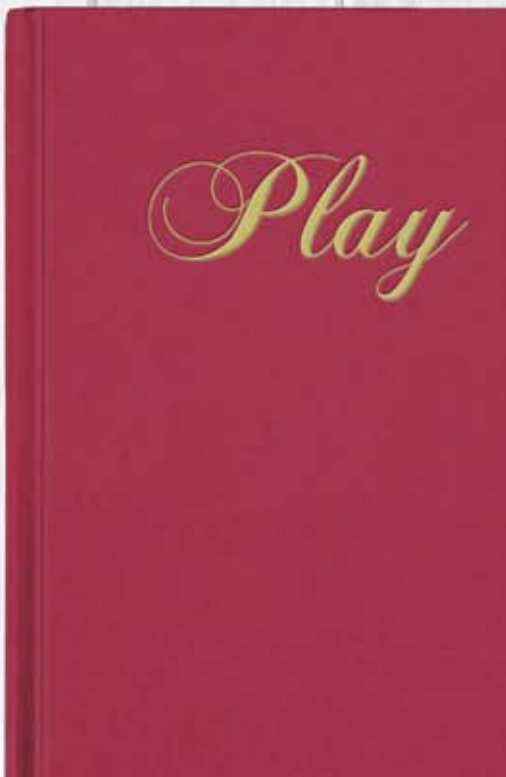
MEGAWORLD

Enduring Storeys
EXCITING CHAPTERS

Contents



Key Highlights

Net Income (in Philippine Pesos)
Excluding non-recurring gain

12B

Rental Income (in Philippine Pesos)

10B

Consolidated Net Income Growth
Excluding non-recurring gain

12%

New Townships

EASTLAND HEIGHTS

640 HECTARES

MAPLE GROVE

140 HECTARES

Financial Highlights

Consolidated Revenues
(in Billion Pesos)

Real Estate Revenues
(in Billion Pesos)

EBITDA
(in Billion Pesos)

Net Income
(in Billion Pesos)

	2012	2013	2014	2015	2016
Consolidated Revenues	30.6	35.5*	41.0*	44.8*	46.7*
Real Estate Revenues	21.5	25.8	29.5	32.7	33.1
EBITDA	11.3	13.1*	15.1*	16.4*	18.0*
Net Income	7.4	8.3*	9.4*	10.4*	11.6*

*Figures are exclusive of non-recurring gains.

Chairman's Message

From Megaworld's double-digit bottom-line growth to our highest-ever rental income, the results for 2016 closed yet another outstanding chapter in our company's remarkable history. It was a busy and fruitful year, with all our key businesses exhibiting excellent growth. Our residential market remained steadfast despite the headwinds in the industry. Our rental performance, meanwhile, continued its strong pace, and is poised to drive the company forward. Megaworld's range of hotel offerings is expanding—its contributions are significant when seen in the light of our country's upcoming infrastructure renaissance. Our goal is to continuously pursue our vision of creating the best value for our customers. This is a direction we have set for ourselves since Day 1, and we plan to stay the course.

Megaworld had a healthy financial performance last year. Excluding all non-recurring gains, our consolidated revenues grew 4% to P46.7 billion in 2016 from P44.8 billion in the previous year. Our core businesses supported this increase with varying contributions across the board.

On the residential front, Megaworld's real estate sales reached P27.5 billion last year. This is undoubtedly a high base and we were able to push it even further by tapping into other emerging markets in the country. Our residential offerings in our various townships such as Twin Lakes, Southwoods City, Iloilo Business Park and Davao Park District have been contributing more and more to our mix with every passing year. While our sales is and will be anchored in Metro Manila, we are dedicated to creating a diversified portfolio that will support the continued growth of our residential arm in the future.

Rental income propelled our revenues in 2016, growing 15% during the year, and ultimately reaching P10 billion for the first time. It is a significant milestone in our pursuit to make Megaworld an even stronger company. We also marked another important milestone on this side of the business when we breached 1 million square meters of leasable space in our office and commercial developments. Moving forward, our goal for rentals is to hit P20 billion in 2020, when we will have surpassed 2 million square meters in total leasable space. This means a doubling of rental income and space in just 4 years.

Our hotel business grew dramatically in 2016, exceeding the P1-billion mark in revenues—a landmark achievement. It was the fastest growing segment, expanding 46% to reach P1.2 billion by the end of the year. In terms of launches, we unveiled the Belmont Hotel in Newport City and Richmonde Iloilo in Iloilo Business Park last year. We are excited to ramp up our hotel developments, mainly under our homegrown hotel brands Belmont and Savoy.

Megaworld practiced excellent cost management last year, which eventually translated to a boost in our net income in 2016. Our operating expenses were efficiently kept to a minimum, growing only 4.5% during the year. Total costs and expenses also grew modestly at 2% last year, which led to a 12% improvement in our net income that reached P11.6 billion in 2016.

Our large-scale developments were at the heart of our accomplishments in 2016. We launched a live-work-play township called Maple Grove, a 140-hectare property in General Trias, Cavite, which we first announced in May last year. Maple Grove showcases the same lifestyle components that have become synonymous with the Megaworld township, but it will be particularly geared toward sustainability and environmental responsibility. We also launched another large-scale development in a new category, Eastland Heights in Antipolo, Rizal, through our subsidiary Global-Estate Resorts, Inc. Eastland Heights is our first "integrated lifestyle community" which focuses on residential and leisure components. Our diversification story is truly coming to life—we now have 22 townships and integrated lifestyle communities all over the Philippines: four in Fort Bonifacio, six in Metro Manila excluding Fort Bonifacio, five in Luzon excluding Metro Manila, six in Visayas, and one in Mindanao.

Looking at the bigger picture, we can see that Megaworld is in a prime position for growth in the years to come. First, the Philippines is in the league of faster-growing economies like China and India, having grown its GDP in the 6-7% range in 2016. Forecasts point to our country sustaining this kind of growth moving forward because of our strong fundamentals as a nation. Second, our government is pushing hard to roll out and complete more infrastructure projects, leading the country to its anticipated infrastructure renaissance a few years down the line. From an average spending of around 3% of GDP in the

"OUR GOAL IS TO CONTINUOUSLY PURSUE OUR VISION OF CREATING THE BEST VALUE FOR OUR CUSTOMERS. THIS IS A DIRECTION WE HAVE SET FOR OURSELVES SINCE DAY 1, AND WE PLAN TO STAY THE COURSE."

last 5 years, our government will set aside as much as 7% of GDP for this year until 2022. These things will greatly impact Megaworld's growth in the future because we have over 3,000 hectares of developable land across Luzon, Visayas, and Mindanao. The story of our diversification ties perfectly into this infrastructure program. Megaworld has access to the areas that will benefit and be modernized by such infrastructure.

The theme of our annual report this year alludes to a story of endurance and longevity. I would like to finish my message by looking back at our history. I founded our company 27 years ago. We had humble beginnings, building pocket developments before we even broke ground for our first township. We were the first to push for the presence of the IT-BPO industry in Eastwood City. We were also the first to create a township concept that has since become the benchmark for large-scale development in the country. Today, Megaworld is recognized as one of the largest residential developers in the Philippines. As a company, we continue to help boost the IT-BPO industry as the country's brightest pillar of growth. At the same time, we continue to serve as the biggest landlord of the office space this business requires. There are now 22 townships and integrated lifestyle communities in our roster, and we are constantly reinventing the way of life in the most strategic locations. All these are a testament of our commitment to continue building up the Megaworld story, and strengthening our brand in the years to come.

ANDREW L. TAN
CHAIRMAN & PRESIDENT

Live

in a complete community where everything you need is conveniently within reach.

Work

in a business environment that provides ample support as you move up the corporate ladder.

Play

using modern, state-of-the-art facilities for sports, leisure, and recreation.

Learn

in world-renowned educational institutions within our communities.

EASTWOOD CITY

Libis, Quezon City

Eastwood City pioneered the live-work-play-learn lifestyle template in the country. This 18.5-hectare property set in Libis, Quezon City is Megaworld's first foray into township development. Eastwood City features the top and the first-ever cyberpark accredited Philippine Economic Zone Authority, high-rise condominium residences and the multi-awarded Eastwood Mall.

18.5
HECTARES

21
RESIDENTIAL BUILDINGS

9,000 Units

11
OFFICE BUILDINGS

200,000 sqm Gross Leasable Area

3 COMMERCIAL DEVELOPMENTS

60,000 sqm Gross Leasable Area


l'entrecote
Jardin


AKIRA
The Coffee Bean

Forbes Town

Fort Bonifacio, Taguig City

Forbes Town is the urban professional's destination of choice in Fort Bonifacio. Within the 5-hectare development is a selection of stores, restaurants and wellness facilities along the Forbes Town Road retail strip and the Burgos Circle leisure center.

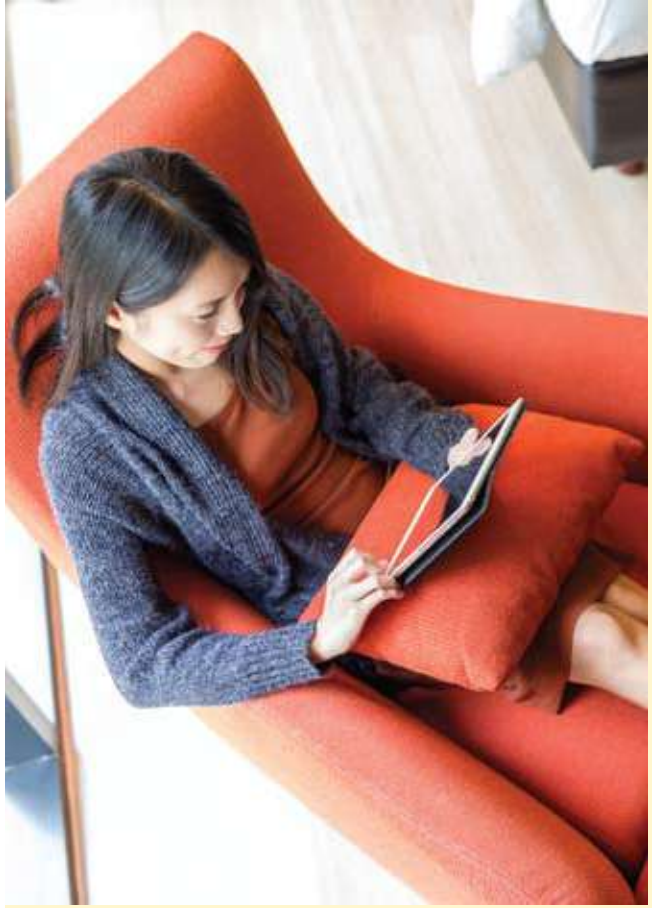
5
HECTARES

12
RESIDENTIAL BUILDINGS

4,000 Units

4
COMMERCIAL DEVELOPMENTS

15,000 Sqm Gross Leasable Area



McKINLEY HILL

Fort Bonifacio, Taguig City

Megaworld's biggest township in Metro Manila to date, the 50-hectare McKinley Hill takes its inspiration from Spanish and Italian aesthetics and features a Venetian-inspired commercial center. It offers an integrated lifestyle of live-work-play-learn-shop and hosts 8 Campus Place, the country's first LEED Gold-certified building for BPO companies.

50
HECTARES

23
RESIDENTIAL BUILDINGS

6,500 Units

1
RESIDENTIAL VILLAGE

500 Lots

17

OFFICE BUILDINGS

300,000 sqm Gross Leasable Area

2

COMMERCIAL DEVELOPMENTS

75,000 sqm Gross Leasable Area

NEWPORT CITY

Pasay City

Resorts World Manila, a family-friendly, Las Vegas-style recreation center is the main feature of Newport City. Established as a world-class integrated tourist destination, the 25-hectare development has an upscale shopping mall, a state-of-the-art performing arts theater, a first-class gaming center, and hotels that include the Maxims Hotel, the country's first-ever six-star hotel.

25
HECTARES

30
RESIDENTIAL BUILDINGS

6,500 Units

1
COMMERCIAL DEVELOPMENT

14,000 sqm Gross Leasable Area

5 HOTELS

2,000 Rooms

34.5
HECTARES

McKinley West

Fort Bonifacio, Taguig City

McKinley West offers a lifestyle experience rivalling that of its upscale neighbors Forbes Park and The Manila Polo Club. The 34.5-hectare modern community is the location of McKinley West Village and St. Moritz Private Estates, and is set alongside office developments and high-end commercial centers.

2 RESIDENTIAL BUILDINGS

200 Units

1 RESIDENTIAL VILLAGE

290 Lots

6 OFFICE BUILDINGS

70,000 sqm Gross Leasable Area

THE MACTAN NEWTOWN

Lapu-Lapu City, Cebu

The Mactan Newtown, Megaworld's first township outside Metro Manila, is a special economic zone designed to be an ideal retirement destination. In partnership with the Philippine Economic Zone Authority and the Philippine Retirement Authority, The Mactan Newtown offers a live-work-play-learn-shop lifestyle with a mix of premier residences, office blocks for multinational IT firms, a school and a leisure scene that has a hotel, mall and the Mactan Alfresco within the 30-hectare development.

30
HECTARES

7
RESIDENTIAL BUILDINGS

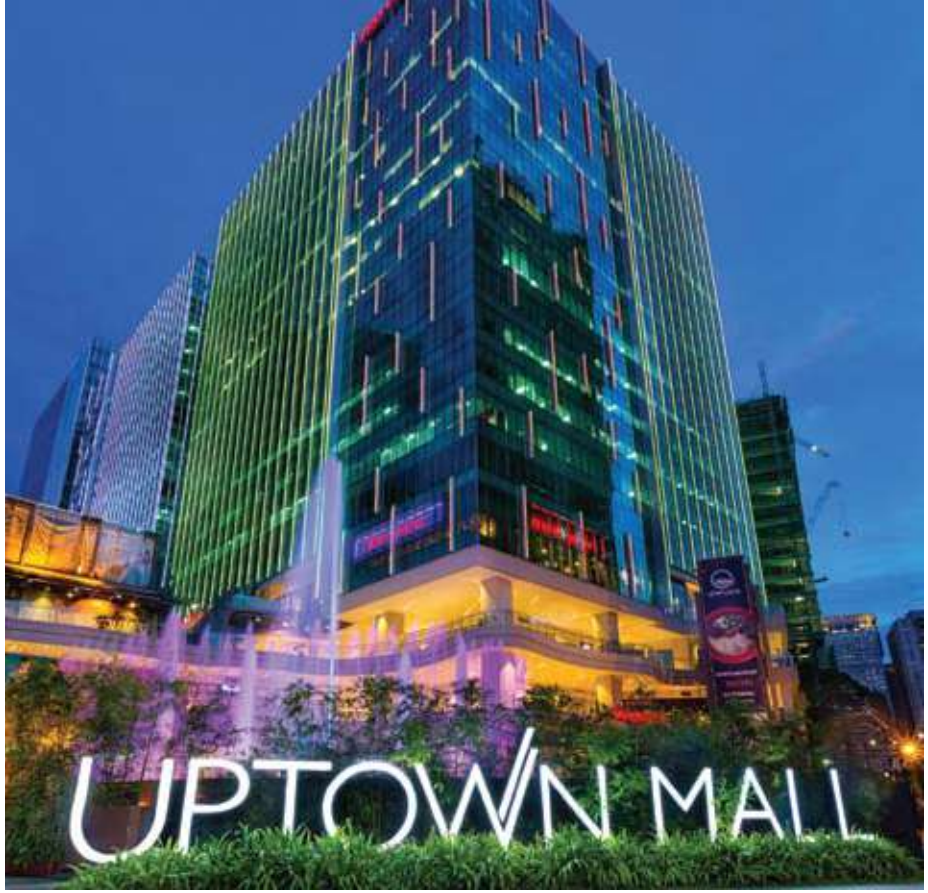
3,000 Units

4
OFFICE BUILDINGS

70,000 sqm Gross Leasable Area

1 COMMERCIAL DEVELOPMENT

4,700 sqm Gross Leasable Area



15.4
HECTARES

UPTOWN BONIFACIO

Fort Bonifacio, Taguig City

Experience the ambiance of cosmopolitan cities like Paris, London, Milan, New York and Tokyo at Uptown Bonifacio. At 15.4 hectares, Uptown Bonifacio is made for today's millennials, with its premium residences and exciting leisure destinations like The Palace and Uptown Mall. It will also be the future office address of the Alliance Global Group.

4 RESIDENTIAL BUILDINGS

3,000 Units

4 OFFICE BUILDINGS

200,000 sqm Gross Leasable Area

2 COMMERCIAL DEVELOPMENTS

50,000 sqm Gross Leasable Area

150
HECTARES

BORACAY NEWCOAST

Boracay, Aklan

What many consider as one of the best islands in the world is the site of the 150-hectare Boracay Newcoast, a master-planned tourism estate developed by Megaworld subsidiary Global-Estate Resorts, Inc. (GERI). Along a kilometer-long white sand beach will rise the Newcoast Station Grand Plaza, a revitalized 18-hole Fairways & Bluewater golf course as well as residential projects and hotels.

2 RESIDENTIAL BUILDINGS

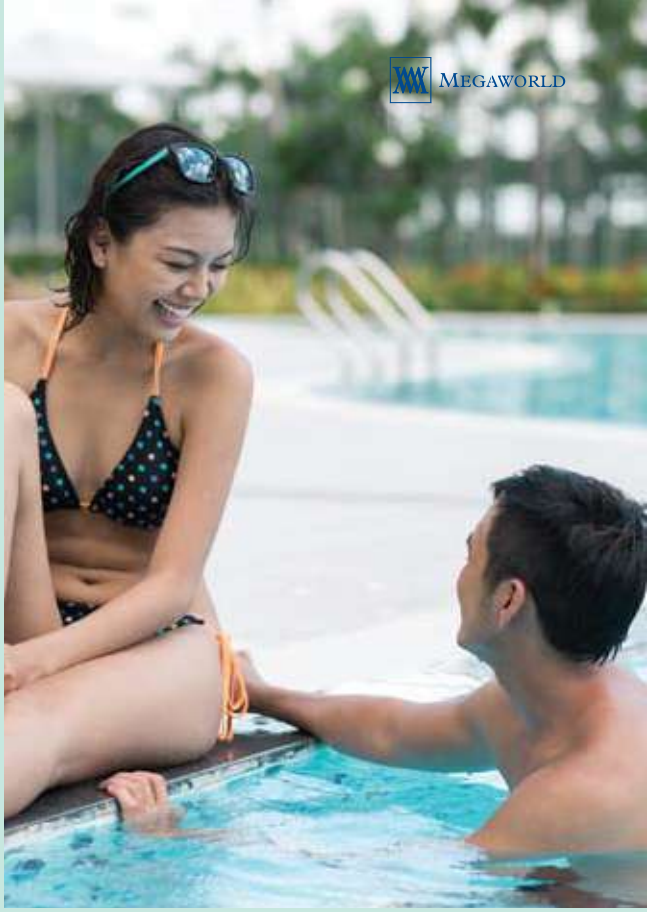
600 Units

1 RESIDENTIAL VILLAGE

200 Lots

2 COMMERCIAL DEVELOPMENTS

200 sqm Gross Leasable Area



TWIN LAKES

Alfonso, Batangas

The world-famous Taal lake and volcano provide the perfect backdrop for the residential and leisure developments of the first and only vineyard resort community in the country. Twin Lakes in Laurel, Batangas, a project of Megaworld subsidiary GERI, features a chateau and vineyards to grow its own grapes for its winery.

