Inc., Empire East Land Holdings, Inc. and Suntrust Properties, Inc., amounted to Php50.41 billion for the year, up 7.67% from Php46.82 billion in the same period last year.

Development. Among product portfolios, the bulk of consolidated revenues came from the sale of condominium units and residential lots, comprising 57.33% of total revenues. Real estate sales remained steady with a 5.28% increase, amounting to Php28.90 and Php27.45 billion for the years 2017 and 2016, respectively. The Group's registered sales mostly came from the following projects: The Venice Luxury Residences, San Antonio Residence, Manhattan Plaza Tower 1, One Uptown Residence, Iloilo Boutique Hotel, The Ellis, Paseo Heights, Uptown Parksuites Towers 1 & 2, St. Moritz Private Estate – Cluster 2, Noble Place, One Manchester Place, Viceroy East Tower, The Albany – Kingsley, One Central, The Palladium, Greenbelt Hamilton Towers 1 & 2, Eastwood Global Plaza Luxury Residence, The Florence, 81 Newport Boulevard, Three Central, Greenbelt Madisons, Uptown Ritz Residence and One Eastwood Avenue Tower 1.

Leasing. Rental income soared 18.16% for the year, reaching Php11.83 billion in 2017 from Php10.01 billion last year. The Group's expanded office space and commercial retail portfolio backed the steady growth of leasing revenues.

Hotel Operations. The Group's revenues attributable to hotel operations posted an amount of Php1.34 billion in 2017 with an increase of 14.86% from Php1.16 billion for the same period last year.

Total costs and expenses amounted to Php37.13 billion, an increase by 5.77% from Php35.10 billion last year. Interest and other charges – net increased by 17.21%, amounting to Php3.36 billion this year from Php2.87 billion in 2016 due to impairment losses recognized for the year. Tax expense in 2017 amounting to Php3.79 billion resulted to an increase of 8.69% from 2016 reported amount of Php3.49 billion due to higher taxable income.

There were no seasonal aspects that had a material effect on the financial condition or financial performance of the Group. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations. The Group is not aware of events that will cause material change in the relationship between costs and revenues.

There are no significant elements of income or loss that did not arise from the Group's continuing operations.

Financial Condition

The Group maintains a prudent financial policy as it engages to a more competitive and challenging environment. The Group's Statements of Financial Position reflects stable financial growth. Total resources as at December 31, 2017 amounted to Php310.53 billion, posting an increase of 11.40% compared to Php278.74 billion as at December 31, 2016.

The Group shows steady liquid position as at December 31, 2017 by having its current assets at Php155.49 billion as against its current obligations at Php57.02 billion. Current assets posted an increase of 10.52% from December 31, 2016 balance of Php140.69 billion. Current obligations reflected an increase of 39.44% from December 31, 2016 balance of Php40.89 billion.

Cash and cash equivalents increased by 0.21% from Php16.40 billion in 2016 to Php16.43 billion in 2017. Current and non-current trade and other receivables – net increased by 8.96%, amounting to Php68.29 billion as at December 31, 2017 compared to Php62.67 billion as at December 31, 2016. Residential, condominium units, golf and resort shares for sale – net increased by 3.38% from Php62.66 billion in 2016 to Php64.78 billion in 2017 mainly due to the additional construction costs attributable to on-going projects. Property development costs amounted to Php23.11 billion, up by 14.95% from Php20.11 billion last year. The Group's investments in available-for-sale securities – current and non-current increased by 18.87%, from Php3.66 billion in 2016 to Php4.35 billion as at December 31, 2017 due to changes in the fair market value of shares. Land for future development increased by 15.36% from Php22.08 billion in 2016 to Php25.47 billion in 2017. Investment properties – net increased by 18.06% amounting to Php71.42 billion in December 31, 2017 from Php60.49 billion in December 31, 2016 due to completion and additional construction costs of real properties for lease. Property and equipment – net amounted to Php5.17 billion, 44.82% higher from year-end 2016 balance of Php3.57 billion mainly due to the completion of corporate headquarters.

Trade and other payables amounted to Php16.17 billion and Php13.57 billion as at December 31, 2017 and 2016, respectively, reflecting a 19.16% increase. Total current and non-current customers' deposits as at December 31, 2017 amounted to Php8.56 billion compared Php12.22 billion as at December 31, 2016 with 29.91% decrease. The combined effect of current and non-current deferred income on real estate sales decreased by 5.80%, amounting to Php10.06 billion as at December 31, 2017 compared to Php10.68 billion as at December 31, 2016.

The interest-bearing loans and borrowings current and non-current amounted to Php40.54 and Php38.85 billion for December 31, 2017 and 2016, respectively, reflecting a 4.33% increase. Bonds payable increased by 53.89%, amounting to Php34.36 billion as at December 31, 2017 compared to Php22.33 billion as at December 31, 2016. Total other liabilities amounted to Php7.67 billion from Php6.50 billion as at December 31, 2017 and 2016, respectively, translating to an 18.08% increase.

Total Equity (including non-controlling interests) increased by 12.31% from Php143.62 billion as at December 31, 2016 to Php161.30 billion as at December 31, 2017 due to the Group's continuous profitability.

The top five (5) key performance indicators of the Group are shown below:

	December 31, 2017	December 31, 2016
Current Ratio *1	2.73:1.00	3.44:1.00
Quick Ratio *2	0.29:1.00	0.40:1.00
Debt to Equity Ratio *3	0.46:1.00	0.43:1.00

	December 31, 2017	December 31, 2016
Return on Assets *4	4.51%	4.42%
Return on Equity *5	9.67%	9.36%

*1 – Current Assets / Current Liabilities

*2 – Cash and Cash Equivalents / Current Liabilities

*3 – Interest Bearing Loans and Borrowings and Bonds Payable / Equity

*4 – Net Profit / Average Total Assets

*5 – Net Profit / Average Equity (Computed using figures attributable only to parent company shareholders)

With its strong financial position, the Group will continue investing in and pursuing expansion activities as it focuses on identifying new markets, maintaining established markets and tapping business opportunities.

Material Changes in the Year 2017 Financial Statements (Increase/decrease of 5% or more versus December 31, 2016)

Statement of Financial Position

8.96% increase in trade and other receivables – net
Primarily due to additional sales for the period

14.95% increase in property development costs
Represents costs attributable to the development of various projects

18.87% increase in investments in AFS securities – current and non-current
Due to changes in the fair market value of shares

23.81% increase in advances to contractors and suppliers
Represents advance payments to contractors and suppliers

12.75% increase in prepayments and other assets – current and non-current
Due to contribution of a new subsidiary and recognition of goodwill

23.25% increase in advances to landowners and joint ventures
Due to additional advances made to landowners

15.36% increase in land for future development
Due to additional land acquisitions and contribution of new subsidiaries

18.06% increase in investment properties – net
Due to additional project costs of malls, commercial centers and office buildings

44.82% increase in property and equipment – net
Mainly due to the completion of corporate headquarters

44.95% decrease in deferred tax assets
Due to lower deferred tax assets on taxable temporary differences

53.89% increase in bonds payable – current and non-current
Due to issuance of bonds

19.16% increase in trade and other payables
Due to higher payables to suppliers and contractors

29.91% decrease in customers' deposits – current and non-current
Due to recognition of sales and decision to pursue recurring revenues from a project previously intended for sale

5.80% decrease in deferred income on real estate sales – current and non-current
Represents increase in unearned revenue

74.67% increase in income tax payable
Mainly due to higher taxable income

18.08% increase in other liabilities – current and non-current
Mainly contributed by additional security deposits and advance rent from new tenants

8.59% increase in advances from associates and other related parties
Due to increase in advances arising from related party transactions

7.90% increase in retirement benefit obligation
Additional accrual of retirement plan of employees

(Increase/decrease of 5% or more versus December 31, 2016)

Statements of Income

5.28% increase in real estate sales
Due to higher sales recognized for the period

18.16% increase in rental income
Due to aggressive expansion of the Group's leasing portfolio, escalation of rental rates and high demand for office space from BPO Companies

14.86% increase in hotel operations
Due to increase in hotel occupancy rates

13.18% decrease in equity in net earnings of associates
Mainly due to decrease in net income of associates

5.28% increase in interest and other income – net
Mainly due to higher non-recurring gains recognized for the year

5.09% increase in cost of real estate sales
Due to increase in real estate sales

20.10% decrease in deferred gross profit
Pertains to the portion of gross profit from current real estate sales to be realized in future periods

10.88% increase in cost of hotel operations
Represents direct costs attributable to hotel operations

14.48% increase in operating expenses
Due to increase in other administrative and corporate overhead expenses

17.21% increase in interest and other charges – net
Primarily due to impairment losses recognized for the year

8.69% increase in tax expense
Due to higher taxable income and tax effects of deductible temporary differences

There are no other significant changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would have impact or change the reported financial information and condition on the Group.

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Group's liquidity in any material way. The Group

does not anticipate having any cash flow or liquidity problems. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

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

The Group has no unusual nature of transactions or events that affects assets, liabilities, equity, net income or cash flows.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

There were no known material events subsequent to the end of the period that have not been reflected in the Group's Financial Statements for the year 2017.

There were no changes in estimates of amount reported in the current financial year or changes in estimates of amounts reported in prior financial years.

There was no contingent liability reflected in the most recent annual financial statement, the same in the current year consolidated financial statements as at 2017. There are 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.

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

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

Results of Operations

(Based on Financial Statements adopted in accordance with the Philippine Financial Reporting Standards)

Review of December 31, 2016 versus December 31, 2015

Megaworld, the country's largest developer of integrated urban townships and the biggest lessor of office spaces, grew its net income by 12% in 2016 to P11.63-billion (net of P82-million non-recurring gain) from P10.39-billion (net of P181-million nonrecurring gain) the previous year. The company's sustained double-digit growth is attributed to stronger rental revenues that soared by 15% in 2016 to an all-time high of P10.01-billion from P8.73-billion during the previous year, as well as to the company's efficient cost management from operations.

Consolidated revenues, excluding non-recurring gains, grew 4% year-on-year in 2016 to P46.74-billion compared to P44.81-billion in 2015.

Development. Among product portfolios, the bulk of consolidated revenues came from the sale of condominium units and residential lots, comprising 58.63% of total revenues. Real estate sales remained steady with a slight increase of 0.69%, amounting to Php27.45 billion in 2016 versus Php27.26 billion in 2015. The Group's registered sales mostly came from the following projects: One Eastwood Avenue Tower 2, Two Central, The Florence, St. Moritz Private Estate, Eastwood Global Plaza Luxury Residence, Savoy Hotel – Newport City, The Palladium, San Antonio Residence, Three Central, Palm Tree Villas 2, One Uptown Residence, 81 Newport Boulevard, Manhattan Heights Tower A, The Venice Luxury Residences, Uptown Parksuites Tower 1 & 2, Greenbelt Hamilton Towers 1 & 2, Uptown Ritz Residence, and Viceroy East Tower.

Leasing. Rental income soared 14.68% for the year, reaching Php10.01 billion in 2016 from Php8.73 billion last year. The Group's expanded office space and commercial retail portfolio backed the steady growth of leasing revenues.

Hotel Operations. The Group's revenues attributable to hotel operations posted an amount of Php1.16 billion during the year with an increase of 46.06% from Php796.32 million in 2015.

Total costs and expenses amounted to Php35.10 billion, an increase by 1.99% from Php34.42 billion last year. Interest and other charges – net increased by 5.19%, amounting to Php2.87 billion in 2016 from Php2.73 billion last year due to higher finance costs. Tax expense in 2016 amounting to Php3.49 billion resulted to an increase of 6.23% from 2015 reported amount of Php3.28 billion due to higher taxable income.

There were no seasonal aspects that had a material effect on the financial condition or financial performance of the Group. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations. The Group is not aware of events that will cause material change in the relationship between costs and revenues.

There are no significant elements of income or loss that did not arise from the Group's continuing operations.

Financial Condition

The Group maintains a prudent financial policy as it engages to a more competitive and challenging environment. The Group's Statements of Financial Position reflects stable financial growth. Total resources as at December 31, 2016 amounted to Php278.74 billion, posting an increase of 10.75% compared to Php251.68 billion as at December 31, 2015.

The Group shows steady liquid position as at December 31, 2016 by having its current assets at Php140.69 billion as against its current obligations at Php40.89 billion. Current assets posted an increase of 7.25% from December 31, 2015 balance of Php131.18 billion. Current obligations reflected an increase of 12.09% from December 31, 2015 balance of Php36.48 billion.

Cash and cash equivalents decreased by 27.97% from Php22.76 billion in 2015 to Php16.40 billion in 2016 mainly due to capital expenditures and operating activities for business expansion. Current and non-current trade and other receivables – net increased by 13.64%, amounting to Php62.67 billion as at December 31, 2016 compared to Php55.15 billion as at December 31, 2015. Residential, condominium units, golf and resort shares for sale increased by 1.94% from Php61.47 billion in 2015 to Php62.66 billion in 2016 mainly due to the additional construction costs attributable to on-going projects. Property development costs increased to Php20.11 billion, 35.31% higher than Php14.86 billion last year. Land for future development increased by 21.88% from Php18.12 billion in 2015 to Php22.08 billion in 2016. The Group's investments in available-for-sale (AFS) securities – current and non-current decreased by 22.07%, from Php4.70 billion in 2015 to Php3.66 billion in 2016 due to changes in the fair market value of shares. Investment properties – net increased by 30.73% amounting to Php60.49 billion in December 31, 2016 from Php46.27 billion in December 31, 2015 due to completion and additional construction costs of real properties for lease. Property and equipment – net increased to Php3.57 billion, up 17.02% from year-end 2015 balance of Php3.05 billion due to additional costs incurred for hotel buildings.

Trade and other payables amounted to Php13.57 billion and Php12.07 billion as at December 31, 2016 and 2015, respectively. The increase of 12.41% was mainly due to higher payables to suppliers and contractors. Total current and non-current customers' deposits as at December 31, 2016 amounted to Php12.22 billion compared Php6.94 billion as at December 31, 2015 with 75.96% increase. The combined effect of current and non-current deferred income on real estate sales increased by 2.09% which amounted to Php10.68 billion as at December 31, 2016 compared to Php10.46 billion as at December 31, 2015.

The interest-bearing loans and borrowings current and non-current amounted to Php38.85 and Php31.67 billion for December 31, 2016 and 2015, respectively, reflecting a 22.67% increase. Bonds payable increased by 6.69% – Php22.33 billion as at December 31, 2016 compared to Php20.93 billion as at December 31, 2015. Total other liabilities amounted to Php6.50 billion from Php5.56 billion as at December 31, 2016 and 2015, respectively, translating to a 16.78% increase.

Total Equity (including non-controlling interests) increased by 6.85% from Php134.41 billion as at December 31, 2015 to Php143.62 billion as at December 31, 2016 due to the Group's continuous profitability.

The top five (5) key performance indicators of the Group are shown below:

	December 31, 2016	December 31, 2015
Current Ratio *1	3.44:1.00	3.60:1.00
Quick Ratio *2	0.40:1.00	0.62:1.00
Debt to Equity Ratio *3	0.43:1.00	0.39:1.00

	December 31, 2016	December 31, 2015
Return on Assets *4	4.42%	4.47%
Return on Equity *5	9.36%	8.98%

*1 – Current Assets / Current Liabilities

*2 – Cash and Cash Equivalents / Current Liabilities

*3 – Interest Bearing Loans and Borrowings and Bonds Payable / Equity

*4 – Net Profit / Average Total Assets

*5 – Net Profit / Average Equity (Computed using figures attributable only to parent company shareholders)

With its strong financial position, the Group will continue investing in and pursuing expansion activities as it focuses on identifying new markets, maintaining established markets and tapping business opportunities.

Material Changes in the Year 2016 Financial Statements (Increase/decrease of 5% or more versus December 31, 2015)

Statement of Financial Position

27.97% decrease in cash and cash equivalents

Due to capital expenditures and operating activities for business expansion

13.64% increase in trade and other receivables – current and non-current

Primarily due to additional sales for the period

35.31% increase in property development costs

Due to costs attributable to the development of various projects

22.07% decrease in investments in AFS securities – current and non-current

Due to changes in the fair market value of shares

73.39% increase in advances to contractors and suppliers

Represents advance payments to contractors and suppliers

19.66% increase in prepayments and other assets – current and non-current

Due to increase in prepaid expenses

25.04% decrease in advances to landowners and joint ventures

Mainly due to a subsidiary's reclassification of account to land for future development

21.88% increase in land for future development

Mainly due to a subsidiary's reclassification from advances to landowners and joint ventures and consolidation of new subsidiaries

23.38% decrease in investments in and advances to associates and other related parties

Due to the elimination of advances resulting from the consolidation of a new subsidiary previously classified as other related party

30.73% increase in investment properties – net

Due to additional project costs of malls, commercial centers and office buildings

17.02% increase in property and equipment – net

Represents additional costs incurred for hotel buildings

12.56% increase in deferred tax assets – net

Due to higher deferred tax assets on taxable temporary differences

22.67% increase in interest-bearing loans and borrowings – current and non-current

Due to availment of new loans

12.41% increase in trade and other payables

Due to higher payables to suppliers and contractors

6.69% increase in bonds payable – current and non-current

Due to foreign currency losses recognized for the year

75.96% increase in customers' deposits – current and non-current

Pertains to amounts received from customers for sale of residential lots and condominium units not yet qualified for sales recognition

16.78% increase in other liabilities – current and non-current

Mainly contributed by additional security deposits and advance rent from new tenants

62.62% increase in advances from associates and other related parties

Due to increase in advances arising from related party transactions

(Increase/decrease of 5% or more versus December 31, 2015)

Statements of Income

5.07% increase in realized gross profit on prior years' sales

Represents portion of gross profit from real estate sales made in prior years realized for the current period

14.68% increase in rental income

Due to aggressive expansion of the Group's leasing portfolio, escalation of rental rates and high demand for office space from BPO Companies

46.06% increase in hotel operations

Mainly contributed by newly-opened hotels last year

8.79% decrease in interest and other income – net

Due to higher interest income and non-recurring gains recognized last year

7.03% decrease in deferred gross profit

Pertains to the portion of gross profit from current real estate sales to be realized in future periods

45.65% increase in cost of hotel operations

Represents direct costs attributable to hotel operations

5.19% increase in interest and other charges – net

Primarily due to higher loss on foreign exchange re-measurement of dollar bonds

6.23% increase in tax expense

Due to higher taxable income and tax effects of deductible temporary differences

There are no other significant changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would have impact or change the reported financial information and condition on the Group.

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Group's liquidity in any material way. The Group

does not anticipate having any cash flow or liquidity problems. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

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

The Group has no unusual nature of transactions or events that affects assets, liabilities, equity, net income or cash flows.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

There were no known material events subsequent to the end of the period that have not been reflected in the Group's Financial Statements for the year 2016.

There were no changes in estimates of amount reported in the current financial year or changes in estimates of amounts reported in prior financial years.

There was no contingent liability reflected in the most recent annual financial statement, the same in the current year consolidated financial statements as at 2016. There are 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.

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

There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonable expected to have a material impact on the continuing operations of the Group.

EXTERNAL AUDIT FEES AND SERVICES

The external auditors of the Company and its subsidiaries billed the amounts of Php15,427,974 in 2017, Php18,662,135 in 2016 and Php14,149,500 in 2015 in fees for professional services rendered for the audit of the Company and its subsidiaries' annual financial statements and services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2017, 2016 and 2015. Except as disclosed above, no other services were rendered or fees billed by the external auditors of the Company for the years 2017, 2016 and 2015.

The Board of Directors, after consultation with the Audit Committee, recommends to the stockholders the engagement of the external auditors of the Company. The selection of external auditors is made on the basis of credibility, professional reputation, accreditation with the Philippine Securities and Exchange Commission, and affiliation with a reputable foreign partner. The professional fees of the external auditors of the Company are approved by the Company's Audit Committee after approval by the stockholders of the engagement and prior to the commencement of each audit season.

FINANCIAL STATEMENTS

Financial Statements meeting the requirements of SRC Rule 68, as amended, are attached hereto as Exhibit 1 and incorporated herein by reference.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

In compliance with SEC Memorandum Circular No. 8, Series of 2003, which was subsequently incorporated in SRC Rule 68, paragraph 3(b)(iv), and the Company's Manual of Corporate Governance, which require that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier, Mr. Renan A. Piamonte of Punongbayan and Araullo was designated as handling partner for the audit

of the financial statements of the Company starting the year ending 31 December 2017. Punongbayan & Araullo was also the auditor of the Company for 2017, 2016 and 2015.

There are no disagreements with the auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their reports on the financial statements of the Company and its subsidiaries.

PART III – CONTROL AND COMPENSATION INFORMATION

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The overall management and supervision of the Company is undertaken by the Board of Directors (“Board”). Currently, the Board consists of seven members, of which three are independent directors. All of the directors were elected at the Company’s annual stockholders meeting on June 16, 2017 and will hold office until their successors have been duly elected and qualified.

The table sets forth each member of the Company’s Board as of 31 March 2018.

Name	Age	Citizenship	Position
Andrew L. Tan	68	Filipino	Director, Chairman and President
Katherine L. Tan	66	Filipino	Director
Kingson U. Sian	56	Filipino	Director and Executive Director
Enrique Santos L. Sy	68	Filipino	Director
Jesus B. Varela	61	Filipino	Independent Director
Cresencio P. Aquino ¹	64	Filipino	Independent Director
Roberto S. Guevara	66	Filipino	Independent Director

The table below sets forth Megaworld’s executive officers in addition to its executive directors listed above as of 31 March 2018.

Name	Age	Citizenship	Position
Lourdes T. Gutierrez-Alfonso	54	Filipino	Chief Operating Officer
Francisco C. Canuto	60	Filipino	Senior Vice President, Treasurer Compliance Officer and Corporate Information Officer
Giovanni C. Ng	43	Filipino	Senior Vice President and Finance Director
Philipps C. Cando	59	Filipino	Senior Vice President for Operations
Maria Victoria M. Acosta	56	Filipino	Senior Vice President for International Marketing
Jericho P. Go	46	Filipino	Senior Vice President for Business Development and Leasing
Noli D. Hernandez	47	Filipino	Senior Vice President for Sales and Marketing
Kevin Andrew L. Tan	38	Filipino	Senior Vice President for Commercial Division
Maria Carla T. Uykim	41	Filipino	Head of Corporate Advisory and Special Projects
Rafael Antonio S. Perez	49	Filipino	Vice President for Human Resources and Corporate Administration Division
Kimberly Hazel A. Sta. Maria	37	Filipino	Assistant Vice President for Corporate Communications and Advertising
Carmen C. Fernando	60	Filipino	Managing Director for Prestige Hotels & Resorts, Inc.
Raymundo V. Melendres	52	Filipino	Managing Director for Luxury Global Hotels and Leisure, Inc.
Anna Michelle T. Llovido	39	Filipino	Corporate Secretary
Rolando D. Siatela	57	Filipino	Assistant Corporate Secretary
Johann R. Quiazon	27	Filipino	Assistant Corporate Information Officer

¹ Cresencio P. Aquino was elected as Independent Director on 15 February 2018 to replace Gerardo C. Garcia due to his death.

Andrew L. Tan
Chairman of the Board/President

Mr. Tan is the founder of the Company and has served as its Chairman and President since its incorporation in 1989. He pioneered the live-work-play-learn model in real estate development through the Company's integrated township communities, fueling the growth of the business process outsourcing (BPO) industry. He embarked on the development of integrated tourism estates through publicly-listed Alliance Global Group, Inc. and Global-Estate Resorts, Inc., which he both chairs, while continuing to focus on consumer-friendly food and beverage and quick service restaurants. Mr. Tan serves as Chairman of the Board of Empire East Land Holdings, Inc., a publicly-listed subsidiary of the Company, and Suntrust Properties, Inc., a subsidiary engaged in the development and marketing of affordable housing projects. He also serves in the boards of other Megaworld subsidiaries including Eastwood Cyber One Corporation, Megaworld Land, Inc., Megaworld Central Properties Inc., Townsquare Development, Inc. and Richmonde Hotel Group International Limited. He is also the Chairman of Emperador Inc., a public-listed company which owns Emperador Distillers, Inc., the leading brandy manufacturer and distributor in the Philippines. Mr. Tan is Chairman of Megaworld Foundation, the Company's corporate social responsibility arm, which primarily focuses on the promotion of education through scholarship programs for financially handicapped but deserving students, and supports causes that promote poverty alleviation, people empowerment, social justice, good governance and environmental conservation. He is a director of Travellers International Hotel Group, Inc., a publicly-listed company, which owns Resorts World Manila, and the food and beverage companies, Emperador Distillers, Inc. Alliance Global Brands, Inc. and Golden Arches Development Corporation.

Katherine L. Tan
Director

Ms. Tan, has served as Director of the Company since 1989. She is concurrently a Director and Treasurer of publicly-listed Alliance Global Group, Inc. and Emperador Inc. She has extensive experience in the food and beverage industry and is currently Director and Corporate Secretary of The Bar Beverage, Inc. and Director and President of Raffles & Company, Inc. and Choice Gourmet Banquet, Inc. She is also a Director and Treasurer of Alliance Global Brands, Inc. and Emperador Distillers, Inc.

Kingson U. Sian
Director and Executive Director

Mr. Sian has served as Director of the Company since April 13, 2007. He joined the Megaworld Group in September 1995 as Senior Vice President and is currently Executive Director of the Company. He is concurrently Director and President of publicly-listed Alliance Global Group, Inc. and Travellers International Hotel Group, Inc. He is the Chairman and President of Prestige Hotels & Resorts, Inc. and Luxury Global Hotels and Leisure, Inc., the Senior Vice President and Chief Executive Officer of Megaworld Land, Inc. and the President of Eastwood Cyber One Corporation and Manila Bayshore Property Holdings, Inc. Mr. Sian was formerly a Vice President of FPB Asia Ltd/First Pacific Bank in Hong Kong from 1990 to 1995. Prior to that, he was connected with Citicorp Real Estate, Inc. in the United States from 1988 to 1990. Mr. Sian graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Master's Degree in Business Administration for Finance and Business Policy from the University of Chicago.

Enrique Santos L. Sy
Director

Mr. Sy has served as Director of the Company since July 2009. He was formerly a Vice President for the Corporate Communications & Advertising Division of the Company until his retirement in March 2011. He is concurrently a Director of publicly-listed Empire East Land Holdings, Inc. and a Director of Eastin Holdings, Inc. and First Oceanic Property Management Inc. He is also a Director and the Corporate Secretary of Asia

Finest Cuisine, Inc. and Corporate Secretary of Empire East Communities, Inc. Mr. Sy previously worked as Advertising Manager of Consolidated Distillers of the Far East, Inc., Creative Director of AdCentrum Advertising, Inc., Copy Chief of Admakers, Inc. and Peace Advertising Corporation, and Creative Associate of Adformatix, Inc. Mr. Sy graduated with honors from the Ateneo de Manila University with the degree of Bachelor of Arts in Communication Arts.

Jesus B. Varela
Independent Director/Vice Chairman

Mr. Varela has served as Director of the Company since June 2016. He concurrently serves as independent director in the boards of publicly-listed, Global-Estate Resorts, Inc. He is also the Chairman of the Philippine Chamber of Commerce and Industry, GS1 Philippines (Barcode of the Philippine), and New Lights Technologies, Inc. He is the President and CEO of the Advancement of Workers' Awareness Regarding Employment (AWARE) Foundation, Inc., and President of Philippine Greek Business Council and Philippine Peru Business Council. He is also the Director General of the International Chamber of Commerce Philippines (ICC-Philippine), Receiver of J-Phil Marine Shipping Inc., and Member of the Committee for Accreditation of Cargo Surveying Companies. Mr. Varela has more than twenty years of experience in the fields of marketing, human resources, international labor affairs, agriculture, and commerce, among others. He has done executive work with the Department of Agriculture, National Food Authority Council, Philippine Genetics, Inc., National Irrigation Administration, Philippine Planters Products, National Agri- Business Corporation, Agriculture Anti-Smuggling Task Force, and Nautical Highway Board. He served as Labor Attaché to Kobe, Japan, to the Commonwealth of Northern Marianas Island, and to Athens. Mr. Varela obtained his bachelor's degree in Economics from Ateneo De Manila University. He attended training courses in Labor Administration and Policy Formulation under the International Labor Organization/ARPLA program, the Corporate Planning Course at the Center for Research Communication, Foreign Exchange Training by Metro Bank and Forex Club of the Philippines, Systems Analysis by the Presidential Management Staff, Asian Productivity Seminar and other in-house seminars conducted by the Department of Labor and the Development Academy of the Philippines.

Cresencio P. Aquino¹
Independent Director

Atty. Aquino is currently the Managing Partner of The Law Firm of CP Aquino & Partners. He is a graduate of the San Sebastian College Manila with degrees in Bachelor of Arts and Bachelor of Laws. Atty. Aquino has extensive experience in both the public and private sectors as Director of Clark Development Corporation from 2012 to 2016, Independent Director of Global-Estate Resorts, Inc. from 2010 to 2012, Independent Director of Suntrust Home Developers, Inc. from 2009 to 2012, Corporate Legal Counsel of MBF Card and One Card Corporation from June 1998 to May 2004, Special Assistant and Chief Legal Counsel of the Government Service Insurance System from September 1992 to June 1998, Director of the Meat Packaging Corporation of the Philippines from September 1992 to June 1998, Personnel and Administrative Manager, Corporate Secretary and Chief Legal Counsel of ComSavings Bank from September 1992 to June 1998, and Executive Director of the Department of Interior and Local Government ("DILG") from 1988 to 1992, and concurrently Ex-Officio Commissioner of the DILG with the Housing and Land Use Regulatory Board also for the same period. Atty. Aquino He was formerly an Associate Professor with the San Sebastian College. Atty. Aquino has been a member of the Integrated Bar of the Philippines since 1978 and is also a member of the Capitol Bar Association, Knights of Columbus, and the Lawyers League of the Philippines.

Roberto S. Guevara
Independent Director

Mr. Guevara has been an Independent Director of the Company since June 20, 2001. He is Chairman of the Board of Directors of Seed Capital Ventures, Inc. He serves on the board of other companies, such as G & S Transport Corporation, a licensee of Avis Car Rentals, Guevent Industrial Development Corporation and Radiowealth Finance Corporation, and as independent director of First Centro, Inc. and Kalahi Realty, Inc.

