103282018001129

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	0000167423
Company Name	MEGAWORLD CORP.
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	103282018001129
Document Type	17-C (FORM 11-C:CURRENT DISCL/RPT)
Document Code	17-C
Period Covered	March 27, 2018
No. of Days Late	0
Department	CFD
Remarks	

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17.2(c) THEREUNDER

1. Date of Report (Date of earliest event reported)

   Mar 27, 2018

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

   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, 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. Indicate the item numbers reported herein

   Item 9(b)

Megaworld Corporation
MEG

PSE Disclosure Form 4-31 - Press Release
References: SRC Rule 17 (SEC Form 17-C)
Section 4.4 of the Revised Disclosure Rules

Subject of the Disclosure
Megaworld Corporation's Audited Financial Statements and Subsidiaries as of December 31, 2017 and 2016.
Background/Description of the Disclosure
In connection with the press release yesterday, attached is a copy of the Audited Financial Statements of Megaworld Corporation and Subsidiaries as of December 31, 2017 and 2016.
Other Relevant Information
None

Filed on behalf by:

Name	Dominic Isberto
Designation	Vice President - Compliance Division

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C
CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2 (c) THEREUNDER

1. **March 27, 2018**
   Date of Report

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 Sections 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. **Item 9(b)**

In connection with the press release yesterday, attached is a copy of the Audited Financial Statements of Megaworld Corporation and Subsidiaries as of December 31, 2017 and 2016.

SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MEGAWORLD CORPORATION
Issuer
By:

FRANCISCO C. CANUTO
Senior Vice President and
Corporate Information Officer
March 27, 2018

P&A Grant Thornton
An instinct for growth™

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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.

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
ASSETS					
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
Total Current Assets			**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
Total Non-current Assets			**155,046,172,953**		138,052,699,556
TOTAL ASSETS		**P**	**310,532,804,988**	P	278,742,517,650

	Notes	2017	2016
LIABILITIES AND EQUITY			
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		**57,018,406,224**	40,889,535,200
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		**92,210,196,522**	94,234,642,121
Total Liabilities		**149,228,602,746**	135,124,177,321
EQUITY	28		
Total equity attributable to the Company's shareholders		**138,777,877,700**	125,480,239,117
Non-controlling interests		**22,526,324,542**	18,138,101,212
Total Equity		**161,304,202,242**	143,618,340,329
TOTAL LIABILITIES AND EQUITY		**P 310,532,804,988**	P 278,742,517,650

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	2017	2016	2015
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
		50,408,309,553	46,817,544,472	44,995,660,369
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
		37,131,818,386	35,104,867,870	34,421,150,373
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	2,715,950	(3,314,788)	291,847
NET PROFIT FOR THE YEAR		P 13,279,207,117	P 11,709,361,814	P 10,574,801,843
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		507,048,664	377,537,428	359,706,399
		P 13,279,207,117	P 11,709,361,814	P 10,574,801,843
Earnings Per Share:	29			
Basic		P 0.401	P 0.356	P 0.321
Diluted		P 0.400	P 0.355	P 0.319

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		**P 13,279,207,117**	P 11,709,361,814	P 10,574,801,843
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)
		87,563,767	4,209,105	260,373,635
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)
		2,224,724,520	(1,041,037,056)	(2,696,125,586)
Total Other Comprehensive Income (Loss)		**2,312,288,287**	(1,036,827,951)	(2,435,751,951)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 15,591,495,404**	P 10,672,533,863	P 8,139,049,892
Total comprehensive income attributable to:				
Company's shareholders		**P 15,007,334,855**	P 10,362,974,246	P 7,782,514,268
Non-controlling interests		**584,160,549**	309,559,617	356,535,624
		P 15,591,495,404	P 10,672,533,863	P 8,139,049,892

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								
	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, 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	**P 32,430,865,872**	**P 16,657,990,413**	**(P 633,721,630)**	**(P 382,105,298)**	**(P 898,501,087)**	**P 91,603,349,430**	**P 138,777,877,700**	**P 22,526,324,542**	**P 161,304,202,242**