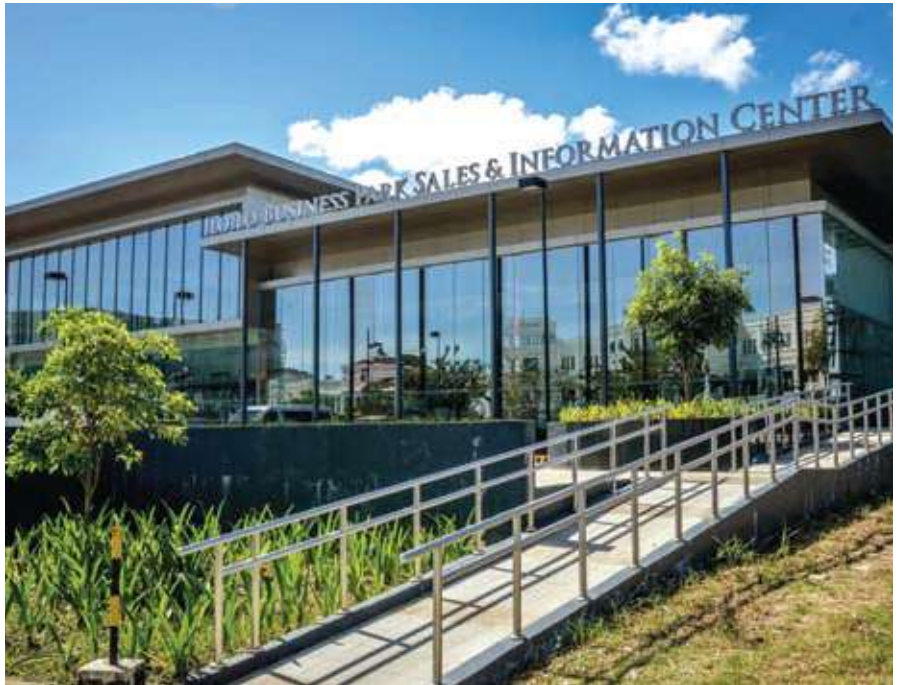
1,200
HECTARES

6
RESIDENTIAL BUILDINGS
600 Units

1
RESIDENTIAL VILLAGE
900 Lots

1 COMMERCIAL DEVELOPMENT

4,500 sqm Gross Leasable Area



72
HECTARES

8
RESIDENTIAL BUILDINGS

2,000 Units

ILOILO BUSINESS PARK

Mandurriao, Iloilo City

Megaworld's project in the Western Visayas Region brings opportunities to local residents and also reinforces the reverse migration trend. The 72-hectare Iloilo Business Park blends modernity with the Old World grandeur of the city with the unveiling of BPO offices and the Iloilo Convention Center, as well as Iloilo's first upscale mall and two luxury business hotels, the Richmonde Hotel and Courtyard by Marriott.

4 OFFICE BUILDINGS

40,000 sqm Gross Leasable Area

1 COMMERCIAL DEVELOPMENT

8,000 sqm Gross Leasable Area

1 HOTEL

150 Rooms

SUNTRUST ECOTOWN TANZA

Tanza, Cavite

This 350-hectare township marks the first mixed-use development that integrates a park within a township. Developed by Suntrust Properties, Inc., a fully-owned Megaworld subsidiary, Suntrust Ecotown is in Tanza, Cavite, and will host the offices of the Philippine Economic Zone Authority and the Bureau of Customs, featuring a business-friendly location near major airports, seaports and other business districts. Likewise, an additional 40 hectares is earmarked for expansion for lifestyle amenities and commercial and leisure hubs.

350
HECTARES

1
INDUSTRIAL PARK

200 Lots


SUNTRUST ECOTOWN TERMINAL


MEGAWORLD


SUNTRUST
ECOTOWN
TANZA

DAVAO PARK DISTRICT

Lanang, Davao City

Envisioned to be a premier central business district in the region, the 11-hectare Davao Park District will bring the live-work-play lifestyle to Lanang, Davao City. It will feature BPO offices, its very own mall, commercial and retail strips, as well as a themed residential condominium to be built by fully-owned Megaworld subsidiary, Suntrust Properties, Inc.

11
HECTARES

8
RESIDENTIAL BUILDINGS

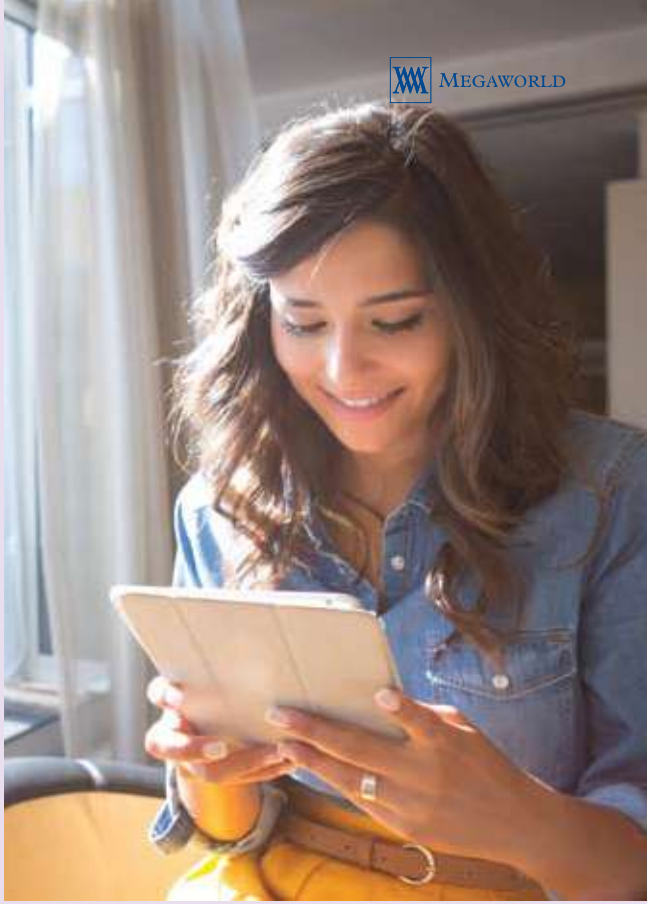
3,000 Units

1
OFFICE BUILDING

30,000 sqm Gross Leasable Area


MEGAWORLD


STO. NIÑO DE CEBU
SOUTHWOODS CITY



SOUTHWOODS CITY

Carmona, Cavite

At 561-hectares, Southwoods City is a master-planned township that offers cosmopolitan living in a suburban setting. Envisioned as the next major central business district south of Metro Manila, Southwoods City will host residences, a cyber park, malls and leisure facilities. It is located next to a Jack Nicklaus-designed golf course and easily accessible via South Luzon Expressway.

561
HECTARES

4
RESIDENTIAL BUILDINGS

600 Units

1
RESIDENTIAL VILLAGE

600 Lots

ALABANG WEST

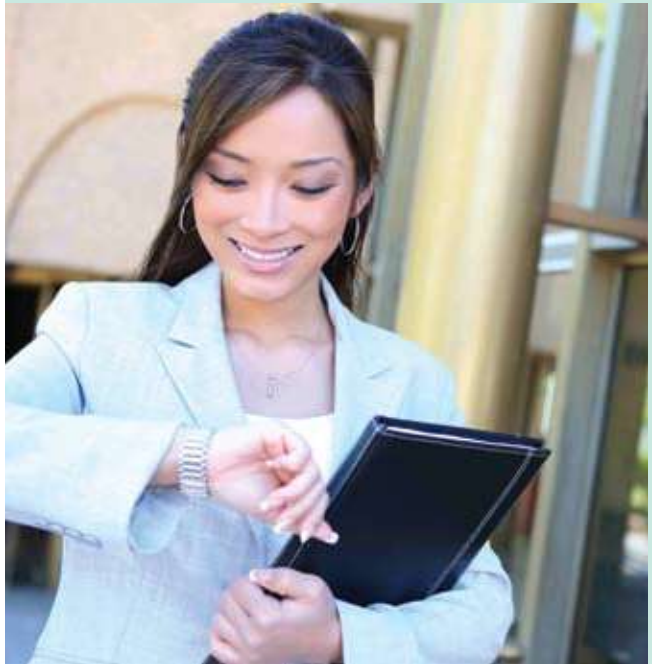
Las Piñas City

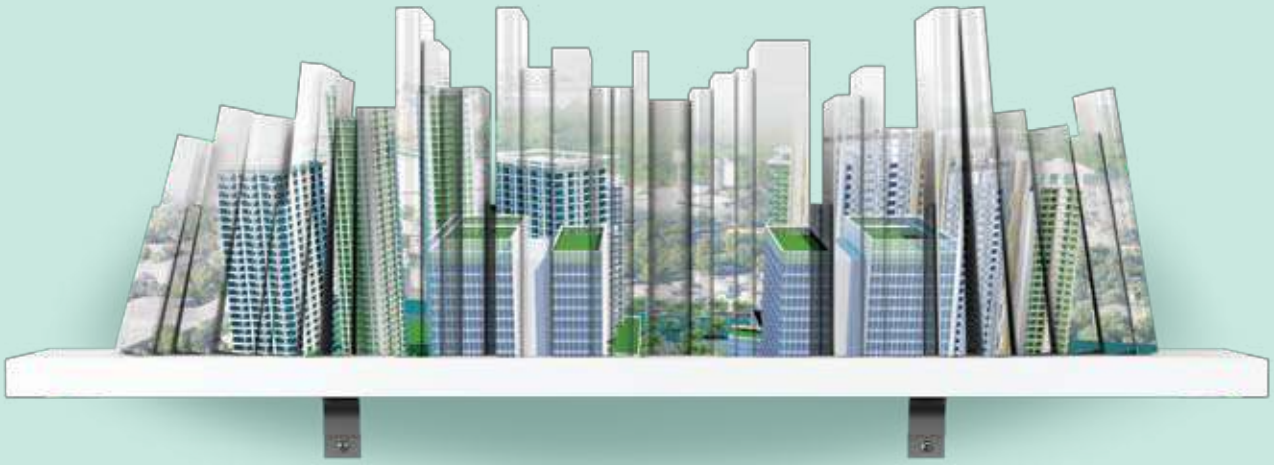
A 1.3-kilometer-long retail row inspired by Hollywood's Rodeo Drive is the main feature of this P10-billion, 62-hectare development strategically located at the heart of the city's high-end community. Alabang West's residential component features 797 prime lots and recreational amenities with easy access to Metro Manila via the South Luzon Expressway and the Daang Hari Exit.

62
HECTARES

1
RESIDENTIAL VILLAGE

800 Lots





ARCOVIA CITY

E. Rodriguez Jr. Avenue, Pasig City

Arcovia City is a P35-billion environment-friendly township along the C-5 Road in Pasig City. Megaworld will employ Leadership in Energy and Environmental Design (LEED) technology for its office developments, with the design of two of its office towers guided by world-renowned architectural firm Skidmore, Owings and Merrill. The 12.4-hectare project will be planted with no less than 1,000 trees as part of its landscape.

12.4
HECTARES


MEGAWORLD


NORTHHILL
TOWN CENTER

NORTHILL GATEWAY

Bacolod-Talisay, Negros Occidental

Along the famous sugar road in Bacolod lies Northill Gateway, a 53-hectare joint development of Megaworld and its wholly-owned subsidiary Suntrust Properties, Inc. This new integrated project will house upscale residential villages, mixed-use office and retail developments, leisure and recreational amenities as well as institutional facilities. It is set along the new circumferential road on the boundaries of Talisay City and Bacolod City, and has direct access to the new Bacolod-Silay airport.

53
HECTARES

2
RESIDENTIAL VILLAGES

1,000 Lots

STA. BARBARA HEIGHTS

Sta. Barbara, Iloilo

Sta. Barbara Heights in Iloilo City is set adjacent to the historic Santa Barbara church and convent and the Iloilo Golf Course Club, the oldest of its kind in Asia. The 173-hectare mixed-use development has 34 hectares allocated for residential lots set against a backdrop of a natural lake and rolling hills.

173
HECTARES

1
RESIDENTIAL VILLAGE

1,200 Lots


CAFE


MEGAWORLD


STA BARBARA
Heights

EASTLAND HEIGHTS

Antipolo City, Rizal

Eastland Heights is Megaworld's first development in the "integrated lifestyle community" category. Being built by its subsidiary, Global-Estate Resorts, Inc. (GERI), the 640-hectare property sits on rolling terrain at the foot of the scenic Sierra Madre Mountain Range, with some areas overlooking Metro Manila's panoramic skyline. Its main feature is a world-class 36-hole golf course and country club, which will occupy around 20% of the entire development. The township will allocate more than a hundred hectares for residential villages and will expand to subsequently include commercial, retail, and institutional components.

640
HECTARES

MAPLE GROVE

General Trias, Cavite

Megaworld's 21st township, the Maple Grove in Gen. Trias, Cavite is a 140-hectare property designed to be a world-class development that integrates urban lifestyle with nature and relaxation. The township will have a mix of residential, retail, office and institutional components. It is just 45 minutes away from Makati and other Metro Manila central business districts via Coastal Road and Cavitex.

140
HECTARES

CAPITAL TOWN
PAMPANGA

City of San Fernando, Pampanga

Easily accessible from Metro Manila via the North Luzon Expressway, Capital Town, launched in 2015, is a 35.6-hectare development in San Fernando, Pampanga that integrates residences, offices, commercial and institutional components.

35.6 HECTARES

The UPPER EAST

Bacolod Negros Occidental

The Upper East in Bacolod is modeled after New York City's Upper East Side district. The 34-hectare development is set to be the city's next commercial and BPO center. Set just across from the New Government Center, it will have an upscale residential village together with mixed-use office and retail buildings, leisure and recreational amenities and institutional establishments.

34 HECTARES

Westside City

Parañaque City

The highly-anticipated Grand Opera House will be built at the 31-hectare Westside City in the booming Entertainment City in Parañaque. This ideal destination for leisure and culture will also have prestigious residential condominiums, international hotels and a luxury mall.

31 HECTARES

Results of Operation

Review of December 31, 2016 versus December 31, 2015

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

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

Development

Among product portfolios, the bulk of consolidated revenues came from the sale of condominium units and residential lots, comprising 58.63% of total revenues. Real estate sales remained steady with a slight increase of 0.69%, amounting to P27.45-billion in 2016 versus P27.26-billion in 2015. The Group's registered sales mostly came from the following projects: One Eastwood Avenue Tower 2, Two Central, The Florence, St. Moritz Private Estate, Eastwood Global Plaza Luxury Residence, Savoy Hotel – Newport City, The Palladium, San Antonio Residence, Three Central, Palm Tree Villas 2, One Uptown Residence, 81 Newport Boulevard, Manhattan Heights Tower A, The Venice Luxury Residences, Uptown Parksuites Tower 1 & 2, Greenbelt Hamilton Towers 1 & 2, Uptown Ritz Residence, and Viceroy East Tower.

Leasing

Rental income soared 14.68% for the year, reaching P10.01 billion in 2016 from P8.73 billion last year. The Group's expanded office space and commercial retail portfolio backed the steady growth of leasing revenues.

Hotel Operations

The Group's revenues attributable to hotel operations posted an amount of P1.16 billion during the year with an increase of 46.06% from P796.32 million in 2015.

Total costs and expenses amounted to P35.10 billion, an increase by 1.99% from P34.42 billion last year. Interest and other charges – net increased by 5.19%, amounting to P2.87 billion in 2016 from P2.73 billion last year due to higher finance costs. Tax expense in 2016 amounting to P3.49 billion resulted to an increase of 6.23% from 2015 reported amount of P3.28 billion due to higher taxable income.

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

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

Financial Condition

The Group maintains a prudent financial policy as it engages to a more competitive and challenging environment. The Group's Statements of Financial Position reflects stable financial growth. Total resources as at December 31, 2016 amounted to P278.74 billion, posting an increase of 10.75% compared to P251.68 billion as at December 31, 2015.

The Group shows steady liquid position as at December 31, 2016 by having its current assets at P140.69 billion as against its current obligations at P40.89 billion. Current assets posted an increase of 7.25% from December 31, 2015 balance of P131.18 billion. Current obligations reflected an increase of 12.09% from December 31, 2015 balance of P36.48 billion.

Cash and cash equivalents decreased by 27.97% from P22.76 billion in 2015 to P16.40 billion in 2016 mainly due to capital expenditures and operating activities for business expansion. Current and non-current trade and other receivables – net increased by 13.64%, amounting to P62.67 billion as at December 31, 2016 compared to P55.15 billion as at December 31, 2015. Residential, condominium units, golf and resort shares for sale increased by 1.94% from P61.47 billion in 2015 to P62.66 billion in 2016 mainly due to the additional construction costs attributable to on-going projects. Property development costs increased to P20.11 billion, 35.31% higher than P14.86 billion last year. Land for future development increased by 21.88% from P18.12 billion in 2015 to P22.08 billion in 2016. The Group's investments in available-for-sale (AFS) securities – current and non-current decreased by 22.07%, from P4.70 billion in 2015 to P3.66 billion in 2016 due to changes in the fair market value of shares. Investment properties – net increased by 30.73% amounting to P60.49 billion in December 31, 2016 from P46.27 billion in December 31, 2015 due to completion and additional construction costs of real properties for lease. Property and equipment – net increased to P3.57 billion, up 17.02% from year-end 2015 balance of P3.05 billion due to additional costs incurred for hotel buildings.