¹ Cresencio P. Aquino was elected as Independent Director on 15 February 2018 to replace Gerardo C. Garcia due to his death.

Mr. Guevara graduated from San Beda College in 1974, and received graduate degree from the Asian Institute of Management and a post graduate course at the Institute for Management Development (IMD), in Lausanne, Switzerland.

Lourdes T. Gutierrez-Alfonso
Chief Operating Officer

Ms. Gutierrez joined the Company in 1990. She is the Company's Chief Operating Officer and is a member of the Company's Management Executive Committee. Ms. Gutierrez has extensive experience in real estate and a strong background in finance and marketing. A certified public accountant by profession, she previously held the position of Senior Executive Vice President for Finance and Administration in the Company. Ms. Gutierrez is Chairman of the property management company, First Oceanic Property Management, Inc. She serves as director in numerous affiliate companies including publicly-listed Global-Estate Resorts, Inc. and Suntrust Properties, Inc., Twin Lakes Corporation, Mactan Oceanview Properties and Holdings, Inc., Megaworld Resort Estates, Inc., Oceantown Properties, Inc. and Prestige Hotels & Resorts, Inc. She is also a trustee and a Corporate Secretary of Megaworld Foundation, Inc.

Francisco C. Canuto
Senior Vice President and Treasurer

Mr. Canuto joined the Company in 1995. He is a Certified Public Accountant and currently holds the rank of Senior Vice President and Treasurer of the Company and is Senior Assistant to the Chairman. He is a member of the Company's Management Executive Committee. He holds a bachelor's degree in Commerce major in Accounting and a Master's Degree in Business Administration. He is concurrently Director of Megaworld Global-Estate, Inc. and Eastwood Property Holdings, Inc., Director and Corporate Secretary of Megaworld Central Properties, Inc. and Director and Treasurer of Megaworld Cebu Properties, Inc., Twin Lakes Corporation, Oceantown Properties, Inc., Megaworld Resort Estates, Inc., Megaworld Land, Inc., Megaworld-Daewoo Corporation, Eastwood Cyber One Corporation, Asia's Finest Hotels & Resort, Inc., and Prestige Hotels & Resorts, Inc. He serves as a Director and President of Arcovia Properties, Inc., Megaworld Cayman Islands, Inc., Lucky Chinatown Cinemas, Inc., McKinley Cinemas, Inc., Uptown Cinemas, Inc. and Gilmore Property Marketing Associates, Inc. He is also the President of Megaworld Foundation, Inc. Before joining the Company, he worked as Audit Manager of SGV & Company and Controller of Federal Express Corporation.

Giovanni C. Ng
Senior Vice President and Finance Director

Mr. Ng, is a Senior Vice President and Finance Director of the Company. He serves as director in Eastwood Property Holdings, Inc., Oceantown Properties, Inc., Empire East Communities, Inc., Gilmore Property Marketing Associates, Inc., First Centro, Inc., Valle Verde Properties, Inc., Lucky Chinatown Cinemas, Inc., McKinley Cinemas, Inc., Uptown Cinemas, Inc., Mactan Oceanview Properties and Holdings, Inc. and New Town Land Partners, Inc. He also serves as Treasurer of publicly-listed Empire East Land Holdings, Inc. and Adams Properties, Inc. and Townsquare Development, Inc. He is also a Director and Corporate Secretary of Megaworld Land, Inc. Previously, he worked as Analyst Associate in Keppel IVI Investments. Mr. Ng obtained his bachelor's degree in Quantitative Economics from the University of Asia and the Pacific, graduating summa cum laude in 1995.

Philipps C. Cando
Senior Vice President for Operations

Mr. Cando is a licensed civil engineer who has over 28 years of experience in project development and construction management. Mr. Cando joined the Company in 1994 as a construction manager and eventually rose to become head of the Company's project management team. Prior to joining Megaworld, Mr. Cando was employed for over 12 years in construction design and consultancy firms, Arenas-Tugade Associates and Massive Design Group. During his more than 15 years with the Company, Mr. Cando was responsible for the construction management of over thirty-three (33) project developments of the Company including residential and office condominium projects, hotel, mall and retail complexes as well as large scale mixed-use developments such as McKinley Hill and Eastwood City. He now heads the Company's Operations Division and responsible for the construction development of large scale

developments to include, Newport City, Forbes Town Center at Global City, Manhattan Garden City at Araneta Center, Cityplace at Binondo and Bonifacio Uptown. Mr. Cando serves as Director and President of Oceantown Properties, Inc.

Maria Victoria M. Acosta
Senior Vice President for International Marketing

Ms. Acosta is Senior Vice President for International Marketing. She joined the Company in September 1999. Prior to her appointment, she had twenty years of marketing experience in real estate and consumer products with other companies. Ms. Acosta was Executive Vice President and Chief Operating Officer of Empire East Land Holdings, Inc. from 1997 to 1998 and was Executive Director for Marketing from 1996 to 1997. Earlier, she also served as Senior Vice President and General Manager of Raffles & Co., Inc. She is concurrently Director and Corporate Secretary of Eastwood Property Holdings, Inc. and Corporate Secretary of Gilmore Property Marketing Associates, Inc.

Jericho P. Go
Senior Vice President for Business Development and Leasing

Mr. Go is the Company's Senior Vice President for Business Development & Leasing since May 2014. Prior to this, he was the First Vice President for Business Development & Leasing. He interfaces with brokers and various stake holders in the real estate industry to assess market trends and the viability of various types of projects. He keeps an eye on possible opportunities for strategic alliances and business partnerships. He also served as Megaworld's Executive Assistant to the Chairman from February 1997 to October 1999. His task is to study, evaluate, and explore areas identified by the Chairman as having strategic value to the company. Mr. Go obtained his Bachelor's degree in Arts major in Development Studies in 1993 from the University of the Philippines. He graduated Magna Cum Laude. He is concurrently Director of Twin Lakes Corporation and Davao Park District Holdings, Inc.

Noli D. Hernandez
Senior Vice President for Sales and Marketing

Mr. Hernandez joined the Company in February 1994 as a property consultant. He is currently a Senior Vice President for Sales and Marketing. Mr. Hernandez rose from the ranks in the Company, starting out as a property consultant then becoming Sales Manager, Assistant Vice President, Senior Assistant Vice President and Vice President for Marketing. Mr. Hernandez graduated from the University of the Philippines with a degree of Bachelor of Science in Political Science. He serves as Director and President of Megaworld Cebu Properties, Inc. and President of the Newtown School of Excellence in the Mactan Newtown development of the Company.

Kevin Andrew L. Tan
Senior Vice President for Commercial Division

Mr. Tan heads the Commercial Division of the Company which markets and operates the Megaworld Lifestyle Malls including Eastwood Mall and The Clubhouse at Corinthian Hills in Quezon City, Venice Piazza at McKinley Hill and Burgos Circle at Forbestown Center, both in Fort Bonifacio, California Garden Square in Mandaluyong City, Newport Mall at Resorts World Manila in Pasay City, Lucky Chinatown Mall in Binondo, Manila and Uptown Mall in Bonifacio Global City. He is concurrently a Director of publicly-listed companies, Empire East Land Holdings, Inc., Alliance Global Group, Inc., Emperador Inc. and Global-Estate Resorts, Inc. and of Eastwood Cyber One Corporation, Uptown Cinemas, Inc., Megaworld Central Properties Inc., Twin Lakes Corporation, Megaworld Land, Inc., Townsquare Development, Inc., 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 is also a trustee and a Treasurer of Megaworld Foundation, Inc. He has over 11 years of experience in retail leasing, marketing and operations. Mr. Tan obtained his bachelor's degree in Business Administration major in Management from the University of Asia and the Pacific.

Maria Carla T. Uykim
Head for Corporate Advisory and Special Projects

Ms. Uykim is the head of the Corporate Advisory and Special Projects of Megaworld Corporation and a member of the Management Executive Committee. She is primarily responsible for the special projects group which handles the negotiation and documentation of the Company's various land acquisitions, joint venture agreements and other corporate transactions. She also heads the property registration group, which is in charge of the registration of the Company's real estate projects, including the deeds of restriction, and issuance of the certificates of title for the individual units or lots and the intellectual property group, which handles the registration, protection and enforcement of the Company's trademarks. She is concurrently the Corporate Secretary of San Vicente Coast, Inc., Northwin Properties, Inc. and Maple Grove Land, Inc. and a Director and Corporate Secretary of Luxury Global Malls, Inc. She joined the Company in April 2007 as a Senior Manager of the Corporate Management Department and handled buyer's concerns, including documentation of sales transactions, labor and human resources issues, and the registration and protection of intellectual property. Prior to joining the Company, Atty. Uykim was an Associate at Andres Marcelo Padernal Guerrero and Paras law offices from August 2005 to April 2007, where she specialized in labor and corporate law, and at ACCRA Law from February 2003 to January 2004, where she practiced immigration law. She also served as Chief of Staff of Congresswoman Remedios L. Petilla from July 2004 until June 2005. Atty. Uykim obtained her Juris Doctor Degree from the Ateneo De Manila School of Law and is a graduate of the double degree program of De La Salle University, with a Bachelor of Arts in Psychology and a Bachelor of Science in Marketing Management.

Rafael Antonio S. Perez
Vice President for Human Resources and Corporate Administration Division

Mr. Perez joined the Company in June 2008 as head of the Human Resources Division. He is currently the Vice President for Human Resources & Corporate Administration Division. He is concurrently the President and Managing Director of Global One Integrated Business Services, Inc. and Luxury Global Malls, Inc. Mr. Perez graduated Cum Laude from the Philippine Normal University with the degree of Bachelor of Arts in Psychology.

Kimberly Hazel A. Sta. Maria
Assistant Vice President for Corporate Communications and Advertising

Ms. Sta. Maria holds the rank of Assistant Vice President and heads the Corporate Communication and Advertising Division of the Company. She joined the Company in 2002 as Head Writer and is responsible for the creative conceptualization and production of advertising and marketing campaigns and materials for the Company's projects. Ms. Sta. Maria is a *cum laude* graduate of the University of the Philippines Manila and holds a bachelor's degree in Organizational Communication.

Carmen C. Fernando
Managing Director for Prestige Hotels & Resorts, Inc.

Ms. Fernando is Managing Director for Prestige Hotels & Resorts, Inc. which operates the Richmonde Hotel brand of the Company. She has held the position since July 1999. She joined in 1997 as Director of Finance for Megaworld Land, Inc. and was responsible for pre-operating activities for Richmonde Hotel Ortigas. In January 1999 she became the Financial Controller for Prestige Hotels & Resort, Inc. Prior to this, she was employed with Mandarin Oriental Manila as Financial Controller and with Sycip, Goress, Velayo & Co. as a Staff Auditor III. Ms. Fernando obtained her bachelor's degree in Commerce major in Accounting from the University of Santo Tomas and she obtained her master's degree in Business Administration from the University of the Philippines. Ms. Fernando is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants.

Raymundo V. Melendres
Managing Director for Luxury Global Hotels and Leisure, Inc.

Mr. Melendres is currently the Managing Director for Luxury Global Hotels and Leisure, Inc. which is primarily responsible for the operations of Belmont Hotel Manila and Savoy Hotel brands of the Company. He oversees all aspects from pre-opening until actual operations and ensures the delivery of excellent customer service and achievement of optimum profit. He is concurrently a director and president of Belmont

Newport Luxury Hotels, Inc. and Savoy Hotel Boracay, Inc. Mr. Melendres is a veteran hotel executive, having worked for almost 25 years in the finance department of several top hotels in the country and also abroad. He started his career in 1992 as a Chief Accountant/Finance Assistant/Paymaster with the Mandarin Oriental Hotel. In June 1995, he left Mandarin to work in Macau with the Macau Golf & Country Club as its Financial Controller. After working abroad for almost 3 years, Mr. Melendres returned to the country and joined Prestige Hotels & Resorts, Inc. as Assistant Controller and eventually becoming its Financial Controller in January 2006. In June 2008, he joined Dusit Thani Hotel – Manila as its Director of Finance. After a year, Mr. Melendres returned to Group as the Director of Finance of Prestige Hotels & Resorts, Inc., the managing company in-charge of all Richmonde Hotels, which includes The Richmonde Hotel Ortigas, Eastwood Richmonde Hotel, and Richmonde Hotel Iloilo. As Director of Finance, he was the head of the Richmonde Hotel Group Finance & Accounting and a member of its Management Team. Mr. Melendres is a Certified Public Accountant and a graduate of Union College in Sta. Cruz, Laguna with a BS Commerce degree, major in Accountancy.

Anna Michelle T. Llovido
Corporate Secretary

Ms. Llovido is the Corporate Secretary of the Company and has held this position since August 2014. She concurrently serves as Senior Corporate Legal Counsel of Emperador Distillers, Inc. Ms. Llovido is an experienced in-house counsel with core practice in labor and intellectual property law. Prior to her employment in Emperador Distillers, Inc., Ms. Llovido was a Manager at Reeves & Associates International Corporation and was charged with the management of its Philippine representative office. She also served as Legal Counsel to Transnational Diversified Group, Inc. from May 2008 to September 2009 where she serviced the legal requirements of over 30 companies engaged in total logistics, ship management, air and travel services, and information and communications technology. She was an Associate Lawyer at Tantoco Villanueva De Guzman & Llamas law offices from April 2006 to April 2008. Ms. Llovido obtained her bachelor's degrees in Laws in 2004 and Hotel and Restaurant Management in 1999 from the University of Santo Tomas.

Rolando D. Siatela
Assistant Corporate Secretary

Mr. Siatela serves as Assistant Corporate Secretary of the Company. He is also an Assistant Vice President of the Company. He concurrently serves in publicly-listed Suntrust Home Developers, Inc. as Corporate Secretary and Corporate Information Officer, and in Alliance Global Group, Inc., Emperador Inc., Suntrust Properties, Inc. and Global-Estate Resorts, Inc. as Assistant Corporate Secretary. He is a member of the board of Asia Finest Cuisine, Inc. Prior to joining Megaworld Corporation, he was employed as Administrative and Personnel Officer with Batarasa Consolidated, Inc.

Johann R. Quiazon
Director for Investor Relations and Assistant Corporate Information Officer

Mr. Quiazon, serves as Assistant Corporate Information Officer of the Company. He is also currently the Director for Investor Relations of the Company. He was initially assigned as an Investment Consultant under the Business Development & Leasing group upon joining the Company in 2013. A year after, he was transferred to his current position in Investor Relations. He presently oversees proper information dissemination to the investing public, which mainly happens through meetings, conferences, tours, and such other engagements. Mr. Quiazon obtained his bachelor's degree in Management Economics from the Ateneo de Manila University.

Significant Employees

While the Company values its workforce, the business of the Company is not highly dependent on the services of personnel outside of Senior Management.

Family Relationships

Chairman and President Andrew L. Tan is married to Director Katherine L. Tan. Their son, Kevin Andrew L. Tan, is presently a Senior Vice President for Commercial Division of Megaworld and is also a director and Corporate Secretary of Alliance Global Brands, Inc. and a director of publicly listed subsidiaries Empire East Land Holdings, Inc. and Global-Estate Resorts, Inc. and of parent company Alliance Global Group, Inc..

Involvement in Certain Legal Proceedings

The Company is not aware of the occurrence, as of the date hereof and during the past five (5) years preceding this date, of any of the following events which it believes to be material to the evaluation of the ability or integrity of any of its directors, nominees for election as director, or executive officers:

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

EXECUTIVE COMPENSATION

Summary Compensation Table

Aggregate compensation paid to Megaworld's Chief Executive Officer and the four most highly compensated executive officers as a group for the last two fiscal years and the estimate for the ensuing year are as follows:

Name and Principal Position	Year	Salary	Other Variable Pay	Total Annual Compensation
Andrew L Tan, President and CEO				
Lourdes T. Gutierrez-Alfonso, Chief Operating Officer				
Philipps C. Cando, SVP for Operations				
Giovanni C. Ng, SVP, Finance Director				
Francisco C. Canuto, SVP, Treasurer				
President and 4 Most Highly Compensated Officers	Actual 2016	P79.8 Million	P33.0 Million	P112.8 Million
	Actual 2017	P82.6 Million	P35.4 Million	P118.0 Million
	Projected 2018	P86.7 Million	P37.1 Million	P123.8 Million
All Other Officers and Directors as a Group	Actual 2016	P95.1 Million	P42.9 Million	P138.0 Million
	Actual 2017	P110.3 Million	P47.1 Million	P157.4 Million
	Projected 2018	P119.3 Million	P50.9 Million	P170.2 Million

Compensation of Directors

The members of the Board receive a standard per diem for attendance in Board meetings. In 2017 and 2016, the Company paid a total of Php700,000 for each year, for directors' per diem. For 2018, the Company has allocated Php800,000 for directors' per diem. Other than payment of the per diem, there are no arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the year ended December 31, 2017 and the ensuing year, for any service provided as a director.

Employment Contracts and Termination of Employment and Change-in-Control Arrangement

Executive officers are appointed by the Board to their respective offices. The Company does not enter into employment contracts with its executive officers. Other than benefits available under the Company's retirement plan, there is no compensatory plan or arrangement with respect to an executive officer which results or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company and its subsidiaries, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

Outstanding Warrants and Options

There are executive officers of the Company who were granted options to subscribe to common shares of the Company pursuant to the Company's Employee Stock Option Plan approved by the Board and stockholders of the Company in 2012.

Name	No. of Outstanding Options	No. of Options Exercised	Date of Grant	Exercise Price	Market Price at Date of Grant
President and 4 Most Highly Compensated Officers	80,000,000	0	Various Dates	Php1.773054*	Php 2.54*
All Other Officers and Directors as a Group	20,000,000	0	Various Dates	Php2.4173535*	Php3.42*

*Average prices

The Company's Employee Stock Option Plan is intended to (i) enable qualified employee who are largely responsible for the further growth and development of the Company to participate in the growth of the Company; (ii) encourage the long-term commitment of such employees; and (iii) motivate such employees to continue their efforts in contributing to the long-term financial success of the Company.

The Company has not adjusted the exercise price of the option since the last grant and issuance on 11 June 2014.

Security Ownership of Record and Beneficial Owners of more than 5% of the Company's Shares as of 31 December 2017

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Class
Common	Alliance Global Group, Inc. (AGI) ¹ 7/F 1880 Eastwood Avenue, Eastwood City, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City	Alliance Global Group, Inc. ²	Filipino	14,090,219,058	36.85%
Preferred				6,000,000,000	15.69%
Total				20,090,219,058	52.54%

¹The Chairman of the Board of AGI, Mr. Andrew L. Tan, is also Chairman of the Board and President of the Company.

² The Board of Directors of AGI has voting and investment power over AGI's shares of stock in the Company.

AGI normally authorizes its Chairman, or in his absence, the Chairman of the Meeting, to vote AGI's shares of stock in the Company.

Common	PCD Nominee Corporation (Non-Filipino), G/F MKSE Bldg., 6767 Ayala Ave., Makati	Participants of the PCD composed of custodian banks and brokers. ¹	Non-Filipino	6,128,546,697 ²	16.03%
Common	New Town Land Partners, Inc. (NTLPI) ³ , 6/F The World Centre, Sen. Gil Puyat, Ave., Makati	New Town Land Partners, Inc.	Filipino	5,668,530,324	14.82%
Common	PCD Nominee Corporation (Filipino) G/F MKSE Bldg., 6767 Ayala Ave., Makati	Participants of the PCD composed of custodian banks and brokers.	Filipino	4,572,263,579	11.96%
Common	PCD Nominee Corporation (Non-Filipino), G/F MKSE Bldg., 6767 Ayala Ave., Makati	The Hongkong and Shanghai Banking Corp. Ltd. – Clients (HSBC) ⁴	Non-Filipino	2,822,513,366	7.54%
Common	PCD Nominee Corporation (Non-Filipino), G/F MKSE Bldg., 6767 Ayala Ave., Makati	Deutsche Bank Manila- Clients ⁵	Non-Filipino	2,009,743,260	5.25%

Other than the persons identified above, there are no other beneficial owners of more than 5% of the Company's outstanding capital stock that are known to the Company.

Security Ownership of Management as of 31 December 2017

Title of Class Name of Beneficial Owner		Amount and Nature of Beneficial Ownership*	Citizenship	Percent of Class
Directors/Nominees				
Common	Andrew L. Tan	95,000,000	Filipino	.24843%
		1,891,632 ⁶	Filipino	.00495%
		20,090,219,058 ⁷	Filipino	52.5379%

¹ Among the PCD participants, HSBC owns 2,822,513,366 shares, representing 7.54 per cent. of the Company's outstanding capital stock.

² Figure includes shares owned by HSBC.

³ The Board of Directors of NTLPI has voting and investment power over NTLPI's shares of stock in the Company, NTLPI has authorized the Chairman of the Board of the Company, or in his absence the Chairman of the Meeting to vote NTLPI's shares of stock in the Company.

⁴ HSBC is a participant of the PCD. The beneficial owners of the shares held by HSBC are not known to the Company.

⁵ Deutsche Bank Manila-Clients A/C is a participant of the PCD. The beneficial owners of the shares held by Deutsche Bank Manila-Clients A/C are not known to the Company.

⁶ Indirect ownership; shares beneficially owned by spouse Katherine L. Tan.

⁷ Indirect ownership; shares held by Alliance Global Group, Inc., which normally authorizes Andrew L. Tan, in his capacity as Chairman of the Company, or in his absence the Chairman of the meeting, to vote AGI's common shares in the Company.

		5,668,530,324 ¹	Filipino	14.8238%
Common	Gerardo C. Garcia ²	108,237	Filipino	.00036%
		27,899 ³		
Common	Kingson U. Sian	1	Filipino	.00160%
		612,500 ⁴		
Common	Katherine L. Tan	1,891,632	Filipino	.00495%
		95,000,000 ⁵	Filipino	.24843%
Common	Jesus B. Varela	1	Filipino	.00000%
Common	Roberto S. Guevara	1	Filipino	.00000%
Common	Enrique Santos L. Sy	80,553	Filipino	.00021%
CEO and Four Most Highly Compensated Officers				
Common	Andrew L. Tan	Same as above		
Common	Lourdes T. Gutierrez-Alfonso	806,271	Filipino	.00255%
		167,973 ⁶		
Common	Francisco C. Canuto	369,054	Filipino	.00097%
Common	Philipps C. Cando	0	Filipino	n/a
Common	Giovanni C. Ng	0	Filipino	n/a
Other Executive Officers				
Common	Maria Victoria M. Acosta	0	Filipino	n/a
Common	Jericho P. Go	18,000	Filipino	.00005%
Common	Noli D. Hernandez	0	Filipino	n/a
Common	Kevin Andrew L. Tan	367,205	Filipino	.00096%
Common	Maria Carla T. Uykim	0	Filipino	n/a
Common	Rafael Antonio S. Perez	0	Filipino	n/a
Common	Kimberly Hazel A. Sta. Maria	0	Filipino	n/a
Common	Carmen C. Fernando	0	Filipino	n/a
Common	Raymundo V. Melendres	0	Filipino	n/a
Common	Anna Michelle T. Llovido	0	Filipino	n/a
Common	Rolando D. Siatela	0	Filipino	n/a
Common	Johann R. Quiazon	0	Filipino	n/a
Common	All directors and executive officers as a group	99,453,748 (direct)		0.26008%

**all direct ownership unless otherwise specified*

Voting Trust Holders of 5% or More

The Company is not aware of the existence of persons holding more than five percent (5%) of the Company's common shares under a voting trust or similar agreement.

Changes in Control

There has been no change in the control of the Company since it was incorporated in 1989.

¹ Indirect ownership; shares held by NTLPI which normally authorizes Andrew L. Tan, in his capacity as Chairman of the Company, or in his absence the Chairman of the meeting, to vote NTLPIs common shares in the Company.

² Gerardo C. Garcia was replaced by Crecensio P. Aquino as Director of the Company on 15 February 2018.

³ Shares are lodged with PCD Nominee Corporation.

⁴ Shares are lodged with PCD Nominee Corporation.

⁵ Indirect ownership; shares beneficially owned by spouse Andrew L. Tan.

⁶ Shares are lodged with PCD Nominee Corporation.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Please refer to the discussion under Transactions with and/or dependence on related parties on page 13.

The Group's policy on related party transactions is disclosed in Note 2.23, Page 31 of the Audited Financial Statements.

In Note 1, Pages 1 to 4 of the Audited Financial Statements, the interest of the Company on its subsidiaries and associates as well as other explanatory notes are disclosed. Moreover, Notes 27 to 27.7, Pages 70 to 75, cite the conditions, purpose and types of transactions (i.e., real estate sales and rendering services to related parties, sale and purchase of investment, advances provided to associates and other related parties, advances from associates and other related parties and other accounts). Further, in accordance with PAS 24.18, the Group disclosed the amount of the transactions with its related parties, including the amount of outstanding balances of the reporting dates. With regard to determination of transaction prices, these are determined based on the agreement of the parties involved and are usually based on prevailing market sales.

The Company has no transaction for the covered period with parties that fall outside the definition of "related parties" under PAS 24 but with whom the Company or its related parties has a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

PART V – EXHIBITS AND SCHEDULES

EXHIBITS AND REPORTS ON SEC FORM 17-C

Exhibits

Exhibit No.	Description of Exhibit
1	Audited Consolidated Financial Statements as of December 31, 2017 and 2016.

The Company filed the following reports on SEC Form 17-C during the last six-month period covered by this report.

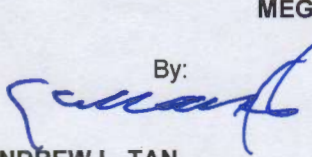
Date	Disclosures
24 July 2017	Press Release: "Megaworld to Build 7 th Residential Tower in Iloilo Business Park"
25 July 2017	Notice of Analyst's Briefing
10 August 2017	Press Release: "Megaworld's 1H Net Profit Up 11% to P6.69B"
31 August 2017	Press Release: "Megaworld to Open New Mall In Southwoods City"
27 September 2017	Press Release: "Megaworld Unveils New Corporate Headquarters in Uptown Bonifacio"
02 October 2017	Press Release: "Megaworld to build P3-B Tower for FactSet's Regional HQ in McKinley West"
09 October 2017	Press Release: "Megaworld Sees Further Growth In Office Demand, Still On-Track To Hit 1M Sqm By End-2017"
24 October 2017	Notice of Analyst's Briefing
02 November 2017	Press Release: "Megaworld Turns Over 1,000 Condo Units In Makati Worth P9-B This Year"
08 November 2017	Press Release: "Megaworld's 9-mo Profits Breach Double Digit, Up 12% to P10.34B"
20 November 2017	Press Release: "Megaworld To Build 'Makati-inspired' 'Business District In Cavite"
11 December 2017	Press Release: "Megaworld's GERI to Develop P8-B 'Integrated Lifestyle Community in Caliraya"

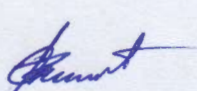
SIGNATURES

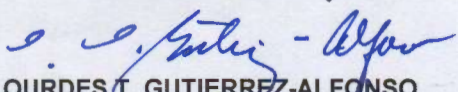
Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati, on _____.

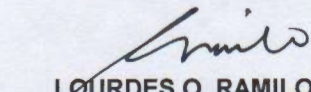
MEGAWORLD CORPORATION
Company

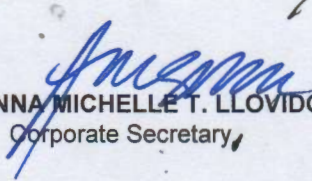
By:


ANDREW L. TAN
President
(Principal Executive Officer)


FRANCISCO C. CANUTO
Treasurer
(Principal Financial Officer)


LOURDES T. GUTIERREZ-ALFONSO
Chief Operating Officer
(Principal Operating Officer)


LOURDES O. RAMILO
(Principal Accounting Officer
and Comptroller)


ANNA MICHELLE T. LLOVIDO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this **APR 06 2018**, **TAGUIG CITY**, affiants exhibiting to me their Tax Identification Number, as follows:

<u>NAME</u>	<u>TIN NO.</u>
Andrew L. Tan	125-960-003
Francisco C. Canuto	102-956-483
Lourdes T. Gutierrez-Alfonso	106-893-930
Lourdes O. Ramilo	111-600-504
Anna Michelle T. Llovido	121-424-847

Doc. No. 178 ;
Page No. 37 ;
Book No. 100 ;
Series of 2018.

ATTY. JOWELL A. MENDOZA
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DEC. 31, 2018
APPT. NO. 20 (2016-2018)
PTR NO. 3838144, PASIG CITY
JANUARY 3, 2018
IBP NO. 1058109, 1/6/2017
ROLL NO. 59661
MCLE COMPLIANCE NO. V-0023127-7/23/16
32ND ST. CAR PLAZA BONIFACIO
GLOBAL, TAGUIG CITY



MEGAWORLD CORPORATION

25/F Alliance Global Tower, 36th Street cor. 11th Avenue Uptown Bonifacio, Taguig City 1634
Trunkline: (632) 905-2900 • (632) 905-2800
www.megaworldcorp.com • E-mail: infodesk@megaworldcorp.com

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **Megaworld Corporation and Subsidiaries** is responsible for the preparation and fair presentation of the 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 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 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 financial statements, including the schedules attached therein, and submits the same to the stockholders.

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

ANDREW L. TAN
Chairman of the Board

ANDREW L. TAN
Chief Executive Officer

FRANCISCO C. CANUTO
SVP and Treasurer
(Chief Financial Officer)

Signed this 23rd day of March 2018



CERTIFICATION
INTERNATIONAL
ISO 9001:2008
CIP/2652/99/11/168



P&A
Grant Thornton

An instinct for growth™

Punongbayan & Araullo

20th Floor, Tower 1
The Enterprise Center
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1200 Makati City
Philippines

T +63 2 988 2288

Report of Independent Auditors

**The Board of Directors and Stockholders
Megaworld Corporation and Subsidiaries
(A Subsidiary of Alliance Global Group, Inc.)**

30th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City

Opinion

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

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

Basis for Opinion

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

Certified Public Accountants

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

grantthornton.com.ph

Offices in Cavite, Cebu, Davao
BOA/PRC Cert of Reg. No. 0002
SEC Accreditation No. 0002-FR-4



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) Revenue Recognition for Sale of Pre-completed Properties

Description of the Matter

The Group recognizes revenue from sale of pre-completed properties using the percentage-of-completion method 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 sale of pre-completed properties was significant to our audit as it comprises majority 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. An error in application of judgment and estimate could cause a material misstatement in the consolidated financial statements.