	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								
	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, 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)
	7,987,924	-	-	-	-	(1,904,969,742)	(1,896,981,818)	(627,506,652)	(2,524,488,470)
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
	-	-	-	48,908,991	(2,481,490,167)	10,215,095,444	7,782,514,268	356,535,624	8,139,049,892
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
Balance brought forward		**(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:

	Effective Percentage of Ownership		
Subsidiaries/Associates	**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)	(e)	**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, j)	**82.32%**	82.32%	82.26%
Blu Sky Airways, Inc. (BSAI)	(a, j)	**82.32%**	82.32%	82.26%
Fil-Estate Subic Development Corp. (FESDC)	(a, j)	**82.32%**	82.32%	82.26%
Fil-Power Construction Equipment Leasing Corp. (FPCELC)	(a, j)	**82.32%**	82.32%	82.26%
Golden Sun Airways, Inc. (GSAI)	(a, j)	**82.32%**	82.32%	82.26%
La Compaña De Sta. Barbara, Inc. (LCSBI)	(j)	**82.32%**	82.32%	82.26%
MCX Corporation (MCX)	(a, j)	**82.32%**	82.32%	82.26%
Pioneer L-5 Realty Corp. (PLRC)	(a, j)	**82.32%**	82.32%	82.26%
Prime Airways, Inc. (PAI)	(a, j)	**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, j)	**82.32%**	82.32%	82.26%
Fil-Estate Industrial Park, Inc. (FEIPI)	(a, j)	**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, j)	**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, j)	**82.32%**	82.32%	82.26%
Global Homes and Communities, Inc. (GHCI)	(a, j)	**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%
20th 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. (SPLI)	(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 MLI, 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:

	2017	2016
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	**256,592,280**	50,207,955
	5,782,812,627	1,131,637,070
Fair value of liabilities assumed	**(67,228,650)**	(25,580,071)
Fair value of consideration transferred:		
Cash	**(2,068,977,236)**	(5,000,000)
Advances to related parties	**-**	(1,100,445,738)
	(2,068,977,236)	(1,105,445,738)
Non-controlling interest	**(3,655,374,576)**	(675,882)
Pre-acquisition income (loss)	**(2,715,950)**	3,314,788
Gain on acquisition	**-**	(2,027,645)

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	(118,647,500)
Total net liabilities	(54,848,843)
Total consideration received in cash	20,500,000
Cash and cash equivalents disposed of	(75,472,313)
Net cash paid	(54,972,313)
Derecognized non-controlling interest	(4,500,000)
Gain on deconsolidation	P 4,376,532

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.

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

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

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

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:

a. changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and,

b. a reconciliation of the opening and closing balances of liabilities arising from financing activities in the 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-soff 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.

(h) 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.

	2017					
	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 34,622,995,292	P11,829,993,113	P 1,335,958,802	P 1,081,676,118	P -	P 48,870,623,325
Interest income	974,367,089	299,342,775	2,757,618	2,301,642	-	1,278,769,124
Intersegment sales	-	360,680,073	-	1,414,549,282	(1,775,229,355)	-
Total revenues	**35,597,362,381**	**12,490,015,961**	**1,338,716,420**	**2,498,527,042**	**(1,775,229,355)**	**50,149,392,449**
RESULTS						
Cost of sales and operating expense excluding depreciation and amortization	25,042,370,163	1,541,795,353	968,665,162	2,442,719,247	(1,659,228,359)	28,336,321,566
Interest expense	1,035,525,512	470,960,249	-	48,592,789	-	1,555,078,550
Depreciation and amortization	155,496,158	1,465,275,935	79,230,013	130,761,352	-	1,830,763,458
	26,233,391,833	3,478,031,537	1,047,895,175	2,622,073,388	(1,659,228,359)	31,722,163,574
Segment results	**P 9,363,970,548**	**P 9,011,984,424**	**P 290,821,245**	**(P 123,546,346)**	**(P 116,000,996)**	**P 18,427,228,875**
Unallocated other income						140,087,801
Unallocated other expenses						(1,617,054,636)
Equity in net earnings of associates						118,829,303
Tax expense						(3,792,600,176)
Preacquisition loss of a subsidiary						2,715,950
Net profit						**P 13,279,207,117**
ASSETS AND LIABILITIES						
Segment assets	P 208,925,089,545	P 85,676,125,189	P 3,076,155,852	P 7,460,431,888	P -	P 305,137,802,474
Investments in and advances to associates and other related parties - net	-	-	-	5,395,002,513	-	5,395,002,513
Total assets	**P208,925,089,545**	**P85,676,125,189**	**P 3,076,155,852**	**P 12,855,434,401**	**P -**	**P310,532,804,987**
Segment liabilities	**P 111,618,639,815**	**P33,904,709,275**	**P 440,577,374**	**P 3,264,676,283**	**P -**	**P149,228,602,747**
OTHER SEGMENT INFORMATION						
Project and capital expenditures						**P 48,879,591,471**