Trade and other payables amounted to P13.57 billion and P12.07 billion as at December 31, 2016 and 2015, respectively. The increase of 12.41% was mainly due to higher payables to suppliers and contractors. Total current and non-current customers' deposits as at

December 31, 2016 amounted to P12.22 billion compared P6.94 billion as at December 31, 2015 with 75.96% increase. The combined effect of current and non-current deferred income on real estate sales increased by 2.09% which amounted to P10.68 billion as at December 31, 2016 compared to P10.46 billion as at December 31, 2015.

The interest-bearing loans and borrowings current and non-current amounted to P38.85 and P31.67 billion for December 31, 2016 and 2015, respectively, reflecting a 22.67% increase. Bonds payable increased by 6.69% – P22.33 billion as at December 31, 2016 compared to P20.93 billion as at December 31, 2015. Total other liabilities amounted to P6.50 billion from P5.56 billion as at December 31, 2016 and 2015, respectively, translating to a 16.78% increase.

Total Equity (including non-controlling interests) increased by 6.85% from P134.41 billion as at December 31, 2015 to P143.62 billion as at December 31, 2016 due to the Group's continuous profitability.

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

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

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

**1 – Current Assets / Current Liabilities*
**2 – Cash and Cash Equivalents / Current Liabilities*
**3 – Interest Bearing Loans and Borrowings and Bonds Payable / Equity*
**4 – Net Profit / Average Total Assets*
**5 – Net Profit / Average Equity (Computed using figures attributable only to parent company shareholders)*

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

Corporate Governance

Compliance with Leading Practices on Corporate Governance

In 2002, the Company adopted a Manual on Corporate Governance in order to institutionalize the principles of good corporate governance in the entire organization. Pursuant to the Company's Manual on Corporate Governance, the Company's Board of Directors created the following committees and appointed members thereto.

Audit Committee

The Audit Committee assists the Board in the performance of its oversight of the financial reporting process, system of internal control, audit process, and compliance with applicable laws, rules and regulations. The Committee provides oversight over financial management functions, including the internal and external auditors and the financial statements of the Company. On October 3, 2012, the Board approved the Audit Committee Charter which states its purpose, membership, structure, operations, duties and responsibilities. The Audit Committee has three members, two of whom are independent directors. An independent director serves as its head.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee is responsible for establishing a formal and transparent procedure for developing a policy on remuneration of the directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates. The Compensation and Remuneration Committee consists of three members, including at least one independent director.

Nomination Committee

The Nomination Committee reviews and evaluates the qualifications of all persons nominated to the Board and other appointments that require Board approval. The Nomination Committee has three members, including at least one independent director.

In 2016, the members of the Board were required to take a Corporate Governance Orientation course and were also encouraged to undergo further training in corporate governance. Some directors have attended the Professional Directors Program of the Institute of Corporate Governance and participated in Corporate Governance roundtable conferences. The Company complies with its Manual on Corporate Governance requirement that it rotate its external auditor or change the handling partner every five (5) years or earlier. The Company likewise increased the number of independent directors in its Audit Committee, from one independent director to two independent directors, and appointed an independent director to head the Audit Committee, in accordance with SEC Memorandum Circular No. 6.

Evaluation System

The Company has designated a Compliance Officer who is tasked with monitoring compliance with the provisions and requirements of its Manual on Corporate Governance. The Compliance Officer has established an evaluation system, patterned after the CG Scorecard of the Institute of Corporate Directors to measure or determine the level of compliance by the Company with its Manual.

Deviations from Manual and Sanctions Imposed

In 2016, the Company substantially complied with its Manual on Corporate Governance and did not materially deviate from its provisions. No sanctions were imposed on any director, officer or employee on account of non-compliance with the Company's Manual on Corporate Governance

Plan to Improve Corporate Governance

Pursuant to SEC Memorandum Circular No. 6, Series of 2009 and as further amended by SEC Memorandum Circular No.9, Series of 2014, the Company revised its Manual of Corporate Governance to make the same compliant with the Revised Code of Corporate Governance. The Company is also in the process of updating its Manual of Corporate Governance to comply with SEC Memorandum Circular No. 19, Series of 2016 and will continue to adopt best practices in Corporate Governance as may be prescribed by the Commission.

Risk Management

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

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

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

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

Services rendered by independent contractors may not always match the Company's requirements for quality or be available within its budget. The Company relies on independent contractors to provide various services, including land clearing and infrastructure development, various construction projects and building and property fitting-out works. Although the Company invites contractors to tender bids according to their reputation for quality and track record, and although once a contract is awarded the Company supervises the construction progress, there can be no assurance that the services rendered by any of its independent contractors will always be satisfactory or match the Company's requirements for quality. Contractors may also experience financial or other difficulties, and shortages or increases in the price of construction materials may occur, any of which could delay the completion or increase the cost of certain development projects.

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

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

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

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

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

Maintain a strong financial position. The Company intends to maintain its strong financial position by controlling costs and maintaining its net cash position. The Company is able to control development costs by generating a significant portion of its project financing from pre-sales of residential units. By securing post-dated checks and providing a variety of financing options to buyers, the Company limits its cash outlays prior to obtaining project funds. The Company also controls development costs by entering into joint development agreements with landowners, which is a cost-effective means of obtaining rights to develop land as initial costs are fixed and future payments are a fixed percentage of revenue from sales and leasing activity.

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

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

THE AWARD-WINNING 'CAUSE FOR A NEW COAST'

Boracay Island, one of the best beach destinations in the world today, is known for its natural wonders. Its powdery white sand, clear waters and majestic sunsets are a major draw for both local and international visitors.

For years, the influx of thousands of tourists, coupled with uncontrolled land development, has taken its toll on Boracay. Despite the progress of the island, various environmental and social concerns have arisen and continue to threaten its fragile ecosystem.

A big percentage of visitors to the island arrive during the summer season and "LaBoracay." Dubbed as the "spring break of the Philippines," LaBoracay is held on the weekend closest to Labor Day, which, in the country, falls on May 1. The event features a series of non-stop beach parties, water activities, sports competitions and music concerts.

Official statistics from the Department of Tourism show that in 2016, as many as 90,000 tourists descended on Boracay during the Labor Day weekend. While the event was successful in underscoring the attractiveness of the island, it also generated a staggering amount of garbage.

In a bid to help preserve the island, Megaworld, through its subsidiary Global-Estate Resorts, Inc. launched the "Cause for a New Coast" initiative, envisioned as a non-profit service advocacy of the company. Started in 2015, the advocacy

Complementing the main clean-up campaign was an expanded educational campaign. About 250 volunteers helped distribute educational materials detailing the ill effects of garbage on Boracay, and how tourists can help solve the problem. More than 100,000 local and foreign tourists were reached by the educational campaign, promoting much-needed awareness and engagement for the entire initiative.

The campaign surpassed its initial target garbage collection of 3,000 kilos. With the cooperation of all stakeholders, 7,400 kilos of garbage were collected, more than 200% of the campaign's target garbage collection.

The successful results and positive impact of Cause for a New Coast garnered the campaign the Anvil and Quill Awards, two of the country's most prestigious awards in the field of communication.

is the first long-term sustainable initiative for Boracay Island that encourages locals and tourists to clean up and enhance the coastline, especially during LaBoracay parties.

Headlining the 2016 campaign was "Clean as You Party: The LaBoracay 2016 Clean-Up Movement." Some 120 eco-friendly trash bins were donated and placed in the vicinity of partner establishments, making it easier for patrons to do their part for the island.

People Development

The success of Megaworld as a company is anchored on the collective efforts of its people. Employees at Megaworld are key to its continued progress—this makes people development integral for the company.

Deeply embedded in Megaworld's culture are the core values of integrity, hard work and excellence. To ensure the effective onboarding of employees, they are acculturated early on, immersed in the company's vision, and given a clear sense of direction. Supporting this acculturation are the subsequent initiatives of Megaworld's Human Resources Department.

In 2016, Megaworld put talent development, people innovation and employee empowerment at the core of its HR efforts.

Talent Development

Creating a sustainable organization starts with hiring the right talent. Last year, Megaworld upped its visibility in terms of talent acquisition. Through the HRD, it took part in nearly 25 job fairs held in Metro Manila, Pampanga, Baguio, Cebu and Boracay. During these events, the company boosted its logistic capacities and utilized more creative executions to ensure increased quality interaction with potential applicants. Aside from on-ground efforts, it also took advantage of the combined synergy of online sourcing and referrals.

Megaworld hired over 800 people in 2016, who were screened using a recruitment process involving assessments in the form of standardized tests and competency-based interviews.

Attracting effective, productive and high-performing people is only the first step in the company's series of integrated HR processes.

People Innovation

Megaworld is aware that motivating and retaining its current employee pool is a continuous process. By providing its people with various opportunities to experience innovation both personally and professionally, the company grows employee engagement. This, in turn, makes them feel more compelled to undertake positive actions that are in the best interests of the company.

Over 15 programs geared toward employee engagement and wellness were offered in 2016, and inspired employees to embrace a more holistic outlook that would benefit both their personal and work lives.

Innovation also came in the form of upgraded technological tools. Last year, the company launched an online, real-time platform for its annual performance evaluation.

Employee Empowerment

The improvement in the competencies of its employees is a big focus of Megaworld. Owing to its culture, people in the company have developed a mindset that welcomes training. Employees are empowered to personally seek at least 8 hours of training through Megaworld each year to fulfill their respective training and learning goals.

The Megaworld Learning Academy (MLA) is the primary venue of the company in providing both educational and entertaining learning programs. In 2016, MLA was able to offer close to 20 learning programs, under which 55 learning sessions were held, with an attendance of some 4,530 participants.

MLA expanded its roster of programs last year, rolling out "Leading Millennials," "Raise the Bar," "5S+2," "Sustainability Workshop" and "Accounting for Non-accountants." It also launched the MLA Learning Passport, a tangible monitoring tool for employees to see in an instant the in-house programs they are eligible to attend. The passport has since helped employees monitor their own learning journey and develop accountability for their development and growth.

Meanwhile, MLA's annual Leaders Conference (LeadCon) underwent a big change in 2016. From its one-speaker format, the conference evolved into an event featuring three of the country's best speakers. For last year, three important leadership aspects were discussed in separate talks by Mr. Ardy Abello (motivation), Mr. Anthony Pangilinan (excellence) and Mr. JJ Roces (legacy). A forum was another new segment of LeadCon. It opened the floor for questions and an exchange of insights—in a more casual setting—after each talk.

Spiritual development was also addressed by Megaworld. The company's Spiritual Development Program offered over 20 sessions, with an average attendance of close to 220 participants for 2016.

Corporate Social Responsibility

OVERVIEW

A Community Helping Communities

Megaworld Foundation, Megaworld Corporation's socio-civic arm, is a non-stock, non-profit organization established to undertake corporate social responsibility initiatives for the empowerment of individuals and communities. Since its inception in September 1997, the foundation has steadily grown each year the number of scholarship grants, donations and assistance it has afforded to Filipinos.

For almost 20 years now, Megaworld Foundation reached out to people in various communities and helped marginalized sectors of society. Through its socio-civic efforts, the foundation aspires to create a ripple effect of service and upliftment among individuals and communities—strengthening the Filipino culture of "bayanihan."

HIGHLIGHTS

8th Annual Global CSR Summit and Awards

Megaworld Foundation's endeavors in providing access to quality education to deserving youth across the country were, once again, given recognition at the 8th Annual Global Awards 2016 held in Bali, Indonesia. The foundation received a Gold Award under the Excellence in Provision of Literacy and Education Category.

51st Anvil Awards

The prestigious Anvil Awards, spearheaded by the Public Relations Society of the Philippines, recognized Megaworld Foundation for its continuous efforts in promoting education through its scholarship program. The foundation won a Silver Award under Public Relations Programs on a Sustained Basis, under the Education and Literacy Category, during the awards night held at the Makati Shangri-La Hotel in Makati City.

6th Asia Best CSR Practices

Megaworld Foundation was the sole winner at the 6th Asia Best Corporate Social Responsibility Practices Awards under Best Education Project in CSR that took place in Singapore on August 5, 2016. The 6th Asia Best CSR Practices Awards is one of Asia's highest recognitions for corporate organizations that have a significant and positive impact on the lives of people around them.

The award was given by CMO Asia, a knowledge exchange group that focuses on leadership and networking among senior decision makers. Its mission is centered on the sharing of global best practices across countries.

Asian NGO Leadership Awards

On October 5, 2016, the Asian Confederation of Businesses awarded Megaworld Foundation as one of the winners under the Education and Learning Category at the Asian NGO Leadership Awards 2016 held in Dubai, UAE. The NGO Award is a first-of-its-kind initiative recognizing best practices of individuals and organizations in the NGO industry.

SCHOLARSHIP PROGRAM

OVER 5,000 SCHOLARSHIP GRANTS GIVEN

479 GRADUATE SCHOLARS

OVER 280 HIRED GRADUATES

OVER 230 GRADUATES WITH HONORS

Cap Toss: Scholar Send-off Ceremony

Every year, Megaworld Foundation celebrates the success of its graduating scholars by organizing a send-off ceremony to recognize their hard work in pursuing their dreams. For every event, the foundation aims to equip the scholars with values and practical skills that can help guide them as they navigate the corporate world.

During the 2016 Cap Toss event, the graduating scholars listened to alumni scholars-turned-Megaworld employees as they shared useful insights—ranging from how to write an effective resumé to how to ace that first job interview. Another key part of the program shared information on the businesses of Dr. Andrew Tan under the Alliance Global Group, Inc., and its interest in providing employment opportunities to this new generation of scholars.

Santa Scholars: Christmas Gift-giving Activity

The Santa Scholars Christmas Gift-giving Activity was an outreach activity inspired by Megaworld Foundation scholars who were eager to pay it forward and share the joy of Christmas to the less privileged. The activity saw the scholars "play Santa Claus," affording them opportunities to be generous and give hope to underprivileged families whose stories have had a personal impact on the scholars' lives.

For this initiative, some 30 beneficiary families from various poverty-stricken communities received a complete Christmas package that would ensure their enjoyment of a filling Christmas meal.

Scholars' Feeding Activity

In 2016, the scholars volunteered to join the feeding activity of the foundation in partnership with the Assembly of Family and Friends in Christ, which was able to provide food for 200 children from the province of Rizal.

Shoe Donation

Another volunteerism initiative of the foundation had scholars distributing 200 pairs of school shoes to ERDA Technical and Vocational Secondary School in Pandacan, Manila. The foundation has distributed a total of 580 pairs of shoes to the school, addressing the concern of many students who cannot afford basic footwear and are therefore unable to attend their classes.

Corporate Social Responsibility

PARTNERSHIP-BUILDING

Megaworld Foundation believes that it is not alone in the plight of helping others, and that other organizations in various sectors share its vision. By linking arms with these organizations, the foundation is able to do more for different communities because of the expertise of its partners.

Currently, the foundation has a network of more than 200 partner organizations throughout the country that focuses on advocacies centered on:

- Education
- Children and youth
- Calamity response
- Social infrastructure
- Health
- People with disabilities
- The elderly
- The environment
- Women

VOLUNTEERISM

Megaworld volunteers' Gift-giving Activity

On April 2016, members of Megaworld Foundation visited the residents of SinagTala Home for the differently abled in Project 8, Quezon City, to see to their needs.

As part of its efforts in the home, the foundation provided each resident with a three-month supply of goods, necessities, vitamins and hygiene kits.

Eight months later, for the Christmas season, another volunteer activity was held. This time, the foundation reached out to various communities in Metro Manila and far-flung provinces such as Batangas and Zambales to distribute gift packs containing supplies good for 800 individuals.

Green Thumbs-up: Megaworld Tree Planting Activity

Megaworld's annual tree-planting activity dubbed "Green Thumbs-up!" encourages company employees to do their part for the environment. As volunteers, the employees are given the task of planting trees to help keep alive the La Mesa Nature Reserve, the last remaining forest in the metro.

For 2016, about 50 Megaworld employee volunteers planted 400 saplings, an effort implemented under the Protect-a-Hectare program of the ABS-CBN Lingkod Kapamilya Foundation, Inc.

The foundation has supported the program since 2010 and has protected a total of 9 hectares at the nature reserve.

Feeding Activity

Through feeding activities, Megaworld Foundation helps give children from indigent communities a fighting chance against malnutrition.

On July 2016, Megaworld Foundation, in partnership with Real Life Foundation, conducted a feeding activity at Pembo Elementary School, Makati City, that benefitted 100 children from nearby barangays.

Aside from distributing meals, Megaworld employee volunteers interacted with the children through art and storytelling sessions as well as other recreational activities.

Medical-Dental Mission

The foundation joined hands with Operation Blessing Philippines on November 2016 to provide free medical and dental services to indigent patients of Kanlungan ni Erma and its other adopted communities. The patients enjoyed a free haircut and medical consultation and received vitamins and medicine. Dental services were also offered to both children and adults.

At the end of the mission, the foundation and Operation Blessing Philippines successfully served 185 patients who were in need of medical attention.

Health Fair Activity

Megaworld employee volunteers took part in an event called "Health Fair 2016," organized by Food for the Hungry Philippines to raise awareness for basic health practices among children.

During the activity, the beneficiary children were taught the importance of proper hand washing and grooming. In support of the health fair's objective, 150 kits, which came complete with basic hygiene necessities, were distributed by the volunteers to the beneficiaries.

Food for the Hungry Philippines also held an "Under Five Feeding Program." Megaworld Foundation supported the 90-day program that benefited 30 children.

Board of

From Left:

Jesus B. Varela
Independent Director/
Vice Chairman

Katherine L. Tan
Director

Roberto S. Guevara
Independent Director

Kingson U. Sian
Executive Director

Andrew L. Tan
Chairman & President

Enrique Santos L. Sy
Director

Gerardo C. Garcia
Independent Director

Directors

Board of Directors Profile

Andrew L. Tan
Chairman of the Board/President

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

Katherine L. Tan
Director

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

Kingson U. Sian
Director and Executive Director

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

Enrique Santos L. Sy
Director

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

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

Jesus B. Varela
Independent Director/Vice Chairman

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

Gerardo C. Garcia
Independent Director

Mr. Garcia has served in the Company's Board of Directors since 1994. He concurrently serves as independent director in the boards of publicly-listed Empire East Land Holdings, Inc. and Global-Estate Resorts, Inc. He also serves as an independent director of Megaworld Land, Inc. and Suntrust Properties, Inc. From October 1994 to December 1997, Mr. Garcia served as President of Empire East Land Holdings, Inc. Prior to joining Empire East Land Holdings, Inc. Mr. Garcia served as Executive Vice President of UBP Capital Corporation. He holds a bachelor's degree in Chemical Engineering and a Master's Degree in Business Administration from the University of the Philippines.