The Group's policy for revenue recognition is more fully described in Note 2 to the consolidated financial statements.

How the Matter was Addressed in the Audit

We tested the design and operating effectiveness of internal controls over the process of recognizing revenue from real estate sales. We also tested, on a sample basis, the application of the percentage of collection threshold on sales contracts entered during the year. We also tested the reasonableness of the collection threshold as basis of determining revenue recognition criterion on the collectability of contract price.

In testing the application of percentage-of-completion method, we ascertained the qualification of project engineers who certified the stage of completion of projects. We also tested 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. Further, we evaluated the reasonableness of estimated contract costs with reference to contractors' and suppliers' quotes and historical costs of similar and recently completed projects.



(b) Assessment of Goodwill Impairment

Description of the Matter

Under Philippine Accounting Standards (PAS) 36, *Impairment of Assets*, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the amount of goodwill is material to the consolidated financial statements. In addition, management's assessment process is complex and highly judgmental and is based on significant assumptions, specifically in determining the value-in-use (which uses a certain discount rate and cash flows projections) of the identified cash generating units over which 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 is more fully described in Note 2 to the consolidated financial statements while the carrying amount of goodwill amounting to P1.3 billion is presented in Note 14.

How the Matter was Addressed in the Audit

We tested the assumptions, methodologies and weighted average cost of capital used in discounting the cash flows projections of the cash generating units to which goodwill have been recognized by comparing them to external and historical data. Further, we tested the sensitivity of cash flows projections by evaluating whether a reasonably possible change in assumptions could cause the carrying amount of the cash generating units to exceed the recoverable amount.

(c) Consolidation Process

Description of the Matter

The Group's consolidated financial statements comprise the financial statements of Megaworld Corporation 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 identifying and eliminating 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

We obtained understanding of the Group structure and its consolidation process including the procedures for identifying intercompany transactions and reconciling intercompany balances. We tested significant consolidation adjustments which include elimination of intercompany revenues, expenses and investments, reversal of unrealized fair value adjustments on intercompany investments, and recognition of equity transactions to measure non-controlling interest.

(d) Fair Value of Investment Properties

Description of the Matter

The carrying amount of the Group's investment properties carried at cost less accumulated depreciation as of December 31, 2017 is P71.4 billion. As required by PAS 40, *Investment Property*, the Group disclosed in Note 12 to the consolidated financial statements the total fair value of its investment properties amounting to P299.1 billion. Management determined the fair value using the discounted cash flows model using 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 34 to the consolidated financial statements while the fair value of investment properties as of December 31, 2017 is presented in Note 12.

How the Matter was Addressed in the Audit

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

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 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 audits resulting in this independent auditors' report is Renan A. Piamonte.

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805

TIN 221-843-037

PTR No. 6616017, January 3, 2018, Makati City

SEC Group A Accreditation

Partner - No. 1363-AR-1 (until Mar. 1, 2020)

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-37-2016 (until Oct. 3, 2019)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 23, 2018

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	5	P 16,430,136,465	P 16,395,663,456
Trade and other receivables - net	6	33,661,846,682	26,996,127,314
Residential, condominium units, golf and resort shares for sale - net	7	64,778,043,349	62,659,149,563
Property development costs	3	23,111,103,124	20,105,196,663
Advances to contractors and suppliers	2	10,538,276,007	8,511,641,803
Investments in available-for-sale securities	9	-	66,501,898
Prepayments and other current assets	8	6,967,226,408	5,955,537,397
		155,486,632,035	140,689,818,094
NON-CURRENT ASSETS			
Trade and other receivables - net	6	34,626,668,915	35,674,848,340
Advances to landowners and joint ventures	10	5,988,892,593	4,859,000,177
Land for future development	3	25,469,878,369	22,079,341,640
Investments in available-for-sale securities	9	4,353,411,024	3,595,778,288
Investments in and advances to associates and other related parties	11	5,395,002,513	5,188,535,019
Investment properties - net	12	71,415,688,466	60,493,481,173
Property and equipment - net	13	5,170,453,387	3,570,186,965
Deferred tax assets - net	26	41,581,313	75,533,803
Other non-current assets - net	14	2,584,596,373	2,515,994,151
		155,046,172,953	138,052,699,556
TOTAL ASSETS		P 310,532,804,988	P 278,742,517,650

	Notes	<u>2017</u>	<u>2016</u>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	15	P 8,623,911,222	P 6,005,651,572
Bonds payable	16	9,976,270,876	-
Trade and other payables	17	16,165,520,770	13,566,744,368
Customers' deposits	2	8,086,369,870	6,135,777,300
Redeemable preferred shares	18	251,597,580	-
Reserve for property development	2	6,381,894,196	7,460,325,834
Deferred income on real estate sales	2	4,512,313,292	5,561,346,611
Income tax payable		220,593,861	126,290,564
Other current liabilities	19	2,799,934,557	2,033,398,951
Total Current Liabilities		<u>57,018,406,224</u>	<u>40,889,535,200</u>
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	15	31,912,889,056	32,847,121,469
Bonds payable	16	24,388,714,176	22,330,589,969
Customers' deposits	2, 27	475,548,222	6,080,125,315
Redeemable preferred shares	18	1,006,390,320	1,257,987,900
Reserve for property development	2	10,101,060,168	8,846,206,033
Deferred income on real estate sales	2	5,548,431,901	5,119,282,510
Deferred tax liabilities - net	26	10,230,564,338	9,899,659,695
Advances from associates and other related parties	27	2,633,192,235	2,424,926,309
Retirement benefit obligation	25	1,041,444,737	965,204,603
Other non-current liabilities	19	4,871,961,369	4,463,538,318
Total Non-current Liabilities		<u>92,210,196,522</u>	<u>94,234,642,121</u>
Total Liabilities		<u>149,228,602,746</u>	<u>135,124,177,321</u>
EQUITY			
Total equity attributable to the Company's shareholders	28	138,777,877,700	125,480,239,117
Non-controlling interests		22,526,324,542	18,138,101,212
Total Equity		<u>161,304,202,242</u>	<u>143,618,340,329</u>
TOTAL LIABILITIES AND EQUITY		<u>P 310,532,804,988</u>	<u>P 278,742,517,650</u>

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES AND INCOME				
Real estate sales	20	P 28,901,544,217	P 27,450,993,911	P 27,262,297,450
Interest income on real estate sales	6	1,746,941,624	1,700,850,559	1,677,596,838
Realized gross profit on prior years' sales	20	3,974,509,451	3,978,988,971	3,786,994,581
Rental income	12	11,829,993,113	10,011,504,052	8,729,655,235
Hotel operations	2	1,335,958,802	1,163,103,124	796,322,364
Equity share in net earnings of associates	11	118,829,303	136,866,743	138,614,220
Interest and other income - net	23	2,500,533,043	2,375,237,112	2,604,179,681
		<u>50,408,309,553</u>	<u>46,817,544,472</u>	<u>44,995,660,369</u>
COSTS AND EXPENSES				
Cost of real estate sales	22	16,304,843,331	15,514,651,678	15,434,942,352
Deferred gross profit	2	3,354,104,833	4,197,865,236	4,515,385,332
Hotel operations		755,756,983	681,601,381	467,982,367
Operating expenses	21	9,563,315,618	8,353,683,605	7,991,895,011
Interest and other charges - net	24	3,361,197,445	2,867,726,950	2,726,266,816
Tax expense	26	3,792,600,176	3,489,339,020	3,284,678,495
		<u>37,131,818,386</u>	<u>35,104,867,870</u>	<u>34,421,150,373</u>
PROFIT FOR THE YEAR				
BEFORE PRE-ACQUISITION INCOME		13,276,491,167	11,712,676,602	10,574,509,996
PRE-ACQUISITION LOSS (INCOME)				
OF SUBSIDIARIES	1	<u>2,715,950</u>	(<u>3,314,788</u>)	<u>291,847</u>
NET PROFIT FOR THE YEAR				
		<u>P 13,279,207,117</u>	<u>P 11,709,361,814</u>	<u>P 10,574,801,843</u>
Net profit attributable to:				
Company's shareholders		P 12,772,158,453	P 11,331,824,386	P 10,215,095,444
Non-controlling interests		<u>507,048,664</u>	<u>377,537,428</u>	<u>359,706,399</u>
		<u>P 13,279,207,117</u>	<u>P 11,709,361,814</u>	<u>P 10,574,801,843</u>
Earnings Per Share:				
Basic	29	<u>P 0.401</u>	<u>P 0.356</u>	<u>P 0.321</u>
Diluted		<u>P 0.400</u>	<u>P 0.355</u>	<u>P 0.319</u>

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
NET PROFIT FOR THE YEAR		<u>P 13,279,207,117</u>	<u>P 11,709,361,814</u>	<u>P 10,574,801,843</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified				
subsequently to consolidated profit or loss:				
Actuarial gains on retirement benefit obligation	25	76,638,960	45,977,971	316,613,558
Share in other comprehensive income (loss) of associates	11	33,916,495	(27,975,475)	38,744,144
Tax expense	25, 26	(22,991,688)	(13,793,391)	(94,984,067)
		<u>87,563,767</u>	<u>4,209,105</u>	<u>260,373,635</u>
Items that will be reclassified				
subsequently to consolidated profit or loss:				
Realized fair value loss on impairment of investment in available-for-sale securities	9	1,516,864,986	-	-
Fair value gains (losses) on available-for-sale securities	9	751,345,581	(1,071,530,344)	(2,741,305,680)
Fair value change on cash flow hedge	30	(45,942,879)	-	-
Fair value losses (gains) on disposal of available-for-sale securities reclassified to profit or loss	23, 24	1,502,090	-	(3,728,897)
Exchange difference on translating foreign operations	2	1,363,917	43,561,840	69,869,987
Tax expense	26	(409,175)	(13,068,552)	(20,960,996)
		<u>2,224,724,520</u>	<u>(1,041,037,056)</u>	<u>(2,696,125,586)</u>
Total Other Comprehensive Income (Loss)		<u>2,312,288,287</u>	<u>(1,036,827,951)</u>	<u>(2,435,751,951)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>P 15,591,495,404</u>	<u>P 10,672,533,863</u>	<u>P 8,139,049,892</u>
Total comprehensive income attributable to:				
Company's shareholders		<u>P 15,007,334,855</u>	<u>P 10,362,974,246</u>	<u>P 7,782,514,268</u>
Non-controlling interests		<u>584,160,549</u>	<u>309,559,617</u>	<u>356,535,624</u>
		<u>P 15,591,495,404</u>	<u>P 10,672,533,863</u>	<u>P 8,139,049,892</u>

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Attributable to the Company's Shareholders						Total	Non-controlling Interests (See Note 2)	Total Equity
	Capital Stock (See Note 28)	Additional Paid-in Capital (See Note 28)	Treasury Shares - At Cost (See Note 28)	Translation Reserves (See Note 2)	Revaluation Reserves (See Notes 9, 11 and 25)	Retained Earnings (See Note 28)			
Balance at January 1, 2017	P 32,430,865,872	P 16,657,990,413	(P 633,721,630)	(P 383,060,040)	(P 3,132,722,747)	P 80,540,887,249	P 125,480,239,117	P 18,138,101,212	P 143,618,340,329
Transactions with owners:									
Issuance of shares of stock	-	-	-	-	-	-	-	150,000,000	150,000,000
Share-based employee compensation	-	-	-	-	-	12,459,527	12,459,527	-	12,459,527
Cash dividends	-	-	-	-	-	(1,722,155,799)	(1,722,155,799)	(12,226,103)	(1,734,381,902)
Share-based employee compensation of a subsidiary	-	-	-	-	-	-	-	10,039,313	10,039,313
Acquisition of a new subsidiary with non-controlling interest	-	-	-	-	-	-	-	3,466,426,140	3,466,426,140
Changes in ownership interest in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	-	189,823,431	189,823,431
	-	-	-	-	-	(1,709,696,272)	(1,709,696,272)	3,804,062,781	2,094,366,509
Total comprehensive income for the year:									
Net profit	-	-	-	-	-	12,772,158,453	12,772,158,453	507,048,664	13,279,207,117
Actuarial gain on retirement benefit obligation, net of tax	-	-	-	-	42,787,943	-	42,787,943	10,859,329	53,647,272
Fair value losses on available-for-sale securities	-	-	-	-	685,093,025	-	685,093,025	66,252,556	751,345,581
Realized fair value loss on disposal of available-for-sale securities	-	-	-	-	1,502,090	-	1,502,090	-	1,502,090
Realized fair value loss on impairment of available-for-sale securities	-	-	-	-	1,516,864,986	-	1,516,864,986	-	1,516,864,986
Fair value change on cash flow hedge	-	-	-	-	(45,942,879)	-	(45,942,879)	-	(45,942,879)
Share in other comprehensive income of associates	-	-	-	-	33,916,495	-	33,916,495	-	33,916,495
Exchange difference on translating foreign operations, net of tax	-	-	-	954,742	-	-	954,742	-	954,742
	-	-	-	954,742	2,234,221,660	12,772,158,453	15,007,334,855	584,160,549	15,591,495,404
Balance at December 31, 2017	<u>P 32,430,865,872</u>	<u>P 16,657,990,413</u>	<u>(P 633,721,630)</u>	<u>(P 382,105,298)</u>	<u>(P 898,501,087)</u>	<u>P 91,603,349,430</u>	<u>P 138,777,877,700</u>	<u>P 22,526,324,542</u>	<u>P 161,304,202,242</u>

	Attributable to the Company's Shareholders								
	Capital Stock (See Note 28)	Additional Paid-in Capital (See Note 28)	Treasury Shares - At Cost (See Note 28)	Translation Reserves (See Note 2)	Revaluation Reserves (See Notes 9, 11 and 25)	Retained Earnings (See Note 28)	Total	Non-controlling Interests (See Note 2)	Total Equity
Balance at January 1, 2016	P 32,430,865,872	P 16,657,990,413	(P 633,721,630)	(P 413,553,328)	(P 2,133,379,319)	P 70,780,278,605	P 116,688,480,613	P 17,724,874,030	P 134,413,354,643
Transactions with owners:									
Share-based employee compensation	-	-	-	-	-	29,493,030	29,493,030	-	29,493,030
Cash dividends	-	-	-	-	-	(1,608,600,152)	(1,608,600,152)	(46,066,182)	(1,654,666,334)
Share-based employee compensation of a subsidiary	-	-	-	-	-	-	-	18,527,020	18,527,020
Acquisition of a new subsidiary with non-controlling interest	-	-	-	-	-	-	-	143,598,107	143,598,107
Deconsolidated subsidiary with non-controlling interest	-	-	-	-	-	-	-	(4,500,000)	(4,500,000)
Changes in ownership interest in subsidiaries that do not result in a loss of control	-	-	-	-	-	7,891,380	7,891,380	(7,891,380)	-
	-	-	-	-	-	(1,571,215,742)	(1,571,215,742)	103,667,565	(1,467,548,177)
Total comprehensive income for the year:									
Net profit	-	-	-	-	-	11,331,824,386	11,331,824,386	377,537,428	11,709,361,814
Actuarial gain on retirement benefit obligation, net of tax	-	-	-	-	31,863,285	-	31,863,285	321,295	32,184,580
Fair value losses on available-for-sale securities	-	-	-	-	(1,003,231,238)	-	(1,003,231,238)	(68,299,106)	(1,071,530,344)
Share in other comprehensive loss of associates	-	-	-	-	(27,975,475)	-	(27,975,475)	-	(27,975,475)
Exchange difference on translating foreign operations, net of tax	-	-	-	30,493,288	-	-	30,493,288	-	30,493,288
	-	-	-	30,493,288	(999,343,428)	11,331,824,386	10,362,974,246	309,559,617	10,672,533,863
Balance at December 31, 2016	P 32,430,865,872	P 16,657,990,413	(P 633,721,630)	(P 383,060,040)	(P 3,132,722,747)	P 80,540,887,249	P 125,480,239,117	P 18,138,101,212	P 143,618,340,329

	Attributable to the Company's Shareholders								Non-controlling Interests (See Note 2)	Total Equity
	Capital Stock (See Note 28)	Additional Paid-in Capital (See Note 28)	Treasury Shares - At Cost (See Note 28)	Translation Reserves (See Note 2)	Revaluation Reserves (See Notes 9, 11 and 25)	Retained Earnings (See Note 28)	Total			
Balance at January 1, 2015	P 32,422,877,948	P 16,657,990,413	(P 633,721,630)	(P 462,462,319)	P 348,110,848	P 62,470,152,903	P 110,802,948,163	P 17,995,845,058	P 128,798,793,221	
Transactions with owners:										
Issuance of shares of stock	7,987,924	-	-	-	-	-	7,987,924	-	7,987,924	
Share-based employee compensation	-	-	-	-	-	31,190,286	31,190,286	-	31,190,286	
Cash dividends	-	-	-	-	-	(1,936,160,028)	(1,936,160,028)	(80,000,000)	(2,016,160,028)	
Share-based employee compensation of a subsidiary	-	-	-	-	-	-	-	115,081,847	115,081,847	
Acquisition of a new subsidiary with non-controlling interest	-	-	-	-	-	-	-	254,687,970	254,687,970	
Changes in ownership interest in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	-	(917,276,469)	(917,276,469)	
	<u>7,987,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,904,969,742)</u>	<u>(1,896,981,818)</u>	<u>(627,506,652)</u>	<u>(2,524,488,470)</u>	
Total comprehensive income for the year:										
Net profit	-	-	-	-	-	10,215,095,444	10,215,095,444	359,706,399	10,574,801,843	
Actuarial gain on retirement benefit obligation, net of tax	-	-	-	-	210,281,710	-	210,281,710	11,347,781	221,629,491	
Fair value losses on available-for-sale securities	-	-	-	-	(2,730,516,021)	-	(2,730,516,021)	(14,518,556)	(2,745,034,577)	
Share in other comprehensive income of associates	-	-	-	-	38,744,144	-	38,744,144	-	38,744,144	
Exchange difference on translating foreign operations, net of tax	-	-	-	48,908,991	-	-	48,908,991	-	48,908,991	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,908,991</u>	<u>(2,481,490,167)</u>	<u>10,215,095,444</u>	<u>7,782,514,268</u>	<u>356,535,624</u>	<u>8,139,049,892</u>	
Balance at December 31, 2015	P 32,430,865,872	P 16,657,990,413	(P 633,721,630)	(P 413,553,328)	(P 2,133,379,319)	P 70,780,278,605	P 116,688,480,613	P 17,724,874,030	P 134,413,354,643	

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 17,071,807,293	P 15,198,700,834	P 13,859,480,338
Adjustments for:				
Interest expense	24	1,555,078,550	1,494,496,938	1,486,628,541
Depreciation and amortization	12, 13, 14	1,830,763,458	1,486,971,728	1,348,751,764
Impairment loss on available-for-sale securities	9	1,516,864,986	-	-
Interest income	23	(1,278,769,124)	(1,218,551,263)	(1,337,049,326)
Unrealized foreign currency losses - net		52,528,443	1,200,819,997	1,148,545,867
Equity share in net earnings of associates	11	(118,829,303)	(136,866,743)	(138,614,220)
Gain on sale of investments in an associate	23	(113,069,227)	(82,459,513)	(181,347,731)
Dividend income	23, 27	(27,018,574)	(68,845,396)	(78,239,149)
Employee share options	25	22,498,840	48,020,050	146,272,133
Gain on deconsolidation of a subsidiary	1, 23	-	(4,376,532)	-
Fair value gains on disposal of available-for-sale securities reclassified to profit or loss	23	-	-	(3,728,897)
Gain on acquisition of subsidiaries classified to profit or loss	1	-	(2,027,645)	-
Operating profit before working capital changes		20,511,855,342	17,915,882,455	16,250,699,320
Increase in trade and other receivables		(5,842,158,142)	(7,514,770,571)	(6,372,094,137)
Increase in residential, condominium units, golf and resort shares for sale		(1,159,295,935)	(5,378,269,890)	(4,827,860,992)
Increase in property development costs		(986,067,337)	(5,200,693,239)	(2,467,537,709)
Increase in advances to contractors and suppliers		(2,026,634,204)	(3,602,592,150)	(979,010,666)
Increase in prepayments and other current assets		(1,513,084,774)	(1,067,456,617)	(744,699,012)
Decrease (increase) in advances to landowners and joint ventures		(255,044,624)	1,622,862,553	(1,658,156,749)
Increase in trade and other payables		2,581,051,559	2,429,440,703	1,780,422,124
Increase (decrease) in customers' deposits		(3,714,183,346)	5,273,361,545	(301,638,947)
Increase in reserve for property development		176,422,497	116,917,774	824,024,382
Increase (decrease) in deferred income on real estate sales		(619,883,928)	218,765,486	603,661,394
Increase in other liabilities		1,415,614,384	1,363,563,968	1,529,675,359
Cash generated from operations		8,568,591,492	6,177,012,017	3,637,484,367
Cash paid for income taxes		(2,723,846,893)	(2,212,712,107)	(1,907,688,663)
Net Cash From Operating Activities		5,844,744,599	3,964,299,910	1,729,795,704
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment properties	12	(13,842,368,413)	(12,979,191,612)	(12,896,131,534)
Property and equipment	13	(431,846,440)	(480,928,503)	(208,882,344)
Land for future development		(404,398,113)	(1,687,208,045)	(4,358,367,202)
Advances from associates and other related parties:	27			
Obtained		229,092,519	961,778,444	693,250,959
Paid		(20,826,593)	(28,012,964)	(105,242,373)
Advances to associates and other related parties:	27			
Granted		(189,449,520)	(35,162,769)	(382,744,323)
Collected		165,564,111	386,790,457	507,860,575
Acquisition and subscription of shares of stock of new subsidiaries and associates		(2,068,977,236)	(342,620,339)	(877,776,746)
Interest received		1,022,351,679	965,058,268	1,058,915,769
Proceeds from sale of investments in an associate and subsidiaries	1, 23	297,454,675	343,867,951	422,256,169
Proceeds from issuance of capital stock of subsidiary		150,000,000	-	-
Increase in other non-current assets		(75,519,218)	(167,518,751)	(565,531,212)
Proceeds from sale of available-for-sale securities	9	65,990,227	-	125,516,555
Dividends received		27,018,574	68,845,396	78,239,149
Proceeds from sale of investment property	12	20,519,223	-	-
Proceeds from sale of property and equipment	13	11,899,989	9,070,383	-
Acquisition of available-for-sale securities	9	(7,412,400)	(12,496,657)	(1,461,811,671)
Net Cash Used in Investing Activities		(15,050,906,936)	(12,997,728,741)	(17,970,448,229)
Balance carried forward		(P 9,206,162,337)	(P 9,033,428,831)	(P 16,240,652,525)

Notes	2017	2016	2015
<i>Balance brought forward</i>	(P 9,206,162,337)	(P 9,033,428,831)	(P 16,240,652,525)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availments of long and short-term liabilities	15 7,900,000,000	10,320,000,000	26,462,435,925
Repayments of long and short-term liabilities	(6,152,002,030)	(3,139,858,621)	(3,542,538,882)
Cash dividends declared and paid	28 (1,722,155,799)	(1,608,600,152)	(1,936,160,028)
Cash dividends declared and paid to non controlling interest	(12,226,103)	(46,066,182)	(80,000,000)
Interest paid	(3,693,371,740)	(2,861,348,025)	(2,050,959,128)
Issuance of bonds payable	16 11,943,791,282	-	-
Repayments of bonds payable	16 -	-	(5,000,000,000)
Proceeds from exercise of share warrants	28 -	-	7,987,924
Net Cash From Financing Activities	8,264,035,610	2,664,127,020	13,860,765,811
NET DECREASE IN CASH AND CASH EQUIVALENTS	(942,126,727)	(6,369,301,811)	(2,379,886,714)
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES	976,599,736	1,902,094	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,395,663,456	22,763,063,173	25,142,949,887
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 16,430,136,465	P 16,395,663,456	P 22,763,063,173

Supplemental Information on Non-cash Investing and Financing Activities:

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate and other assets. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Properties as the property goes through its various stages of development. Also, certain amount of borrowing costs are capitalized as part of Property Development Costs. These non-cash activities are not reflected in the consolidated statements of cash flows (see Notes 10 and 12).

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Megaworld Corporation (the Company) was incorporated in the Philippines on August 24, 1989, primarily to engage in the development of large scale, mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. The Company is presently engaged in property-related activities such as project design, construction and property management. The Company's real estate portfolio includes residential condominium units, subdivision lots and townhouses, condominium-hotel projects as well as office projects and retail spaces.

All of the Company's common shares are listed at the Philippine Stock Exchange (PSE).

On June 27, 2017, the Philippine Securities and Exchange Commission (SEC) approved the change in the Company's registered office and principal place of business from 28th Floor, The World Centre, Sen. Gil Puyat Avenue, Makati City to 30th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City. The related approval from the Bureau of Internal Revenue (BIR) was obtained on July 17, 2017.

Alliance Global Group, Inc. (AGI or the Parent Company), also a publicly listed company in the Philippines, is the ultimate parent company of Megaworld Corporation and its subsidiaries (the Group). AGI is a holding company and is presently engaged in the food and beverage, real estate development, quick-service restaurant, tourism-entertainment and gaming businesses. AGI's registered office, which is also its primary place of business, is located at the 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City.

1.1 Composition of the Group

As at December 31, the Company holds ownership interests in the following subsidiaries and associates:

Subsidiaries/Associates	<u>Effective Percentage of Ownership</u>		
	2017	2016	2015
Subsidiaries:			
Prestige Hotels and Resorts, Inc. (PHRI)	100%	100%	100%
Richmonde Hotel Group International Ltd. (RHGI)	100%	100%	100%
Eastwood Cyber One Corporation (ECOC)	100%	100%	100%
Megaworld Cebu Properties, Inc. (MCP)	100%	100%	100%
Megaworld Newport Property Holdings, Inc. (MNPHI)	100%	100%	100%
Oceantown Properties, Inc. (OPI)	100%	100%	100%
Luxury Global Hotels and Leisure, Inc. (LGHLI)	100%	100%	100%

Subsidiaries/Associates	Explanatory Notes	Effective Percentage of Ownership		
		2017	2016	2015
Subsidiaries:				
Arcovia Properties, Inc. (API)		100%	100%	100%
Mactan Oceanview Properties and Holdings, Inc. (MOPHI)	(a)	100%	100%	100%
Megaworld Cayman Islands, Inc. (MCII)	(a)	100%	100%	100%
Piedmont Property Ventures, Inc. (PPVI)	(a)	100%	100%	100%
Stonehaven Land, Inc. (SLI)	(a)	100%	100%	100%
Streamwood Property, Inc. (SP)	(a)	100%	100%	100%
Global One Integrated Business Services, Inc. (GOIBSI)		100%	100%	100%
Luxury Global Malls, Inc. (LGMI)		100%	100%	100%
Davao Park District Holdings, Inc. (DPDHI)		100%	100%	100%
Belmont Newport Luxury Hotels, Inc. (BNLHI)		100%	100%	100%
Global One Hotel Group, Inc. (GOHGI)		100%	100%	100%
Landmark Seaside Properties, Inc. (LSPI)	(b)	100%	100%	-
San Vicente Coast, Inc. (SVCI)	(a, b)	100%	100%	-
Megaworld Bacolod Properties, Inc. (MBPI)		91.55%	91.55%	91.55%
Megaworld Central Properties, Inc. (MCPI)	(c)	76.55%	76.55%	76.55%
Megaworld Capital Town, Inc. (MCTI)	(g)	76.28%	-	-
Soho Café and Restaurant Group, Inc. (SCRGI)	(b)	75%	75%	-
La Fuerza, Inc. (LFI)		66.67%	66.67%	66.67%
Megaworld-Daewoo Corporation (MDC)		60%	60%	60%
Northwin Properties, Inc. (NWPI)	(a, g)	60%	-	-
Gilmore Property Marketing Associates, Inc. (GPMAI)	(a, d)	52.14%	52.14%	52.14%
Manila Bayshore Property Holdings, Inc. (MBPHI)	(c)	50.92%	50.92%	50.92%
Megaworld Globus Asia, Inc. (MGAI)		50%	50%	50%
Integrated Town Management Corporation (ITMC)		50%	50%	50%
Maple Grove Land, Inc. (MGLI)	(a, b)	50%	50%	-
Megaworld Land, Inc. (MLI)		100%	100%	100%
City Walk Building Administration, Inc. (CBAI)	(f)	100%	100%	100%
Forbestown Commercial Center Administration, Inc. (FCCAI)	(f)	100%	100%	100%
Paseo Center Building Administration, Inc. (PCBAI)	(f)	100%	100%	100%
Uptown Commercial Center Administration, Inc. (UCCAI)	(f)	100%	100%	100%
Iloilo Center Mall Administration, Inc. (ICMAI)	(f)	100%	100%	100%
Newtown Commercial Center Administration, Inc. (NCCAI)	(f)	100%	100%	100%
Valley Peaks Property Management, Inc. (VPPMI)	(f)	100%	100%	100%
San Lorenzo Place Commercial Center Administration, Inc. (SLPCCAI)	(f, g)	100%	-	-
Suntrust Properties, Inc. (SPI)		100%	100%	100%
Suntrust Ecotown Developers, Inc. (SEDI)		100%	100%	100%
Governor's Hills Science School, Inc. (GHSSI)		100%	100%	100%
Sunrays Property Management, Inc. (SPMI)		100%	100%	100%
Suntrust One Shanata, Inc. (SOSI)	(a)	100%	100%	100%
Suntrust Two Shanata, Inc. (STSI)	(a)	100%	100%	100%
Global-Estate Resorts, Inc. (GERI)	(h)	82.32%	82.32%	82.26%
Southwoods Mall, Inc. (SMI)	(i)	91.09%	91.09%	91.13%
Megaworld Global-Estate, Inc. (MGEI)	(j)	89.39%	89.39%	89.36%
Twin Lakes Corporation (TLC)	(j)	83.37%	83.37%	83.34%