	2016					
	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 33,130,833,441	P10,011,504,052	P 1,163,103,124	P 998,976,763	P -	P 45,304,417,380
Interest income	905,270,101	295,139,792	2,153,034	15,988,336	-	1,218,551,263
Intersegment sales	-	312,175,346	-	1,132,601,593	(1,444,776,939)	-
Total revenues	34,036,103,542	10,618,819,190	1,165,256,158	2,147,566,692	(1,444,776,939)	46,522,968,643
RESULTS						
Cost of sales and operating expense excluding depreciation and amortization	24,478,626,262	1,373,215,535	840,207,650	2,085,180,503	(1,331,355,588)	27,445,874,362
Interest expense	1,023,499,261	432,147,627	-	38,850,050	-	1,494,496,938
Depreciation and amortization	140,301,877	1,157,270,965	81,775,747	107,623,139	-	1,486,971,728
	25,642,427,400	2,962,634,127	921,983,397	2,231,653,692	(1,331,355,588)	30,427,343,028
Segment results	P 8,393,676,142	P 7,656,185,063	P 243,272,761	(P 84,087,000)	(P 113,421,351)	P 16,095,625,615
Unallocated other income						157,709,086
Unallocated other expenses						(1,188,185,822)
Equity in net earnings of associates						136,866,743
Tax expense						(3,489,339,020)
Preacquisition loss of a subsidiary						(3,314,788)
Net profit						P 11,709,361,814
ASSETS AND LIABILITIES						
Segment assets	P 199,490,722,049	P65,182,493,578	P 2,398,302,698	P 6,482,464,306	P -	P 273,553,982,631
Investments in and advances to associates and other related parties - net	-	-	-	5,188,535,019	-	5,188,535,019
Total assets	P 199,490,722,049	P65,182,493,578	P 2,398,302,698	P11,670,999,325	P -	P 278,742,517,650
Segment liabilities	P 114,637,385,751	P16,997,530,379	P 468,807,766	P 3,020,453,425	P -	P 135,124,177,321
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P 48,839,469,783

	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	33,794,780,446	9,219,357,447	803,571,088	1,657,312,928	(877,562,640)	44,597,459,269
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
	25,808,950,181	2,669,168,133	632,775,137	1,656,612,129	(779,579,569)	29,987,926,011
Segment results	P 7,985,830,265	P 6,550,189,314	P 170,795,951	P 700,799	(P 97,983,071)	P 14,609,533,258
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						291,847
Net profit						P 10,574,801,843
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	P 187,279,330,964	P50,003,842,390	P 2,433,682,285	P 11,967,908,063	P -	P251,684,763,702
Segment liabilities	P 98,703,363,884	P15,149,080,026	P 424,651,426	P 2,994,313,723	P -	P117,271,409,059
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P 54,513,276,245

5. CASH AND CASH EQUIVALENTS

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

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

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:

		2017	2016
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		**1,898,452,230**	1,448,007,312
		33,661,846,682	26,996,127,314
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		**82,326,077**	7,629,034
		34,626,668,915	35,674,848,340
		P68,288,515,597	P 62,670,975,654

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.

	Note	**2017**	2016
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		**P 567,565,779**	P 525,895,542

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.

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

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.