Roberto S. Guevara
Independent Director

Mr. Guevara has been a member of the Company's Board of Directors since June 20, 2001. He is Chairman of the Board of Directors of Seed Capital Ventures, Inc. He serves on the board of other companies, such as G & S Transport Corporation, a licensee of Avis Car Rentals, Guevent Industrial Development Corporation and Radiowealth Finance Corporation, and as independent director of First Centro, Inc. and Kalahi Realty, Inc. He is also the President of RFC (HK) Limited. Mr. Guevara graduated from San Beda College in 1974, and received graduate degree from the Asian Institute of Management and a post graduate course at the Institute for Management Development (IMD), in Lausanne, Switzerland.

Key Officers

Lourdes T. Gutierrez-Alfonso
Senior Executive Vice President
Chief Operating Officer

Andrew L. Tan
Chairman & President

Kingson U. Sian
Executive Director

1. **Rafael Antonio S. Perez**
   Head
   Human Resources
   & Corporate Administration

2. **Jericho P. Go**
   Senior Vice President
   Business Devolopment
   & Leasing

3. **Ma. Carla T. Uykim**
   Head
   Corporate Advisory
   & Special Projects

4. **Giovanni C. Ng**
   Senior Vice President
   Finance Director

5. **Carmen C. Fernando**
   Managing Director
   Prestige Hotels

6. **Francisco C. Canuto**
   Senior Vice President
   Treasurer

7. **Kevin L. Tan**
   Senior Vice President
   Commercial Division

8. **Philipps C. Cando**
   Senior Vice President
   Operation

9. **Noli D. Hernandez**
   Senior Vice President
   Sales & Marketing

10. **Kimberly Hazel A. Sta. Maria**
    Head
    Corporate Communications
    & Advertising

11. **Ma. Victoria M. Acosta**
    Senior Vice President
    International Marketing

12. **Raymundo V. Melendres**
    Managing Director
    Global Luxury Hotels

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENT

The management of **Megaworld Corporation and Subsidiaries**, is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

ANDREW L. TAN
Chairman of the Board

ANDREW L. TAN
Chief Executive Officer

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

Signed this 29th day of March 2017

SUBSCRIBED AND SWORN to before me on this day of 29th day of March 2017 at City of Makati, Philippines affiants exhibiting to me their Tax Identification Nos. as follows:

Andrew L. Tan	125-960-003-000
Francisco C. Canuto	102-956-483-000

Doc. No. 276;
Page No. 57;
Book No. 02;
Series of 2017

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPT. NO. M-88
UNTIL DEC. 31, 2018
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. IV-0016333-4/10/13
I.B.P O.R No. 706762, LIFETIME MEMBER JAN 29, 2007
PTR No. 590-90-82 JAN.3, 2017
EXECUTIVE BLDG. CENTER
MAKATI AVE. COR., JUPITER ST. MAKATI CITY

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Megaworld Corporation and Subsidiaries
(A Subsidiary of Alliance Global Group, Inc.)
28th Floor, The World Centre Building
Sen. Gil Puyat Avenue, Makati 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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 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 out 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 contact 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, 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 contact 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 fair value less costs to sell (which uses current transaction prices) and the value-in-use (which uses a certain discount rate and cash flows projections) of real estate and rental segments, 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 is presented in Note 14.

How the Matter was Addressed in the Audit

We evaluated the reasonableness of assumptions used in determining the fair value less costs to sell of real estate and rental segments with reference to current transaction prices of similar properties held by the Group. We also tested the assumptions, methodologies and weighted average cost of capital used in discounting the cash flows projections 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, 2016 is P60.5 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 P244.2 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 33 to the consolidated financial statements while the fair value of investment properties as of December 31, 2016 is presented in Note 12.

How the Matter was Addressed in our 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, 2016, 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, 2016 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.

REPORT OF INDEPENDENT AUDITORS

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 audit 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. 5908630, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 1363-AR-I (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 29, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

(With Corresponding Figures as of January 1, 2015)

(Amounts in Philippine Pesos)

	Notes	December 31, 2016	December 31, 2015 (As Restated–See Note 2)	January 1, 2015 (As Restated–See Note 2)
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	5	**P 16,395,663,456**	P 22,763,063,173	P 25,142,949,887
Trade and other receivables - net	6	**26,996,127,314**	22,453,734,175	20,694,945,868
Residential, condominium units, golf and resort shares for sale - net	7	**62,659,149,563**	61,466,864,765	56,908,140,889
Property development costs	3	**20,105,196,663**	14,858,143,294	12,390,474,097
Investments in available-for-sale securities	9	**66,501,898**	-	-
Advances to contractors and suppliers	2	**8,511,641,803**	4,909,049,653	3,023,954,443
Prepayments and other current assets - net	8	**5,955,537,397**	4,724,510,295	3,930,038,987
Total Current Assets		**140,689,818,094**	131,175,365,355	122,090,504,171
NON-CURRENT ASSETS				
Trade and other receivables - net	6	**35,674,848,340**	32,694,770,838	28,911,089,037
Advances to landowners and joint ventures	10	**4,859,000,177**	6,481,862,730	4,823,705,981
Land for future development	3	**22,079,341,640**	18,115,516,349	13,212,623,684
Investments in available-for-sale securities	9	**3,595,778,288**	4,699,583,654	6,146,267,429
Investments in and advances to associates and other related parties	11	**5,188,535,019**	6,772,193,903	6,083,083,483
Investment properties - net	12	**60,493,481,173**	46,272,070,191	35,762,629,818
Property and equipment - net	13	**3,570,186,965**	3,050,852,191	1,867,373,139
Deferred tax assets - net	26	**75,533,803**	67,107,874	77,267,099
Other non-current assets - net	14	**2,515,994,151**	2,355,440,617	2,065,297,752
Total Non-current Assets		**138,052,699,556**	120,509,398,347	98,949,337,422
TOTAL ASSETS		**P 278,742,517,650**	P 251,684,763,702	P 221,039,841,593

	Notes	December 31, 2016	December 31, 2015 (As Restated–See Note 2)	January 1, 2015 (As Restated–See Note 2)
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Interest-bearing loans and borrowings	15	**P 6,005,651,572**	P 4,244,935,177	P 2,625,737,935
Bonds payable	16	**-**	-	5,000,000,000
Trade and other payables	17	**13,566,744,368**	12,069,419,857	10,620,187,419
Customers' deposits	2	**6,135,777,300**	5,880,223,576	5,847,731,277
Reserve for property development	2	**7,460,325,834**	6,437,971,861	7,063,089,278
Deferred income on real estate sales	2	**5,561,346,611**	5,653,790,826	5,340,188,412
Income tax payable		**126,290,564**	130,563,095	146,218,656
Other current liabilities	19	**2,033,398,951**	2,061,912,229	2,234,881,908
Total Current Liabilities		**40,889,535,200**	36,478,816,621	38,878,034,885
NON-CURRENT LIABILITIES				
Interest-bearing loans and borrowings	15	**32,847,121,469**	27,427,696,485	6,126,996,683
Bonds payable	16	**22,330,589,969**	20,929,920,130	19,784,913,748
Customers' deposits	2	**6,080,125,315**	1,062,317,494	1,396,448,740
Redeemable preferred shares	18	**1,257,987,900**	1,257,987,900	1,257,987,900
Reserve for property development	2	**8,846,206,033**	9,751,642,232	8,302,500,433
Deferred income on real estate sales	2	**5,119,282,510**	4,808,072,809	4,518,013,829
Deferred tax liabilities - net	26	**9,899,659,695**	9,637,196,264	8,138,764,944
Advances from associates and other related parties	27	**2,424,926,309**	1,491,160,829	903,152,243
Retirement benefit obligation	25	**965,204,603**	925,195,114	1,077,540,365
Other non-current liabilities	19	**4,463,538,318**	3,501,403,181	1,856,694,602
Total Non-current Liabilities		**94,234,642,121**	80,792,592,438	53,363,013,487
Total Liabilities		**135,124,177,321**	117,271,409,059	92,241,048,372
EQUITY	28			
Total equity attributable to the Company's shareholders		**125,480,239,117**	116,688,480,613	110,802,948,163
Non-controlling interests		**18,138,101,212**	17,724,874,030	17,995,845,058
Total Equity		**143,618,340,329**	134,413,354,643	128,798,793,221
TOTAL LIABILITIES AND EQUITY		**P 278,742,517,650**	P 251,684,763,702	P 221,039,841,593

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
REVENUES AND INCOME				
Real estate sales	20	**P 27,450,993,911**	P 27,262,297,450	P 24,606,554,437
Interest income on real estate sales	6	**1,700,850,559**	1,677,596,838	1,671,138,097
Realized gross profit on prior years' sales	20	**3,978,988,971**	3,786,994,581	3,229,266,841
Rental income	12	**10,011,504,052**	8,729,655,235	7,070,911,439
Hotel operations	2	**1,163,103,124**	796,322,364	722,971,143
Equity in net earnings of associates	11	**136,866,743**	138,614,220	328,707,760
Interest and other income - net	23	**2,375,237,112**	2,604,179,681	15,501,208,246
		46,817,544,472	44,995,660,369	53,130,757,963
COSTS AND EXPENSES				
Real estate sales	21	**15,514,651,678**	15,434,942,352	14,363,869,187
Deferred gross profit	2	**4,197,865,236**	4,515,385,332	4,538,218,791
Hotel operations	2	**681,601,381**	467,982,367	368,443,782
Operating expenses	22	**8,353,683,605**	7,991,895,011	7,491,693,766
Interest and other charges - net	24	**2,867,726,950**	2,726,266,816	1,624,478,535
Tax expense	26	**3,489,339,020**	3,284,678,495	3,120,330,226
		35,104,867,870	34,421,150,373	31,507,034,287
PROFIT FOR THE YEAR BEFORE PRE-ACQUISITION INCOME		**11,712,676,602**	10,574,509,996	21,623,723,676
PRE-ACQUISITION LOSS (INCOME) OF SUBSIDIARIES	1	**(3,314,788)**	291,847	(69,008,162)
NET PROFIT FOR THE YEAR		**P 11,709,361,814**	P 10,574,801,843	P 21,554,715,514
Net profit attributable to:				
Company's shareholders		**P 11,331,824,386**	P 10,215,095,444	P 21,219,577,584
Non-controlling interests		**377,537,428**	359,706,399	335,137,930
		P 11,709,361,814	P 10,574,801,843	P 21,554,715,514
Earnings Per Share:	29			
Basic		**P 0.356**	P 0.321	P 0.670
Diluted		**P 0.355**	P 0.319	P 0.667

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
NET PROFIT FOR THE YEAR		**P 11,709,361,814**	P 10,574,801,843	P 21,554,715,514
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss -				
Actuarial gains (losses) on retirement benefit obligations	25	**45,977,971**	316,613,558	(165,532,030)
Tax income (expense)	25, 26	**(13,793,391)**	(94,984,067)	49,659,609
		32,184,580	221,629,491	(115,872,421)
Share in other comprehensive income (loss) of associates	11	**(27,975,475)**	38,744,144	-
		4,209,105	260,373,635	(115,872,421)
Items that will be reclassified subsequently to profit or loss:				
Fair valuation of available-for-sale securities:				
Fair value losses during the year		**(1,071,530,344)**	(2,741,305,680)	(416,644,686)
Fair value gains on disposal reclassified to profit or loss	23	**-**	(3,728,897)	(796,867,188)
	9	**(1,071,530,344)**	(2,745,034,577)	(1,213,511,874)
Exchange difference on translating foreign operations	2	**43,561,840**	69,869,987	(102,295,326)
Tax income (expense)	26	**(13,068,552)**	(20,960,996)	30,688,598
		30,493,288	48,908,991	(71,606,728)
		(1,041,037,056)	(2,696,125,586)	(1,285,118,602)
Total Other Comprehensive Loss		**(1,036,827,951)**	(2,435,751,951)	(1,400,991,023)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 10,672,533,863**	P 8,139,049,892	P 20,153,724,491
Total comprehensive income attributable to:				
Company's shareholders		**P 10,362,974,246**	P 7,782,514,268	P 19,826,358,307
Non-controlling interests		**309,559,617**	356,535,624	327,366,184
		P 10,672,533,863	P 8,139,049,892	P 20,153,724,491

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(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, 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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(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, 2014	P 32,160,675,105	P 16,657,990,413	(P 633,721,630)	(P 390,855,591)	P 1,675,882,695	P 42,457,420,384	P 91,927,391,376	P 10,025,630,449	P 101,953,021,825
Transactions with owners:									
Issuance of shares of stock	262,202,843	-	-	-	-	-	262,202,843	-	262,202,843
Share-based employee compensation	-	-	-	-	-	40,096,554	40,096,554	-	40,096,554
Cash dividends	-	-	-	-	-	(1,246,941,619)	(1,246,941,619)	(178,468,817)	(1,425,410,436)
Derecognition of other comprehensive income of associates	-	-	-	-	(6,159,298)	-	(6,159,298)	-	(6,159,298)
Acquisition of new subsidiaries with non-controlling interest	-	-	-	-	-	-	-	5,199,701,059	5,199,701,059
Changes in ownership interest in subsidiaries that do not result in a loss of control	-	-	-	-	-	-	-	2,621,616,183	2,621,616,183
	262,202,843	-	-	-	(6,159,298)	(1,206,845,065)	(950,801,520)	7,642,848,425	6,692,046,905
Total comprehensive income for the year:									
Net profit	-	-	-	-	-	21,219,577,584	21,219,577,584	335,137,930	21,554,715,514
Actuarial loss on retirement benefit obligation, net of tax	-	-	-	-	(108,100,675)	-	(108,100,675)	(7,771,746)	(115,872,421)
Fair value losses on available-for-sale securities	-	-	-		(1,213,511,874)	-	(1,213,511,874)	-	(1,213,511,874)
Exchange difference on translating foreign operations, net of tax	-	-	-	(71,606,728)	-	-	(71,606,728)	-	(71,606,728)
	-	-	-	(71,606,728)	(1,321,612,549)	21,219,577,584	19,826,358,307	327,366,184	20,153,724,491
Balance at December 31, 2014	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

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Philippine Pesos)

	Notes	2016	2015 (As Restated – See Note 2)	2014 (As Restated – See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 15,198,700,834**	P 13,859,480,338	P 24,675,045,740
Adjustments for:				
Interest expense	24	**1,494,496,938**	1,486,628,541	1,416,888,598
Depreciation and amortization	12, 13, 14	**1,486,971,728**	1,348,751,764	1,300,385,226
Interest income	23	**(1,218,551,263)**	(1,337,049,326)	(1,056,924,854)
Unrealized foreign currency losses - net		**1,200,819,997**	1,148,545,867	105,046,866
Equity in net earnings of associates	11	**(136,866,743)**	(138,614,220)	(328,707,760)
Gain on sale of investments in an associate	23	**(82,459,513)**	(181,347,731)	(9,384,719,202)
Dividend income	23, 27	**(68,845,396)**	(78,239,149)	(46,595,425)
Employee share options	25	**48,020,050**	146,272,133	40,096,554
Gain on deconsolidation of a subsidiary	1, 23	**(4,376,532)**	-	(377,473,088)
Gain on acquisition of subsidiaries	1, 23	**(2,027,645)**	-	(142,695,054)
Fair value gains on disposal of available-for-sale securities reclassified to profit or loss	23	-	(3,728,897)	(796,867,188)
Fair value gains on remeasurement of investments	23	-	-	(2,251,067,460)
Gain on sale of land	23	-	-	(98,461,571)
Loss on disposal of property and equipment		-	-	6,549,810
Operating profit before working capital changes		**17,915,882,455**	16,250,699,320	13,060,501,192
Decrease (increase) in trade and other receivables		**(7,560,836,753)**	(6,452,094,137)	1,219,615,318
Increase in residential, condominium, golf and resort shares for sale		**(5,378,269,890)**	(4,827,860,992)	(12,263,125,597)
Increase in property development costs		**(5,200,693,239)**	(2,467,537,709)	(1,950,203,880)
Increase in advances to contractors and suppliers		**(3,602,592,150)**	(979,010,666)	(2,310,020,866)
Increase in prepayments and other current assets		**(1,067,456,617)**	(744,699,012)	(510,957,376)
Decrease (increase) in advances to landowners and joint ventures		**1,622,862,553**	(1,658,156,749)	(36,293,127)
Increase in trade and other payables		**2,429,440,703**	1,780,422,124	1,216,809,513
Increase (decrease) in customers' deposits		**5,273,361,545**	(301,638,947)	659,947,347
Increase in reserve for property development		**116,917,774**	824,024,382	2,328,050,242
Increase in deferred income on real estate sales		**218,765,486**	603,661,394	1,490,855,451
Increase in other liabilities		**1,363,563,968**	1,529,675,359	571,084,034
Cash generated from operations		**6,130,945,835**	3,557,484,367	3,476,262,251
Cash paid for income taxes		**(2,212,712,107)**	(1,907,688,663)	(1,743,573,374)
Net Cash From Operating Activities		**3,918,233,728**	1,649,795,704	1,732,688,877

	Notes	2016	2015 (As Restated – See Note 2)	2014 (As Restated – See Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment properties	12	**(12,979,191,612)**	(12,896,131,534)	(8,727,663,262)
Land for future development		**(1,687,208,045)**	(4,358,367,202)	(4,097,181,884)
Property and equipment	13	**(480,928,503)**	(208,882,344)	(191,245,753)
Advances from associates and other related parties:	27			
Obtained		**961,778,444**	693,250,959	288,167,471
Paid		**(28,012,964)**	(105,242,373)	(20,315,115)
Advances to associates and other related parties:	27			
Collected		**386,790,457**	507,860,575	86,788,697
Granted		**(35,162,769)**	(382,744,323)	(433,938,450)
Interest received		**965,058,268**	1,058,915,769	980,473,281
Acquisition and subscription of shares of stock of new subsidiaries and associates		**(342,620,339)**	(877,776,746)	(13,107,646,794)
Proceeds from sale of investments in an associate and subsidiaries	1, 23	**343,867,951**	422,256,169	10,431,650,000
Increase in other non-current assets		**(167,518,751)**	(565,531,212)	(1,348,512,492)
Dividends received		**68,845,396**	78,239,149	176,516,425
Acquisition of available-for-sale securities	9	**(12,496,657)**	(1,461,811,671)	(1,351,199,338)
Proceeds from sale of property and equipment		**9,070,383**	-	7,334,460
Proceeds from sale of available-for-sale securities		-	125,516,555	1,850,390,166
Proceeds from sale of investment property		-	-	446,428,572
Net Cash Used in Investing Activities		**(12,997,728,741)**	(17,970,448,229)	(15,009,954,016)
Balance carried forward		**(P 9,079,495,013)**	(P 16,320,652,525)	(P 13,277,265,139)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
Balance brought forward		(P 9,079,495,013)	(P 16,320,652,525)	(P 13,277,265,139)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availments of long and short-term liabilities	15, 16	10,320,000,000	26,462,435,925	6,453,950,594
Repayments of long and short-term liabilities		(3,139,858,621)	(3,542,538,882)	(1,634,629,882)
Cash dividends declared and paid	28	(1,608,600,152)	(1,936,160,028)	(1,246,941,619)
Interest paid		(2,861,348,025)	(2,050,959,128)	(1,664,874,571)
Repayments of bonds payable	16	-	(5,000,000,000)	-
Proceeds from exercise of share warrants	28	-	7,987,924	262,202,843
Net Cash From Financing Activities		2,710,193,202	13,940,765,811	2,169,707,365
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,369,301,811)	(2,379,886,714)	(11,107,557,774)
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		1,902,094	-	4,682,627,857
PRE-ACQUISITION CHANGES IN CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		-	-	(184,025,841)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		22,763,063,173	25,142,949,887	31,751,905,645
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 16,395,663,456	P 22,763,063,173	P 25,142,949,887

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(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).