Subsidiaries/Associates	Explanatory Notes	Effective Percentage of Ownership		
		2017	2016	2015
Subsidiaries:				
Fil-Estate Properties, Inc. (FEPI)	(j)	82.32%	82.32%	82.26%
Aklan Holdings, Inc. (AHI)	(a, i)	82.32%	82.32%	82.26%
Blu Sky Airways, Inc. (BSAI)	(a, i)	82.32%	82.32%	82.26%
Fil-Estate Subic Development Corp. (FESDC)	(a, i)	82.32%	82.32%	82.26%
Fil-Power Construction Equipment Leasing Corp. (FPCELC)	(a, i)	82.32%	82.32%	82.26%
Golden Sun Airways, Inc. (GSAI)	(a, i)	82.32%	82.32%	82.26%
La Compañía De Sta. Barbara, Inc. (LCSBI)	(j)	82.32%	82.32%	82.26%
MCX Corporation (MCX)	(a, i)	82.32%	82.32%	82.26%
Pioneer L-5 Realty Corp. (PLRC)	(a, i)	82.32%	82.32%	82.26%
Prime Airways, Inc. (PAI)	(a, i)	82.32%	82.32%	82.26%
Sto. Domingo Place Development Corp. (SDPDC)	(j)	82.32%	82.32%	82.26%
Fil-Power Concrete Blocks Corp. (FPCBC)	(a, i)	82.32%	82.32%	82.26%
Fil-Estate Industrial Park, Inc. (FEIPI)	(a, i)	65.03%	65.03%	64.99%
Sherwood Hills Development, Inc. (SHD)	(j)	45.28%	45.28%	45.24%
Fil-Estate Golf and Development, Inc. (FEGDI)	(j)	82.32%	82.32%	82.26%
Golforce, Inc. (Golforce)	(j)	82.32%	82.32%	82.26%
Southwoods Ecocentrum Corp. (SWEC)	(j)	49.39%	49.39%	46.07%
Philippine Aquatic Leisure Corp. (PALC)	(a, i)	49.39%	49.39%	46.07%
Fil-Estate Urban Development Corp. (FEUDC)	(j)	82.32%	82.32%	82.26%
Novo Sierra Holdings Corp. (NSHC)	(a, i)	82.32%	82.32%	82.26%
Global Homes and Communities, Inc. (GHCI)	(a, i)	82.32%	82.32%	82.26%
Oceanfront Properties, Inc. (OFPI)	(j)	41.13%	41.13%	41.13%
Empire East Land Holdings, Inc. (EELHI)		81.73%	81.73%	81.73%
Eastwood Property Holdings, Inc. (EPHI)		81.73%	81.73%	81.73%
Valle Verde Properties, Inc. (VVPI)	(a)	81.73%	81.73%	81.73%
Sherman Oak Holdings, Inc. (SOHI)	(a)	81.73%	81.73%	81.73%
Empire East Communities, Inc. (EECI)	(a)	81.73%	81.73%	81.73%
20 th Century Nylon Shirt, Inc. (CNSI)	(a)	81.73%	81.73%	81.73%
Laguna BelAir School, Inc. (LBASI)		59.67%	59.67%	59.67%
Sonoma Premier Land, Inc. (SPLJ)	(a)	49.04%	49.04%	49.04%
Megaworld Resort Estates, Inc. (MREI)		51%	51%	51%
Townsquare Development, Inc. (TDI)		30.60%	30.60%	30.60%
Golden Panda-ATI Realty Corporation (GPARC)		30.60%	30.60%	30.60%
Associates:				
Bonifacio West Development Corporation (BWDC)		46.11%	46.11%	46.11%
Suntrust Home Developers, Inc. (SHDI)	(k)	45.67%	42.48%	42.48%
First Oceanic Property Management, Inc. (FOPMI)	(m)	45.67%	42.48%	42.48%
Citylink Coach Services, Inc. (CCSI)	(m)	45.67%	42.48%	42.48%
Palm Tree Holdings and Development Corporation (PTHDC)	(a)	40%	40%	40%
GERI				
Boracay Newcoast Hotel Group, Inc. (BNHGI)	(l)	12.35%	24.70%	37.01%
Fil-Estate Network, Inc. (FENI)	(n)	16.46%	16.46%	16.45%
Fil-Estate Sales, Inc. (FESI)	(n)	16.46%	16.46%	16.45%
Fil-Estate Realty and Sales Associates, Inc. (FERSAI)	(n)	16.46%	16.46%	16.45%
Fil-Estate Realty Corp. (FERC)	(n)	16.46%	16.46%	16.45%
Nasugbu Properties, Inc. (NPI)	(n)	11.52%	11.52%	11.52%
EELHI				
Pacific Coast Mega City, Inc. (PCMCI)		16.35%	16.35%	16.35%

Explanatory Notes:

- (a) These are entities which have not yet started commercial operations as at December 31, 2017.
- (b) SVCI and MGLI were incorporated in 2016 and are engaged in the same line of business as the Company. Meanwhile, LSPI and SCRGI were existing entities that were separately acquired in 2016 and were accounted for as business acquisitions. LSPI is engaged in the same line of business as the Company, while SCRGI is engaged in restaurant operations.
- (c) As at December 31, 2017, the Company owns 76.55% of MCPI consisting of 51% direct ownership, 18.97% indirect ownership through EELHI and 6.58% indirect ownership through MREI.
- (d) As at December 31, 2017, the Company's ownership in GPMAI is at 52.14%, which consists of 38.72% and 13.42% indirect ownership from EELHI and MREI, respectively.
- (e) In 2017 and 2015, the Company and Travellers International Hotel Group, Inc. (TIHGI) equally subscribed to additional shares of MBPHI amounting to P0.2 billion and P0.5 billion each, respectively. The additional subscriptions on MBPHI did not affect the ownership interest of both TIHGI and the Company.
- (f) These were incorporated to engage in operation, maintenance, and administration of various malls and commercial centers. These companies became subsidiaries of the Company through MLL, their immediate parent company.
- (g) New subsidiaries in 2017. MCTI, SLPCCAI and NWPI are existing entities that are separately acquired in 2017 and are accounted for as business acquisitions. MCTI and NWPI are engaged in the same line of business as the Company, while SLPCCAI is engaged in operation, maintenance, and administration of various malls and commercial centers.
- (h) In 2016, the Company acquired additional shares of GERI from the PSE, increasing its ownership interest to 82.32%.
- (i) SMI is a subsidiary of GERI acquired in 2014 which is engaged in real estate business. As at December 31, 2015, effective ownership interest over SMI totaled to 91.13%, consisting of 50% direct ownership and 41.13% indirect ownership through GERI. In 2016, both the Company and GERI subscribed to additional common shares of SMI resulting to 49.59% and 50.41% direct ownership interest, respectively.
- (j) Subsidiaries of GERI. As a result of the additional investments in GERI in 2016, the Company's indirect ownership interest over these subsidiaries increased in proportion to the increase in effective interest over GERI. Effective ownership interest over MGEI and TLC increased to 89.39% and 83.37%, respectively.
- (k) In 2017, TDI acquired shares of SHDI resulting into 45.67% effective ownership over SHDI consisting of 42.48% direct ownership and 3.19% indirect ownership through TDI.
- (l) In 2017 and 2016, FEPI sold 15% ownership interest each year in BNHGI to a third party, decreasing the Company's ownership to 12.35% and 24.70%, respectively.
- (m) Subsidiaries of SHDI. As a result of the additional investment in SHDI in 2017, the Company's indirect interest over these associates increased in proportion to the increase in effective interest over SHDI.
- (n) Associates of GERI. As a result of the additional investments in GERI in 2016, the Company's indirect ownership interest over these associates increased in proportion to the increase in effective interest over GERI.

Except for MCII and RHGI, all the subsidiaries and associates were incorporated and have their principal place of business in the Philippines. MCII was incorporated and have principal place of business in the Cayman Islands while RHGI was incorporated and has principal place of business in the British Virgin Islands.

The Company and its subsidiaries and associates, except for entities which have not yet started commercial operations as at December 31, 2017, are presently engaged in the real estate business, hotel, condominium-hotel operations, construction, restaurant operations, business process outsourcing, educational, facilities provider and property management operations and marketing services.

EELHI, GERI, and SHDI are publicly-listed companies in the Philippines.

1.2 Business Combinations and Loss of Control

In 2017 and 2016, the Company obtained control over various entities to expand its operations as disclosed in Note 1.1. Aggregate information at acquisition date is as follows:

	<u>2017</u>	<u>2016</u>
Fair value of assets acquired:		
Cash	P 976,599,736	P 1,902,094
Land for future development	3,654,924,811	1,079,527,021
Advances to landowners and joint ventures	894,695,800	-
Other assets	<u>256,592,280</u>	<u>50,207,955</u>
	<u>5,782,812,627</u>	<u>1,131,637,070</u>
Fair value of liabilities assumed	<u>(67,228,650)</u>	<u>(25,580,071)</u>
Fair value of consideration transferred:		
Cash	<u>(2,068,977,236)</u>	(5,000,000)
Advances to related parties	<u>-</u>	<u>(1,100,445,738)</u>
	<u>(2,068,977,236)</u>	<u>(1,105,445,738)</u>
Non-controlling interest	<u>(3,655,374,576)</u>	(675,882)
Pre-acquisition income (loss)	<u>(2,715,950)</u>	3,314,788
Gain on acquisition	<u>-</u>	<u>(2,027,645)</u>

In 2016, the Company disposed its investments over some entities thereby losing control. The aggregate carrying amount of net assets of the entities at the date of disposal is as follows:

Current assets (excluding cash)	P 9,612,358
Non-current assets	185,746,855
Current liabilities	(131,560,556)
Non-current liabilities	<u>(118,647,500)</u>
Total net liabilities	<u>(54,848,843)</u>
Total consideration received in cash	20,500,000
Cash and cash equivalents disposed of	<u>(75,472,313)</u>
Net cash paid	<u>(54,972,313)</u>
Derecognized non-controlling interest	<u>(4,500,000)</u>
Gain on deconsolidation	<u>P 4,376,532</u>

Gain on acquisition and gain on deconsolidation is presented as part of Miscellaneous under Interest and Other Income – Net account in the 2016 consolidated statement of income (see Note 23).

1.3 Subsidiaries with Material Non-controlling Interest

The subsidiaries with material non-controlling interest (NCI) are EELHI and GERI. Ownership interest and voting rights held by NCI over EELHI is 18.27% in 2017 and 2016. EELHI's profit allocated to NCI amounted to P122.1 million and P110.3 million in 2017 and 2016, respectively. The accumulated equity held by NCI over EELHI as of December 31, 2017 and 2016 amounts to P9.3 billion and P9.1 billion, respectively. Meanwhile, ownership interest and voting rights held by NCI over GERI is 17.68% in 2017 and 2016. GERI's profit allocated to NCI amounted to P341.4 million and P276.8 million in 2017 and 2016, respectively. The accumulated equity held by NCI over GERI as of December 31, 2017 and 2016 amounts to P5.6 billion and P5.1 billion, respectively.

The summarized financial information of GERI and EELHI, before intragroup eliminations, is shown below.

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Net Profit</u>	<u>Other Comprehensive Income (Loss)</u>
December 31, 2017						
GERI	<u>P 47,833,305,442</u>	<u>P 18,554,810,454</u>	<u>P 29,278,494,988</u>	<u>P 6,452,238,332</u>	<u>P 1,569,221,165</u>	<u>P 9,257,683</u>
EELHI	<u>P 41,442,812,051</u>	<u>P 15,501,444,461</u>	<u>P 25,941,367,590</u>	<u>P 5,278,252,626</u>	<u>P 631,937,528</u>	<u>P 1,027,756,529</u>
December 31, 2016						
GERI	<u>P 44,385,356,133</u>	<u>P 16,884,327,744</u>	<u>P 27,501,028,389</u>	<u>P 5,748,962,178</u>	<u>P 1,082,362,926</u>	<u>(P 1,370,580)</u>
EELHI	<u>P 38,549,428,812</u>	<u>P 13,636,566,430</u>	<u>P 24,912,862,382</u>	<u>P 5,196,511,338</u>	<u>P 600,327,071</u>	<u>P 228,872,916</u>

	<u>2017</u>	<u>2016</u>
GERI		
Net cash from (used in):		
Operating activities	<u>(P 297,215,964)</u>	<u>(P 891,583,454)</u>
Investing activities	<u>(1,375,532,355)</u>	<u>(1,422,187,646)</u>
Financing activities	<u>1,721,033,953</u>	<u>2,529,190,113</u>
	<u>48,285,634</u>	<u>215,419,013</u>
EELHI		
Net cash from (used in):		
Operating activities	<u>(101,740,384)</u>	<u>(767,853,969)</u>
Investing activities	<u>(47,477,430)</u>	<u>23,023,423</u>
Financing activities	<u>438,004,732</u>	<u>355,592,629</u>
	<u>288,786,918</u>	<u>(389,237,917)</u>
Net cash inflow (outflow)	<u>P 337,072,552</u>	<u>(P 173,818,904)</u>

In 2017 and 2016, both GERI and EELHI have not declared nor paid any dividends to NCI.

1.4 Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as at and for the year ended December 31, 2017 (including the comparative consolidated financial statements as at December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Company's Board of Directors (BOD) on March 23, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these 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 a consolidated statement of comprehensive income separate from the consolidated statement of 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 Peso, the Company's presentation and functional currency, and all values represent absolute amounts except when otherwise indicated.

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

2.2 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 financial statements 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
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Discussed below are the relevant information about these amendments and annual 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:
- 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,
 - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the 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 36.

- (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 this pronouncement did not have an impact on the Group's consolidated financial statements.

(b) *Effective Subsequent to 2017 but 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 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), *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 this amendment has 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):

- On classification and measurement of the Group's financial assets, management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects the majority of trade and other receivables to continue to be accounted for at amortized cost. The Group's equity securities, regardless if quoted or not, will be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition.
- Other financial assets are likely to be measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest.
- The ECL model will apply to the Group's trade receivables. 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 revenue from contracts with customers covered by PFRS 15 pertain to real estate sales.

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 Company will consider the significant financing component on its contracts when determining the transaction price.

- (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 of 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 had 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.

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Company, and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. In addition, the shares of the Company held by the subsidiaries are recognized as treasury shares and these are presented as deduction in the consolidated statement of changes in equity. Any changes in the market values of such shares as recognized separately by the subsidiaries are likewise eliminated in full.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Company accounts for its investments in subsidiaries, associates, interests in jointly-controlled operations and non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when: it has the power over the entity; 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. Subsidiaries are consolidated from the date the Company obtains control.

The Company 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.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair 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 in profit or loss.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.13).

(b) Investments in Associates

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

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in an associate.

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 Equity share in Net Earnings of Associates account in the consolidated statement of income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.18).

Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity are recognized in other comprehensive income or equity of the Group, as applicable. 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 profit, the investor resumes recognizing its share of those profits only after its share of the profits exceeds 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 Company 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 assets transferred. Accounting policies of associates are changed when necessary to ensure consistency with the policies adopted by the Group.

(c) Interests in Jointly-controlled Operations

For interests in jointly-controlled operations, the Group recognizes in its consolidated financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) Transactions with Non-controlling Interests

The Group's transactions with non-controlling interests 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 interests result in gains and losses for the Group that are already recognized in equity.

When the Company 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 amount previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This means that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

The Company holds interests in various subsidiaries and associates as presented in Notes 1.1 and 11.

2.4 Foreign Currency Transactions and Translation

(a) Transactions and Balances

Except for MCII and RHGI which use the United States (U.S.) dollar as their functional currency, the accounting records of the Company and its subsidiaries are maintained in Philippine Peso. Foreign currency transactions during the year 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized under Interest and Other Income or Charges – Net account in the consolidated statement of income.

(b) Translation of Financial Statements of Foreign Subsidiaries

The operating results and financial position of MCII and RHGI, which are measured using the U.S. dollar, their functional currency, are translated to Philippine Peso, the 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 reporting period;
- (ii) Income and expenses for each profit or loss account are translated at the annual average exchange rates (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 as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in MCII and RHGI are recognized under Exchange Difference on Translating Foreign Operations account in the consolidated statement of comprehensive income. As these entities are wholly owned subsidiaries, the translation adjustments are fully allocated to the Company's shareholders. 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 gains or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the consolidated financial statements into Philippine Peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine Peso amounts at the translation rates or at any other rates of exchange.

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. 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*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale (AFS) securities. 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 categories of financial assets that are relevant to Group is presented below and in the succeeding page.

(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 fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

(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 those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables, Guarantee and other deposits (presented as part of Other Non-current Assets), and Advances to associates and other related parties (presented as part of Investments in and Advances to Associates and Other Related Parties) in the consolidated statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, 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.

(iii) AFS Securities

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 presented as Investments in AFS Securities under non-current assets section in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the end of the reporting period. The Group's AFS securities include quoted and unquoted equity securities and quoted dollar-denominated corporate bonds.

All financial assets within this category are subsequently measured at fair value, except for unquoted equity securities which are measured at cost, less impairment, as their current fair value cannot be estimated reliably. 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 Revaluation Reserves account in equity, 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 that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within 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 group of financial assets is impaired. The Group recognizes impairment loss based on the category of financial assets as presented in the succeeding page.

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

If there is objective evidence that an impairment loss on loans and receivables carried at 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.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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 the reversal is recognized in profit or loss.

(ii) *Carried at Cost – AFS Securities*

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.

(iii) *Carried at Fair Value – AFS Securities*

When a decline in the fair value of an AFS securities has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, 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 equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Reversal of impairment losses is 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 losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest and Other Income – Net and Interest and Other Charges – Net accounts in the consolidated statement of income.

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.

2.6 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 at fair value and are subsequently remeasured at fair value. Such derivatives are carried as assets when the net fair value is positive and as liabilities when the net fair value is negative.

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.

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 in equity to the extent that the hedge is effective. 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.

2.7 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 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 incurred during the development of the real estate properties are also capitalized by the Group as part of the property development costs (see Note 2.21). Once a revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Residential, Condominium Units and Golf and Resort Shares for Sale – Net account. The cost of real estate property sold before completion of the development is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined by the project engineers, are charged to the Cost of Real Estate Sales account presented in the consolidated statement of income with a corresponding credit to a liability account, Reserve for Property Development.

Costs of properties and projects accounted for as Land for Future Development, Property Development Costs and Residential, Condominium Units, Golf and Resort Shares for Sale – Net are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale.

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

Prepayments and other assets 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 Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, 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, are classified as non-current assets.

2.9 Property and Equipment

Property and equipment are carried at acquisition or construction cost less subsequent depreciation, amortization and any impairment losses. As no finite useful life for land can be determined, related carrying amounts are not depreciated.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expenses as incurred.

Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets. Amortization of office and improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter.

The depreciation and amortization periods for other property and equipment, based on the above policies, are as follows:

Buildings and improvements	5-25 years
Office improvements	5-20 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	3-5 years

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 these assets.

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 2.18).

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

An item of property and equipment, including the related accumulated depreciation, amortization and any impairment losses, is derecognized upon 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 the consolidated profit or loss in the year the item is derecognized.

2.10 Investment Properties

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Properties, and carried at cost, net of accumulated depreciation and any impairment in value, except for land which is not subject to depreciation. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Depreciation of investment properties, excluding land, is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see Note 2.18).

The residual values, estimated useful lives and method of depreciation of investment properties, except for land, are reviewed and adjusted, if appropriate, at the end of each reporting period.

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

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties are recognized in the consolidated statement of income in the year of retirement or disposal.

2.11 Financial Liabilities

Financial liabilities of the Group include Interest-bearing Loans and Borrowings, Bonds Payable, Trade and Other Payables (except tax-related liabilities), Redeemable Preferred Shares, Advances from Associates and Other Related Parties and Derivative liability (presented as part of Other Current Liabilities in the consolidated statement of financial position).

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as expense in profit or loss under the caption Interest and Other Charges – Net account in the consolidated statement of income.

Interest-bearing Loans and Borrowings, Bonds Payable and Redeemable Preferred Shares are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss, except for capitalized borrowing cost, 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.

Preferred shares, which carry a mandatory coupon or are redeemable on specific date or at the option of the shareholder, are classified as financial liabilities and presented as a separate line item in the consolidated statement of financial position as Redeemable Preferred Shares. These shares are also issued for support of long-term funding.

Trade and Other Payables, and Advances from Associates and Other Related Parties are initially recognized at their fair values and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

The Group's Derivative liability is recognized and subsequently measured in accordance with its hedge accounting policy (see Note 2.6).

Dividend distributions to shareholders, if any, are recognized as financial liabilities when the dividends are approved by the BOD. The dividends on the redeemable preferred shares are recognized in the consolidated statement of income as interest expense on an amortized cost basis using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after 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 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.

The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in consolidated profit or loss.

2.12 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.13 Business Combination

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

Negative goodwill, which is the excess of the Company's interest in the fair value of net identifiable assets acquired over acquisition cost, is charged directly to profit or loss.

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.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the Company is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the consolidated profit or loss or other comprehensive income, as appropriate.

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

2.14 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 follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these products and service lines requires different technologies and other resources as well as marketing approaches. 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 consolidated financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- interest cost from post-employment benefit obligation;
- equity in net earnings of associates, fair value gains, dividend income and foreign currency gains/losses;
- gain on sale of investments in associate.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

2.15 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 obligation that has resulted from past events.

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

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

2.16 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value added taxes (VAT) and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; 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 residential and condominium units* – For financial reporting purposes, revenues from transactions covering sales of residential and condominium units ready 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.

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 in the consolidated statement of income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales (under current and non-current liabilities section) 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 presented under the Customers' Deposits account in the liabilities section of 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 sales is used by the Company, GERI, EELHI, SPI, ECOC, MBPHI, SEDI, LFI, API, MGAI and MCTI.

- (b) *Sale of undeveloped land and golf and resort shares for sale* – 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 on the undeveloped land and golf and resort shares have passed to the buyer and the amount of revenue can be measured reliably.
- (c) *Rendering of services* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. Revenue from rendering of services includes rental income, hotel operations, property management and others.
- (d) *Rental income* – Revenue is recognized on a straight-line basis over the lease term. Advance rentals received are recorded as deferred rental income. Unearned revenues pertain to advanced collections from real estate customers. For tax purposes, rental income is recognized based on the contractual terms of the lease.
- (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) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.
- (g) *Dividends* – Revenue is recorded when the shareholders' right to receive the payment is established.

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 2.21) and estimated costs to complete the project, determined based on estimates made by the project engineers (see also Note 2.7).

Operating expenses and other costs (other than costs of real estate and golf and resort shares sold) are recognized in profit or loss upon utilization of goods or services or at the date they are incurred.

2.17 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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 incentives received from the lessor) are recognized as expense in the 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 which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease income is recognized as income 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.

2.18 Impairment of Non-financial Assets

The Group's Investments in Associates, Goodwill and Leasehold rights (included as part of Other Non-current Assets), Investment Properties, Property and Equipment and other non-financial assets are subject to impairment testing. 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 in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, 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. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.19 Employee Benefits

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

(a) Post-employment Defined 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 covers all regular full-time employees. The pension plans are tax-qualified, noncontributory and administered by trustees.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by Philippine Dealing & 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 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 Interest and Other Charges – Net or Interest and Other Income – Net accounts in the consolidated statement of income.

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

(b) *Post-employment Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. 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 or 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 at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) *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 the 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.

2.20 Share-based Employee Remuneration

The Group grants share options to qualified employees of the Group eligible under a share option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in the consolidated profit or loss with a corresponding credit to retained earnings.

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

Share options issued by a subsidiary is accounted for as non-controlling interests at fair value at the date of grant in the consolidated statement of changes in equity. However, during the period the option is outstanding, the non-controlling interest related to the option holder should not be attributed any profit or loss of the subsidiary until the option is exercised. Meanwhile, the related share option expense is recognized in full in profit or loss.

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 additional paid in capital (APIC).

2.21 Borrowing Costs

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

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.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.22 Income Taxes

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

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

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset 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 to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount 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, except to the extent that it relates to items recognized in consolidated other comprehensive income or directly in equity. In this case, the tax is also 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 Related Party Relationships and Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded post-employment plan.

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

2.24 Equity

Capital stock is determined using the nominal value of shares that have been issued.

APIC includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Also, this includes shares of the Company held by certain subsidiaries (see Note 2.3).

Revaluation reserves consist of:

- (a) Accumulated actuarial gains and losses arising from remeasurements of retirement benefit obligation, net of tax.
- (b) Net fair value gains or losses recognized due to changes in fair values of AFS securities.
- (c) Cumulative share in other comprehensive income of associates attributable to the Group.
- (d) The effective portion of gains and losses on hedging instruments in a cash flow hedge.

Translation reserves represent the translation adjustments resulting from the translation of foreign-currency denominated financial statements of certain foreign subsidiaries into the Group's functional and presentation currency.

Retained earnings represent all current and prior period results of operations and share-based employee remuneration as reported in the consolidated statement of income, reduced by the amounts of dividends declared.

2.25 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing consolidated net profit attributable to equity holders of the Company by the weighted average number of shares issued and outstanding, adjusted retroactively for any share dividend, share split and reverse share split during the current year, if any.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive common shares (see Note 29).

2.26 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Group's 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 ESTIMATES AND JUDGMENTS

The preparation of Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect 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 vary 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) Revenue Recognition

The Group uses judgment 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.

(b) *Impairment of Investments in AFS Securities*

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.

An analysis of the carrying amount of investments in AFS securities is presented in Note 9.

(c) *Distinction Among Investment Properties, Owner-occupied Properties and Land for Future Development*

The Group determines whether a property should be classified as investment property, owner-occupied property or land held for future development. The Group applies judgment upon initial recognition of the asset based on intention and also when there is a change in use. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process while Land for Future Development are properties intended solely for future development.

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) *Distinction Between Residential, Condominium Units, Golf and Resort Shares for Sale and Investment Properties*

Residential, condominium units, golf and resort shares for sale comprise properties that are held for sale in the ordinary course of business. Meanwhile, investment properties 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 judgment.

(e) *Distinction Between AFS Securities and Residential, Condominium Units, Golf and Resort Shares for Sale*

Being a real estate developer, the Group determines how these shares shall be accounted for. In determining whether these 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 its intent is to sell a developed property together with the club share.

(f) Distinction Between Asset Acquisition and Business Combinations

The Company acquires subsidiaries that own real estate properties. At the time of acquisition, the Company considers whether the acquisition represents acquisition of a business or asset. The Company 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., 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 Company gained control over various entities as described in Note 1. Based on management's assessment, such acquisitions are accounted for as business combinations (see Note 1.1).

(g) Distinction Between Land Held for Sale and Land for Future Development

The Group determines whether a land will be classified as part of Residential, Condominium Units, Golf and Resort Shares for Sale or Land Held for Future Development. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle or whether it will be retained as part of the Group's strategic land banking activities for future development.

(h) Distinction Between 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 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. Based on management assessment, the Group's lease agreements are classified as operating lease.

(i) Consolidation of Entities in which the Group Holds 50% or Less of Voting Rights

Management considers that the Group has de facto control over investees even though it effectively holds less than 50% of the ordinary shares and voting rights in those companies. The Company exercises control over these companies through its direct subsidiaries who own majority of the voting rights of said companies (see Note 1.1).

(j) Significant Influence on Investees Even if the Group Holds Less than 20% of Voting Rights

The Group considers that it has significant influence over investees when it has board representation which allows them to participate in the financial and operating policy decisions but has no control or joint control of those policies (see Notes 1.1 and 11).

(k) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provision are discussed in Note 2.15 and disclosures on relevant provisions and contingencies are presented in Note 31.

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.

(b) Determination of Net Realizable Value of Residential, Condominium Units, Golf and Resort Shares for Sale, Property Development Costs and Land for Future Development

In determining the net realizable value of residential, condominium units, golf and resort shares for sale, property development costs and land for future development, management takes into account the most reliable evidence available at the times the estimates are made. The future realization of the carrying amounts of real estate for sale and property development costs is affected by price changes in the different market segments as well as the trends in the real estate industry. These are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's Residential, Condominium Units, Golf and Resort Shares for Sale, Property Development Costs and Land for Future Development within the next reporting period.

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

The carrying values of the Group's Property Development Costs and Land for Future Development are presented in the consolidated statement of financial position while the carrying value of Residential, Condominium Units, Golf and Resort Shares for Sale is disclosed in Note 7.

(c) Fair Value of Share Options

The Group estimates the fair value of the share option by applying an option valuation model, taking into account the terms and conditions on which the share options were granted. The estimates and assumptions used are presented in Note 28.6 which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the Company's share price and fair value of the Company's common shares. Changes in these factors can affect the fair value of share options at grant date.

The fair value of share options recognized as part of Salaries and employee benefits in 2017, 2016 and 2015 is presented in Note 25.2.

(d) Fair Value Measurement of Investment Properties

Investment properties are measured using the cost model. The fair value disclosed in Note 12 to the consolidated financial statements is determined by the Group using the discounted cash flows valuation technique since the information on current or recent prices of 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.

A significant change in these elements may affect prices and the value of the assets. The fair value of investment properties is disclosed in Notes 12 and 34.4.

(e) Estimation of Useful Lives of Investment Properties and Property and Equipment

The Group estimates the useful lives of investment properties and property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and property and equipment 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. In addition, estimation of the useful lives of investment properties and property and equipment are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets.

An analysis of the movement of the carrying amount Investment Properties and Property and Equipment is presented in Notes 12 and 13, respectively.

(f) Impairment of Trade and Other Receivables

Adequate amount of allowance is provided for specific and groups of accounts, where an objective evidence of impairment exists. The Group evaluates these accounts 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 counterparties, the counterparties' current credit status based on third party credit reports and known market forces, 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.

(g) 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. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ had the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets would affect consolidated profit and loss and equity.

The carrying amounts of investments in AFS securities and the amounts of fair value changes recognized during the years on those assets are disclosed in Note 9.

(b) Determination of 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. Management assessed that the balance of deferred tax assets recognized as at December 31, 2017 and 2016 will be utilized in the succeeding years.

The carrying amount of the net deferred tax assets as at December 31, 2017 and 2016 is disclosed in Note 26.