	2017	2016
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	**76,889,858**	230,571,046
	P 6,967,226,408	P 5,955,537,397

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:

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

The securities can be further analyzed as follows:

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

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

	2017	2016
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	**(72,174,760)**	-
Balance at end of year	**P 4,353,411,024**	P 3,662,280,186

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:

	2017	2016
Total commitment for construction expenditures	**P25,920,193,838**	P25,275,787,747
Total expenditures incurred	**(18,730,950,238)**	(18,965,104,576)
Net commitment	**P 7,189,243,600**	P 6,310,683,171

The Group's interests in 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
- Northill 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
- Gentri 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:

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

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:

	Assets	Liabilities	Revenues	Net Profit (Loss)
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	-	-
	P 14,961,676,109	**P 4,515,075,338**	**P 881,003,214**	**P 300,389,938**
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	-	-
	P 14,959,845,153	P 4,922,422,934	P 941,147,820	P 350,203,011

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.

	Land	Buildings	Total
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	**P 9,802,540,990**	**P 61,613,147,476**	**P 71,415,688,466**
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	P 9,751,857,938	P 50,741,623,235	P 60,493,481,173
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	P 9,530,417,733	P 36,741,652,458	P 46,272,070,191

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.

	Land	Buildings	Total
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	**P 9,802,540,990**	**P 61,613,147,476**	**P 71,415,688,466**
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	P 9,751,857,938	P 50,741,623,235	P 60,493,481,173

	Land	Buildings	Total
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	P 9,530,417,733	P 36,741,652,458	P 46,272,070,191

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.

	Buildings & Improvements	Office Furniture, Fixtures and Equipment	Office Improvements	Transportation Equipment	Land	Total
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	**P4,503,244,032**	**P 190,690,885**	**P 102,690,612**	**P 128,155,285**	**P 245,672,573**	**P 5,170,453,387**

	Buildings & Improvements	Office Furniture, Fixtures and Equipment	Office Improvements	Transportation Equipment	Land	Total
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	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
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	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

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.

	Buildings & Improvements	Office Furniture, Fixtures and Equipment	Office Improvements	Transportation Equipment	Land	Total
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	**P4,503,244,032**	**P 190,690,885**	**P 102,690,612**	**P 128,155,285**	**P 245,672,573**	**P 5,170,453,387**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P2,398,388,723	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	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

	Buildings & Improvements	Office Furniture, Fixtures and Equipment	Office Improvements	Transportation Equipment	Land	Total
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	P2,398,388,723	P 268,749,123	P 40,515,513	P 95,189,512	P 248,009,320	P 3,050,852,191

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:

	Note	**2017**	2016
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		**318,431,777**	116,405,162
		P 2,584,596,373	P 2,515,994,151

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:

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

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.

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

(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:

	Notes	**2017**	2016
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		**821,746,073**	667,697,772
		P16,165,520,770	P13,566,744,368

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:

	Notes	2017	2016
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		**174,829,312**	163,355,322
		2,799,934,557	2,033,398,951
Non-current:			
Deferred rental income		**4,744,516,154**	4,334,195,802
Other payables	18	**127,445,215**	129,342,516
		4,871,961,369	4,463,538,318
		P 7,671,895,926	P 6,496,937,269

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:

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

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.

	Notes	2017	2016	2015
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		**446,485,552**	378,692,255	361,377,640
		P 9,563,315,618	P 8,353,683,605	P 7,991,895,011

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:

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

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

	2017	2016	2015
Contracted services	**P 14,111,686,268**	P 13,467,972,535	P 12,851,666,636
Land cost	**1,618,580,198**	1,764,172,819	2,058,899,931
Borrowing cost	**408,343,707**	230,608,589	331,643,102
Other costs	**166,233,158**	51,897,735	192,732,683
	P 16,304,843,331	P15,514,651,678	P15,434,942,352

23. INTEREST AND OTHER INCOME

Presented below are the details of this account.

	Notes	**2017**	2016	2015
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		**91,053,608**	84,680,062	127,979,410
		P 2,500,533,043	P 2,375,237,112	P 2,604,179,681

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.

	Notes	2017	2016	2015
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
		P 3,361,197,445	P 2,867,726,950	P 2,726,266,816

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.