The registered office of the Company, which is also its principal place of business, is located at the 28th Floor, The World Centre Building, Sen. Gil Puyat Avenue, Makati City.

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

1.1 Composition of the Group

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

Subsidiaries/Associates	Explanatory Notes	Effective Percentage of Ownership 2016	2015	2014
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%
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)	(b)	**100%**	100%	100%
Luxury Global Malls, Inc. (LGMI)	(b)	**100%**	100%	100%
Davao Park District Holdings, Inc. (DPDHI)	(b)	**100%**	100%	100%
Belmont Newport Luxury Hotels, Inc. (BNLHI)	(c)	**100%**	100%	-
Global One Hotel Group, Inc. (GOHGI)	(c)	**100%**	100%	-
Landmark Seaside Properties, Inc. (LSPI)	(i)	**100%**	-	-
San Vicente Coast, Inc. (SVCI)	(i)	**100%**	-	-
Megaworld Bacolod Properties, Inc. (MBPI, formerly Bacolod-Murcia Milling Co., Inc.)	(i)	**91.55%**	91.55%	-
Megaworld Central Properties, Inc. (MCPI)	(d)	**76.55%**	76.55%	76.54%
Soho Café and Restaurant Group, Inc. (SCRGI)	(i)	**75%**	-	-
La Fuerza, Inc. (LFI)	(e)	**66.67%**	66.67%	66.67%
Megaworld-Daewoo Corporation (MDC)		**60%**	60%	60%
Gilmore Property Marketing Associates, Inc. (GPMAI)	(a, f)	**52.14%**	52.14%	52.13%
Manila Bayshore Property Holdings, Inc. (MBPHI)	(g)	**50.92%**	50.92%	50.92%
Megaworld Globus Asia, Inc. (MGAI)		**50%**	50%	50%
Integrated Town Management Corporation (ITMC, formerly Philippine International Properties, Inc.)		**50%**	50%	50%

Subsidiaries/Associates	Explanatory Notes	Effective Percentage of Ownership 2016	2015	2014
Subsidiaries:				
Maple Grove Land, Inc. (MGLI)	(i)	**50%**	-	-
Megaworld Land, Inc. (MLI)		**100%**	100%	100%
City Walk Building Administration, Inc. (CBAI)	(h)	**100%**	100%	100%
Forbestown Commercial Center Administration, Inc. (FCCAI)	(h)	**100%**	100%	100%
Paseo Center Building Administration, Inc. (PCBAI)	(h)	**100%**	100%	100%
Uptown Commercial Center Administration, Inc. (UCCAI)	(h)	**100%**	100%	100%
Iloilo Center Mall Administration, Inc. (ICMAI)	(h)	**100%**	100%	-
Newtown Commercial Center Administration, Inc. (NCCAI)	(h)	**100%**	100%	-
Valley Peaks Property Management, Inc. (VPPMI)	(h)	**100%**	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)		**100%**	100%	100%
Suntrust Two Shanata, Inc. (STSI)		**100%**	100%	100%
Global-Estate Resorts, Inc. (GERI)	(j)	**82.32%**	82.26%	80.41%
Southwoods Mall, Inc. (SMI)	(a, k)	**91.09%**	91.13%	40.21%
Megaworld Global-Estate, Inc. (MGEI)	(l)	**89.39%**	89.36%	88.25%
Twin Lakes Corporation (TLC)	(l)	**83.37%**	83.34%	67.18%
Fil-Estate Properties, Inc. (FEPI)	(l)	**82.32%**	82.26%	80.41%
Aklan Holdings, Inc. (AHI)	(a, l)	**82.32%**	82.26%	80.41%
Blu Sky Airways, Inc. (BSAI)	(a, l)	**82.32%**	82.26%	80.41%
Fil-Estate Subic Development Corp. (FESDC)	(a, l)	**82.32%**	82.26%	80.41%
Fil-Power Construction Equipment Leasing Corp. (FPCELC)	(a, l)	**82.32%**	82.26%	80.41%
Golden Sun Airways, Inc. (GSAI)	(a, l)	**82.32%**	82.26%	80.41%
La Compaña De Sta. Barbara, Inc. (LCSBI)	(l)	**82.32%**	82.26%	80.41%
MCX Corporation (MCX)	(a, l)	**82.32%**	82.26%	80.41%
Pioneer L-5 Realty Corp. (PLRC)	(a, l)	**82.32%**	82.26%	80.41%
Prime Airways, Inc. (PAI)	(a, l)	**82.32%**	82.26%	80.41%
Sto. Domingo Place Development Corp. (SDPDC)	(a, l)	**82.32%**	82.26%	80.41%
Fil-Power Concrete Blocks Corp. (FPCBC)	(a, l)	**82.32%**	82.26%	80.41%
Fil-Estate Industrial Park, Inc. (FEIPI)	(a, l)	**65.03%**	64.99%	63.52%
Sherwood Hills Development, Inc. (SHD)	(l)	**45.28%**	45.24%	44.22%
Fil-Estate Golf and Development, Inc. (FEGDI)	(l)	**82.32%**	82.26%	80.41%
Golforce, Inc. (Golforce)	(l)	**82.32%**	82.26%	80.41%
Southwoods Ecocentrum Corp. (SWEC)	(l)	**49.39%**	46.07%	45.03%
Philippine Aquatic Leisure Corp. (PALC)	(a, l)	**49.39%**	46.07%	45.03%
Fil-Estate Urban Development Corp. (FEUDC)	(l)	**82.32%**	82.26%	80.41%
Novo Sierra Holdings Corp. (NSHC)	(a, l)	**82.32%**	82.26%	80.41%
Global Homes and Communities, Inc. (GHCI)	(a, l)	**82.32%**	82.26%	80.41%
Oceanfront Properties, Inc. (OFPI)	(l)	**41.13%**	41.13%	40.20%
Empire East Land Holdings, Inc. (EELHI)	(m)	**81.73%**	81.73%	81.72%
Eastwood Property Holdings, Inc. (EPHI)	(m)	**81.73%**	81.73%	81.72%
Valle Verde Properties, Inc. (VVPI)	(a, m)	**81.73%**	81.73%	81.72%
Sherman Oak Holdings, Inc. (SOHI)	(a, m)	**81.73%**	81.73%	81.72%
Empire East Communities, Inc. (EECI)	(a, m)	**81.73%**	81.73%	81.72%
20th Century Nylon Shirt, Inc. (CNSI)	(a, m)	**81.73%**	81.73%	-
Laguna BelAir School, Inc. (LBASI)	(m)	**59.67%**	59.67%	59.66%
Sonoma Premier Land, Inc. (SPLI)	(a, m)	**49.04%**	49.04%	49.03%
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%

Subsidiaries/Associates	Explanatory Notes	Effective Percentage of Ownership 2016	2015	2014
Subsidiaries:				
Lucky Chinatown Cinemas, Inc. (LCCI)	(n)	**-**	100%	100%
McKinley Cinemas, Inc. (MCI)	(n)	**-**	100%	-
Uptown Cinemas, Inc. (UCI)	(n)	**-**	100%	-
Eastwood Cinema 2000, Inc. (EC2000)	(n)	**-**	55%	55%
Associates:				
Bonifacio West Development Corporation (BWDC)		**46.11%**	46.11%	46.11%
Suntrust Home Developers, Inc. (SHDI)		**42.48%**	42.48%	42.48%
First Oceanic Property Management, Inc. (FOPMI)		**42.48%**	42.48%	42.48%
Citylink Coach Services, Inc. (CCSI)		**42.48%**	42.48%	42.48%
Palm Tree Holdings and Development Corporation (PTHDC)	(a)	**40%**	40%	40%
GERI				
Boracay Newcoast Hotel Group, Inc. (BNHGI)	(o)	**24.70%**	37.01%	48.25%
Fil-Estate Network, Inc. (FENI)	(p)	**16.46%**	16.45%	16.08%
Fil-Estate Sales, Inc. (FESI)	(p)	**16.46%**	16.45%	16.08%
Fil-Estate Realty and Sales Associates, Inc. (FERSAI)	(p)	**16.46%**	16.45%	16.08%
Fil-Estate Realty Corp. (FERC)	(p)	**16.46%**	16.45%	16.08%
Nasugbu Properties, Inc. (NPI)	(p)	**11.52%**	11.52%	11.23%
EELHI				
Pacific Coast Mega City, Inc. (PCMCI)	(q)	**16.35%**	16.35%	-

Explanatory Notes:

(a) These were acquired/incorporated subsidiaries in prior years but have not yet started commercial operations as at December 31, 2016.

(b) Subsidiaries newly-incorporated in 2014. GOIBSI and LGMI are engaged in business process outsourcing. DPDHI, which is engaged in the same line of business as the Company, was acquired from a third party in 2014. The acquisition of DPDHI resulted in a gain on acquisition (negative goodwill) of P65.1 million (see Note 23). Also a pre-acquisition loss of P3.5 million was reported in the 2014 consolidated statement of income.

(c) Subsidiaries newly-incorporated in 2015. BNLHI is engaged in condominium-hotel operations while GOHGI provides management services to the former.

(d) As at December 31, 2016, 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.

(e) On January 21, 2014, the Company acquired additional 16.67% interest in LFI resulting in the increase in ownership to 66.67%, gaining the power to govern its financial and operating policies. Gain on acquisition (negative goodwill) of P77.6 million was realized from the business combination and is presented as part of Interest and Other Income – Net in the 2014 consolidated statement of income (see Note 23). Non-controlling interest arising from consolidation amounted to P1.2 billion. The pre-acquisition income of P2.6 million arising from the transaction was also recognized in the 2014 consolidated statement of income.

(f) As at December 31, 2016, 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.

(g) In 2015 and 2014, the Company and Travellers International Hotel Group, Inc. (TIHGI) equally subscribed to additional shares of MBPHI amounting to P0.5 billion and P0.8 billion each, respectively. The additional subscriptions on MBPHI did not affect the ownership interest of both TIHGI and the Company.

(h) 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.

(i) SVCI and MGLI are newly-incorporated subsidiaries in 2016. Meanwhile, LSPI and SCRGI were existing entities that were separately acquired and were accounted for as business acquisitions. Excess of the consideration paid over the net asset of LSPI was allocated as part of land for future development. SVCI, MGLI and LSPI are engaged in the same line of business as the Company, while SCRGI is engaged in restaurant operations. In 2015, the Company acquired 91.55% ownership interest in MBPI, which is engaged in the same line of business as the Company.

(j) In 2016 and 2015, the Company acquired additional shares of GERI from the PSE, increasing its ownership interest to 82.32% and 82.26% respectively.

(k) SMI is a subsidiary of GERI acquired in 2014 which is engaged in real estate business. In 2015, the Company acquired 50% ownership in SMI. 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.

(l) Subsidiaries of GERI. As a result of the additional investments in GERI in 2016 and 2015, the Company's indirect ownership interest over these subsidiaries increased in proportion to the increase in effective interest over GERI.

(m) In 2015, the Company acquired shares of EELHI from the PSE, resulting in the increase in ownership interest to 81.73%. Indirect ownership over the subsidiaries of EELHI also increased proportionately.

(n) In 2016, the Company disposed its ownership interest over LCCI, MCI, UCI and EC2000. Gain on deconsolidation was recognized, presented under Interest and Other Income – Net. (see Note 1.2).

(o) In 2015, FEPI sold 15% ownership interest in BNHGI to a third party, decreasing the Company's ownership to 37.01%. As at December 31, 2016, the effective ownership interest over BNHGI is 24.70%.

(p) Associates of GERI. As a result of the additional investments in GERI in 2016 and 2015, the Company's indirect ownership interest over these associates increased in proportion to the increase in effective interest over GERI.

(q) PCMCI was incorporated in 2012. In 2015, EELHI acquired 20% ownership interest over PCMCI; consequently, the Company has indirect ownership of 16.35%.

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 has 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, its subsidiaries and associates, except for entities which have not yet started commercial operations as at December 31, 2016, are presently engaged in the real estate business, hotel, condominium-hotel operations, cinema, business process outsourcing, educational, facilities provider, maintenance 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 2016 and 2015, the Company obtained control over various entities as disclosed in Note 1.1. Aggregate information at acquisition date is as follows:

	2016	2015
Fair value of assets acquired:		
Land for future development	P 1,079,527,021	P 3,000,916,172
Other assets	52,110,049	691,681
	1,131,637,070	3,001,607,853
Fair value of liabilities assumed	(25,580,071)	(24,000,000)
Fair value of consideration transferred:		
Advances to related parties	(1,100,445,738)	-
Cash	(5,000,000)	(2,725,999,990)
	(1,105,445,738)	(2,725,999,990)
Non-controlling interest	(675,882)	251,607,864
Gain on acquisition	(2,027,645)	-
Pre-acquisition income (loss)	3,314,788	(291,847)

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 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 2016 and 2015. EELHI's profit allocated to NCI amounted to P110.3 million and P105.2 million in 2016 and 2015, respectively. Meanwhile, ownership interest and voting rights held by NCI over GERI is 17.68% and 17.74% in 2016 and 2015, respectively. GERI's profit allocated to NCI amounted to P276.8 million an P252.3 million in 2016 and 2015, 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, 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
December 31, 2015						
GERI	P 39,691,598,386	P 13,865,087,090	P 25,826,511,296	P 5,410,488,882	P 878,474,000	(P 5,929,070)
EELHI	P 37,270,099,336	P 12,586,231,863	P 24,683,867,473	P 5,058,604,660	P 550,374,188	(P 734,308,742)

	2016	2015
GERI		
Net cash from (used in):		
Operating activities	**(P 891,583,454)**	(P 2,045,902,005)
Investing activities	**(1,422,187,646)**	(360,169,524)
Financing activities	**2,529,190,113**	2,289,378,611
	215,419,013	(116,692,918)
EELHI		
Net cash from (used in):		
Operating activities	**(767,853,969)**	(418,929,692)
Investing activities	**23,023,423**	(850,844,366)
Financing activities	**355,592,629**	1,846,496,242
	(389,237,917)	576,722,184
Net cash inflow (outflow)	**(P 173,818,904)**	P 460,029,266

1.4 Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as at and for the year ended December 31, 2016 (including the comparative consolidated financial statements as at December 31, 2015 and for the years ended December 31, 2015 and 2014, and the corresponding figures as at January 1, 2015) were authorized for issue by the Company's Board of Directors (BOD) on March 29, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements.* The Group presents 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.

In 2016, the Group reclassified Advances to Contractors and Suppliers, previously presented as part of Trade and Other Receivables – Net under current classification, as a separate line item in the consolidated statement of financial position. The Group restated its prior period consolidated financial statements to conform with the current year presentation. The reclassifications have no significant impact on the Group's consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows.

The Group presented a third consolidated statement of financial position as at January 1, 2015, without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The effects of reclassification in the consolidated statements of financial position as at December 31, 2015, and the corresponding figures as at January 1, 2015 are summarized as follows:

	As Previously Reported	Reclassification	As Restated
December 31, 2015			
Changes in assets:			
Trade and other receivables – net (current portion)	P27,362,783,828	(P 4,909,049,653)	P 22,453,734,175
Advances to contractors and suppliers	-	4,909,049,653	4,909,049,653
January 1, 2015			
Changes in assets:			
Trade and other receivables – net (current portion)	P23,718,900,311	(P 3,023,954,443)	P 20,694,945,868
Advances to contractors and suppliers	-	3,023,954,443	3,023,954,443

(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 2016 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 consolidated financial statements beginning on or after January 1, 2016:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and PAS 38 (Amendments)	:	Property, Plant and Equipment and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and PAS 41 (Amendments)	:	Property, Plant and Equipment and Agriculture – Bearer Plants
PAS 28, PFRS 10 and PFRS 12 (Amendments)	:	Investment in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception, Consolidated Financial Statements, Disclosure of Interests in Other Entities
PFRS 11 (Amendments)	:	Joint Arrangements – Accounting for Acquisition of Interest in Joint Operations
Annual Improvements	:	Annual Improvements to PFRS (2012-2014 Cycle)

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

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

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

(iii) PAS 16 (Amendments), *Property, Plant and Equipment,* and PAS 41 (Amendments) *Agriculture – Bearer Plants.* The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendments further clarify that produce growing on bearer plants remains within the scope of PAS 41.

(iv) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception*. These amendments address the concerns that have arisen in the context of applying the consolidation exception for investment entities. They clarify which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarify whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. These amendments also permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(v) PFRS 11 (Amendment), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations.* These amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3, *Business Combinations* to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(vi) Annual Improvements to PFRS (2012-2014 Cycle). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify the existing requirements:

- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue.* The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal.* The amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. They also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

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

(b) *Effective in 2016 that are not Relevant to the Group*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2016 but are not relevant to the Group's consolidated financial statements:

PAS 27 (Amendments)	:	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 14	:	Regulatory Deferral Accounts
Annual Improvements to PFRS (2012-2014 Cycle)		
PFRS 7 (Amendments)	:	Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
PAS 34 (Amendments)	:	Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report"

(c) *Effective Subsequent to 2016 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2016 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). 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.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). 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 difference; (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.

(iii) PFRS 2 (Amendments), *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* (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.

(iv) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition 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 loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

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

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

Management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(v) PFRS 15, *Revenue from Contract with Customers* (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*, effective January 1, 2018.