(i) Impairment of Goodwill and Other Non-financial Assets

Goodwill is reviewed annually for impairment while other non-financial assets are tested whenever certain impairment indicators become evident. In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainties relates to assumptions about future operating results and the determination of suitable discount rate. Also, the Group's policy on estimating the impairment of goodwill and other non-financial assets is discussed in detail in Note 2.18. 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.

There were no impairment losses on the Group's goodwill and other non-financial assets required to be recognized in 2017, 2016 and 2015 based on management's assessment.

(j) Valuation of Retirement 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 independent actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the retirement benefit obligation in the next reporting period.

The amounts of retirement 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 25.3.

(k) 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 acquisition date 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.

4. SEGMENT INFORMATION

4.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the development of residential and office units including urban centers integrating office, residential and commercial components. The Real Estate segment pertains to the development and sale of residential and office developments. The Rental segment includes leasing of office and commercial spaces. The Hotel Operations segment relates to the management of hotel business operations. The Corporate and Others segment includes business process outsourcing, educational, facilities provider, maintenance and property management operations, marketing services, general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 2.14. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

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, receivables, real estate inventories, property and equipment, and investment properties, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and segment liabilities do not include deferred taxes.

4.3 Intersegment Transactions

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

4.4 Analysis of Segment Information

The tables presented in the succeeding pages present revenue and profit information regarding industry segments for the years ended December 31, 2017, 2016 and 2015 and certain asset and liability information regarding segments as at December 31, 2017 and 2016.

	2015					
	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 32,726,888,869	P 8,729,655,235	P 796,322,364	P 1,007,543,475	P -	P 43,260,409,943
Interest income	1,067,891,577	261,794,128	7,248,724	114,897	-	1,337,049,326
Intersegment sales	-	227,908,084	-	649,654,556	(877,562,640)	-
Total revenues	<u>33,794,780,446</u>	<u>9,219,357,447</u>	<u>803,571,088</u>	<u>1,657,312,928</u>	<u>(877,562,640)</u>	<u>44,597,459,269</u>
RESULTS						
Cost of sales and operating expense excluding depreciation and amortization	24,670,362,131	1,137,213,405	572,020,197	1,552,529,543	(779,579,569)	27,152,545,707
Interest expense	1,086,362,568	354,168,717	-	46,097,256	-	1,486,628,541
Depreciation and amortization	52,225,482	1,177,786,011	60,754,940	57,985,330	-	1,348,751,763
	<u>25,808,950,181</u>	<u>2,669,168,133</u>	<u>632,775,137</u>	<u>1,656,612,129</u>	<u>(779,579,569)</u>	<u>29,987,926,011</u>
Segment results	<u>P 7,985,830,265</u>	<u>P 6,550,189,314</u>	<u>P 170,795,951</u>	<u>P 700,799</u>	<u>(P 97,983,071)</u>	<u>P 14,609,533,258</u>
Unallocated other income						259,586,881
Unallocated other expenses						(1,148,545,868)
Equity in net earnings of associates						138,614,220
Tax expense						(3,284,678,495)
Preacquisition loss of a subsidiary						<u>291,847</u>
Net profit						<u>P 10,574,801,843</u>
ASSETS AND LIABILITIES						
Segment assets	P 187,279,330,964	P 50,003,842,390	P 2,433,682,285	P 5,195,714,160	P -	P 244,912,569,799
Investments in and advances to associates and other related parties - net	-	-	-	6,772,193,903	-	6,772,193,903
Total assets	<u>P 187,279,330,964</u>	<u>P 50,003,842,390</u>	<u>P 2,433,682,285</u>	<u>P 11,967,908,063</u>	<u>P -</u>	<u>P 251,684,763,702</u>
Segment liabilities	<u>P 98,703,363,884</u>	<u>P 15,149,080,026</u>	<u>P 424,651,426</u>	<u>P 2,994,313,723</u>	<u>P -</u>	<u>P 117,271,409,059</u>
OTHER SEGMENT INFORMATION						
Project and capital expenditures						<u>P 54,513,276,245</u>

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	<u>2017</u>	<u>2016</u>
Cash on hand and in banks	P 7,629,341,014	P 5,709,405,267
Short-term placements	<u>8,800,795,451</u>	<u>10,686,258,189</u>
	<u>P 16,430,136,465</u>	<u>P 16,395,663,456</u>

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods between 22 to 90 days and earn effective interest ranging from 1.50% to 3.50% in 2017 and 1.25% to 2.50% in both in 2016 and 2015 (see Note 23).

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

		<u>2017</u>	<u>2016</u>
Current:			
Trade	27.1, 15.2		
	15.4	P32,318,735,295	P 26,061,790,608
Allowance for impairment		(555,340,843)	(513,670,606)
		31,763,394,452	25,548,120,002
Others		<u>1,898,452,230</u>	<u>1,448,007,312</u>
		<u>33,661,846,682</u>	<u>26,996,127,314</u>
Non-current:			
Trade	15.2, 15.4	34,556,567,774	35,679,444,242
Allowance for impairment		(12,224,936)	(12,224,936)
		34,544,342,838	35,667,219,306
Others		<u>82,326,077</u>	<u>7,629,034</u>
		<u>34,626,668,915</u>	<u>35,674,848,340</u>
		<u>P68,288,515,597</u>	<u>P 62,670,975,654</u>

Trade receivables mainly pertain to real estate sales and rental transactions.

The installment period of sales contracts averages one to five years. Noninterest-bearing trade receivables with maturity of more than one year after the end of the reporting period are remeasured at amortized cost using the effective interest rate of similar financial instruments. Interest income recognized amounted to P1.7 billion each in 2017, 2016 and 2015. These amounts are presented as Interest Income on Real Estate Sales account in the consolidated statements of income.

A reconciliation of the allowance for impairment at the beginning and end of 2017 and 2016 is shown below.

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year		P 525,895,542	P 529,316,384
Impairment loss during the year	24	41,879,354	233,152
Recovery of accounts previously provided with allowance		(142,361)	-
Write-off of trade receivables		(66,756)	(3,653,994)
Balance at end of year		<u>P 567,565,779</u>	<u>P 525,895,542</u>

Impairment loss is presented as part of Impairment loss on financial assets under Interest and Other Charges – Net account in the consolidated statements of income (see Note 24). No impairment loss was recognized in 2015.

The Group has outstanding receivables assigned to local banks as at December 31, 2017 and 2016 amounting to P1,044.8 million and P1,089.4 million, respectively (see Notes 15.2 and 15.4).

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to trade and other receivables as the amounts recognized consist of a large number of receivables from various customers. Most receivables from trade customers are covered by postdated checks. 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. The titles to the real estate properties remain with the Group until the receivables are fully collected (see Note 32.3).

7. RESIDENTIAL, CONDOMINIUM UNITS, GOLF AND RESORT SHARES FOR SALE

The composition of this account as at December 31 is shown below.

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Residential and condominium units	15.2	P 62,104,413,329	P60,077,855,669
Golf and resort shares		<u>2,816,204,114</u>	<u>2,669,705,396</u>
		64,920,617,443	62,747,561,065
Allowance for writedown		<u>(142,574,094)</u>	<u>(88,411,502)</u>
		<u>P 64,778,043,349</u>	<u>P62,659,149,563</u>

Residential and condominium units for sale mainly pertain to the accumulated costs incurred in developing the Group's horizontal and condominium projects and certain integrated-tourism projects.

Golf and resort shares for sale pertain to 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.

Certain residential and condominium units for sale are subject to negative pledge on certain loans obtained by the Group (see Note 15.2).

The details of cost of real estate sales are shown in Note 22.

8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account is shown below.

	<u>2017</u>	<u>2016</u>
Input VAT	P 5,002,386,070	P 4,408,152,584
Prepaid rent and other prepayments	966,330,081	676,066,600
Creditable withholding taxes	476,863,466	425,483,490
Deposits	444,756,933	215,263,677
Others	<u>76,889,858</u>	<u>230,571,046</u>
	<u>P 6,967,226,408</u>	<u>P 5,955,537,397</u>

Others include supplies and food and beverage inventories.

9. INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Investments in AFS securities comprise the following as at December 31:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Equity securities:			
Quoted	27.4	P 4,325,961,126	P 3,568,328,390
Unquoted		<u>27,449,898</u>	<u>27,449,898</u>
		4,353,411,024	3,595,778,288
Debt securities – quoted		<u>-</u>	<u>66,501,898</u>
		<u>P 4,353,411,024</u>	<u>P 3,662,280,186</u>

The securities can be further analyzed as follows:

	<u>2017</u>	<u>2016</u>
Local	P 4,353,411,024	P 3,595,778,288
Foreign	<u>-</u>	<u>66,501,898</u>
	<u>P 4,353,411,024</u>	<u>P 3,662,280,186</u>

The reconciliation of the carrying amounts of investments in AFS securities are as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 3,662,280,186	P 4,699,583,654
Fair value gains (losses) – net	751,345,581	(1,071,530,344)
Foreign currency gains – net	4,547,617	21,730,219
Additions	7,412,400	12,496,657
Disposals	<u>(72,174,760)</u>	<u>-</u>
Balance at end of year	<u>P 4,353,411,024</u>	<u>P 3,662,280,186</u>

Equity securities significantly pertain to investments in publicly-listed holding and service companies with fair values determined directly by reference to published prices in the PSE while debt securities consist of euro-denominated corporate bonds quoted in a foreign active market which matured in 2017.

In 2017, the Group recognized impairment loss amounting to P1.5 billion on certain shares classified as investments in AFS securities. The amount is presented as part of Impairment loss on financial assets under Interest and Other Charges – Net account in the 2017 statement of income (see Note 24).

In 2017 and 2016, the Group received cash dividends from a local listed company amounting to P27.0 million and P68.8 million, respectively. The amount of dividends received is presented as part of Dividend income under Interest and Other Income – Net account in the consolidated statements of income (see Note 23).

The fair value gains or losses arising from investment in AFS securities which comprised the movements in the carrying amounts and disposals of AFS, are reported under Revaluation Reserves account under the equity section of the consolidated statements of financial position.

10. ADVANCES TO/FROM LANDOWNERS AND JOINT VENTURES

10.1 Advances to Landowners and Joint Ventures

The Group enters into numerous joint venture agreements for the joint development of various projects. These are treated as jointly-controlled operations; hence, there were no separate entities created under these joint venture agreements.

The joint venture agreements stipulate that the Group's co-venturer shall contribute parcels of land while 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 by the Group for these projects are recorded under the Residential, Condominium Units, Golf and Resort Shares for Sale and Property Development Costs accounts 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 ventures under agreements they entered into with the landowners covering the development of certain parcels of land. Under the terms of the 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.

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

As at December 31, 2017 and 2016, management has assessed that the advances to joint ventures are fully recoverable. Further, there has been no outstanding commitment for cash advances under the joint venture agreements.

The net commitment for construction expenditures amounts to:

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

The Group's interests in jointly-controlled operations and projects range from both 50% to 95% in 2017 and 2016. The listing of the Group's jointly-controlled projects are as follows:

Company:

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

EELHI:

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

SPI:

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

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

The aggregate amounts of the current assets, long-term assets, current liabilities, 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 joint ventures are not presented or disclosed in the consolidated financial statements as the joint ventures in which the Group is involved are not jointly-controlled entities (see Note 2.3).

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

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 advances from golf share partners and lot owners recognized in 2017 and 2016 amounted to P396.4 million and P471.1 million, net of deferred interest expense amounting to P11.3 million and P31.1 million, respectively, and is presented as part of Advances from Associates and Other Related Parties account in the consolidated statements of financial position (see Note 27.3).

The amortization of deferred interest amounting to P19.8 million in 2017, 2016 and 2015 is presented as part of Interest expense under the Interest and Other Charges – Net account in the consolidated statements of income (see Note 24).

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

11.1 Breakdown of Carrying Values

The details of investments in associates, accounted for using the equity method, and advances to associates and other related parties are as follows:

	<u>2017</u>	<u>2016</u>
Acquisition costs:		
SHDI	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	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
	<u>3,124,742,371</u>	<u>3,094,906,084</u>
Accumulated equity in net losses:		
Balance at beginning of year	(424,655,817)	(561,522,560)
Equity share in net earnings of associates for the year	<u>118,829,303</u>	<u>136,866,743</u>
Balance at end of year	<u>(305,826,514)</u>	<u>(424,655,817)</u>
Accumulated equity in other comprehensive income:		
Balance at beginning of year	10,768,669	38,744,144
Share in other comprehensive income (loss) of associates	<u>33,916,495</u>	<u>(27,975,475)</u>
Balance at end of year	<u>44,685,164</u>	<u>10,768,669</u>
	2,863,601,021	2,681,018,936
Advances to associates and other related parties (see Note 27.2)	<u>2,531,401,492</u>	<u>2,507,516,083</u>
	<u>P 5,395,002,513</u>	<u>P 5,188,535,019</u>

The shares of stock of SHDI are listed in the PSE. The fair values of all other investments in associates are not available as at December 31, 2017 and 2016. The related book values of the Group's holdings in all of the associates either exceed or approximate their carrying values; hence, management deemed that the recognition of impairment loss is not necessary. Equity share in Net Earnings of Associates is presented in the consolidated statements of income while Share in Other Comprehensive Income (Loss) of Associates is presented in the consolidated statements of comprehensive income.

a. Investment in SHDI

In 2017, TDI acquired 235.0 million SHDI shares amounting to P235.0 million representing 10.44% ownership interest. The Company's effective ownership over SHDI increased to 45.67% as a result of TDI's acquisition of shares.

b. Investment in BNHGI

In 2017 and 2016, FEPI sold 15% ownership interest each year over BNHGI. Gain on sale of investment in an associate amounting to P113.1 million and P82.5 million was recognized in 2017 and 2016, respectively, and is presented under Interest and Other Income – Net account in the consolidated statements of income (see Note 23).

11.2 Summarized Financial Information

The aggregated amounts of assets, liabilities, revenues and net profit (loss) of the associates are as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
2017:				
PCMCI	P 2,442,353,575	P 8,521,960	P -	(P 9,589,036)
SHDI	698,583,256	235,958,562	581,166,194	101,874,825
BNHGI	1,800,333,403	169,477,895	-	(135,930)
NPI	5,673,409,961	1,317,006,155	10,354	(97,096)
BWDC	2,614,722,939	1,283,078,768	299,821,349	209,926,234
PTHDC	1,136,407,299	1,009,162,181	5,317	(1,589,059)
FERC	277,874,990	209,508,750	-	-
FENI	98,510,739	93,113,013	-	-
FESI	61,570,543	16,233,974	-	-
FERSAI	157,909,404	173,014,080	-	-
	<u>P 14,961,676,109</u>	<u>P 4,515,075,338</u>	<u>P 881,003,214</u>	<u>P 300,389,938</u>
2016:				
PCMCI	P 2,451,853,311	P 8,432,960	P -	(P 6,422,305)
SHDI	684,377,995	402,542,158	417,351,286	47,452,693
BNHGI	1,800,435,218	196,475,395	-	(108,161)
NPI	5,675,415,679	1,317,006,156	18,283	(123,034)
BWDC	2,615,731,947	1,498,764,678	522,251,824	312,585,537
PTHDC	1,136,165,327	1,007,331,770	4,940	(766,419)
FERC	277,874,990	209,508,750	-	-
FENI	98,510,739	93,113,013	-	-
FESI	61,570,543	16,233,974	1,521,487	(2,415,300)
FERSAI	157,909,404	173,014,080	-	-
	<u>P 14,959,845,153</u>	<u>P 4,922,422,934</u>	<u>P 941,147,820</u>	<u>P 350,203,011</u>

12. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation of investment properties at the beginning and end of 2017 and 2016 are shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
December 31, 2017			
Cost	P 9,802,540,990	P 69,958,714,808	P 79,761,255,798
Accumulated depreciation	-	(8,345,567,332)	(8,345,567,332)
Net carrying amount	<u>P 9,802,540,990</u>	<u>P 61,613,147,476</u>	<u>P 71,415,688,466</u>
December 31, 2016			
Cost	P 9,751,857,938	P 57,621,914,632	P 67,373,772,570
Accumulated depreciation	-	(6,880,291,397)	(6,880,291,397)
Net carrying amount	<u>P 9,751,857,938</u>	<u>P 50,741,623,235</u>	<u>P 60,493,481,173</u>
January 1, 2016			
Cost	P 9,530,417,733	P 42,464,672,890	P 51,995,090,623
Accumulated depreciation	-	(5,723,020,432)	(5,723,020,432)
Net carrying amount	<u>P 9,530,417,733</u>	<u>P 36,741,652,458</u>	<u>P 46,272,070,191</u>

A reconciliation of the carrying amounts at the beginning and end of 2017, 2016 and 2015 of investment properties is shown below and in the succeeding page.

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation	P 9,751,857,938	P 50,741,623,235	P 60,493,481,173
Additions	71,202,275	13,870,387,261	13,941,589,536
Transfer to property and equipment	-	(1,619,168,429)	(1,619,168,429)
Transfer from property and equipment	-	85,581,344	85,581,344
Disposals	(20,519,223)	-	(20,519,223)
Depreciation charges for the year	-	(1,465,275,935)	(1,465,275,935)
Balance at December 31, 2017, net of accumulated depreciation	<u>P 9,802,540,990</u>	<u>P 61,613,147,476</u>	<u>P 71,415,688,466</u>
Balance at January 1, 2016, net of accumulated depreciation	P 9,530,417,733	P 36,741,652,458	P 46,272,070,191
Additions	163,153,826	12,816,037,786	12,979,191,612
Addition due to acquisition of a subsidiary	22,276,500	-	22,276,500
Transfer to property and equipment	-	(457,721,767)	(457,721,767)
Reclassifications	36,009,879	2,798,925,723	2,834,935,602
Depreciation charges for the year	-	(1,157,270,965)	(1,157,270,965)
Balance at December 31, 2016, net of accumulated depreciation	<u>P 9,751,857,938</u>	<u>P 50,741,623,235</u>	<u>P 60,493,481,173</u>

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2015, net of accumulated depreciation	P 9,017,340,569	P 26,745,289,249	P 35,762,629,818
Additions	513,077,164	12,383,054,370	12,896,131,534
Transfer to property and equipment	-	(1,175,058,950)	(1,175,058,950)
Disposals	-	(33,846,200)	(33,846,200)
Depreciation charges for the year	-	(1,177,786,011)	(1,177,786,011)
Balance at December 31, 2015, net of accumulated depreciation	<u>P 9,530,417,733</u>	<u>P 36,741,652,458</u>	<u>P 46,272,070,191</u>

Rental income earned from these properties amounted to P11.8 billion, P10.0 billion and P8.7 billion in 2017, 2016 and 2015, respectively, and is shown as Rental Income in the consolidated statements of income. The direct operating costs, exclusive of depreciation incurred by the Group relating to these investment properties amounted to P563.6 million in 2017, P494.5 million in 2016 and P459.2 million in 2015. There were no idle investment properties in 2017, 2016 and 2015. The operating lease commitments of the Group as a lessor are fully disclosed in Note 31.1.

In 2017, the Group changed its intention on the use of a certain property from being held for lease to being used for administrative purpose. The Group occupied the property in the same year and the carrying amount of P1.6 billion was reclassified from Investment Properties to Property and Equipment (see Note 13).

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 of investment properties is presented as part of Depreciation and amortization under Operating Expenses account in the consolidated statements of income (see Note 21).

The fair market values of these properties are P293.8 billion and P244.2 billion as at December 31, 2017 and 2016, respectively. These are determined by calculating the present value of the cash inflows anticipated until the end of the useful lives of the investment properties using a discount rate that reflects the risks and uncertainty in cash flows.

Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 34.4.

13. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2017 and 2016 are shown below.

	<u>Buildings & Improvements</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Office Improvements</u>	<u>Transportation Equipment</u>	<u>Land</u>	<u>Total</u>
December 31, 2017						
Cost	P 5,397,702,892	P 917,102,206	P 297,279,668	P 389,569,548	P 245,672,573	P 7,247,326,887
Accumulated depreciation and amortization	(894,458,860)	(726,411,321)	(194,589,056)	(261,414,263)	-	(2,076,873,500)
Net carrying amount	<u>P4,503,244,032</u>	<u>P 190,690,885</u>	<u>P 102,690,612</u>	<u>P 128,155,285</u>	<u>P 245,672,573</u>	<u>P 5,170,453,387</u>

	<u>Buildings & Improvements</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Office Improvements</u>	<u>Transportation Equipment</u>	<u>Land</u>	<u>Total</u>
December 31, 2016						
Cost	P 3,733,068,215	P 789,297,631	P 203,351,839	P 322,672,963	P 240,394,192	P 5,288,784,840
Accumulated depreciation and amortization	(746,881,350)	(613,842,775)	(170,404,407)	(187,469,343)	-	(1,718,597,875)
Net carrying amount	<u>P 2,986,186,865</u>	<u>P 175,454,856</u>	<u>P 32,947,432</u>	<u>P 135,203,620</u>	<u>P 240,394,192</u>	<u>P 3,570,186,965</u>
January 1, 2016						
Cost	P 3,046,239,743	P 732,964,892	P 191,035,835	P 228,464,730	P 248,009,320	P 4,446,714,520
Accumulated depreciation and amortization	(647,851,020)	(464,215,769)	(150,520,322)	(133,275,218)	-	(1,395,862,329)
Net carrying amount	<u>P 2,398,388,723</u>	<u>P 268,749,123</u>	<u>P 40,515,513</u>	<u>P 95,189,512</u>	<u>P 248,009,320</u>	<u>P 3,050,852,191</u>

A reconciliation of the carrying amounts at the beginning and end of 2017, 2016 and 2015, of property and equipment is shown below and in the succeeding page.

	<u>Buildings & Improvements</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Office Improvements</u>	<u>Transportation Equipment</u>	<u>Land</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 2,986,186,865	P 175,454,856	P 32,947,432	P 135,203,620	P 240,394,192	P 3,570,186,965
Transfer from investment properties	1,619,168,429	-	-	-	-	1,619,168,429
Transfer to investment properties	(85,581,344)	-	-	-	-	(85,581,344)
Additions	131,047,592	133,464,947	94,018,576	68,036,944	5,278,381	431,846,440
Additions due to acquisition of subsidiary	-	5,255,192	-	-	-	5,255,192
Disposals	-	(10,915,564)	(90,747)	(893,678)	-	(11,899,989)
Depreciation and amortization charges for the year	(147,577,510)	(112,568,546)	(24,184,649)	(74,191,601)	-	(358,522,306)
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P 4,503,244,032</u>	<u>P 190,690,885</u>	<u>P 102,690,612</u>	<u>P 128,155,285</u>	<u>P 245,672,573</u>	<u>P 5,170,453,387</u>
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 2,398,388,723	P 268,749,123	P 40,515,513	P 95,189,512	P 248,009,320	P 3,050,852,191
Transfer from investment properties	457,721,767	-	-	-	-	457,721,767
Additions	229,106,705	144,145,849	12,316,004	95,359,945	-	480,928,503
Disposals	-	(303,543)	-	(1,151,712)	(7,615,128)	(9,070,383)
Disposals due to deconsolidation of subsidiaries	-	(87,509,567)	-	-	-	(87,509,567)
Depreciation and amortization charges for the year	(99,030,330)	(149,627,006)	(19,884,085)	(54,194,125)	-	(322,735,546)
Balance at December 31, 2016, net of accumulated depreciation and amortization	<u>P 2,986,186,865</u>	<u>P 175,454,856</u>	<u>P 32,947,432</u>	<u>P 135,203,620</u>	<u>P 240,394,192</u>	<u>P 3,570,186,965</u>

	<u>Buildings & Improvements</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Office Improvements</u>	<u>Transportation Equipment</u>	<u>Land</u>	<u>Total</u>
Balance at January 1, 2015, net of accumulated depreciation and amortization	P1,226,005,060	P 248,780,134	P 61,771,288	P 82,807,337	P 248,009,320	P 1,867,373,139
Transfer from investment properties	1,175,058,950	-	-	-	-	1,175,058,950
Additions	27,522,735	110,578,304	18,789,212	51,992,093	-	208,882,344
Disposals	(1,936,272)	(10,080,525)	(8,395,425)	(16,049,484)	-	(36,461,706)
Depreciation and amortization charges for the year	(28,261,750)	(80,528,790)	(31,649,562)	(23,560,434)	-	(164,000,536)
Balance at December 31, 2015, net of accumulated depreciation and amortization	<u>P2,398,388,723</u>	<u>P 268,749,123</u>	<u>P 40,515,513</u>	<u>P 95,189,512</u>	<u>P 248,009,320</u>	<u>P 3,050,852,191</u>

Depreciation and amortization of property and equipment is presented as part of Depreciation and amortization under Operating Expenses account in the consolidated statements of income (see Note 21).

As of December 31, 2017 and 2016, the Group does not have any contractual commitments for acquisition of property and equipment.

None of the Group's property and equipment are used as collateral for its interest-bearing loans and borrowings.

14. OTHER NON-CURRENT ASSETS

This account consists of:

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Goodwill		P 1,290,232,360	P1,290,232,360
Guarantee and other deposits	32.3	857,523,551	983,982,727
Leasehold rights – net		118,408,685	125,373,902
Miscellaneous		<u>318,431,777</u>	<u>116,405,162</u>
		<u>P 2,584,596,373</u>	<u>P 2,515,994,151</u>

Goodwill primarily relates to growth expectations arising from operational efficiencies that will be achieved by combining the resources, skills and expertise of the Company and its subsidiaries. Significant portion of the total goodwill is allocated to GERI and MLI amounting to P947.1 million and P255.1 million, respectively. The remaining P88.0 million is allocated to other subsidiaries.

The recoverable amounts of the cash generating units assigned to GERI and MLI are P29.3 billion and P4.6 billion, respectively, in 2017 and P24.0 billion and P3.6 billion, respectively, in 2016. These were computed using cash flows projections covering a three-year period and extrapolating cash flows beyond such period using a conservative steady growth rate for both GERI and MLI of 5.0%. The aggregate recoverable amounts of the cash generating units assigned to other subsidiaries is P16.4 billion in 2017 and P15.3 billion in 2016 while the average growth rate used in extrapolating cash flows beyond the three-year projection is 5.0%. The discount rates applied in determining the present value of future cash flows is 8.9% in 2017 and 7.18% in 2016. The discount rates and growth rates are the key assumptions used by management in determining the recoverable amount of the cash generating units. Based on management's analysis, no impairment is required to be recognized on goodwill. Management has also determined that a reasonably possible change in these key assumptions would not cause the carrying value of the cash generating units to exceed their respective value in use.

Leasehold rights represents separately identifiable asset recognized from the acquisition of GPARC. Leasehold rights amortization amounted to P7.0 million each in 2017, 2016 and 2015, and is presented as part of Depreciation and amortization under Operating Expenses account in the consolidated statements of income (see Note 21).

Goodwill is subject to annual impairment testing while leasehold rights is subject to testing whenever there is an indication of impairment. No impairment losses were recognized in 2017, 2016 and 2015 as the recoverable amounts of the intangible assets determined by management are higher than their carrying values.

Guarantee deposits mainly pertain to payments made for compliance with construction requirements in relation to the Group's real estate projects.

15. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing Loans and Borrowings account represents the following loans of the Group as at December 31:

	<u>2017</u>	<u>2016</u>
Company:		
Php-denominated	P 24,756,410,256	P 29,211,538,461
U.S. Dollar-denominated	<u>4,936,029,267</u>	<u>-</u>
	<u>29,692,439,523</u>	<u>29,211,538,461</u>
Subsidiaries:		
Php-denominated	10,844,360,755	9,578,183,875
Euro -denominated	<u>-</u>	<u>63,050,705</u>
	<u>10,844,360,755</u>	<u>9,641,234,580</u>
	<u>P 40,536,800,278</u>	<u>P 38,852,773,041</u>

The Group has complied with applicable loan covenants including maintaining certain financial ratios at the end of the reporting periods.

Finance costs arising from interest-bearing loans that are mainly and directly attributable to construction of the Group's projects are capitalized as part of Residential, Condominium Units, Golf and Resort Shares for Sale, Property Development Costs and Investment Properties accounts. The remaining interest costs are expensed outright.

Total finance costs attributable to all the loans of the Group amounted to 2,037.5 million, P1,784.7 million and P763.9 million in 2017, 2016 and 2015, respectively. Of these amounts, portion expensed is presented as part of Interest expense arising from bank loans, borrowings and bonds payable under Interest and Other Charges – Net account in the consolidated statements of income (see Note 24). Interest capitalized in 2017, 2016 and 2015 amounted to P1,804.7 million, P1,540.4 million and P481.3 million, respectively. The outstanding interest payable as of December 31, 2017 and 2016 is presented as part of Accrued interest under Trade and Other Payables account in the consolidated statements of financial position (see Note 17). Capitalization rate used in determining the amount of interest charges qualified for capitalization is 4.55%, 4.32% and 5.53% in 2017, 2016 and 2015, respectively.

15.1 Company

(a) *U.S. Dollar, five-year loan due 2022*

In December 2017, the Company obtained an unsecured long-term loan from a local bank amounting to U.S. \$98.87 million. The loan is 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 based on a 3-month London interbank offered rate (LIBOR) plus a certain spread. The Company entered into a cross-currency swap transaction to hedge the U.S. Dollar exposure of the loan (see Note 30).

(b) *Philippine Peso, seven-year loan due 2022*

In November 2015, the Company obtained an unsecured long-term loan from a local bank amounting to P5.0 billion. The loan is payable semi-annually for a term of seven years. The principal repayments on this loan commenced in November 2016 and interest is paid semi-annually based on a fixed 5.25% annual interest rate.

(c) *Philippine Peso, seven-year loan due 2022*

In March 2015, the Company signed a financing deal with a local bank in which the Company may avail of a P10.0 billion unsecured loan, divided equally into two tranches which the Company fully availed in 2015. The proceeds of the loan were used to fund the development of the Company's various real estate projects and retire currently maturing obligations. The loan is payable quarterly for a term of seven years. The principal repayments on this loan commenced in June 2016 and interest is paid quarterly based on a fixed 5.6286% annual interest rate.

(d) *Philippine Peso, five-year loan due 2021*

In November 2016, the Company obtained an unsecured long-term loan from a local bank amounting to P5.0 billion. The loan is 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 February 2018 and interest is paid quarterly based on a fixed 6.4274% annual interest rate.