	Notes	2017	2016	2015
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	**P 2,393,482,335**	P 2,202,426,673	P 2,059,096,838

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' shares 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:

	2017	2016
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	**P 1,041,444,737**	P 965,204,603

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

	2017	2016
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	**P 1,279,144,673**	P1,161,347,079

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

	2017	2016
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	**P 237,699,936**	P 196,142,476

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 2017and 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:

	Notes	**2017**	2016	2015
Reported in consolidated statements of income:				
Current service costs	25.1	**P143,480,786**	P105,770,134	P 144,160,787
Net interest costs	24	**48,592,789**	38,850,050	46,097,256
		P192,073,575	P144,620,184	P 190,258,043

	Notes	2017	2016	2015
Reported in consolidated statements of comprehensive income:				
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)
		P 53,647,272	P 32,184,580	P 221,629,491

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:

	2017	2016	2015
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:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2017			
Discount rate	**0.50%**	**(P 124,790,722)**	**P 146,524,342**
Salary increase rate	**1.00%**	**201,465,857**	**(147,503,978)**
December 31, 2016			
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:

	2017	2016
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	**6,755,856,913**	6,846,806,159
	P 8,682,451,920	P 8,702,894,271

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:

	2017	2016	2015
Reported in consolidated statements of income:			
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%	**20,590,854**	2,700,509	1,761,980
	2,687,538,118	2,208,439,576	1,892,033,013
Deferred tax expense relating to origination and reversal of temporary differences	**1,105,062,058**	1,280,899,444	1,392,645,482
	P 3,792,600,176	P 3,489,339,020	P 3,284,678,495
Reported in consolidated statements of comprehensive income –			
Deferred tax expense relating to origination and reversal of temporary differences	**P 23,400,863**	P 26,861,943	P 115,945,063

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:

	2017	2016	2015
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	**16,242,378**	(4,117,291)	2,135,558
	P 3,792,600,176	P 3,489,339,020	P 3,284,678,495

The deferred tax assets and liabilities relate to the following as of December 31:

	2017	2016
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	**15,831,445**	30,076,027
	P 41,581,313	P 75,533,803

	2017	2016
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	**423,659,575**	(249,210,569)
	P10,230,564,338	P 9,899,659,695

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.

Subsidiaries	Year Incurred	Amount	Valid Until
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.

Subsidiaries	Year Incurred	Amount	Valid Until
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:

	Assets	Retained Earnings (Deficit)	Revenues	Net Loss
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
	P 2,436,215,035	**P 268,568,632**	**P 34,600,860**	**P 6,373,998**

	Assets	Retained Earnings (Deficit)	Revenues	Net Loss
2016				
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	49,167,035	(915,824)	-	280,781
	P 1,879,109,242	P 255,144,323	P 37,647,747	P 3,101,377

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 2017	2016	2015	Outstanding Investment/ Receivable (Payable) 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	-
	P 72,964,238	P 273,587,279	P 1,006,985,224

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):

	2017	2016
Advances to associates	**P1,269,864,980**	P1,298,017,045
Advances to other related parties	**1,261,536,512**	1,209,499,038
	P2,531,401,492	P2,507,516,083

The movements in advances to associates and other related parties are as follows:

	2017	2016
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	**-**	(1,100,014,026)
Balance at end of year	**P2,531,401,492**	P2,507,516,083

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:

	2017	2016
Advances from associates	**P 2,905,088**	P 3,521,627
Advances from other related parties	**2,630,287,147**	2,421,404,682
	P2,633,192,235	P2,424,926,309

The movements in advances from associates and other related parties are as follows:

	2017	2016
Balance at beginning of year	**P2,424,926,309**	P1,491,160,829
Net availed	**208,265,926**	933,765,480
Balance at end of year	**P2,633,192,235**	P2,424,926,309

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:

	2017	2016	2015
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	**17,507,035**	33,327,372	146,272,133
	P 278,510,411	P 290,133,282	P 322,576,930