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. Relative to the adoption of PFRS 15 in the Philippines, the FRSC also approved the issuance of Philippine Interpretations Committee Question & Answer No. 2016-04, Application of PFRS 15, *Revenue from "Contracts with Customers," on Sale of Residential Properties under Pre-completion Contracts*, which provides that sales of residential properties under pre-completion stage can be recognized over time until completion of construction.

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

(vi) 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 similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similar to a financial liability 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 on the Group's consolidated financial statements.

(vii) 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 amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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 2.12).

(b) Investments in Associates

Associates are those entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint 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 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 2.17).

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 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 have been changed where 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 – 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 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 as follows:

(i) *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 and 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.

(ii) 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 Available-for-Sale 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 is measured at cost, less impairment, as its 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 below.

(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 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 2.20). 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.

2.7 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.

2.8 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 2.17).

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.

2.9 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 land improvements is recognized over the estimated useful lives of improvements of 5 to 20 years 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:

Building and condominium units	10-25 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 2.17).

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 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 and Advances from Associates and Other Related Parties.

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.

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.

2.11 Offsetting Financial Instruments

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

2.12 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 2.17).

Negative goodwill, which is the excess of the Company's interest in the net 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.

2.13 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;
- revenue, costs and fair value gains from investment properties;
- interest income, equity in net earnings of associates, fair value gains, dividend income and foreign currency gains/losses;
- gain on sale of investments in associate; and,
- finance costs.

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

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

2.14 Provisions and Contingencies

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

2.15 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, and MGAI.

(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 2.20) and estimated costs to complete the project, determined based on estimates made by the project engineers (see also Note 2.6).

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.

2.16 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.

2.17 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.

2.18 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 plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

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.

2.19 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 by the Company as non-controlling interests at fair value at the date of grant. 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).

2.20 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.

2.21 Income Taxes

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

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the 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.

2.22 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.

2.23 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.

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.

2.24 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).

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

(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.

Based on the recent evaluation of information and circumstances affecting the Group's investments in AFS securities, management concluded that the assets are not impaired as at December 31, 2016 and 2015. Future changes in such information and circumstance might significantly affect the carrying amount of the assets.

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

The Group determines whether a property qualifies as investment property. 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 Resorts Shares for Sale and Investment Properties

Residential, condominium units, golf and resorts 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 the acquisition of a business. 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 2015, the Company gained control over various entities as described in Note 1. Based on management's assessment, the acquisition of MBPI in 2015 was accounted for as an asset acquisition; hence, no goodwill or gain on acquisition was recognized. MBPI is engaged in the same line of business as the Company. All other acquisitions in 2016 and 2015 were accounted for as business combinations.

(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 Resorts 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

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).

(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 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 2.14 and disclosures on relevant provisions and contingencies are presented in Note 30.

3.2 Key Sources of Estimation Uncertainty

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

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

The Group uses the percentage-of-completion method in accounting for its realized gross profit on real estate sales. The use of the percentage-of-completion method requires the Group to estimate the portion completed using relevant information such as costs incurred to date as a proportion of the total budgeted cost of the project and estimates by engineers and other experts.

(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 statements 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 option recognized as part of Salaries and employee benefits in 2016, 2015 and 2014 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.

Portion of the investment properties is also determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant areas. For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair values of those properties.

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 33.4.

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

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

The carrying amounts of investment properties and property and equipment are disclosed in Notes 12 and 13, respectively. Based on management's assessment as at December 31, 2016 and 2015, there is no change in the estimated useful lives of these assets during those years. Actual results, however may vary due to changes in estimates brought by changes in factors mentioned above.

(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 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, 2016 and 2015 will be utilized in the succeeding years.

The carrying amount of the net deferred tax assets as at December 31, 2016 and 2015 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 present. 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 2.17. 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 2016, 2015 and 2014 based on management's assessment.

(j) Valuation of Post-employment Defined Benefit Obligation

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by 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 post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 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 fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in the consolidated statement of income in the subsequent period.

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 cinema, 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 2.13. 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 following tables present revenue and profit information regarding industry segments for the years ended December 31, 2016, 2015 and 2014 and certain asset and liability information regarding segments as at December 31, 2016, 2015 and 2014:

2016

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 33,130,833,441	P 10,011,504,052	P 1,163,103,124	P 998,976,763	P -	P 45,304,417,380
Intersegment sales	-	312,175,346	-	1,132,601,593	(1,444,776,939)	-
Total revenues	**P 33,130,833,441**	**P 10,323,679,398**	**P 1,163,103,124**	**P 2,131,578,356**	**(P 1,444,776,939)**	**P 45,304,417,380**
RESULTS						
Cost and operating expense	(24,618,928,139)	(2,615,063,399)	(921,983,397)	(2,108,226,743)	1,331,355,588	(28,932,846,090)
Segment results	**P 8,511,905,302**	**P 7,708,615,999**	**P 241,119,727**	**P 23,351,613**	**(P 113,421,351)**	**P 16,371,571,290**
Interest and other income - net						1,376,260,349
Interest and other charges - net						(2,682,682,760)
Equity in net earnings of associates						136,866,743
Tax expense						(3,489,339,020)
Preacquisition income of a subsidiary						(3,314,788)
Net profit						P 11,709,361,814
ASSETS AND LIABILITIES						
Segment assets	P 199,490,722,049	P 65,182,493,578	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	**P199,490,722,049**	**P 65,182,493,578**	**P 2,398,302,698**	**P 11,670,999,325**	**P -**	**P 278,742,517,650**
Segment liabilities	**P114,637,385,751**	**P 16,997,530,379**	**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
Intersegment sales	-	227,908,084	-	649,654,556	(877,562,640)	-
Total revenues	P 32,726,888,869	P 8,957,563,319	P 796,322,364	P 1,657,198,031	(P 877,562,640)	P 43,260,409,943
RESULTS						
Cost and operating expense	(24,722,587,613)	(2,314,999,416)	(632,775,137)	(1,610,514,873)	779,579,569	(28,501,297,470)
Segment results	P 8,004,301,256	P 6,642,563,903	P 163,547,227	P 46,683,158	(P 97,983,071)	P 14,759,112,473
Interest and other income - net						1,596,636,206
Interest and other charges - net						(2,635,174,408)
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	P 50,003,842,390	P 2,433,682,285	P 11,967,908,063	P -	P 251,684,763,702
Segment liabilities	P 98,703,363,884	P 15,149,080,026	P 424,651,426	P 2,994,313,723	P -	P 117,271,409,059
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P 54,513,276,245

2014

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 29,506,959,375	P 7,070,911,439	P 722,971,143	P 2,241,733,163	P -	P 39,542,575,120
Intersegment sale	-	203,861,206	-	784,885,706	(988,746,912)	-
Total revenues	P 29,506,959,375	P 7,274,772,645	P 722,971,143	P 3,026,618,869	(P 988,746,912)	P 39,542,575,120
RESULTS						
Cost and operating expense	(22,280,129,613)	(2,043,972,081)	(535,056,858)	(2,869,610,730)	896,500,685	(26,832,268,597)
Segment results	P 7,226,829,762	P 5,230,800,564	P 187,914,285	P 157,008,139	(P 92,246,227)	P 12,710,306,523
Interest and other income - net						13,259,475,083
Interest and other charges - net						(1,554,435,464)
Equity in net earnings of associates						328,707,760
Tax expense						(3,120,330,226)
Preacquisition income of subsidiaries - net						(69,008,162)
Net profit						P 21,554,715,514
ASSETS AND LIABILITIES						
Segment assets	P 165,979,243,776	P 42,366,078,019	P 1,100,579,967	P 5,510,856,348	P -	P 214,956,758,110
Investments in and advances to associates and other related parties - net	-	-	-	6,083,083,483	-	6,083,083,483
Total assets	P 165,979,243,776	P 42,366,078,019	P 1,100,579,967	P 11,593,939,831	P -	P 221,039,841,593
Segment liabilities	P 81,319,354,609	P 7,359,037,541	P 302,003,465	P 3,260,652,757	P -	P 92,241,048,372
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P 39,780,970,914

5. CASH AND CASH EQUIVALENTS

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

	2016	2015
Cash on hand and in banks	P 5,709,405,267	P 4,790,154,317
Short-term placements	10,686,258,189	17,972,908,856
	P 16,395,663,456	P 22,763,063,173

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods between 30 to 60 days and earn effective interest ranging from 1.25% to 2.50% both in 2016 and 2015, and 1.10% to 4.00% in 2014 (see Note 23).

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2016	2015 [As Restated – see Note 2.1(b)]
Current:			
Trade	27.1, 15.2 15.4	P 26,061,790,608	P 22,318,593,069
Allowance for impairment		(513,670,606)	(517,091,448)
		25,548,120,002	21,801,501,621
Others		1,448,007,312	652,232,554
		26,996,127,314	22,453,734,175
Non-current:			
Trade	27.1, 15.2 15.4	35,679,444,242	32,691,658,240
Allowance for impairment		(12,224,936)	(12,224,936)
		35,667,219,306	32,679,433,304
Others		7,629,034	15,337,534
		35,674,848,340	32,694,770,838
		P 62,670,975,654	P 55,148,505,013

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 10%. Interest income recognized amounted to P1.7 billion in 2016, 2015 and 2014. 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 2016 and 2015 is shown below.

	Note	2016	2015
Balance at beginning of year		P 529,316,384	P 529,316,384
Impairment loss during the year	24	233,152	-
Write-off of trade receivables previously provided with allowance		(3,653,994)	-
Balance at end of year		P 525,895,542	P 529,316,384

Impairment loss is presented as part of Miscellaneous – net under Interest and Other Charges – Net account in the 2016 consolidated statement of income (see Note 24).

The Group has outstanding receivables assigned to local banks as at December 31, 2016 and 2015 amounting to P1,089.4 million and P1,066.4 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 31.3).

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

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

	Note	2016	2015
Residential and condominium units	15.2	P 60,077,855,669	P 59,067,903,490
Golf and resort shares		2,669,705,396	2,487,372,777
		62,747,561,065	61,555,276,267
Allowance for writedown		(88,411,502)	(88,411,502)
		P 62,659,149,563	P 61,466,864,765

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 21.

8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account is shown below.

	2016	2015
Input VAT	P 4,408,152,584	P 3,165,125,754
Prepaid rent and other prepayments	676,066,600	611,769,191
Creditable withholding taxes	425,483,490	443,201,769
Deposits	215,263,677	355,857,083
Others	230,571,046	148,556,498
	P 5,955,537,397	P 4,724,510,295

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	2016	2015
Equity securities:			
Quoted	27.5	P 3,568,328,390	P 4,606,799,401
Unquoted		27,449,898	27,449,898
		3,595,778,288	4,634,249,299
Debt securities – quoted		66,501,898	65,334,355
		P 3,662,280,186	P 4,699,583,654

The securities can be further analyzed as follows:

	2016	2015
Local	P 3,595,778,288	P 4,634,249,299
Foreign	66,501,898	65,334,355
	P 3,662,280,186	P 4,699,583,654

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

	2016	2015
Balance at the beginning of year	P 4,699,583,654	P 6,146,267,429
Fair value losses – net	(1,071,530,344)	(2,745,034,577)
Foreign currency gains – net	21,730,219	20,387,396
Additions	12,496,657	1,461,811,671
Disposals	-	(183,848,265)
Balance at end of year	P 3,662,280,186	P 4,699,583,654

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 will mature in 2017. Management has determined that fair value losses are not permanent, therefore, these investments are considered not impaired.

In 2016 and 2015, the Group received cash dividends from TIHGI amounting to P14.5 million and P20.6 million, respectively. The amount of dividend received is presented as part of Dividend income under Interest and Other Income – Net account in the consolidated statements of income (see Note 23). No dividends were received in 2014.

In 2014, as a result of the Company's sale and subsequent reclassification of remaining investments in TIHGI, non-recurring gains amounting to P9.4 billion and P2.3 billion pertaining to Gain on sale of investments in an associate and Fair value gains on remeasurement of investments – net, respectively, were recognized under Interest and Other Income – Net account in the 2014 consolidated statement of income (see Note 23).

The fair value gains or losses arising from 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 2.6).

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.

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

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, 2016 and 2015, management has assessed that the advances to joint ventures is 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:

	2016	2015
Total commitment for construction expenditures	P 25,275,787,747	P 24,076,339,196
Total expenditures incurred	(18,965,104,576)	(16,403,084,016)
Net commitment	P 6,310,683,171	P 7,673,255,180

The Group's interests in jointly-controlled operations and projects range from both 50% to 95% in 2016 and 2015. 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
- Riva Bella
- Solana
- Gentri Heights
- Fountain Grove
- Palm City
- The Mist Residence

GERI
- Alabang West
- Boutique
- Shopwise
- Oceanway Residences
- Savoy Hotel
- Belmont Hotel
- MSW Phase 6 Pahara
- Newport Hills
- Pahara at Southwoods
- Sta. Barbara Heights Phase 1, 2 & 3
- Holland Park

The aggregate amounts of the current assets, long-term assets, current liabilities, long-term liabilities as at December 31, 2016 and 2015, and income and expenses for each of the three years in the period ended December 31, 2016 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, 2016 and 2015, 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 2016 and 2015 amounted to P471.1 million and P458.8 million, net of deferred interest expense amounting to P31.1 million and P51.0 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 27.4).

The amortization of deferred interest amounting to P19.8 million in 2016, 2015 and 2014 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:

	2016	2015
Acquisition costs:		
PCMCI	P 877,776,746	P 877,776,746
SHDI	875,445,000	875,445,000
NPI	734,396,528	734,396,528
BNHGI	293,602,421	534,510,859
BWDC	199,212,026	199,212,026
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
	3,094,906,084	3,335,814,522
Accumulated equity in net losses:		
Balance at beginning of year	(561,522,560)	(700,136,780)
Equity share in net earnings of associates for the year	136,866,743	138,614,220
Balance at end of year	(424,655,817)	(561,522,560)
Accumulated equity in other comprehensive income:		
Balance at beginning of year	38,744,144	-
Share in other comprehensive income (loss) of associate	(27,975,475)	38,744,144
Balance at end of year	10,768,669	38,744,144
	2,681,018,936	2,813,036,106
Advances to associates and other related parties (see Note 27.3)	2,507,516,083	3,959,157,797
	P 5,188,535,019	P 6,772,193,903

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, 2016 and 2015. 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 in Net Earnings of Associates is presented in the consolidated statements of income while Share in Other Comprehensive Income of Associates is presented in the consolidated statements of comprehensive income.

a. Investment in BNHGI

In 2016 and 2015, FEPI sold 15% ownership interest each year over BNHGI. Gain on sale of investment in an associate amounting to P82.5 million and P181.3 million was recognized in 2016 and 2015, respectively, presented under Interest and Other Income – Net account in the consolidated statements of income (see Note 23).

b. Investment in PCMCI

In 2015, EELHI acquired 750,000,000 PCMCI shares amounting to P877.8 million representing 20% ownership interest. Through this acquisition, the Group acquired an ability to exert significant influence over PCMCI.

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)
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	2,759,328,848	2,749,338,148	443,284,067	280,292,263
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 15,103,442,054	**P 6,172,996,404**	**P 862,180,063**	**P 317,909,737**
2015:				
PCMCI	P 2,458,015,617	P 8,172,960	P -	(P 9,234,061)
SHDI	563,065,578	341,187,869	365,068,765	36,576,139
BNHGI	1,799,798,866	196,246,769	-	(2,019,930)
NPI	5,675,538,713	1,317,006,156	21,150	(18,348)
BWDC	3,327,984,093	2,637,530,014	384,744,535	259,062,480
PTHDC	1,136,403,777	1,006,803,801	5,900	(1,190,233)
FERC	277,874,990	209,508,750	-	-
FENI	98,510,739	931,113,013	-	-
FESI	64,232,266	18,248,112	1,818,862	(1,767,717)
FERSAI	157,909,404	173,014,080	-	-
	P 15,559,334,043	P 6,838,831,524	P 751,659,212	P 281,408,330

12. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation of investment properties at the beginning and end of 2016 and 2015 are shown below.

	Land	Buildings	Total
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**
December 31, 2015			
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
January 1, 2015			
Cost	P 9,017,340,569	P 31,290,523,670	P 40,307,864,239
Accumulated depreciation	-	(4,545,234,421)	(4,545,234,421)
Net carrying amount	P 9,017,340,569	P 26,745,289,249	P 35,762,629,818

A reconciliation of the carrying amounts at the beginning and end of 2016, 2015 and 2014 of investment properties is shown below.

	Land	Buildings	Total
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**
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
Balance at January 1, 2014, net of accumulated depreciation	P 6,433,222,583	P 18,513,716,536	P 24,946,939,119
Investment properties of newly-acquired subsidiaries	2,932,084,986	663,739,979	3,595,824,965
Disposals	(347,967,000)	-	(347,967,000)
Additions	-	8,727,663,262	8,727,663,262
Depreciation charges for the year	-	(1,159,830,528)	(1,159,830,528)
Balance at December 31, 2014, net of accumulated depreciation	P 9,017,340,569	P 26,745,289,249	P 35,762,629,818

Rental income earned from these properties amounted to P10.0 billion, P8.7 billion and P7.1 billion in 2016, 2015 and 2014, 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 P494.5 million in 2016, P459.2 million in 2015 and P458.5 million in 2014. There were no idle investment properties in 2016, 2015 and 2014. The operating lease commitments of the Group as a lessor are fully disclosed in Note 30.1.

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 the Operating Expenses account (see Note 22).

The fair market values of these properties are P244.2 billion and P190.8 billion as at December 31, 2016 and 2015, 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 of 8% in 2016 and 2015 (see Note 33.4).

Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 33.4.

13. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2016 and 2015 are shown below.

	Building and Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land 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**
December 31, 2015						
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
January 1, 2015						
Cost	P 1,845,594,330	P 632,467,113	P 180,642,048	P 192,522,121	P 248,009,320	P 3,099,234,932
Accumulated depreciation and amortization	(619,589,270)	(383,686,979)	(118,870,760)	(109,714,784)	-	(1,231,861,793)
Net carrying amount	P 1,226,005,060	P 248,780,134	P 61,771,288	P 82,807,337	P 248,009,320	P 1,867,373,139

A reconciliation of the carrying amounts at the beginning and end of 2016, 2015 and 2014, of property and equipment is shown below.