(e) *Philippine Peso, five-year loan due 2021*

In August 2016, the Company obtained an unsecured long-term loan from a local bank amounting to P2.0 billion. The loan is payable quarterly 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 based on a fixed 5.2632% annual interest rate.

- (f) *Philippine Peso, seven-year loan due 2021*
In August 2014, the Company obtained an unsecured long-term loan from a local bank amounting to P5.0 billion. The loan is payable semi-annually for a term of seven years. The principal repayments on this loan commenced in August 2015 and interest is paid semi-annually based on a fixed 5.3812% annual interest rate.
- (g) *Philippine Peso, five-year loan due 2020*
In December 2015, the Company obtained an unsecured long-term loan from a local bank amounting to P5.0 billion. The loan is payable quarterly for a term of five years with a grace period of one year upon availment. The principal repayment on the loan commenced in March 2017 and interest is paid quarterly based on a fixed 5.035% annual interest rate.

15.2 EELHI

- (h) *Philippine Peso, 58-day loan due on 2018*
In December 2017, EELHI obtained an unsecured interest-bearing loan from a local bank amounting to P400.0 million. The loan was released December 2017 and bears a fixed annual interest rate of 4.5% subject to repricing every 30 to 180 days as agreed by the parties. The proceeds of the loan were used to fund the development of EELHI's various real estate projects. Principal of the loans is payable upon maturity and interest is payable monthly in arrears.
- (i) *Philippine Peso, seven-year loan due 2022 to 2023*
In 2015, EELHI obtained a P2.0 billion loan from a local bank. The loan was released in three tranches from 2015 to 2016 and bears fixed interest of 5.4% for the first and second tranches, and floating rate ranging from 3.2% to 3.5% subject to quarterly re-pricing for the third tranche. The proceeds of the loan were used to fund the development of EELHI's various real estate projects.
- (j) *Philippine Peso, liability on assigned receivables*
In prior years, EELHI obtained loans from local banks by assigning certain trade receivables on a with recourse basis (see Note 6). The loans are being paid as the related receivables are collected. The loans are secured by certain properties presented as part of Residential and condominium units under Residential, Condominium Units, Golf and Resort Shares for Sale account with total estimated carrying value of P110.7 million and P188.4 million as of December 31, 2017 and 2016, respectively (see Note 7). The loans bear fixed interest rates ranging from 7.0% to 9.0% and are being paid as the related receivables are collected.

15.3 LFI

- (k) *Philippine Peso, five-year loan due 2020*
In December 2015, LFI obtained an unsecured interest-bearing loan from a local commercial bank amounting to P500.0 million. The loan is payable quarterly for a term of five years with a grace period of one year upon availment. The principal repayment on the loan commenced in March 2017 and interest is paid quarterly. The loan originally bears an annual interest of 5.0%, subject to quarterly repricing.

15.4 SPI

(l) *Philippine Peso, five-year loan due in 2021*

In 2017 and 2016, SPI obtained an unsecured long-term loan from a local bank amounting to P0.5 billion and P0.4 billion, respectively. The principal amount is payable on a monthly basis after a grace period of two years from the date of availment. The loan bears 3.50% floating interest subject to repricing every 30 to 180 days and will mature in 2021.

(m) *Philippine Peso, five-year loan due in 2020*

In 2015, SPI obtained an unsecured long-term loan from a local bank for a total amount of 1.5 billion. The loan is payable in monthly installments over five years with a grace period of two years from the initial drawdown date. The loan bears floating interest ranging from 3.15% to 5.15%, subject to repricing every 30 to 180 days. In 2016 and 2015, SPI made a drawdown amounting to P0.3 billion and P1.2 billion, respectively.

(n) *Philippine Peso, five-year loan due in 2020*

In 2015, SPI obtained an additional unsecured long-term loan from another local bank amounting to P0.2 billion. Repayment of this loan is being made on a quarterly basis beginning 2017. The loan bears 5.25% floating interest subject to repricing every 30 to 180 days.

(o) *Philippine Peso, various short-term loans*

In 2016 and 2015, SPI obtained various unsecured short-term loans from different local banks. The loans bear fixed and floating interest ranging from 5.50% to 5.75%. The outstanding balances of the loans as of December 31, 2017 and 2016 amount to P33.8 million and P45.0 million, respectively.

(p) *Philippine Peso, liability on assigned receivables*

In 2015, SPI obtained various loans from a local bank through assignment of trade receivables (see Note 6). The loans bear floating interests ranging from 5.50% to 15.00%. The loans and interests are being paid as the receivables are collected. The outstanding balance pertaining to these loans as of December 31, 2017 and 2016 amounted to P0.9 billion and P1.0 billion, respectively.

15.5 GERI

(q) *Philippine Peso, five-year loan due 2022*

In December 2017, GERI obtained an unsecured long-term loan from a local bank amounting to P2.0 billion. The loan is payable quarterly for a term of five years commencing on the beginning of the fifth quarter from the initial drawdown date. The loan bears a floating interest rate and is payable quarterly in arrears.

(r) *Philippine Peso, five-year loan due 2021*

In 2016, GERI obtained an unsecured long-term loan from a local bank amounting to P2.0 billion. The loan has a term of five years from the date of initial drawdown inclusive of a grace period of two years on principal repayment. 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 and bears fixed interest rate plus a certain spread subject to a floor rate of 3%.

(s) *Philippine Peso, five-year loan due 2020*

In 2015, GERI obtained an unsecured long-term loan from a local bank amounting to P1.5 billion. The loan has a term of five years from the date of initial drawdown, inclusive of a grace period on principal repayment of two years. The loan, which is payable quarterly commencing on the 9th quarter from the date of initial drawdown, bears fixed interest rate plus a certain spread subject to a floor rate of 5%.

15.6 RHGI

(t) *Euro-denominated, short-term loan due 2016*

In December 2014, RHGI availed of a Euro-denominated short-term loan from a foreign commercial bank amounting to €1.3 million (equivalent to P69.2 million) which bears an annual interest rate of 0.76% and matured in 2015. In June 2015, RHGI renewed, for one year, the said short-term loan at a revised annual interest of 0.82%. The principal of the loan was paid in full in June 2017.

15.7 OFPI

(u) *Philippine peso, long-term loan due 2020*

In 2015, OFPI obtained an unsecured long-term loan from a local bank. The loan bears fixed interest of 5.04% and shall mature in 2020.

16. BONDS PAYABLE

The details of bonds payable are discussed below.

<u>Maturity</u>	<u>2017</u>	<u>2016</u>
2024	P 11,949,813,646	P -
2023	12,438,900,530	12,404,797,092
2018	<u>9,976,270,876</u>	<u>9,925,792,877</u>
	<u>P 34,364,985,052</u>	<u>P 22,330,589,969</u>

(a) *Philippine Peso, seven-year bonds due 2024*

On March 28, 2017, the Group 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.

(b) *U.S. Dollar, ten-year bonds due 2023*

On April 17, 2013, the Group issued ten-year term bonds totaling U.S. \$250 million. The bond carries a coupon rate of 4.25% per annum and interest is payable semi-annually in arrears every April 17 and October 17. The proceeds of the bond issuance are being used by the Group for general corporate purposes.

(c) *U.S. Dollar, seven-year bonds due 2018*

On April 15, 2011, the Group issued seven-year term bonds totaling U.S. \$200 million. The bonds bear interest at 6.75% per annum payable semi-annually in arrears every April 15 and October 15. The bonds shall mature on April 15, 2018.

The Group has complied with bond covenants including maintaining certain financial ratios at the end of the reporting periods.

Total interest incurred on these bonds amounted to P1,710.2 million, P1,162.6 million and P1,270.1 million in 2017, 2016 and 2015, respectively. Of these amounts, portion charged as expense is presented as part of Interest expense under Interest and Other Charges – Net account in the consolidated statements of income (see Note 24). The outstanding interest payable as at December 31, 2017 and 2016 is presented as part of Accrued interest under Trade and Other Payables account in the consolidated statements of financial position (see Note 17). Foreign currency losses in relation to these foreign bonds are presented as part of Foreign currency losses under Interest and Other Charges – Net account in the consolidated statements of income (see Note 24).

Interest capitalized as part of certain investment properties, in relation to local bonds issued in 2017 and local bonds fully settled in 2015 amounted to P485.4 million and P161.0 million, respectively. Capitalization rate used in determining the amount of interest charges qualified for capitalization is 4.06% in 2017, nil in 2016 and 8.46% in 2015.

17. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Trade payables		P 10,801,717,102	P 9,744,959,080
Retention payable		3,965,743,411	2,635,278,935
Accrued interest	15, 16	567,382,239	512,974,956
Accrued construction cost		8,931,945	5,833,625
Miscellaneous		<u>821,746,073</u>	<u>667,697,772</u>
		<u>P16,165,520,770</u>	<u>P13,566,744,368</u>

Trade payables mainly represent obligations to subcontractors and suppliers of construction materials for the Group's projects.

Retention payable pertains to amounts withheld from payments made to contractors to ensure compliance and completion of contracted projects equivalent to 10% of every billing made by the contractor. Upon completion of the contracted projects, the amounts are returned to the contractors.

Miscellaneous payable consists primarily of withholding taxes payable and accrual of salaries and wages and utilities.

18. REDEEMABLE PREFERRED SHARES

On September 4, 2012, TLC's BOD approved the additional subscriptions to 1,258.0 million preferred shares out of TLC's authorized capital stock as partial payment for certain parcels of land with total fair value of P1,338.2 million. The SEC approved the issuance through the exchange of certain parcels of land on April 17, 2013.

Generally non-voting, these preferred shares earn dividends at a fixed annual rate of 2.5% subject to the existence of TLC's unrestricted retained earnings. 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 payables under Other Non-current Liabilities account in the consolidated statements of financial position (see Note 19). The related interest expense recognized amounting to P28.9 million in 2017, 2016 and 2015 is presented as Interest expense arising from redeemable preferred shares under the Interest and Other Charges – Net account in the consolidated statements of income (see Note 24). The preferred shares have a maturity of 10 years and shall be redeemed on every anniversary date beginning on the sixth anniversary date until expiration of the ten-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 preferred shares are considered as financial liabilities. Accordingly, the redeemable preferred shares are recognized at fair value on the date of issuance. The fair values of the redeemable preferred shares on the date of issuance approximate their par value.

19. OTHER LIABILITIES

This account consists of:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Current:			
Unearned revenues		P 1,930,574,361	P1,672,152,962
Deferred rental income		584,617,272	197,890,667
Derivative liability	30	109,913,612	-
Other payables		<u>174,829,312</u>	<u>163,355,322</u>
		<u>2,799,934,557</u>	<u>2,033,398,951</u>
Non-current:			
Deferred rental income		4,744,516,154	4,334,195,802
Other payables	18	<u>127,445,215</u>	<u>129,342,516</u>
		<u>4,871,961,369</u>	<u>4,463,538,318</u>
		<u>P 7,671,895,926</u>	<u>P 6,496,937,269</u>

Other current payables mainly pertain to due to condo unit-holders arising from condo hotel operations. 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.

20. REAL ESTATE SALES

This account consists of sales for the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Residential and condominium units	P 28,901,187,074	P 27,450,190,340	P 27,260,722,450
Golf and resort shares	<u>357,143</u>	<u>803,571</u>	<u>1,575,000</u>
	<u>P 28,901,544,217</u>	<u>P 27,450,993,911</u>	<u>P 27,262,297,450</u>

Realized gross profit on prior years' sale amounted to P4.0 billion, P4.0 billion and P3.8 billion in 2017, 2016 and 2015, respectively.

21. OPERATING EXPENSES

Presented below are the details of this account.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries and employee benefits	25.1	P 2,393,482,335	P 2,202,426,673	P 2,059,096,838
Depreciation and amortization	12, 13, 14	1,830,763,458	1,486,971,728	1,348,751,764
Commission		1,315,377,646	1,130,313,466	1,062,732,165
Advertising and promotions		857,146,867	659,717,782	686,408,553
Taxes and licenses		770,493,624	656,464,800	664,757,350
Rent		512,629,534	566,678,726	539,873,942
Utilities and supplies		502,572,269	461,917,468	480,113,476
Professional fees and outside services		378,869,820	325,673,449	288,358,171
Transportation		282,364,609	242,448,127	226,691,959
Association dues		273,129,904	242,379,131	273,733,153
Miscellaneous		<u>446,485,552</u>	<u>378,692,255</u>	<u>361,377,640</u>
		<u>P 9,563,315,618</u>	<u>P 8,353,683,605</u>	<u>P 7,991,895,011</u>

Miscellaneous operating expenses include repairs and maintenance, insurance expense, and training and development expense.

22. COST OF REAL ESTATE SALES

The total cost of real estate sales for the years ended December 31 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actual costs	P 11,132,288,495	P 10,822,973,859	P 9,520,350,982
Estimated costs	<u>5,172,554,836</u>	<u>4,691,677,819</u>	<u>5,914,591,370</u>
	<u>P 16,304,843,331</u>	<u>P 15,514,651,678</u>	<u>P 15,434,942,352</u>

The breakdown of the cost of real estate sales are further broken down as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
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 cost	408,343,707	230,608,589	331,643,102
Other costs	<u>166,233,158</u>	<u>51,897,735</u>	<u>192,732,683</u>
	<u>P 16,304,843,331</u>	<u>P 15,514,651,678</u>	<u>P 15,434,942,352</u>

23. INTEREST AND OTHER INCOME

Presented below are the details of this account.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Interest income	5	P 1,278,769,124	P 1,218,551,263	P 1,337,049,326
Property management, cinema operations, commission and construction income		990,622,510	914,296,701	875,835,168
Gain on sale of investment in an associate	11	113,069,227	82,459,513	181,347,731
Dividend income	9, 27.4	27,018,574	68,845,396	78,239,149
Gain on acquisition and deconsolidation of subsidiaries		-	6,404,177	-
Fair value gains on disposal of AFS securities reclassified to profit or loss		-	-	3,728,897
Miscellaneous – net		<u>91,053,608</u>	<u>84,680,062</u>	<u>127,979,410</u>
		<u>P 2,500,533,043</u>	<u>P 2,375,237,112</u>	<u>P 2,604,179,681</u>

In 2017 and 2016, FEPI sold portions of its investments in BNGHI resulting in a gain amounting to P113.1 million and P82.5 million, respectively. The sale did not affect the significant influence of the Group over BNHGI (see Notes 1 and 11).

24. INTEREST AND OTHER CHARGES

Presented below are the details of this account.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Impairment loss on financial assets	6, 9	P 1,558,744,340	P 233,152	P -
Interest expense arising from:				
Bank loans, borrowings and bonds payable	15, 16	1,457,704,031	1,406,865,158	1,391,749,555
Retirement benefit obligation	25	48,592,789	38,850,050	46,097,256
Redeemable preferred shares	18	28,933,722	28,933,722	28,933,722
Amortization of deferred interest	10.2	19,848,008	19,848,008	19,848,008
Foreign currency losses – net	16	56,808,206	1,188,185,822	1,148,545,867
Fair value losses on disposal of AFS securities reclassified to profit or loss	9	1,502,090	-	-
Miscellaneous – net		189,064,259	184,811,038	91,092,408
		<u>P 3,361,197,445</u>	<u>P 2,867,726,950</u>	<u>P 2,726,266,816</u>

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

25. EMPLOYEE BENEFITS

25.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term benefits		P 2,227,550,484	P 2,048,636,489	P 1,768,663,918
Employee share option benefit	25.2, 28.6	22,498,840	48,020,050	146,272,133
Post-employment benefits	25.3	143,433,011	105,770,134	144,160,787
	21	<u>P 2,393,482,335</u>	<u>P 2,202,426,673</u>	<u>P 2,059,096,838</u>

25.2 Employee Share Option Plan (ESOP)

The Group's share option benefit expense includes the amounts recognized by the Company and GERI over the vesting period granted by them. As at December 31, 2017 and 2016, about 350.0 million and 283.3 million shares of GERI's options have vested, respectively, but none of these have been exercised by any of the option holders. As at December 31, 2017, 20.0 million of the Company's share options have vested. None of the Company's share options have vested in 2016.

Employee option benefits expense, included as part of Salaries and employee benefits under Operating Expenses account in the consolidated statements of income, amounted to P22.5 million, P48.0 million and P146.3 million in 2017, 2016 and 2015, respectively (see Notes 21 and 25.1).

25.3 Post-employment Defined Benefit Plan

(a) Characteristics of Defined Benefit Plan

The Group maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by trustee banks. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The post-employment defined benefit plan provides for retirement ranging from 60% to 200% of plan salary for every year of credited service, but shall not be less than the regulatory benefit under Republic Act (R.A.) 7641, *The Retirement Pay Law*, or the applicable retirement law at the time of the member's retirement.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement 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, presented as non-current liability in the consolidated statements of financial position, are as follows:

	<u>2017</u>	<u>2016</u>
Present value of the obligation	P 1,279,144,673	P1,161,347,079
Fair value of plan assets	(237,699,936)	(196,142,476)
Net defined benefit liability	<u>P 1,041,444,737</u>	<u>P 965,204,603</u>

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P1,161,347,079	P1,065,773,374
Current service costs	143,480,786	105,770,134
Interest costs	58,961,509	45,355,647
Remeasurements –		
Actuarial losses (gains)		
arising from changes in:		
Financial assumptions	(104,144,514)	(11,685,141)
Experience adjustments	24,727,812	(39,331,500)
Demographic assumptions	-	683,029
Benefits paid from:		
Plan assets	(4,794,212)	(4,683,016)
Booked reserves	(433,787)	(535,448)
Balance at end of year	<u>P 1,279,144,673</u>	<u>P1,161,347,079</u>

The movements in the fair value of plan assets are presented below.

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 196,142,476	P 140,578,260
Contributions paid	38,712,919	58,241,600
Interest income	10,368,720	6,505,597
Benefits paid	(4,746,437)	(4,683,016)
Remeasurement of plan assets	-	(144,324)
Return on plan assets (excluding amount included in net interest cost)	(2,777,742)	(4,355,641)
Balance at end of year	<u>P 237,699,936</u>	<u>P 196,142,476</u>

The plan assets are composed of cash and cash equivalents of P116.1 million and P167.2 in 2017 and 2016, respectively, investment in equity securities of P1.9 million and P11.3 million in 2017 and 2016, respectively, and investment in debt securities of P119.7 million and P17.6 million in 2017 and 2016, respectively. Debt securities pertain to corporate and government securities while equity securities consist of investments in private corporation. The contributions to the retirement plan are made annually by the Group. The amount of contributions to the retirement plan is determined based on the expected benefit payments that the Group will incur within five years.

Actual return on plan assets were P8.2 million, P2.1 million and P7.4 million in 2017, 2016 and 2015, respectively.

The components of amounts recognized in the consolidated income and consolidated other comprehensive income in respect of the post-employment defined benefit plan are as follows:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Reported in consolidated statements of income:</i>				
Current service costs	25.1	P143,480,786	P 105,770,134	P 144,160,787
Net interest costs	24	<u>48,592,789</u>	<u>38,850,050</u>	<u>46,097,256</u>
		<u>P192,073,575</u>	<u>P144,620,184</u>	<u>P 190,258,043</u>

	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Reported in consolidated statements of comprehensive income:</i>				
Actuarial gains (losses) arising from changes in:				
Financial assumptions		P104,144,514	P 11,685,141	P 248,958,147
Experience adjustments		(24,727,812)	39,331,500	65,694,538
Demographic assumptions		-	(683,029)	3,955,741
Return on plan assets (excluding amounts included in net interest expense)		(2,777,742)	(4,355,641)	(1,994,868)
		76,638,960	45,977,971	316,613,558
Tax expense	26	(22,991,688)	(13,793,391)	(94,984,067)
		<u>P 53,647,272</u>	<u>P 32,184,580</u>	<u>P 221,629,491</u>

Current service costs are presented as part of Salaries and employee benefits under Operating Expenses account in the consolidated statements of income (see Notes 21 and 25.1). The net interest costs are included in Interest expense arising from retirement benefit obligation under Interest and Other Charges – Net account in the consolidated statements of income (see Note 24).

Amounts recognized in consolidated other comprehensive income were included within items that will not be reclassified subsequently to consolidated profit or loss.

In determining the amounts of the retirement benefit obligation, the following significant actuarial assumptions were used:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Discount rates	5.00% - 5.70%	4.65% - 6.80%	4.89% - 5.40%
Expected rate of salary increases	5.00% - 10.00%	5.00% - 10.00%	5.00% - 10.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 25 years for both males and females. These assumptions were developed by management with the assistance of independent actuaries. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bonds with terms to maturity approximating to the terms of the retirement benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) Investment and Interest Rate Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing 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 DBO is calculated by reference to the best estimate of the mortality of the plan participants both during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the DBO as at December 31, 2017 and 2016:

	<u>Impact on Retirement Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2017</u>			
Discount rate	0.50%	(P 124,790,722)	P 146,524,342
Salary increase rate	1.00%	201,465,857	(147,503,978)
<u>December 31, 2016</u>			
Discount rate	0.50%	(P 108,514,908)	P 130,391,869
Salary increase rate	1.00%	161,287,334	(134,152,751)

The above 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 DBO 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 DBO 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 DBO 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 strategies 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 debt securities and maintaining cash and cash equivalents that match the benefit payments as they fall due and in the appropriate currency.

There has been no change in the Group's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The Group's objective is to maintain a level of funding sufficient to cover the projected retirement benefit obligation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 25 years' time when a significant number of employees is expected to retire.

The Group expects to make contributions of P27.0 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	<u>2017</u>	<u>2016</u>
Within one year	P 58,576,116	P 48,377,366
More than one year to 5 years	134,214,822	116,432,820
More than 5 years to 10 years	512,443,500	454,185,958
More than 10 years to 15 years	399,907,051	453,114,812
More than 15 years to 20 years	821,453,518	783,977,156
More than 20 years	<u>6,755,856,913</u>	<u>6,846,806,159</u>
	<u>P 8,682,451,920</u>	<u>P 8,702,894,271</u>

The weighted average duration of the DBO at the end of the reporting period is 25 years.

26. TAXES

The components of tax expense as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Reported in consolidated statements of income:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30% and 10%	P 2,593,124,236	P 2,133,634,027	P 1,836,798,661
Final tax at 20% and 7.5%	34,171,942	45,088,297	50,655,309
Preferential tax at 5%	39,651,086	27,016,743	2,817,063
Minimum corporate income tax (MCIT) at 2%	<u>20,590,854</u>	<u>2,700,509</u>	<u>1,761,980</u>
	2,687,538,118	2,208,439,576	1,892,033,013
Deferred tax expense relating to origination and reversal of temporary differences	<u>1,105,062,058</u>	<u>1,280,899,444</u>	<u>1,392,645,482</u>
	<u>P 3,792,600,176</u>	<u>P 3,489,339,020</u>	<u>P 3,284,678,495</u>
<i>Reported in consolidated statements of comprehensive income –</i>			
Deferred tax expense relating to origination and reversal of temporary differences	<u>P 23,400,863</u>	<u>P 26,861,943</u>	<u>P 115,945,063</u>

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Tax on pretax profit at 30%	P 5,121,542,188	P 4,559,610,250	P 4,157,844,101
Adjustment for income subjected to lower income tax rates	(185,221,815)	(150,602,787)	(59,524,349)
Tax effects of:			
Non-taxable income	(1,981,244,300)	(1,359,946,941)	(1,212,893,361)
Non-deductible expenses	757,092,758	378,646,243	361,286,164
Unrecognized deferred tax assets on temporary differences	64,188,967	65,749,546	35,830,382
Miscellaneous	<u>16,242,378</u>	<u>(4,117,291)</u>	<u>2,135,558</u>
	<u>P 3,792,600,176</u>	<u>P 3,489,339,020</u>	<u>P 3,284,678,495</u>

The deferred tax assets and liabilities relate to the following as of December 31:

	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Retirement benefit obligation	P 16,660,350	P 20,981,165
Allowance for impairment of receivables	65,880	7,747,189
NOLCO	5,931,068	4,178,239
MCIT	3,092,570	3,323,451
Allowance for property development costs	-	9,227,732
Others	<u>15,831,445</u>	<u>30,076,027</u>
	<u>P 41,581,313</u>	<u>P 75,533,803</u>

	<u>2017</u>	<u>2016</u>
Deferred tax liabilities – net:		
Uncollected gross profit	P 9,186,993,579	P 9,661,687,872
Capitalized interest	2,284,685,208	1,790,886,538
Unrealized foreign currency losses – net	(1,038,041,801)	(1,220,035,435)
Difference between the tax reporting base and financial reporting base of rental income	(170,801,276)	287,572,150
Retirement benefit obligation	(316,478,769)	(295,187,069)
Translation adjustments	(110,210,396)	(109,801,221)
Share options	(109,741,611)	(36,336,115)
Bond issuance costs	26,960,944	17,754,987
Uncollected rental income	53,538,885	52,328,557
Others	<u>423,659,575</u>	<u>(249,210,569)</u>
	<u>P10,230,564,338</u>	<u>P 9,899,659,695</u>

No deferred tax liability has been recognized on the accumulated equity in net earnings of associates. The Group has no liability for tax should the amounts be declared as dividends since dividend income received from domestic corporation is not subject to income tax.

Some of the entities within the Group are subject to MCIT which is computed at 2% of gross income, net of allowable deductions as defined under the tax regulations. The details of MCIT paid by certain subsidiaries, which can be applied as deduction from their respective future RCIT payable within three years from the year the MCIT was incurred, are shown below.

<u>Subsidiaries</u>	<u>Year Incurred</u>	<u>Amount</u>	<u>Valid Until</u>
MLI	2017	P 231,434	2020
	2016	225,136	2019
	2015	238,466	2018
API	2017	176,367	2020
	2016	224,702	2019
	2015	69,487	2018
GPMAI	2017	3,254	2020
	2016	4,396	2019
	2015	5,884	2018
MCPI	2015	385,058	2018
OPI	2016	736,053	2019
	2015	583,752	2018
MNPHI	2017	270,326	2020
ITMC	2016	6,410	2019
GERI	2017	2,681,515	2020
	2016	2,700,509	2019
	2015	1,668,387	2018

The details of NOLCO incurred by certain subsidiaries, which can be claimed as deduction from their respective future taxable income within three years from the year the loss was incurred, are shown below.

<u>Subsidiaries</u>	<u>Year Incurred</u>	<u>Amount</u>	<u>Valid Until</u>
API	2015	P 4,869,361	2018
GPMAI	2017	2,127,838	2020
	2016	1,848,528	2019
	2015	2,771,046	2018
DPDHI	2017	2,246,963	2020
ITMC	2017	350,747	2020
	2016	15,188	2019
LSPI	2017	1,016,673	2020
	2016	991,979	2019
	2015	3,381,326	2018
PPVI	2017	22,585	2020
	2016	26,688	2019
SLI	2017	22,584	2020
	2016	26,688	2019
SP	2017	179,483	2020
	2016	281,781	2019

Certain subsidiaries within the Group did not recognize the deferred tax assets on their MCIT and NOLCO as realization of such amounts is uncertain.

The aggregated amounts of assets, retained earnings (deficit), revenues and net loss of the subsidiaries which incurred NOLCO are as follows:

	<u>Assets</u>	<u>Retained Earnings (Deficit)</u>	<u>Revenues</u>	<u>Net Loss</u>
2017				
GPMAI	P 597,995,428	P 270,502,971	P -	P 2,127,838
DPDHI	578,902,534	14,433,213	-	2,246,963
ITMC	27,820,167	(624,725)	34,600,860	782,566
LSPI	1,090,486,769	(14,093,793)	-	991,979
PPVI	45,996,397	(281,169)	-	22,585
SLI	46,005,007	(272,558)	-	22,584
SP	49,008,733	(1,095,307)	-	179,483
	<u>P 2,436,215,035</u>	<u>P 268,568,632</u>	<u>P 34,600,860</u>	<u>P 6,373,998</u>

	<u>Assets</u>	<u>Retained Earnings (Deficit)</u>	<u>Revenues</u>	<u>Net Loss</u>
<u>2016</u>				
LSPI	P 1,090,513,724	(P 13,101,814)	P -	P 1,016,673
ITMC	50,164,449	(157,841)	36,745,956	21,791
GPMAI	597,262,846	269,828,360	901,791	1,728,756
PPVI	45,996,289	(258,584)	-	26,688
SLI	46,004,899	(249,974)	-	26,688
SP	<u>49,167,035</u>	<u>(915,824)</u>	<u>-</u>	<u>280,781</u>
	<u>P 1,879,109,242</u>	<u>P 255,144,323</u>	<u>P 37,647,747</u>	<u>P 3,101,377</u>

Except for certain subsidiaries, management has assessed that the net losses incurred, as well as the related NOLCO, can be recovered through future operations and are not significant to the overall financial condition and financial performance of the Group.

In 2017, 2016 and 2015, the Group opted to continue claiming itemized deductions, except for MDC which opted to use OSD in those years, in computing for income tax dues.

ECOC and SEDI are registered with the Philippine Economic Zone Authority (PEZA) pursuant to Presidential Proclamation No. 191 dated October 6, 1999. As PEZA-registered entities, ECOC and SEDI are entitled to a preferential tax rate of 5% on gross income earned 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 Suntrust Sentosa project. SPI shall be 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.

SPI's The Regal Homes project has qualified in the definition of socialized housing under Section 3(r) of R.A. 7279, *Urban Development and Housing Act of 1992*. Under section 20 of RA 7279, private sector participating in socialized housing shall be exempted from the payment of project-related income taxes, capital gains tax on raw lands use for the project, VAT for the project concerned, transfer tax for both raw and completed projects, and donor's tax for both lands certified by the local government units to have been donated for socialized housing purposes.

27. RELATED PARTY TRANSACTIONS

The Group's related parties include the Parent Company, associates, the Group's key management and other related parties under common ownership as described below.