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	**6,000,000,000**	6,000,000,000	6,000,000,000	**P 60,000,000**	P 60,000,000	P 60,000,000
Issued and outstanding	**6,000,000,000**	6,000,000,000	6,000,000,000	**P 60,000,000**	P 60,000,000	P 60,000,000
Common shares – P1 par value						
Authorized	**40,140,000,000**	40,140,000,000	40,140,000,000	**P 40,140,000,000**	P 40,140,000,000	P 40,140,000,000
Issued and outstanding:						
Balance at beginning of year	**32,370,865,872**	32,370,865,872	32,362,877,948	**P 32,370,865,872**	P 32,370,865,872	P 32,362,877,948
Issuances during the year	**-**	-	7,987,924	**-**	-	7,987,924
Balance at end of year	**32,370,865,872**	32,370,865,872	32,370,865,872	**P 32,370,865,872**	P 32,370,865,872	P 32,370,865,872
Treasury shares	**(131,420,000)**	(131,420,000)	(131,420,000)	**(118,555,453)**	(118,555,453)	(118,555,453)
Issued and outstanding	**32,239,445,872**	32,239,445,872	32,239,445,872	**P 32,252,310,419**	P 32,252,310,419	P 32,252,310,419
Total issued and outstanding shares				**P 32,312,310,419**	P 32,312,310,419	P 31,312,310,419

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:

	2017	2016	2015
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	**600,000**	600,000	600,000
	P 1,722,155,799	P 1,608,600,152	P 1,936,160,028
Dividends per share:			
Common	**P 0.05**	P 0.05	P 0.06
Preferred	**P 0.01**	P 0.01	P 0.01

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 date 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:

	2017	2016	2015
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	**P12,771,558,453**	P 11,331,224,386	P 10,214,495,444
Divided by weighted average number of outstanding common shares	**31,819,445,872**	31,819,445,872	31,816,158,923
Basic EPS	**P 0.401**	P 0.356	P 0.321
Divided by weighted average number of outstanding common shares and potential dilutive shares	**31,956,360,072**	31,958,695,843	31,977,462,945
Diluted EPS	**P 0.400**	P 0.355	P 0.319

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:

	2017	2016	2015
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	**18,804,216,078**	17,634,334,035	13,795,188,452
	P 92,423,946,988	P 83,764,049,122	P 64,958,449,713

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:

	2017	2016	2015
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	**48,912,743**	52,819,794	56,662,793
	P 97,086,984	P 140,156,695	P 175,402,876

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.

	2017		2016	
	+1%	**-1%**	+1%	-1%
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.

	Notes	**2017**	2016
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
		P 88,107,577,105	P 82,624,639,818

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:

	2017	2016
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	**203,336,043**	144,702,602
	P2,437,142,795	P2,235,847,446

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.

	Notes	2017 Within 1 Year	2017 1 to 5 Years	2017 More than 5 Years
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	-	-
		P 37,224,203,215	**P 45,906,498,994**	**P 25,709,595,938**

	Notes	2016 Within 1 Year	2016 1 to 5 Years	2016 More than 5 Years
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	-
		P 21,925,277,749	P 51,584,702,548	P 14,447,599,189

**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:

	Observed Volatility Rates	Impact on Equity Increase	Impact on Equity Decrease
2017			
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)**
2016			
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 Carrying Values	2017 Fair Values	2016 Carrying Values	2016 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:	9				
Equity securities		**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).

	Level 1	Level 2	Level 3	Total
2017				
Financial assets:				
Equity securities	**P 4,325,961,126**	**P -**	**P 27,449,898**	**P 4,353,411,024**
Financial Liability:				
Derivatives	**P -**	**P 109,913,612**	**P -**	**P 109,913,612**
2016				
Financial assets:				
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.

	2017	2016
Interest-bearing loans and borrowings	**P 40,536,800,278**	P 38,852,773,041
Bonds payable	**34,364,985,052**	22,330,589,969
	P 74,901,785,330	P 61,183,363,010
Total equity	**P 161,304,202,242**	P143,618,340,329
Debt-to-equity ratio	**0.46 : 1.00**	0.43 : 1.00

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.

	Interest-bearing Loans and Borrowings (Note 15)	Bonds Payable (Note 16)	Total
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	**P 40,536,800,278**	**P 34,364,985,052**	**P 74,901,785,330**

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.