	Building and Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 2,398,388,723	P 268,749,123	P 40,515,513	P 95,189,512	P 248,009,320	P 3,050,852,191
Transfer from investment properties	457,721,767	-	-	-	-	457,721,767
Additions	229,106,705	144,145,849	12,316,004	95,359,945	-	480,928,503
Disposals	-	(303,543)	-	(1,151,712)	(7,615,128)	(9,070,383)
Disposals due to deconsolidation of subsidiaries	-	(87,509,567)	-	-	-	(87,509,567)
Depreciation and amortization charges for the year	(99,030,330)	(149,627,006)	(19,884,085)	(54,194,125)	-	(322,735,546)
Balance at December 31, 2016, net of accumulated depreciation and amortization	**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**
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 1,226,005,060	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	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
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 283,423,288	P 220,852,626	P 62,614,201	P 53,688,627	P 81,095,000	P 701,673,742
Additions	88,867,593	62,378,378	6,230,108	33,769,674	-	191,245,753
Property and equipment of newly-acquired subsidiaries	894,314,085	49,919,639	-	17,744,568	166,914,320	1,128,892,612
Disposals	-	(8,750,069)	-	(5,134,201)	-	(13,884,270)
Depreciation and amortization charges for the year	(40,599,906)	(75,620,440)	(7,073,021)	(17,261,331)	-	(140,554,698)
Balance at December 31, 2014, net of accumulated depreciation and amortization	P 1,226,005,060	P 248,780,134	P 61,771,288	P 82,807,337	P 248,009,320	P 1,867,373,139

Depreciation and amortization is presented as part of the Operating Expenses account (see Note 22).

The Group's fully depreciated assets that are still being used in operations had original costs of P406.0 million and P442.7 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, 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:

	2016	2015
Goodwill	P 1,290,232,360	P 1,290,232,360
Guarantee and other deposits	983,982,727	822,930,111
Leasehold rights – net	125,373,902	132,339,119
Miscellaneous	116,405,162	109,939,027
	P 2,515,994,151	P 2,355,440,617

Goodwill represents the excess of acquisition cost over the fair value of net identifiable assets at the date of acquisitions of various subsidiaries.

Leasehold rights represents separately identifiable asset recognized from the acquisition of GPARC. Leasehold rights amortization amounted to P7.0 million in 2016 and 2015 (nil in 2014) and are presented as part of Depreciation and amortization under Operating Expenses account in the consolidated statements of income (see Note 22).

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 2016, 2015 and 2014 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:

	2016	2015
Current:		
Company	P 4,455,128,205	P 2,871,346,152
GERI	721,153,846	72,916,667
EELHI	355,115,433	119,927,915
SPI	286,203,383	1,115,773,089
LFI	125,000,000	-
RHGI	63,050,705	64,971,354
Balance brought forward	P 6,005,651,572	P 4,244,935,177
Non-current:		
Company	24,756,410,256	22,211,538,461
GERI	3,205,929,487	1,927,083,333
SPI	2,906,347,683	1,400,000,000
EELHI	1,603,434,043	1,389,074,691
LFI	375,000,000	500,000,000
	32,847,121,469	27,427,696,485
	P 38,852,773,041	P 31,672,631,662

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 and Property Development Costs accounts. The remaining interest costs are expensed outright.

Total finance costs attributable to all the loans of the Group amounted to P1,784.7 million, P763.9 million and P308.8 million in 2016, 2015 and 2014, respectively. Of these amounts, portion expensed is presented as part of Interest expense under Interest and Other Charges – Net account in the consolidated statements of income (see Note 24). Interest capitalized in 2016, 2015 and 2014 amounted to P1,540.4 million, P481.3 million and P43.0 million, respectively. The outstanding interest payable as of December 31, 2016 and 2015 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 4.32%, 5.53% and 6.19% in 2016, 2015 and 2014, respectively.

15.1 Company

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 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.

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 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.

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 for a term of five years with a grace period of one year upon availment. The principal repayment on the loan will commence in March 2017 and interest is paid quarterly based on a fixed 5.035% annual interest rate. The outstanding balance pertaining to this loan amounted to P5.0 billion as at December 31, 2016 and 2015.

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 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 5.05% annual interest rate. The outstanding balance pertaining to this loan amounted to P4.6 billion and P5.0 billion as at December 31, 2016 and 2015, respectively.

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. The Company had availed both tranches in March and June 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 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 5.401% annual interest rate. The outstanding balance pertaining to this loan amounted to P8.8 billion and P10.0 billion as at December 31, 2016 and 2015, respectively.

Philippine peso, seven-year loan due 2021
In 2014, the Company obtained an unsecured long-term loan from a local bank amounting to P5.0 billion. The loan is payable 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 5.1250% annual interest rate. The outstanding balance pertaining to this loan amounted to P3.8 billion and P4.6 billion as at December 31, 2016 and 2015, respectively.

Philippine peso, seven-year loan due 2016
In May 2009, the Company obtained an unsecured long-term loan from a local bank amounting to P500.0 million. The loan is payable for a term of seven years and interest is payable semi-annually based on a floating six-month PDST F-R plus a certain spread, subject to semi-annual repricing. The outstanding balance pertaining to this loan amounted to P467.5 million as at December 31, 2015. The loan was fully settled in 2016.

15.2 EELHI

Philippine peso, seven-year loan due 2022 to 2023
In 2015, EELHI obtained an unsecured, interest-bearing seven-year P2.0 billion loan from a local bank. The loan was released in three tranches from 2015 to 2016 and bears floating interest ranging from 3.1% to 5.4% subject to quarterly repricing. The outstanding balance pertaining to this loan amounted to P1.9 billion and P1.4 billion as at December 31, 2016 and 2015, respectively. In relation to these loans, certain residential and condominium units for sale are subject to negative pledge (see Note 7).

Philippine peso, liability on assigned receivables
In prior years, EELHI obtained loans from local banks through assignment of certain trade receivables (see Note 6). The loans bear fixed interest rates ranging from 7.0% to 9.0% and are being paid as the related receivables are collected. This loans are secured by certain Residential and condominium units for sale with total carrying value of P188.4 million and P312.1 million as of December 31, 2016 and 2015, respectively (see Note 7). The outstanding balances pertaining to these loans amounted to P41.9 million and P69.0 million as of December 31, 2016 and 2015, respectively.

15.3 LFI

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 originally bears an annual interest of 5.0%, subject to quarterly repricing. Quarterly installments beginning in March 2017 are due until the loan is fully-settled in 2020, or five years from the issue date of the loan.

15.4 SPI

Philippine peso, five-year loan due in 2021
In 2016, SPI obtained an unsecured long-term loan from a local bank amounting to P0.4 billion. The loan bears 3.15% floating interest subject to repricing every 30 to 180 days and will mature in 2021. The principal amount is payable on a monthly basis after a grace period of two years from the date of availment. The outstanding balance of the loan as of December 31, 2016 is P0.4 billion.

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, 2016 and 2015 amount to P45.0 million and P60.0 million, respectively.

Philippine peso, five-year loan due in 2020
In 2015, SPI obtained an unsecured long-term loan from a local bank amounting to P1.5 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. The outstanding balance of the loan as of December 31, 2016 and 2015 is P1.5 billion and P1.2 billion, respectively.

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. The loan bears 5.25% floating interest subject to repricing every 30 to 180 days. Repayment of this loan shall be made on a quarterly basis beginning 2017. The outstanding balance of this loan amounts to P0.2 billion as of December 31, 2016 and 2015.

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 15.0% and are being paid as the receivables are collected. The outstanding balance pertaining to these loans as of December 31, 2016 and 2015 amounted to P1.0 billion.

15.5 GERI

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%. The outstanding balance of the loan as of December 31, 2016 is P2.0 billion.

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%. As of December 31, 2016 and 2015, the outstanding balance of such loan amounts to P1.5 billion.

15.6 RHGI

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%.

In June 2016, RHGI renewed the said short-term loan and shall mature in June 2017 at a revised annual interest of 0.87%. Interest and principal is payable at maturity.

The outstanding balance in relation this loan amounted to P63.1 million and P65.0 million as at December 31, 2016 and 2015, respectively.

15.7 OFPI

Philippine peso, long-term loan due 2020
In 2015, OFPI, the loan is included as part of GERI, obtained an unsecured long-term loan from a local bank. The loan bears fixed interest of 5.04% and shall mature in 2020. The outstanding balance of the loan as of December 31, 2016 and 2015 is P427.1 million and P500.0 million, respectively.

16. BONDS PAYABLE

U.S. Dollar, 10- year due 2023
On April 17, 2013, the Group issued 10-year term bonds totaling US $250 million. The bond carries a coupon rate of 4.25% per annum and interest is payable semi-annually starting October 17, 2013. The bond shall mature in 2023. The proceeds of the bond issuance is being used by the Company for general corporate purposes. As at December 31, 2016 and 2015, the outstanding bonds payable balance amounted to P12.4 billion and P11.7 billion, respectively.

U.S. Dollar, 7- year due 2018
On April 15, 2011, the Group issued seven-year term bonds totaling US $200 million. The bonds bear interest at 6.75% per annum payable semi-annually in arrears every April 15 and October 15 each year starting October 15, 2011. The bonds shall mature on April 15, 2018. As at December 31, 2016 and 2015, the outstanding bonds payable balance amounted to P9.9 billion and P9.2 billion, respectively.

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 P1,162.6 million in 2016, P1,270.1 million in 2015 and P1,508.8 million in 2014 and are 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 of December 31, 2016 and 2015 is presented as part of Accrued interest under Trade and Other Payables account in the consolidated statements of financial position (see Note 17). Unrealized foreign currency losses in relation to these bonds are presented as part of Foreign currency losses – net under Interest and Other Charges – Net account in the statements of income (see Note 24).

Interest capitalized as part of certain investment properties, in relation to local bonds fully settled in 2015, amounted to P161.0 million and P423.0 million in 2015 and 2014, respectively. Capitalization rate used in determining the amount of interest charges qualified for capitalization is 8.46% in 2015 and 2014.

17. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2016	2015
Trade payables		**P 9,744,959,080**	P 8,664,025,590
Retention payable		**2,635,278,935**	2,495,578,562
Accrued interest	15, 16	**512,974,956**	378,240,423
Accrued construction cost		**5,833,625**	4,999,106
Miscellaneous		**667,697,772**	526,576,176
		P 13,566,744,368	P 12,069,419,857

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 P118.1 million and P89.1 million as at December 31, 2016 and 2015, respectively, is 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 2016, 2015 and 2014 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 and are classified as a non-current liability in the consolidated statements of financial position. The fair values of the redeemable preferred shares on the date of issuance approximate their par value.

19. OTHER LIABILITIES

This account consists of:

	Note	2016	2015
Current:			
Unearned revenues		**P 1,672,152,962**	P 1,639,368,747
Deferred rental income		**197,890,667**	355,831,050
Other payables		**163,355,322**	66,712,432
		2,033,398,951	2,061,912,229
Non-current:			
Deferred rental income		**4,334,195,802**	3,346,201,751
Other payables	18	**129,342,516**	155,201,430
		4,463,538,318	3,501,403,181
		P 6,496,937,269	P 5,563,315,410

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:

	2016	2015	2014
Residential and condominium units	**P 27,450,190,340**	P 27,260,722,450	P 24,605,116,509
Golf and resort shares	**803,571**	1,575,000	1,437,928
	P 27,450,993,911	P 27,262,297,450	P 24,606,554,437

Realized gross profit on prior years' sale amounted to P4.0 billion, P3.8 billion and P3.2 billion in 2016, 2015 and 2014, respectively.

21. COSTS OF REAL ESTATE SALES

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

	2016	2015	2014
Actual costs	**P 10,822,973,859**	P 9,520,350,982	P 7,762,486,949
Estimated costs	**4,691,677,819**	5,914,591,370	6,601,382,238
	P 15,514,651,678	P 15,434,942,352	P 14,363,869,187

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

	2016	2015	2014
Contracted services	**P 13,467,972,535**	P 12,851,666,636	P 12,120,803,695
Land cost	**1,764,172,819**	2,058,899,931	1,770,144,307
Borrowing cost	**230,608,589**	331,643,102	273,887,171
Other costs	**51,897,735**	192,732,683	199,034,014
	P 15,514,651,678	P 15,434,942,352	P 14,363,869,187

22. OPERATING EXPENSES

Presented below are the details of this account.

	Notes	2016	2015	2014
Salaries and employee benefits	25	**P 2,202,426,673**	P 2,059,096,838	P 1,714,889,017
Depreciation and amortization	12, 13, 14	**1,486,971,728**	1,348,751,764	1,300,385,226
Commission		**1,130,313,466**	1,062,732,165	961,366,846
Taxes and licenses		**656,464,800**	664,757,350	757,575,717
Advertising and promotions		**659,717,782**	686,408,553	676,949,982
Rent		**566,678,726**	539,873,942	521,819,487
Utilities and supplies		**461,917,468**	480,113,476	460,767,752
Professional fees and outside services		**325,673,449**	288,358,171	278,527,420
Transportation		**242,448,127**	226,691,959	223,885,030
Association dues		**242,379,131**	273,733,153	263,961,219
Miscellaneous		**378,692,255**	361,377,640	331,566,070
		P 8,353,683,605	P 7,991,895,011	P 7,491,693,766

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

23. INTEREST AND OTHER INCOME

Presented below are the details of this account.

	Notes	2016	2015	2014
Interest income	5	**P 1,218,551,263**	P 1,337,049,326	P 1,056,924,854
Property management, cinema operations, commission and construction income		**914,296,701**	875,835,168	745,378,539
Gain on sale of investments in an associate	11, 27.2	**82,459,513**	181,347,731	9,384,719,202
Dividend income	9, 27.5	**68,845,396**	78,239,149	46,595,425
Gain on acquisition and deconsolidations of subsidiaries	1	**6,404,177**	-	520,168,142
Fair value gains on disposal of AFS securities reclassified to profit or loss		**-**	3,728,897	796,867,188
Fair value gains on remeasurement of investments – net	9, 27.2	**-**	-	2,251,067,460
Miscellaneous – net		**84,680,062**	127,979,410	699,487,436
		P 2,375,237,112	P 2,604,179,681	P 15,501,208,246

The gain on sale of investment in an associate in 2014 represents the difference between the proceeds from sale of 1.1 billion common shares of TIHGI amounting to P10.4 billion and the related carrying amount of investment amounting to P1.1 billion. The fair value gains on remeasurement of investments pertain mainly to the excess of fair value of the retained interests in TIHGI over its carrying amount at the time of reclassification of such investment to AFS securities (see Note 9).

In 2016 and 2015, FEPI sold portions of its investments in BNGHI resulting to a gain amounting to P82.5 million and P181.3 million, respectively. The sale did not affect the significant influence of the Group over BNHGI (see Notes 1 and 11).

On January 21, 2014, the Company acquired additional 16.67% ownership in LFI, increasing the Company's total ownership interest to 66.67%, thereby, obtaining control. The fair value of the identifiable net assets of P3.7 billion exceeded the acquisition cost of P3.6 billion; hence, a gain on acquisition (negative goodwill) of P77.6 million was recognized from the acquisition (see Note 1).

By the end of December 2014, the Company acquired 100% ownership in DPDHI to increase its landbank position in Davao City. The transaction was settled in cash amounting to P495.4 million. Gain on acquisition of P65.1 million was recognized since the fair value of net assets of P560.5 million exceeded the acquisition cost (see Note 1).

Gain on sale of investments in an associate, when investment in TIHGI was classified as an associate in 2014, consists of realized fair value gains reclassified subsequently to profit or loss and gains on sale of these investments in an associate.

Miscellaneous income refers to gain on sale of land, marketing fees and others.

24. INTEREST AND OTHER CHARGES

Presented below are the details of this account.

	Notes	2016	2015	2014
Interest expense arising from:				
Bank loans, borrowings and bonds payable	15, 16	P 1,406,865,158	P 1,391,749,555	P 1,319,465,995
Post-employment defined benefit obligation	25	38,850,050	46,097,256	48,640,873
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	1,188,185,822	1,148,545,867	105,046,866
Miscellaneous – net	6	185,044,190	91,092,408	102,543,071
		P 2,867,726,950	P 2,726,266,816	P 1,624,478,535

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

25. EMPLOYEE BENEFITS

25.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	Notes	2016	2015	2014
Short-term benefits		P 2,048,636,489	P 1,768,663,918	P 1,548,795,060
Employee share options	25.2, 28.6	48,020,050	146,272,133	40,096,554
Post-employment benefits	25.3	105,770,134	144,160,787	125,997,403
	22	P 2,202,426,673	P 2,059,096,838	P 1,714,889,017

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, 2016 and 2015, about 283.3 million and 200.0 million shares of GERI's options have vested, respectively, but none of these have been exercised by any of the option holder. None of the Company's share options have vested in 2016 and 2015.

Share option benefits expense, included as part of Salaries and employee benefits under Operating Expenses account in the consolidated statements of income, amounted to P48.0 million, P146.3 million and P40.1 million in 2016, 2015 and 2014, respectively (see Note 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 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 are based on the actuarial valuation reports obtained from independent actuaries in 2016 and 2015.

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

	2016	2015
Present value of the obligation	P 1,161,347,079	P 1,065,773,374
Fair value of plan assets	(196,142,476)	(140,578,260)
Net defined benefit liability	P 965,204,603	P 925,195,114

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

	2016	2015
Balance at beginning of year	P 1,065,773,374	P 1,191,591,023
Current service costs	105,770,134	144,160,787
Interest costs	45,355,647	51,547,448
Remeasurements –		
Actuarial losses (gains) arising from changes in:		
Experience adjustments	(39,331,500)	(65,694,538)
Financial assumptions	(11,685,141)	(248,958,147)
Demographic assumptions	683,029	(3,955,741)
Benefits paid from:		
Plan assets	(4,683,016)	(2,917,458)
Booked reserves	(535,448)	-
Balance at end of year	P 1,161,347,079	P 1,065,773,374

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

	2016	2015
Balance at beginning of year	P 140,578,260	P 114,050,658
Contributions paid	58,241,600	22,000,000
Interest income	6,505,597	5,450,192
Benefits paid	(4,683,016)	(2,917,458)
Remeasurement of plan assets	(144,324)	-
Return on plan assets (excluding amount included in net interest cost)	(4,355,641)	1,994,868
Balance at end of year	P 196,142,476	P 140,578,260

The plan assets are composed of cash and cash equivalents and investments in debt and equity securities. 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 P2.1 million, P7.4 million and P3.7 million in 2016, 2015 and 2014, respectively.