The summary of the Group's transactions with its related parties as of December 31, 2017 and for the years ended December 31, 2017, 2016 and 2015 are as follows:

Related Party Category	Notes	Amount of Transactions			Outstanding Investment/Receivable (Payable)	
		2017	2016	2015	2017	2016
Parent Company:						
Customer's deposits	27.1	(P 4,987,671,233)	P 4,987,671,233	P -	P -	(P4,987,671,233)
Investments in equity securities	27.4	(394,772,000)	(407,032,000)	(565,270,000)	1,961,600,000	1,566,828,000
Dividend income	27.4	-	38,006,000	38,006,000	-	-
Dividends paid	27.5	(762,935,662)	(712,651,193)	(857,700,557)	-	-
Associates:						
Rendering of services	27.1	5,917,616	4,438,286	3,000,778	4,704,420	3,216,269
Advances granted (collected)	27.2	(28,152,065)	27,486,807	(3,595,658)	1,269,864,980	1,298,017,045
Advances paid	27.3	(616,539)	(279,090,439)	281,280,506	(2,905,088)	(3,521,627)
Related Parties Under Common Ownership:						
Real estate sales	27.1	-	183,928,571	999,082,400	123,600,000	150,525,000
Rendering of services	27.1	67,046,622	85,220,422	4,902,046	72,424,594	72,424,594
Advances granted	27.2	52,037,474	1,424,154,907	128,711,910	1,261,536,512	1,209,499,038
Advances availed	27.3	208,882,465	1,212,855,919	306,728,080	(2,630,287,147)	(2,421,404,682)
Investments in equity securities	27.4	358,433,898	(630,060,205)	(1,517,602,124)	2,347,584,642	1,989,150,744
Dividend income	27.4	26,844,808	30,663,710	40,036,576	-	-
Customer's deposits	27.1	-	-	-	(144,803,571)	(144,803,571)
Key Management Personnel –						
Compensation	27.6	278,510,411	290,133,282	322,576,930	-	-

None of the companies within the Group is a joint venture. The Group is not subject to joint control and none of its related parties exercise significant influence over it.

27.1 Real Estate Sales and Rendering of Services to Related Parties

The Group renders services to its related parties on a cost-plus basis, allowing a certain margin agreed upon by the parties at arm's length. The summary of services offered by the Group is presented below.

	Amount of Transactions		
	2017	2016	2015
Real estate sales and lease of properties	P 72,964,238	P 202,258,704	P 1,006,985,224
Management services	-	71,328,575	-
	<u>P 72,964,238</u>	<u>P 273,587,279</u>	<u>P 1,006,985,224</u>

The Group leases some of its investment properties to its associates and other related parties under common ownership with rental payments mutually agreed before the commencement of the lease. The leases have terms ranging from one to twenty-five years, with renewal options, and include annual escalation rates of 3% to 10%, except for contingent rent. The revenues earned from these related parties are included as part of Rental Income in the consolidated statements of income (see Note 12). The related outstanding receivables from these transactions are presented as part of Trade under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The Company and a related party under common ownership are parties to a management agreement whereby the former provides management services for the overall administration of the latter's leasing operations for a fee, which is based on certain rates of collections plus commission. Further, there are other management services provided to related parties under common ownership related to management of construction and development activities.

Occasionally, the Company sells real properties to its related parties under the normal course of business.

In 2016, the Company sold parcels of land located in Iloilo and Cebu to a related party under common ownership. Such sale is presented as part of Real Estate Sales account in the 2016 consolidated statement of income (see Note 20). The outstanding receivables arising from these transactions are presented as part of Trade under Trade and Other Receivables account in the 2016 consolidated statement of financial position (see Note 6).

In 2015, the Group, through EELHI, sold parcels of land located in Batangas to a related party under common ownership with a combined area of 169,336 square meters for a total consideration of P999.1 million, net of VAT. Such sale is presented as part of Real Estate Sales account in the 2015 consolidated statement of income (see Note 20). The transaction is fully settled in 2015.

The Group's outstanding receivables from related parties arising from the above transactions are unsecured, noninterest-bearing, and payable in cash under normal credit terms or through offsetting arrangements.

There were no impairment losses recognized on the Group's receivables from related parties in 2017, 2016 and 2015.

Further, in 2016, the Company received cash from its Parent Company representing down payment for the sale of two commercial buildings developed by the Company, both located in Taguig, Metro Manila. The collections in 2016 did not reach the threshold set by the Company to be recognized as real estate sales; hence, are presented as part of Customers' Deposits account in the 2016 consolidated statement of financial position. In 2017, both parties agreed to cancel the transaction; the Company cancelled the reservation, returned the payment and reimbursed the incidental expenses incurred by the Parent Company.

27.2 Advances to Associates and Other Related Parties

Associates and other related parties under common ownership are granted noninterest-bearing and unsecured advances by the Company and other entities within the Group with no definite repayment terms for working capital purposes. These are generally collectible in cash or through offsetting arrangements with the related parties.

The outstanding balances of Advances to associates and other related parties shown as part of Investments in and Advances to Associates and Other Related Parties account in the consolidated statements of financial position are as follows (see Note 11):

	<u>2017</u>	<u>2016</u>
Advances to associates	P1,269,864,980	P1,298,017,045
Advances to other related parties	<u>1,261,536,512</u>	<u>1,209,499,038</u>
	<u>P2,531,401,492</u>	<u>P2,507,516,083</u>

The movements in advances to associates and other related parties are as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P2,507,516,083	P3,959,157,797
Net granted (collected)	23,885,409	(351,627,688)
Advances eliminated through consolidation	<u>-</u>	<u>(1,100,014,026)</u>
Balance at end of year	<u>P2,531,401,492</u>	<u>P2,507,516,083</u>

Advances to other related parties pertain to advances granted to entities under common ownership of the Parent Company. No impairment losses on the advances to associates and other related parties were recognized in 2017, 2016 and 2015 based on management's assessment.

27.3 Advances from Associates and Other Related Parties

Certain expenses of the entities within the Group are paid by other related parties on behalf of the former. The Group also received cash advances from a certain related party under common ownership, for the development of a certain entertainment site which is an integrated tourism project planned by the Philippine Amusement and Gaming Corporation. The advances are noninterest-bearing, unsecured and with no repayment terms and are generally payable in cash upon demand or through offsetting arrangements with the related parties. The outstanding balances from these transactions are presented as Advances from Associates and Other Related Parties account in the consolidated statements of financial position and are broken down as follows:

	<u>2017</u>	<u>2016</u>
Advances from associates	P 2,905,088	P 3,521,627
Advances from other related parties	<u>2,630,287,147</u>	<u>2,421,404,682</u>
	<u>P2,633,192,235</u>	<u>P2,424,926,309</u>

The movements in advances from associates and other related parties are as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P2,424,926,309	P1,491,160,829
Net availed	<u>208,265,926</u>	<u>933,765,480</u>
Balance at end of year	<u>P2,633,192,235</u>	<u>P2,424,926,309</u>

27.4 Investments in Equity Securities

The Group's equity securities include investment in shares of the Parent Company and related parties under common ownership. The fair values of these securities have been determined directly by reference to published prices in an active market. Movements and the related fair value gains or losses on these investments are shown and discussed in Note 9. Also, the Group received dividend income from these shares and is presented as part of Dividend income under Interest and Other Income – Net account in the consolidated statements of income (see Note 23). No outstanding receivable arises from the transaction.

27.5 Dividends Paid to the Parent Company

The Company declared dividends to the Parent Company amounting to P0.8 billion, P0.7 billion and P0.9 billion in 2017, 2016 and 2015, respectively. There is no outstanding liability arising from these transactions as of the end of both years (see Note 28.4).

27.6 Key Management Personnel Compensation

The Group's key management personnel compensation includes the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term benefits	P 208,571,542	P 208,001,541	P 144,906,631
Post-employment benefits	52,431,834	48,804,369	31,398,166
Employee share option benefit	<u>17,507,035</u>	<u>33,327,372</u>	<u>146,272,133</u>
	<u>P 278,510,411</u>	<u>P 290,133,282</u>	<u>P 322,576,930</u>

27.7 Post-employment Plan

The Group has a formal retirement plan established separately for the Company and each of the significant subsidiaries, particularly GERI, EELHI and PHRI. The Group's retirement fund for its post-employment defined benefit plan is administered and managed by trustee banks. The fair value and the composition of the plan assets as of December 31, 2017 and 2016 are presented in Note 25.3.

The Group's transactions with the fund mainly pertain to contribution, benefit payments and interest income.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments covered by any restrictions or liens.

28. EQUITY

Capital stock consists of:

	Shares			Amount		
	2017	2016	2015	2017	2016	2015
Preferred shares Series "A"- P0.01 par value						
Authorized	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>P 60,000,000</u>	<u>P 60,000,000</u>	<u>P 60,000,000</u>
Issued and outstanding	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>P 60,000,000</u>	<u>P 60,000,000</u>	<u>P 60,000,000</u>
Common shares – P1 par value						
Authorized	<u>40,140,000,000</u>	<u>40,140,000,000</u>	<u>40,140,000,000</u>	<u>P 40,140,000,000</u>	<u>P 40,140,000,000</u>	<u>P 40,140,000,000</u>
Issued and outstanding:						
Balance at beginning of year	<u>32,370,865,872</u>	<u>32,370,865,872</u>	<u>32,362,877,948</u>	<u>P 32,370,865,872</u>	<u>P 32,370,865,872</u>	<u>P 32,362,877,948</u>
Issuances during the year	<u>-</u>	<u>-</u>	<u>7,987,924</u>	<u>-</u>	<u>-</u>	<u>7,987,924</u>
Balance at end of year	<u>32,370,865,872</u>	<u>32,370,865,872</u>	<u>32,370,865,872</u>	<u>P 32,370,865,872</u>	<u>P 32,370,865,872</u>	<u>P 32,370,865,872</u>
Treasury shares	<u>(131,420,000)</u>	<u>(131,420,000)</u>	<u>(131,420,000)</u>	<u>(118,555,453)</u>	<u>(118,555,453)</u>	<u>(118,555,453)</u>
Issued and outstanding	<u>32,239,445,872</u>	<u>32,239,445,872</u>	<u>32,239,445,872</u>	<u>P 32,252,310,419</u>	<u>P 32,252,310,419</u>	<u>P 32,252,310,419</u>
Total issued and outstanding shares				<u>P 32,312,310,419</u>	<u>P 32,312,310,419</u>	<u>P 31,312,310,419</u>

On June 15, 1994, the SEC approved the listing of the Company's common shares totaling 140,333,333. The shares were initially issued at an offer price of P4.8 per common share. As of December 31, 2017, there are 2,502 holders of the listed shares, which closed at P5.16 per share as of that date.

The following also illustrates the additional listings made by the Company (in shares): May 23, 1996 – 1.6 billion; January 8, 1997 – 2.1 billion; November 23, 1998 – 2.0 billion; August 19, 1999 – 3.0 billion; October 12, 2005 – 5.5 billion; November 21, 2006 – 10.0 billion and July 17, 2007 – 3.9 billion and, 2012 – 3.1 billion. The Company also listed 700.0 million shares in 2013, 300.0 million shares in 2014, 8.0 million shares in 2015. There were no additional issuance of shares in the succeeding years.

28.1 Preferred Shares Series "A"

The preferred shares are voting, cumulative, non-participating, non-convertible and non-redeemable with a par value of P0.01 per share. The shares earn dividends at 1% of par value per annum cumulative from date of issue. Dividends paid on cumulative preferred shares amounted to P0.6 million in 2017, 2016 and 2015 (see Note 28.4).

28.2 Common Shares

On May 23, 2013, the Company's BOD approved a P10.0 billion increase in authorized capital stock (ACS) consisting of 10.0 billion shares with par value of P1.0 per share. On November 20, 2013, the SEC approved the P10.0 billion increase in ACS, of which 2.5 billion shares were subscribed and paid by the Parent Company at a price of P4.29 per share for a total subscription price of P10.7 billion.

In 2009, 5,127,556,725 common shares were subscribed and issued through pre-emptive share rights offering. Moreover, shareholders were given four additional share warrants for every five share rights subscribed. For every share warrant, shareholders can avail of one common share at P1.00 per share.

Relative to the share subscription, 4,102,045,364 share warrants were issued of which 4,101,662,246 warrants were exercised while the remaining 383,118 have expired.

28.3 Additional Paid-in Capital

The APIC pertains to the excess of the total proceeds received from the Company's shareholders over the total par value of the common shares.

28.4 Cash Dividends

The details of the Group's cash dividend declarations, both for preferred and common shares, are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Declaration date/date of approval by BOD	June 8, 2017	June 15, 2016	June 17, 2015
Date of record	June 23, 2017	June 29, 2016	July 1, 2015
Date paid	July 19, 2017	July 22, 2016	July 27, 2015
Amounts declared and paid			
Common	P 1,721,555,799	P 1,608,000,152	P 1,935,560,028
Preferred	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>
	<u>P 1,722,155,799</u>	<u>P 1,608,600,152</u>	<u>P 1,936,160,028</u>
Dividends per share:			
Common	<u>P 0.05</u>	<u>P 0.05</u>	<u>P 0.06</u>
Preferred	<u>P 0.01</u>	<u>P 0.01</u>	<u>P 0.01</u>

28.5 Treasury Shares

This account also includes the Company's common shares held and acquired by RHGI. The number of treasury common shares aggregated to P633.7 million as at December 31, 2017. The changes in market values of these shares, recognized as fair value gains or losses by the subsidiary, were eliminated in full and not recognized in the consolidated financial statements.

A portion of the Company's retained earnings is restricted for dividend declaration up to the cost of treasury shares as of the end of the reporting period.

28.6 ESOP

(a) Company

In 2012, the Company's BOD approved and the shareholders adopted an ESOP for the Company's key executive officers.

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 Company. 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.

Pursuant to this ESOP, on November 6, 2012, the Company granted share options to certain key executives to subscribe to 235.0 million common shares of the Company, at an exercise price of P1.77 per share.

In 2013, additional share options were granted to certain key executives to subscribe to 20 million common shares of the Company 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 and 2016.

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.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP.

The following principal assumptions were used in the valuation:

Option life	6.08 to 30.17 years
Share price at grant date	P 2.54 to P 4.52
Exercise price at grant date	P 1.77 to P 3.23
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 the Company's shares over a period of time consistent with the option life.

The Company recognized a total of P12.5 million, P29.5 million and P31.2 million share-based executive compensation in 2017, 2016 and 2015, respectively, as part of Salaries and employee benefits and a corresponding credit in Retained Earnings (see Note 25.2).

(b) *GERI*

In 2011, the BOD of GERI approved and the stockholders adopted an ESOP for its key executive officers.

Under the ESOP, GERI shall initially reserve for exercise of share options up to 500.0 million common shares of the GERI's 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 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. The exercise price shall be at a 15% discount from the volume weighted average closing price of the GERI's shares for twelve months immediately preceding the date of grant.

As of December 31, 2017, pursuant to this ESOP, the Company has granted the option to its key company executives to subscribe to P400.0 million shares of the Company. 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 the reporting period.

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	P1.0 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 data of the GERI's shares over a period of time consistent with the option life.

GERI recognized a total of P10.0 million, P18.5 million and P115.1 million share-based compensation in 2017, 2016 and 2015, respectively, as part of Salaries and employee benefits and a corresponding credit in Non-controlling Interest (see Note 25.2).

A total of P22.5 million, P48.0 million and P146.3 million share option benefits expense in 2017, 2016 and 2015, respectively, is recognized and presented as part of Salaries and employee benefits under Operating Expenses account in the consolidated statements of income (see Notes 21 and 25.2).

29. EARNINGS PER SHARE

EPS amounts were computed as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net profit attributable to the Company's shareholders	P12,772,158,453	P 11,331,824,386	P 10,215,095,444
Dividends on cumulative preferred shares Series "A"	(600,000)	(600,000)	(600,000)
Profit available to the Company's common shareholders	<u>P12,771,558,453</u>	<u>P 11,331,224,386</u>	<u>P 10,214,495,444</u>
Divided by weighted average number of outstanding common shares	<u>31,819,445,872</u>	<u>31,819,445,872</u>	<u>31,816,158,923</u>
Basic EPS	<u>P 0.401</u>	<u>P 0.356</u>	<u>P 0.321</u>
Divided by weighted average number of outstanding common shares and potential dilutive shares	<u>31,956,360,072</u>	<u>31,958,695,843</u>	<u>31,977,462,945</u>
Diluted EPS	<u>P 0.400</u>	<u>P 0.355</u>	<u>P 0.319</u>

In 2015, unexercised share warrants expired; hence, were no longer included in the computation. In addition, the potentially dilutive outstanding share options totaling 250 million in 2017, 275 million in 2016 and 280 million in 2015 were also considered in the computations (see Note 28.6).

30. CROSS CURRENCY SWAP

In 2017, the Group entered into a cross currency swap agreement with a local bank. Under the agreement, the Group 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, the Group 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 15). As of December 31, 2017, the hedging instrument has a negative fair value of P109.9 million and is presented as Derivative liability under Other Current Liabilities in the 2017 consolidated statement of financial position (see Note 19). 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 its 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; 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 is no similar transaction in 2016

31. COMMITMENTS AND CONTINGENCIES

31.1 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several non-cancellable operating leases covering real estate properties for commercial use (see Note 12). Future minimum lease receivables under these agreements are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one year	P 11,186,808,674	P 10,392,140,312	P 7,687,114,102
After one year but not more than five years	62,432,922,236	55,737,574,775	43,476,147,159
More than five years	<u>18,804,216,078</u>	<u>17,634,334,035</u>	<u>13,795,188,452</u>
	<u>P 92,423,946,988</u>	<u>P 83,764,049,122</u>	<u>P 64,958,449,713</u>

31.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several non-cancellable operating leases covering condominium units for administrative use. The future minimum rental payables under these non-cancellable leases as at December 31 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one year	P 19,254,960	P 43,652,561	P 55,832,292
After one year but not more than five years	28,919,281	43,684,340	62,907,791
More than five years	<u>48,912,743</u>	<u>52,819,794</u>	<u>56,662,793</u>
	<u>P 97,086,984</u>	<u>P 140,156,695</u>	<u>P 175,402,876</u>

31.3 Others

As at December 31, 2017 and 2016, the Group has unused long-term credit facilities amounting to P20.2 billion and P4.1 billion, respectively. 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 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.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, investments in AFS securities, interest-bearing loans and borrowings, bonds payable, trade receivables and payables which arise directly from the Group's business operations. The financial liabilities 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.

32.1 Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine peso, its functional currency. Exposures to currency exchange rates arise mainly from the Group's U.S. dollar-denominated cash and cash equivalents and bonds payable, and Euro-denominated loans and bonds which have been used to fund new projects and to refinance certain indebtedness for general corporate purposes.

As of December 31, 2017 and 2016, net foreign currency-denominated financial liabilities in U.S. dollar, translated into Philippine Peso at the closing rate, amounted to P25.2 billion and P21.8 billion, respectively.

Management assessed that the reasonably possible change in exchange rates of Philippine Peso to U.S. dollar, based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at 68% confidence level is 3.78% and 5.04% in 2017 and 2016, respectively. If the exchange rate increased or decreased by such percentages, the profit before tax in 2017 and 2016 would have changed by P954.97 million and P1,099.99 million, respectively.

As of December 31, 2016, the Group has foreign currency-denominated financial liabilities in Euro but has no material foreign currency risk exposure. The foreign currency-denominated financial liabilities matured already in 2017.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions and mainly affect consolidated profit or loss of the Group. There are no material exposures on foreign exchange rate that affect the Group's consolidated other comprehensive income. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

32.2 Interest Rate Sensitivity

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. The Group maintains a debt portfolio unit of both fixed and floating interest rates. Most long-term borrowings are subject to fixed interest rate while other financial assets subject to variable interest rates.

The Group's ratio of fixed to floating rate debt stood at 4.79:1.00, 9.68:1.00 and 25.74:1.00 as of December 31, 2017, 2016 and 2015, respectively.

The following table illustrates the sensitivity of the consolidated net results for the year and consolidated equity to a reasonably possible change in floating interest rates of +/-1% in 2017 and 2016. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

	<u>2017</u>		<u>2016</u>	
	<u>+1%</u>	<u>-1%</u>	<u>+1%</u>	<u>-1%</u>
Consolidated net results for the year	(P129,413,809)	P 129,413,809	(P 57,292,177)	P 57,292,177
Consolidated equity	(90,589,666)	90,589,666	(40,104,524)	40,104,524

32.3 Credit Risk

The Group's credit risk is attributable to trade receivables, rental receivables and other financial assets. The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position (or in the detailed analysis provided in the notes to consolidated financial statements), as summarized below.

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	5	P 16,430,136,465	P 16,395,663,456
Trade and other receivables – net	6	68,288,515,597	62,670,975,654
Advances to associates and other related parties	11, 27.2	2,531,401,492	2,507,516,083
AFS debt securities	9	-	66,501,898
Guarantee and other deposits	14	857,523,551	983,982,727
		<u>P 88,107,577,105</u>	<u>P 82,624,639,818</u>

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) *Trade and Other Receivables*

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to Trade and Other Receivables as the amounts recognized resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by post-dated checks. 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. The title to the real estate properties remains with the Group until the receivables are fully collected.

Some of the unimpaired trade receivables are past due as at the end of the reporting period. The trade receivables that are past due but not impaired are as follows:

	<u>2017</u>	<u>2016</u>
Not more than 3 months	P1,359,994,537	P1,323,419,533
More than 3 months but not more than 6 months	534,705,371	464,509,857
More than 6 months but not more than one year	339,106,844	303,215,454
More than one year	<u>203,336,043</u>	<u>144,702,602</u>
	<u>P2,437,142,795</u>	<u>P2,235,847,446</u>

32.4 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, as well as on the basis of a rolling 30-day projection. Long-term needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits 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.

As at December 31, 2017 and 2016, the Group's financial liabilities have contractual maturities which are presented below.

		<u>2017</u>		
Notes		<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>More than 5 Years</u>
Interest-bearing loans and borrowings*	15	P 10,121,639,944	P 34,874,657,033	P -
Trade and other payables	17	15,658,762,188	-	-
Bonds payable*	16	11,082,289,891	4,691,407,500	25,709,595,938
Redeemable preferred shares*	18	251,597,580	1,006,390,320	-
Advances from associates and other related parties	27.3	-	5,334,044,141	-
Derivative liability	19, 30	109,913,612	-	-
		<u>P 37,224,203,215</u>	<u>P 45,906,498,994</u>	<u>P 25,709,595,938</u>
		<u>2016</u>		
Notes		<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>More than 5 Years</u>
Interest-bearing loans and borrowings*	15	P 7,638,691,154	P 35,150,365,101	P 1,478,120,046
Trade and other payables	17	13,303,336,111	-	-
Bonds payable*	16	954,316,762	12,945,153,375	12,717,881,563
Redeemable preferred shares*	18	28,933,722	1,064,257,763	251,597,580
Advances from associates and other related parties	27.3	-	2,424,926,309	-
		<u>P 21,925,277,749</u>	<u>P 51,584,702,548</u>	<u>P 14,447,599,189</u>

*Inclusive of future interest costs

The contractual maturities in the above reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting dates.

32.5 Other Price Risk Sensitivity

The Group's market price risk arises from its investments in AFS securities carried at fair value. 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 is determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. Their impact on the Group's consolidated net profit and consolidated equity as at December 31, 2017 and 2016 are summarized as follows:

	<u>Observed Volatility Rates</u>	<u>Impact on Equity</u>	
		<u>Increase</u>	<u>Decrease</u>
<u>2017</u>			
Investment in equity securities:			
Holding company	+/-4.71%	P 92,456,940 (P	92,456,940)
Tourism and leisure	+/-7.14%	136,678,216 (	136,678,216)
Manufacturing	+/-3.72%	16,089,865 (	16,089,865)
<u>2016</u>			
Investment in equity securities:			
Holding company	+/-8.85%	P 138,700,599 (P	138,700,599)
Tourism and leisure	+/-21.55%	342,142,231 (	341,142,231)
Manufacturing	+/-9.49%	38,348,819 (	38,438,819)

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.

33. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

33.1 Carrying Amounts and Fair Values by Category

The carrying values and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

	Notes	2017		2016	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	5	P 16,430,136,465	P 16,430,136,465	P 16,395,663,456	P 16,395,663,456
Trade and other receivables – net	6	68,288,515,597	68,288,515,597	62,670,975,654	62,670,975,654
Advances to associates and other related parties	11, 27.2	2,531,401,492	2,531,401,492	2,507,516,083	2,507,516,083
Guarantee and other deposits	14	857,523,551	857,523,551	983,982,727	983,982,727
		P 88,107,577,105	P 88,107,577,105	P 82,558,137,920	P 82,558,137,920
AFS securities:					
Equity securities	9	P 4,353,411,024	P 4,353,411,024	P 3,595,778,288	P 3,595,778,288
Debt securities		-	-	66,501,898	66,501,898
		P 4,353,411,024	P 4,353,411,024	P 3,662,280,186	P 3,662,280,186
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing					
loans and borrowings	15	P 40,536,800,278	P 39,225,893,600	P 38,852,773,041	P 37,495,019,725
Bonds payable	16	34,364,985,052	31,146,543,930	22,330,589,969	21,878,869,127
Redeemable preferred shares	18	1,257,987,900	1,257,987,900	1,257,987,900	1,257,987,900
Trade and other payables	17	15,658,762,188	15,658,762,188	13,303,336,111	13,303,336,111
Advances from associates and other related parties	27.3	5,334,044,141	5,334,044,141	2,424,926,309	2,424,926,309
Derivative liability	30	109,913,612	109,913,612	-	-
		P 97,262,493,171	P 92,733,145,371	P 78,169,613,330	P 76,360,139,172

See Notes 2.5, 2.6 and 2.11 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 32.

33.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set-off financial instruments in 2017 and 2016 and does not have relevant offsetting arrangements, except as disclosed in Notes 27.2 and 27.3. Currently, all other financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and shareholders. As such, the Group's outstanding receivables from and payables to the same related parties can be potentially offset to the extent of their corresponding outstanding balances. Further, certain trade receivables that were assigned on a with-recourse basis may be offset against the related outstanding borrowings from local banks (see Notes 15.2 and 15.4).

34. FAIR VALUE MEASUREMENT AND DISCLOSURES

34.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

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

The level within which the asset or 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 at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

34.2 Financial Instruments Measurement 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 (see Notes 9 and 30).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2017				
<i>Financial assets:</i>				
Equity securities	P 4,325,961,126	P -	P 27,449,898	P 4,353,411,024
<i>Financial Liability:</i>				
Derivatives	P -	P 109,913,612	P -	P 109,913,612
2016				
<i>Financial assets:</i>				
Equity securities	P 3,568,328,390	P -	P 27,449,898	P 3,595,778,288
Debt securities	66,501,898	-	-	66,501,898

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

Described below are the information about how the fair values of the Group'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 AFS securities. These securities were valued based on their market prices quoted in the PSE at the end of each reporting period.

Moreover, equity security held in certain investee companies are 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., London Stock Exchange) at the end of the reporting period and is categorized within Level 1.

34.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The Group's financial assets which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed include cash and cash equivalents, which are categorized as Level 1, and trade and other receivables – net, advances to associates and other related parties and guarantee and other deposits which are categorized as Level 3. Financial liabilities which are not measured at fair value but for which fair value is disclosed pertain to interest-bearing loans and borrowings, bonds payable, redeemable preferred shares, trade and other payables and advances from associates and other related parties which are categorized under various levels.

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short-term duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

34.4 Fair Value of Investment Properties Measured at Cost for which Fair Value is Disclosed

The fair value of the Group's investment properties was determined by calculating the present value of the cash inflows anticipated until the life of the Investment properties 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 Group's investment properties is their current use.

As at December 31, 2017 and 2016, the fair value of the Group's investment properties is classified within Level 3 of the fair value hierarchy. The Level 3 fair value of the investment properties 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.

35. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to ensure its ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using the debt-to-equity ratio.

	<u>2017</u>	<u>2016</u>
Interest-bearing loans and borrowings	P 40,536,800,278	P 38,852,773,041
Bonds payable	<u>34,364,985,052</u>	<u>22,330,589,969</u>
	<u>P 74,901,785,330</u>	<u>P 61,183,363,010</u>
Total equity	<u>P 161,304,202,242</u>	<u>P143,618,340,329</u>
Debt-to-equity ratio	<u>0.46 : 1.00</u>	<u>0.43 : 1.00</u>

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for the years presented above.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation of liabilities arising from financing activities in 2017 is presented below. The details of net cash flows are presented in the consolidated statements of cash flows.

	<u>Interest-bearing Loans and Borrowings (Note 15)</u>	<u>Bonds Payable (Note 16)</u>	<u>Total</u>
Balance as of January 1, 2017	P 38,852,773,041	P 22,330,589,969	P 61,183,363,010
Net cash flows	1,747,997,970	11,943,791,282	13,691,789,252
Non-cash activities			
Translation adjustment	(63,970,733)	49,389,436	(14,581,297)
Amortization of bond issue cost	-	41,214,365	41,214,365
Balance as of December 31, 2017	<u>P 40,536,800,278</u>	<u>P 34,364,985,052</u>	<u>P 74,901,785,330</u>

37. OTHER MATTER

International Organization for Standardization (ISO) Certification

The Company was awarded a certificate of registration under ISO 9001:1994 on November 26, 1999 by Certification International Philippines, Inc. which was upgraded to ISO 9001:2000 and ISO 9001:2008 series on November 21, 2002 and November 25, 2011, respectively.

Effective December 18, 2017, the Company has upgraded its Certification to ISO 9001:2015 for its quality management system. The scope of the certification covers all areas of the Company's real estate development and marketing. Among others, the Company is required to undergo surveillance audits every six months.



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**Report of Independent Auditors
to Accompany Supplementary
Information Required by the Securities and
Exchange Commission Filed Separately from
the Basic Consolidated Financial Statements**

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6766 Ayala Avenue
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T +63 2 988 2288

**The Board of Directors and Stockholders
Megaworld Corporation and Subsidiaries
(A Subsidiary of Alliance Global Group, Inc.)**

30th Floor, Alliance Global Tower
36th Street cor. 11th Avenue
Uptown Bonifacio, Taguig City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Megaworld Corporation and Subsidiaries (the Group) for the year ended December 31, 2017, on which we have rendered our report dated March 23, 2018. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 6616017, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1363-AR-1 (until Mar. 1, 2020)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-37-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 23, 2018

Megaworld Corporation and Subsidiaries
List of Supplementary Information
December 31, 2017

<u>Schedule</u>	<u>Content</u>	<u>Page No.</u>
Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68		
A	Financial Assets	
	Financial Assets at Fair Value Through Profit or Loss	N/A
	Held-to-maturity Investments	N/A
	Available-for-sale Financial Assets	1
B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	2
C	Amounts Receivable/Payable from/to Related Parties which are Eliminated during the Consolidation of Financial Statements	3
D	Intangible Assets - Other Assets	4
E	Long-term Debt	5
F	Indebtedness to Related Parties	N/A
G	Guarantees of Securities of Other Issuers	N/A
H	Capital Stock	6

Other Required Information

I	Reconciliation of Retained Earnings Available for Dividend Declaration
J	Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2017
K	Map Showing the Relationship Between the Company and its Related Entities
L	Schedule of Financial Soundness Indicator

Megaworld Corporation and Subsidiaries
Schedule A - Financial Assets
Available-for-sale Securities
December 31, 2017

<i>Name of issuing entity and association of each issue</i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet</i>	<i>Valued based on the market quotation at balance sheet date</i>	<i>Income received and accrued</i>
Alliance Global Group, Inc.	122,600,000 P	1,961,600,000 P	1,961,600,000	-
Travellers International Hotel Group, Inc.	290,587,162	1,156,536,904	1,156,536,904	11,623,487
Emperador, Inc.	58,889,000	432,427,037	432,427,037	7,607,319
Various quoted equity securities	190,665,866	775,397,185	775,397,185	7,787,768
Various unquoted equity securities	29,501,000	27,449,898	27,449,898	-
		<u>P 4,353,411,024</u>	<u>P 4,353,411,024</u>	<u>P 27,018,574</u>

Megaworld Corporation and Subsidiaries
 Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
 December 31, 2017

<i>Name</i>	<i>Beginning Balance</i>	<i>Additions</i>	<i>Deductions</i>	<i>Ending Balance</i>		<i>Total</i>
				<i>Current</i>	<i>Not current</i>	
Accounts Receivable	P 1,125,069	P 7,772,600	(P 2,992,181)	P 5,905,488	-	P 5,905,488

MEGAWORLD CORPORATION AND SUBSIDIARIES
SCHEDULE C- Amounts Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements
December 31, 2017

Name and designation of debtor	Balance at the beginning of period	Additions	Deductions		Current	Non current	Balance at the end of the period
			Amounts collected	Amounts written off			
Due from Related Parties:							
Suntrust Properties, Inc. (SPI)	2,465,390,780	266,764,979	-	-	-	2,732,155,759	2,732,155,759
Empire East Land Holdings, Inc.(EELHI)	2,017,196,136	141,779,453	-	-	-	2,158,975,589	2,158,975,589
Megaworld Cebu Properties, Inc. (MCP)	1,518,532,664	-	7,847,004	-	-	1,510,685,660	1,510,685,660
Landmark Seaside Properties, Inc.(LSP)	1,100,281,737	-	8,438,976	-	-	1,091,842,761	1,091,842,761
San Vicente Coast, Inc.(SVCI)	971,055,960	77,170,948	-	-	-	1,048,226,908	1,048,226,908
Maple Grove Land, Inc.(MGLI)	342,350,993	85,795,540	-	-	-	428,146,533	428,146,533
Southwoods Malls, Inc.(SMI)	57,646	384,791,562	-	-	-	384,849,208	384,849,208
Global Estate Resorts, Inc.(GERI)	102,444,396	37,061,655	-	-	-	139,506,051	139,506,051
Arcovia Properties, Inc.(API)	111,827,211	-	3,456,226	-	-	108,370,985	108,370,985
Townsquare Development, Inc. (TDI)	-	72,117,793	-	-	-	72,117,793	72,117,793
Megaworld Newport Property Holdings, Inc.(MNP)	83,391,584	-	21,196,835	-	-	62,194,749	62,194,749
Megaworld Land, Inc.(MLI)	65,037,835	-	6,023,935	-	-	59,013,900	59,013,900
La Fuerza, Inc.(LFI)	22,644	42,386,138	-	-	-	42,408,782	42,408,782
Eastwood Property Holdings, Inc.(EPHI)	50,053,682	-	11,942,281	-	-	38,111,401	38,111,401
Oceantown Properties, Inc.(OPI)	38,301,105	-	4,798,670	-	-	33,502,435	33,502,435
Megaworld Bacolod Properties Inc. (MBPI)	24,048,408	6,220,297	-	-	-	30,268,705	30,268,705
Belmont Newport Luxury Hotels Inc (BNLHI)	35,204,617	-	15,801,329	-	-	19,403,288	19,403,288
Integrated Town Management Corporation (ITMC,formerly PIFI)	7,081,805	-	234,749	-	-	6,847,056	6,847,056
Megaworld Capital Town, Inc.	-	2,497,903	-	-	-	2,497,903	2,497,903
Luxury Global Hotels and Leisure, Inc.(LGHLI)	1,647,076	180	-	-	-	1,647,256	1,647,256
Streamwood Property, Inc.(SP)	1,371,748	21,181	-	-	-	1,392,929	1,392,929
Various Subsidiaries	1,885,124	750,134	967,054	-	-	1,668,204	1,668,204
Due to Related Parties:							
Richmonde Hotel Group International, Ltd.(RHGI)	4,269,577,669	14,764,793	-	-	-	4,284,342,462	4,284,342,462
Megaworld Globus Asia, Inc.(MGAI)	210,979,082	-	62,400,000	-	-	148,579,082	148,579,082
Townsquare Development, Inc. (TDI)	168,862,588	-	168,862,588	-	-	-	-
Megaworld Central Properties, Inc. (MCPI)	166,554,778	9,175,995	-	-	-	175,730,773	175,730,773
Prestige Hotels and Resorts, Inc.(PHRI)	96,038,865	-	2,969,339	-	-	93,069,526	93,069,526
Megaworld-Daewoo Corporation (MDC)	94,502,232	-	10,802,961	-	-	83,699,271	83,699,271
Eastwood Cyber One Corporation(ECOC)	84,414,440	-	48,841,037	-	-	35,573,403	35,573,403
Davao Park District Holdings, Inc(DPDHI)	36,034,042	24,417,757	-	-	-	60,451,799	60,451,799
Gilmore Property Marketing Associates Inc.(GPMAI)	3,125,100	-	-	-	-	3,125,100	3,125,100

Megaworld Corporation and Subsidiaries
Schedule D - Intangible Assets - Other Assets
December 31, 2017

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Deduction</i>			<i>Ending balance</i>
			<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	
Goodwill	P 1,290,232,360	P -	P -	P -	P -	P 1,290,232,360
Leaschold Rights	<u>125,373,902</u>	<u>-</u>	<u>6,965,217</u>	<u>-</u>	<u>-</u>	<u>118,408,685</u>
	<u>P 1,415,606,262</u>	<u>P -</u>	<u>P 6,965,217</u>	<u>P -</u>	<u>P -</u>	<u>P 1,408,641,045</u>

Megaworld Corporation and Subsidiaries
Schedule E - Long-Term Debt
December 31, 2017

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>
Long -term loan	P 62,064,106,569	P 8,623,911,222	P 43,862,702,702
Foreign borrowings	\$ 450,000,000	P 9,976,270,876	P 12,438,900,530
		<u>P 18,600,182,098</u>	<u>P 56,301,603,232</u>

Megaworld Corporation and Subsidiaries
Schedule H - Capital Stock
December 31, 2017

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Common shares - P1 par value	40,140,000,000	32,239,445,872	250,000,000	21,284,521,882	99,449,327	10,855,474,663
Preferred shares - P.01 par value	6,000,000,000	6,000,000,000		6,000,000,000		

MEGAWORLD CORPORATION
(A Subsidiary of Alliance Global Group, Inc.)
 30th Floor, Alliance Global Tower,
 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City

**Reconciliation of Retained Earnings Available for Dividend Declaration
 For the Year Ended December 31, 2017**

Unappropriated Retained Earnings at Beginning of Period	P	66,667,350,580
Prior Years Outstanding Reconciling Items		
Deferred tax income	(	1,160,997,974)
Day-one loss on initial measurement of trade receivables at amortized cost		599,300,658
Day-one gain on initial measurement of security deposits at amortized cost	(	423,958,085)
Rental income from straight-line amortization in excess of rental collections	(	<u>958,573,832</u>) (<u>1,944,229,233</u>)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Period, as Adjusted		<u>64,723,121,347</u>
Net Profit Realized during the period		
Net profit per audited financial statements		10,604,721,682
Non-actual/unrealized income		
Amortization of interest from trade receivables	(	1,165,952,687)
Recognition of day-one loss on initial measurement of trade receivables at amortized cost		1,061,876,197
Deferred tax income	(	27,945,517)
Recognition of day-one gain on initial measurement of security deposits at amortized cost	(	264,491,951)
Amortization of day-one gain from security deposits at amortized cost		168,215,958
Rental income from straight-line amortization in excess of rental collections	(	<u>30,278,652</u>) (<u>258,576,652</u>)
		<u>10,346,145,030</u>
Dividends declared during the period	(	1,744,879,433)
Retained Earnings Restricted for Treasury Shares	(	<u>118,555,453</u>)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Period	P	<u>73,205,831,491</u>

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)

Schedule J - Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* (effective January 1, 2018)	✓		
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation* (effective January 1, 2019)			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
PFRS 8	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (effective when PFRS 9 is first applied)			✓
PFRS 9	Operating Segments	✓		
	Financial Instruments (2014)* (effective January 1, 2018)			✓
PFRS 10	Amendments to PFRS 9: Prepayment Features with Negative Compensation* (effective January 1, 2019)			✓
	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation* (effective January 1, 2019)			✓
	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
PFRS 13	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 14	Fair Value Measurement	✓		
PFRS 15	Regulatory Deferral Accounts			✓
PFRS 16	Revenue from Contracts with Customers* (effective January 1, 2018)			✓
PFRS 17	Leases* (effective January 1, 2019)			✓
	Insurance Contracts (effective January 1, 2021)			✓

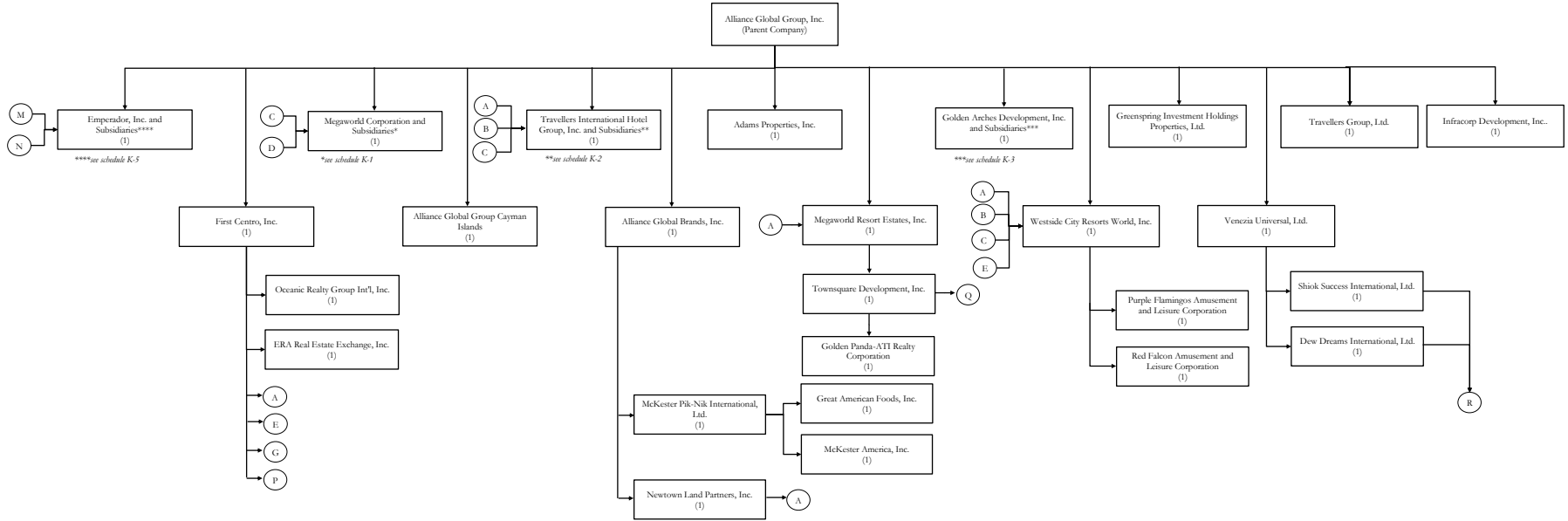
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* (effective January 1, 2019)			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Amendment to PAS 23: Eligibility for Capitalization* (effective January 1, 2019)			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss* (effective January 1, 2018)			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture* (effective January 1, 2019)			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓			
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property* (effective January 1, 2018)			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration* (effective January 1, 2018)			✓
IFRIC 23	Uncertainty Over Income Tax Treatments* (effective January 1, 2019)			✓
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs			✓

* These standards will be effective for periods subsequent to 2017 and are not early adopted by the Company.

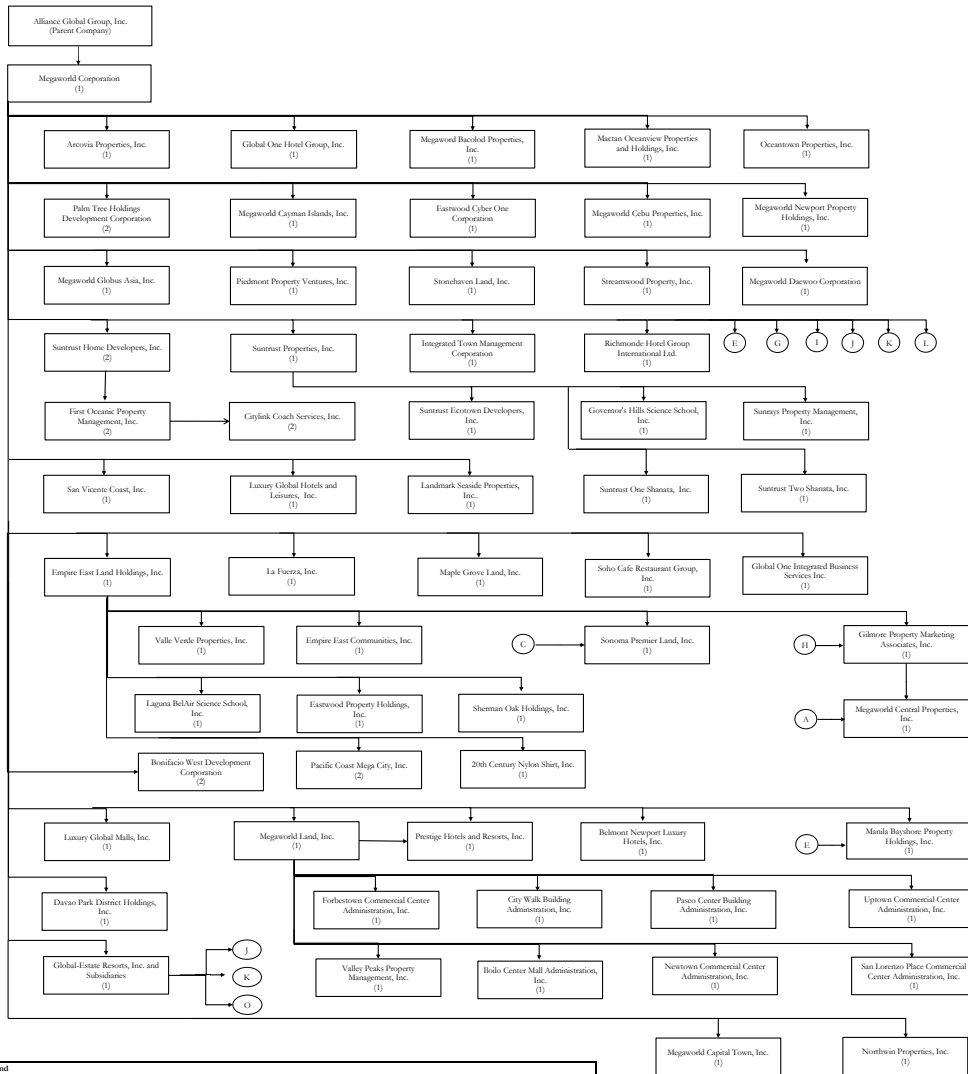
** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

ALLIANCE GLOBAL GROUP, INC.
 Schedule K – Map Showing the Relationship Between and
 Among the Company and Its Related Parties
 December 31, 2017



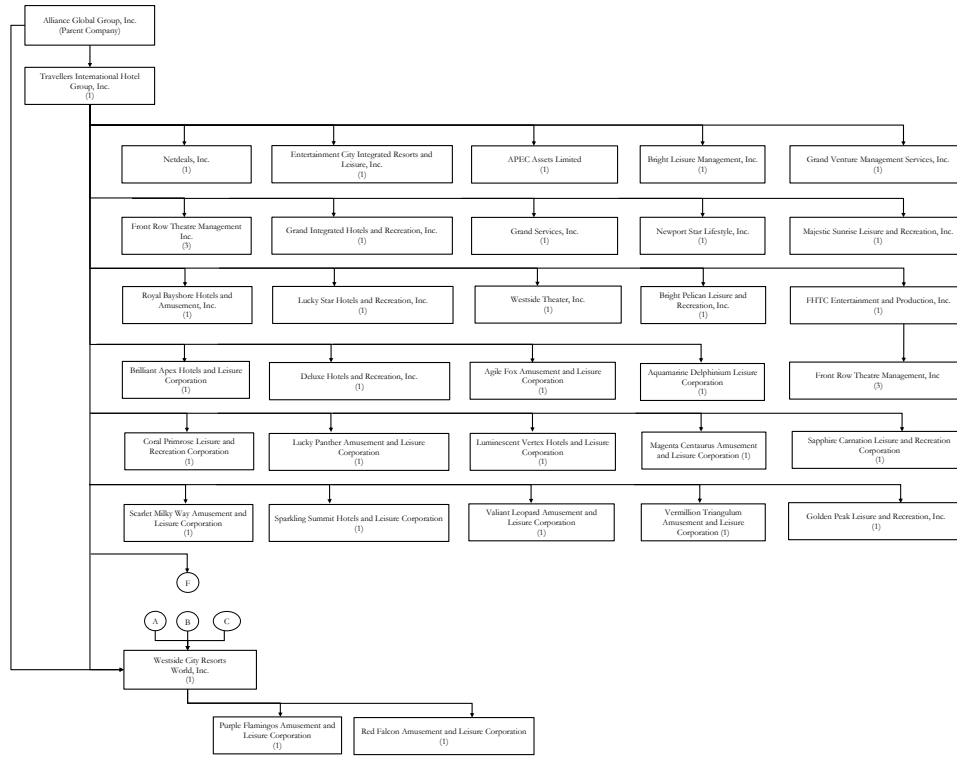
Legend			
(1) Subsidiary	A Megaworld Corporation	F Manila Bayshore Property Holdings, Inc.	K Megaworld Global Estates, Inc.
(2) Associate	B Adams Properties, Inc.	G Westside City Resorts World, Inc.	L Megaworld Central Properties, Inc.
(3) Jointly Controlled Entity	C First Centro, Inc.	H Townsquare Development, Inc.	M Shioh Success International, Ltd.
	D Newtown Land Partners, Inc.	I Megaworld Resort Estates, Inc.	N Dew Dreams International, Ltd.
	E Travellers International Hotel Group, Inc.	J Twin Lakes Corporation	O Fil-Estate Properties, Inc.
			P Sonoma Premier Land, Inc.
			Q Gilmore Property Marketing Associates, Inc.
			R Emperor Inc.

ALLIANCE GLOBAL GROUP, INC.
 Schedule K-1 – Map Showing the Relationship Between and
 Among the Company and Megaworld Corporation Group
 December 31, 2017



Legend	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centro, Inc.
D	Newtown Land Partners, Inc.
E	Travelers International Hotel Group, Inc.
F	Manila Bayshore Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Tomasique Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shook Success International Ltd.
N	Dee Dreams International Ltd.
O	FB-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Empirestate Inc.

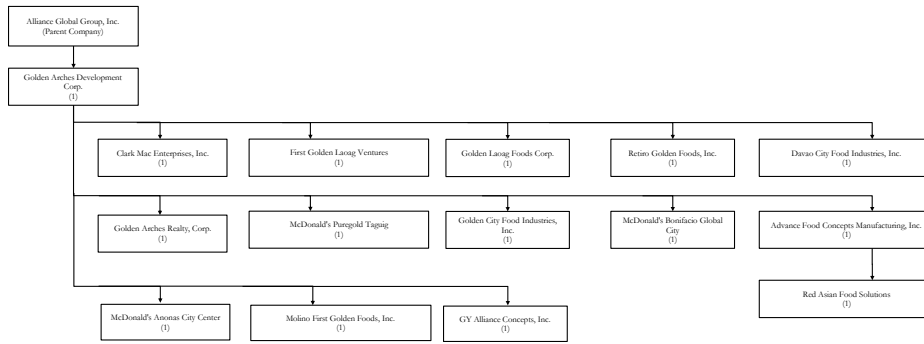
ALLIANCE GLOBAL GROUP, INC.
 Schedule K-2 - Map Showing the Relationship Between and
 Among the Company and Travellers Group
 December 31, 2017



Legend	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Magnoworld Corporation
B	Adams Properties, Inc.
C	First Coast, Inc.
D	Newtown Land Partners, Inc.
E	Travellers International Hotel Group, Inc.
F	Manila Bayshore Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Magnoworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Magnoworld Global Estates, Inc.
L	Magnoworld Central Properties, Inc.
M	Shuk Success International, Ltd.
N	Dee Dreams International, Ltd.
O	File-Share Properties, Inc.
P	Snoona Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Empirewide Inc.

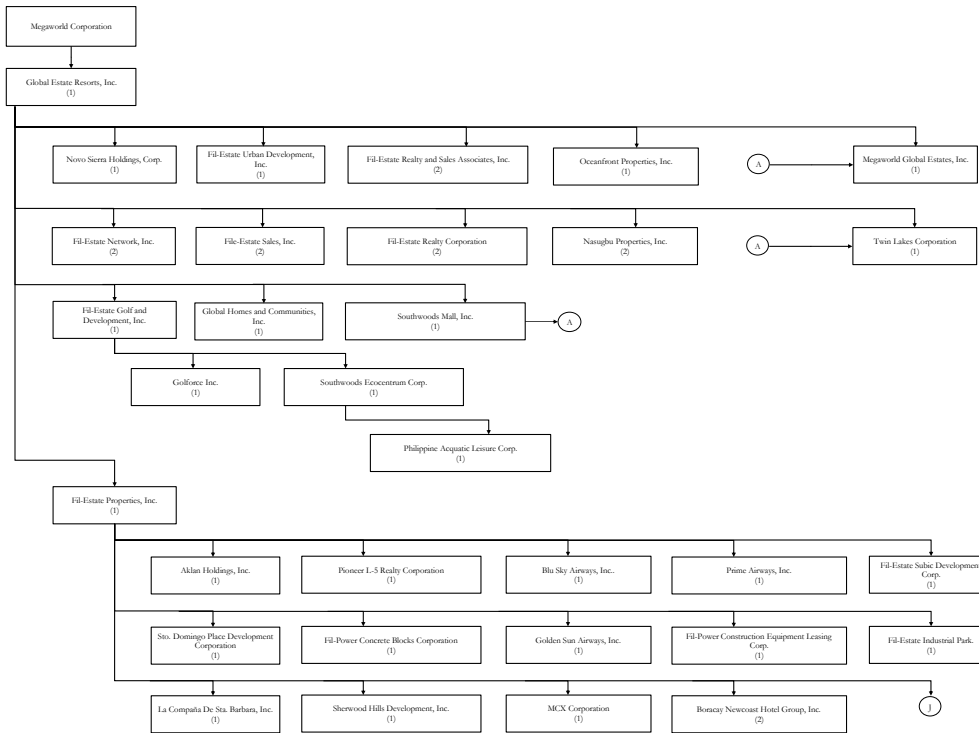
ALLIANCE GLOBAL GROUP, INC.

Schedule K-3 – Map Showing the Relationship Between and Among the Company and Golden Arches Development Corporation Group
December 31, 2017



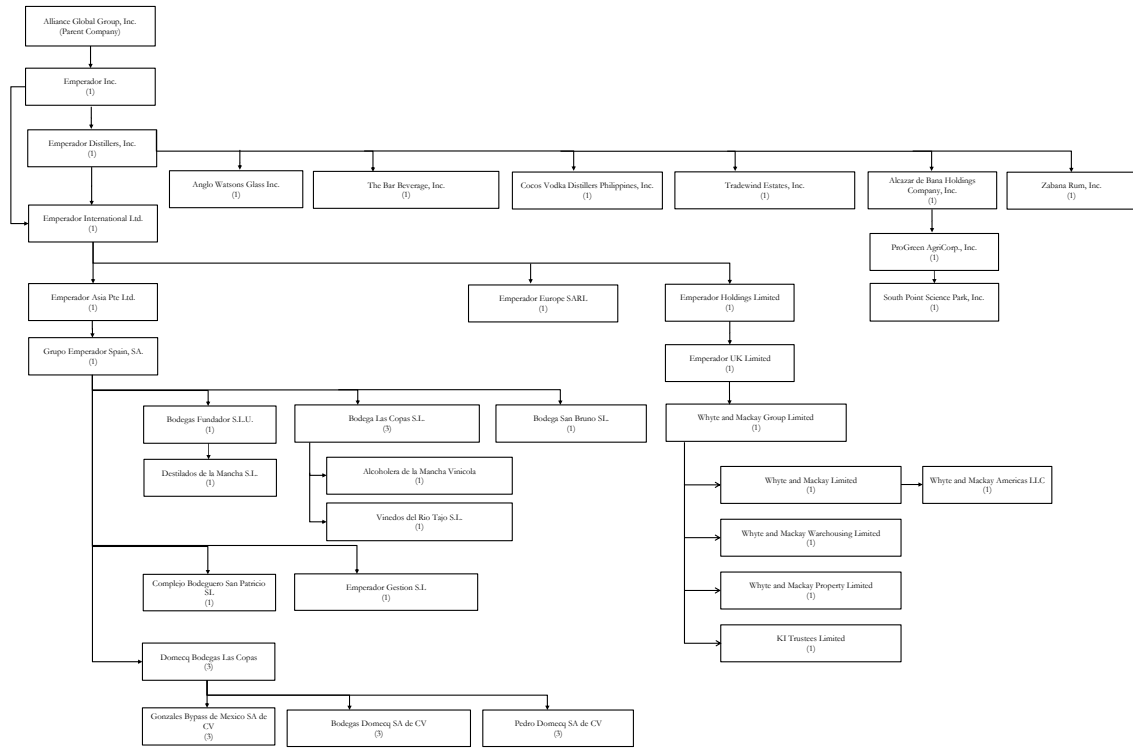
Legend	
(1) Subsidiary	J Twin Lakes Corporation
(2) Associate	K Megaworld Global Estates, Inc.
(3) Jointly Controlled Entity	L Megaworld Central Properties, Inc.
A Megaworld Corporation	M Sunk Success International, Ltd.
B Adams Properties, Inc.	N Dew Dream International, Ltd.
C First Century, Inc.	O File-Estate Properties, Inc.
D Newton Land Partners, Inc.	P Sonoma Premier Land, Inc.
E Travelers International Hotel Group, Inc.	Q Gilmore Property Marketing Associates, Inc.
F Manila Bayshore Property Holdings, Inc.	R Empressora Inc.
G Westside City Resorts World, Inc.	
H Tomsonaire Development, Inc.	
I Megaworld Resort Estates, Inc.	

ALLIANCE GLOBAL GROUP, INC.
 Schedule K-4 - Map Showing the Relationship Between and
 Among Megaworld and Global Estate Resorts Inc. Group
 December 31, 2017



Legend	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centro, Inc.
D	Newtown Land Partners, Inc.
E	Traveltek International Hotel Group, Inc.
F	Manila Rayshore Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Snik Success International, Ltd.
N	New Dream International, Ltd.
O	FI-Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Glenn Property Marketing Associates, Inc.
R	Empirestate Inc.

ALLIANCE GLOBAL GROUP, INC.
 Schedule K-5 - Map Showing the Relationship Between and
 Among the Company and Emperor Inc. Group
 December 31, 2017



Legend	
(1)	Subsidiary
(2)	Associate
(3)	Jointly Controlled Entity
A	Megaworld Corporation
B	Adams Properties, Inc.
C	First Centre, Inc.
D	Newtown Land Partners, Inc.
E	Travelers International Hotel Group, Inc.
F	Manila Bayshore Property Holdings, Inc.
G	Westside City Resorts World, Inc.
H	Townsquare Development, Inc.
I	Megaworld Resort Estates, Inc.
J	Twin Lakes Corporation
K	Megaworld Global Estates, Inc.
L	Megaworld Central Properties, Inc.
M	Shook Success International, Ltd.
N	Dew Dreams International, Ltd.
O	His Estate Properties, Inc.
P	Sonoma Premier Land, Inc.
Q	Gilmore Property Marketing Associates, Inc.
R	Emperor Inc.

MEGAWORLD CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2017 AND 2016

	DECEMBER 31, 2017	DECEMBER 31, 2016
Current ratio	2.73 :1.00	3.44 :1.00
Quick ratio	0.29 :1.00	0.40 :1.00
Debt-to-equity ratio	0.46 :1.00	0.43 :1.00
Interest-bearing debt to total capitalization ratio	0.35 :1.00	0.33 :1.00
Asset-to-equity ratio	1.93 :1.00	1.94 :1.00
Interest rate coverage ratio	494.41%	563.42%
Net profit margin	26.34%	25.01%
Return on assets	4.51%	4.42%
Return on equity/investment of owners	9.67%	9.36%

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.

Current ratio – computed as current assets divided by current liabilities

Quick ratio – computed as cash and cash equivalents divided by current liabilities

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.

Debt-to-equity ratio – computed as interest bearing loans and borrowings and bonds payable divided by total stockholders' equity.

Interest-bearing debt to total capitalization ratio – computed as interest-bearing debt divided by interest-bearing debt+stockholders' equity attributable to the company's shareholders.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by total stockholders' equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments. It is computed as Earnings before income tax and interest expense (EBIT) divided by interest payments.

PROFITABILITY RATIOS

Net profit margin – computed as net profit divided by total revenues

Return on assets – net profit divided by average total assets

Return on equity – net profit attributable to the company's shareholders divided by average stockholders' equity attributable to the company's shareholders.