The plan assets do not include any of the Company's and other related parties' own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in consolidated income and in consolidated other comprehensive income in respect of the post-employment defined benefit plan are as follows:

	Notes	2016	2015	2014
Reported in consolidated statements of income:				
Current service costs	25.1	P 105,770,134	P 144,160,787	P 125,997,403
Net interest costs	24	38,850,050	46,097,256	48,640,873
		P 144,620,184	P 190,258,043	P 174,638,276
Reported in consolidated statements of comprehensive income:				
Actuarial gains (losses) arising from changes in:				
Financial assumptions		P 11,685,141	P 248,958,147	(P 114,089,539)
Experience adjustments		39,331,500	65,694,538	(52,928,254)
Demographic assumptions		(683,029)	3,955,741	-
Return on plan assets (excluding amounts included in net interest expense)		(4,355,641)	(1,994,868)	1,485,763
		45,977,971	316,613,558	(165,532,030)
Tax income (expense)	26	(13,793,391)	(94,984,067)	49,659,609
		P 32,184,580	P 221,629,491	(P 115,872,421)

Current service costs is presented as part of Salaries and employee benefits under Operating Expenses account in the consolidated statements of income (see Note 25.1). The net interest cost is included in Interest expense 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 post-employment defined benefit obligation, the following significant actuarial assumptions were used:

	2016	2015	2014
Discount rates	4.65% - 6.80%	4.89% - 5.40%	4.49% - 7.81%
Expected rate of salary increases	5.00% - 10.00%	5.00% - 10.00%	6.00% - 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 22 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 post-employment defined 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 strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and 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, 2016 and 2015:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
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)**
December 31, 2015			
Discount rate	0.50%	(P 110,145,014)	P 63,048,969
Salary increase rate	1.00%	166,787,414	(21,338,142)

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 strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This aims to match the plan assets to the retirement obligations by investing in 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

As at December 31, 2016, the plan is currently underfunded by P965.2 million based on the Group's latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 22 years' time when a significant number of employees is expected to retire.

The Group expects to make contributions of P40.0 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	2016	2015
Within one year	**P 48,377,366**	P 9,270,690
More than one year to 5 years	**116,432,820**	50,525,978
More than 5 years to 10 years	**454,185,958**	453,305,787
More than 10 years to 15 years	**453,114,812**	392,676,385
More than 15 years to 20 years	**783,977,156**	664,392,058
More than 20 years	**6,846,806,159**	8,020,780,539
	P 8,702,894,271	P 9,590,951,437

The weighted average duration of the DBO at the end of the reporting period is 22 years.

26. TAXES

The components of tax expense (income) as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	2016	2015	2014
Reported in consolidated statements of income:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30% and 10%	**P 2,133,634,027**	P 1,836,798,661	P 1,529,076,945
Final tax at 20% and 7.5%	**45,088,297**	50,655,309	69,385,362
Preferential tax at 5%	**27,016,743**	2,817,063	40,955,848
Minimum corporate income tax (MCIT) at 2%	**2,700,509**	1,761,980	1,760,348
Capital gains tax at 5%	**-**	-	26,785,714
	2,208,439,576	1,892,033,013	1,667,964,217
Deferred tax expense relating to origination and reversal of temporary differences	**1,280,899,444**	1,392,645,482	1,452,366,009
	P 3,489,339,020	P 3,284,678,495	P 3,120,330,226
Reported in consolidated statements of comprehensive income –			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 26,861,943**	P 115,945,063	(P 80,348,207)

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:

	2016	2015	2014
Tax on pretax profit at 30%	**P 4,559,610,250**	P 4,157,844,101	P 7,402,513,722
Adjustment for income subjected to lower income tax rates	**(150,602,787)**	(59,524,349)	(705,832,346)
Tax effects of:			
Non-taxable income	**(1,359,946,941)**	(1,212,893,361)	(4,074,676,381)
Non-deductible expenses	**378,646,243**	361,286,164	405,000,251
Unrecognized deferred tax assets on temporary differences	**65,749,546**	35,830,382	96,763,874
Miscellaneous	**(4,117,291)**	2,135,558	(3,438,894)
	P 3,489,339,020	P 3,284,678,495	P 3,120,330,226

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

	2016	2015
Deferred tax assets:		
Retirement benefit obligation	P 20,981,165	P 12,488,746
Allowance for property development costs	9,227,732	-
Allowance for impairment of receivables	7,747,189	9,087,303
NOLCO	4,178,239	11,187,800
MCIT	3,323,451	5,448,915
Others	30,076,027	28,895,110
	P 75,533,803	P 67,107,874
Deferred tax liabilities – net:		
Uncollected gross profit	P 9,661,687,872	P 8,884,257,510
Capitalized interest	1,790,886,538	1,431,498,138
Unrealized foreign currency losses – net	(1,220,035,435)	(663,877,612)
Difference between the tax reporting base and financial reporting base of rental income	287,572,150	258,790,669
Retirement benefit obligation	(295,187,069)	(245,597,333)
Translation adjustments	(109,801,221)	(96,732,669)
Share options	(36,336,115)	(27,488,206)
Bond issuance costs	17,754,987	23,511,908
Uncollected rental income	52,328,557	7,882,177
Others	(249,210,569)	64,951,682
	P 9,899,659,695	P 9,637,196,264

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 and in the succeeding page.

Subsidiaries	Year incurred	Amount	Valid Until
MLI	2016	P 225,136	2019
	2015	116,720	2018
	2014	120,319	2017
API	2016	252,499	2019
	2015	69,690	2018
	2014	123,051	2017
GPMAI	2016	4,396	2019
	2015	5,884	2018
	2014	37,063	2017
MCPI	2015	P 385,058	2018
	2014	1,194,150	2017
OPI	2016	736,053	2019
	2015	338,261	2018
MNPHI	2015	187,680	2018
MCP	2015	4,847	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 4,869,362	2018
	2014	2,165,572	2017
GPMAI	2016	1,848,528	2019
	2015	2,771,046	2018
	2014	404,617	2017
MCP	2015	64,022	2018
DPDHI	2015	174,547	2018
	2014	3,520,503	2017
ITMC	2016	785,884	2019
LSPI	2016	1,016,673	2019
PPVI	2016	28,911	2019
SLI	2016	28,911	2019
SP	2016	283,003	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
2016				
LSPI	P 1,090,513,724	(P 13,101,814)	P -	(P 1,016,673)
ITMC	49,774,506	(589,245)	36,745,208	(768,877)
GPMAI	597,262,846	269,828,360	901,791	(1,728,756)
PPVI	45,996,289	(260,806)	-	(28,911)
SLI	46,004,899	(252,196)	-	(28,911)
SP	49,167,035	(918,046)	-	(283,003)
	P 1,878,719,299	**P 254,706,253**	**P 37,646,999**	**(P 3,855,131)**
2015				
API	P 85,825,255	(P 60,115,720)	P 4,201,321	(P 4,935,424)
GPMAI	598,975,335	271,557,115	3,349,927	(7,955,482)
MCP	1,006,886,851	92,631,864	17,055,876	(68,488,236)
DPDHI	560,714,338	(3,695,050)	-	(174,547)
	P 2,252,401,779	P 300,378,209	P 24,607,124	(P 81,553,689)

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 2016, 2015 and 2014, the Group opted to continue claiming itemized deductions, except for MDC which opted to use OSD in those years, in computing for their 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 November 2011 and May 2014, the Board of Investments approved SPI's application for registration on Suntrust Adriatico Gardens and Suntrust Sentosa projects, respectively. SPI shall be entitled to income tax holiday for three years from November 2011 and May 2014, respectively, or actual start of commercial operations/selling, whichever is earlier but in no case earlier than the date of registration, with certain terms. In 2015, ITH for Suntrust Adriatico Gardens has expired.

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 and for the years ended December 31, 2016, 2015 and 2014 are as follows:

Related Party Category	Notes	Amount of Transaction 2016	2015	2014	Outstanding Investment/ Receivable (Payable) 2016	2015
Parent Company:						
Customer's deposits	27.1	**P 4,987,671,233**	P -	P -	**(P 4,987,671,233)**	P -
Investments in equity securities	27.5	**(407,032,000)**	(565,270,000)	(1,200,383,754)	**1,566,828,000**	1,973,860,000
Dividend income	27.5	**38,006,000**	38,006,000	46,595,425	-	-
Dividends paid	27.6	**(712,651,193)**	(857,700,557)	(456,070,226)	-	-
Sale of investment	27.2	-	-	10,431,650,000	-	-
Purchase of investment	27.2	-	-	(10,431,650,000)	-	-
Associates:						
Rendering of services	27.1	**4,438,286**	3,000,778	2,412,448	**3,216,269**	4,409,086
Advances granted	27.3	**27,486,807**	(3,595,658)	(230,425,498)	**1,298,017,045**	1,325,503,852
Advances availed	27.4	**(279,090,439)**	281,280,506	(28,041,758)	**(3,521,627)**	(282,612,066)
Related Parties Under Common Ownership:						
Real estate sales	27.1	**183,928,571**	999,082,400	-	**150,525,000**	-
Rendering of services	27.1	**85,220,422**	4,902,046	7,182,034	**72,424,594**	276,174
Advances granted	27.3	**1,424,154,907**	128,711,910	(1,045,631,931)	**1,209,499,038**	2,633,653,945
Advances availed	27.4	**1,212,855,919**	306,728,080	810,706,262	**(2,421,404,682)**	(1,208,548,763)
Investments in equity securities	27.5	**(630,060,205)**	(1,517,602,124)	2,669,056,587	**1,989,150,744**	2,619,210,950
Dividend income	27.5	**30,663,710**	40,036,576	-	**-**	-
Customer's deposits	27.1	-	-	144,803,571	**(144,803,571)**	(144,803,571)
Key Management Personnel –						
Compensation	27.7	**290,133,282**	322,576,930	237,509,062	-	-

None of the companies within the Group is a joint venture. The Company 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 2016	2015	2014
Real estate sales and lease of properties	**P 202,258,704**	P 1,006,985,224	P 9,594,482
Management services	**71,328,575**	-	-
	P 273,587,279	P 1,006,985,224	P 9,594,482

The Group leases some of its investment properties to its associates and other related parties under common ownership with rental payments mutually agreed before 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. The outstanding receivables arising from these transactions is presented as part of Trade under Trade and Other Receivables 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 sale is fully paid in 2015.

The Group's outstanding receivables from related parties arising from the above transactions are unsecured, noninterest-bearing, and payable in cash or through offsetting arrangements.

There were no impairment losses recognized on the Group's receivables from related parties in 2016, 2015 and 2014.

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. These collections 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 under Non-current Liabilities section in the 2016 statement of financial position.

In 2014, the Group, through LFI, received cash deposit made by a related party under common ownership, for the future purchase of a certain property owned by LFI. The related outstanding payable arising from the transaction is presented as part of Customers' Deposits account under Non-current Liabilities section in the consolidated statements of financial position.

27.2 Sale and Purchase of Investment

In 2014, the Company sold significant portion of its ownership over TIHGI to the Parent Company for P10.4 billion. The resulting gain on remeasurement of investment and gain on sale of shares were recognized under Interest and Other Income – Net account in the 2014 consolidated statement of income (see Note 23).

Further, the Company purchased additional shares of GERI from the Parent Company for P10.4 billion. As a result, the Company gained control over GERI.

27.3 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 in the Group with no 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 in consolidated statements of financial position (see Note 11.1) are as follows:

	2016	2015
Advances to associates	**P 1,298,017,045**	P 1,325,503,852
Advances to other related parties	**1,209,499,038**	2,633,653,945
	P 2,507,516,083	P 3,959,157,797

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

	2016	2015
Balance at beginning of year	**P 3,959,157,797**	P 4,084,274,049
Net collected	**(351,627,688)**	(125,116,252)
Advances eliminated through consolidation	**(1,100,014,026)**	-
Balance at end of year	**P 2,507,516,083**	P 3,959,157,797

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 2016, 2015 and 2014 based on management's assessment.

27.4 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 made cash advances to a certain related party under common ownership, for the development of a certain entertainment site which is 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:

	2016	2015
Advances from associates	**P 3,521,627**	P 282,612,066
Advances from other related parties	**2,421,404,682**	1,208,548,763
	P 2,424,926,309	P 1,491,160,829

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

	2016	2015
Balance at beginning of year	P 1,491,160,829	P 903,152,243
Net availed	933,765,480	588,008,586
Balance at end of year	P 2,424,926,309	P 1,491,160,829

27.5 Investments in Equity Securities

The Group's equity securities include of 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 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.

27.6 Dividends Paid to Parent Company

The Company declared dividends to the Parent Company amounting to P0.7 billion, P0.9 billion and P0.5 billion in 2016, 2015 and 2014, respectively. There is no outstanding liability arising from these transactions as of the end of both years (see Note 28.4).

27.7 Key Management Personnel Compensation

The Group's key management personnel compensation includes the following:

	2016	2015	2014
Short-term benefits	P 208,001,541	P 144,906,631	P 168,632,604
Post-employment benefit	48,804,369	31,398,166	28,779,904
Share-based expense	33,327,372	146,272,133	40,096,554
	P 290,133,282	P 322,576,930	P 237,509,062

27.8 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, 2016 and 2015 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		
	2016	2015	2014	2016	2015	2014
Preferred shares Series "A"- P0.01 par value						
Authorized, 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	P40,140,000,000
Issued and outstanding:						
Balance at beginning of year	32,370,865,872	32,362,877,948	32,100,675,105	P32,370,865,872	P 32,362,877,948	P32,100,675,105
Issuances during the year	-	7,987,924	262,202,843	-	7,987,924	262,202,843
Balance at end of year	32,370,865,872	32,370,865,872	32,362,877,948	P32,370,865,872	P 32,370,865,872	P32,362,877,948
Total Capital Stock				P32,430,865,872	P 32,430,865,872	P32,422,877,948

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, 2016, there are 2,545 holders of the listed shares, which closed at P3.57 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; 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 and none in 2016.

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 2016, 2015 and 2014.

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 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 per share.

Relative to the share subscription, 4,102,045,364 share warrants were issued of which 7,987,924, and 262,202,843 were exercised at P1 per share in 2015 and 2014, respectively. As of December 31, 2015, 4,101,662,246 warrants have already been 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:

	2016	2015	2014
Declaration date/date of approval by BOD	**June 15, 2016**	June 17, 2015	June 16, 2014
Date of record	**June 29, 2016**	July 1, 2015	June 30, 2014
Date paid	**July 22, 2016**	July 27, 2015	July 24, 2014
Amounts declared and paid			
Common	**P 1,608,000,152**	P 1,935,560,028	P 1,246,341,619
Preferred	**600,000**	600,000	600,000
	P 1,608,600,152	P 1,936,160,028	P 1,246,941,619
Dividends per share:			
Common	**P 0.05**	P 0.06	P 0.04
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, 2016. 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 2016 and 2015.

In 2016 and 2014, 5.0 million options each year were forfeited due to resignation of key executive officers. No option was vested as of December 31, 2016.

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	11.44 to 30.17 years
Share price at grant date	P2.54 to P4.52
Exercise price at grant date	P1.7731 to P3.2299
Fair value at grant date	P1.21 to P2.19
Average standard deviation of Share price return	1.03%
Average dividend yield	1.13%
Average risk-free investment rate	4.63%

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 P29.5 million, P31.2 million and P30.1 million share-based executive compensation in 2016, 2015 and 2014, 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.

Pursuant to this ESOP, in 2012, GERI granted the option to its key company executives to subscribe to 100.0 million shares of GERI, at an exercise price of P1.93. An option holder may exercise in whole or in part his vested option provided, that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle. As at December 31, 2016 and 2015, a total of 283.3 million and 200.0 million options have vested but none of these have been exercised yet by any of the option holders as at the end of both reporting periods.

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

Average option life	7 years
Share price at grant date	P1.02 to P2.10
Exercise price at grant date	P1.0 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 P18.5 million, P115.1 million and P10.0 million share-based compensation in 2016, 2015, and 2014, respectively, as part of Salaries and employee benefits and a corresponding credit in Non-controlling Interest (see Note 25.2).

A total of P48.0 million, P146.3 million and P40.1 million share option benefits expense in 2016, 2015 and 2014, respectively, is recognized and presented as part of Salaries and employee benefits under Operating Expenses account in the consolidated statements of income (see Note 25.2).

29. EARNINGS PER SHARE

EPS amounts were computed as follows:

	2016	2015	2014
Net profit attributable to Company's shareholders	P 11,331,824,386	P 10,215,095,444	P 21,219,577,584
Dividends on cumulative preferred shares Series "A"	(600,000)	(600,000)	(600,000)
Profit available to Company's common shareholders	P 11,331,224,386	P 10,214,495,444	P 21,218,977,584
Divided by weighted average number of outstanding common shares	31,819,445,872	31,816,158,923	31,678,808,588
Basic EPS	P 0.356	P 0.321	P 0.670
Divided by weighted average number of outstanding common shares and potential dilutive shares	31,958,695,843	31,977,462,945	31,834,293,509
Diluted EPS	P 0.355	P 0.319	P 0.667

In 2015, unexercised share warrants expired; hence, were no longer included in the computation. In addition, the potentially dilutive outstanding share options totaling 275 million in 2016 and 280 million both in 2015 and 2014 were also considered in the computations (see Note 28.6).

30. COMMITMENTS AND CONTINGENCIES

30.1 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 payments receivable under these agreements are as follows:

	2016	2015	2014
Within one year	P 10,392,140,312	P 7,687,114,102	P 6,757,739,227
After one year but not more than five years	55,737,574,775	43,476,147,159	35,491,931,862
More than five years	17,634,334,035	13,795,188,452	11,199,502,286
	P 83,764,049,122	P 64,958,449,713	P 53,449,173,375

30.2 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:

	2016	2015	2014
Within one year	P 43,652,561	P 55,832,292	P 48,658,023
After one year but not more than five years	43,684,340	62,907,791	49,101,909
More than five years	52,819,794	56,662,793	60,505,793
	P 140,156,695	P 175,402,876	P 158,265,725

30.3 Others

As at December 31, 2016 and 2015, the Group has unused lines of credit as follows:

	2016	2015
SPI	P 3,400,000,000	P 2,100,000,000
EELHI	670,000,000	1,023,000,000
	P 4,070,000,000	P 3,123,000,000

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.

31. 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.

31.1 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, 2016 and 2015, net foreign currency-denominated financial liabilities in U.S. dollar, translated into Philippine Peso at the closing rate, amounted to P21.8 billion and P16.3 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 5.04% and 3.67% in 2016 and 2015, respectively. If the exchange rate increased or decreased by such percentages, the profit before tax in 2016 and 2015 would have changed by P1,099.99 million and P598.97 million, respectively.

As of December 31, 2016 and 2015, the Group has foreign currency-denominated financial assets and liabilities in Euro but has no material foreign currency risk exposure.

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 (loss). Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

31.2 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 113.01:1.00, 25.74:1.00 and 51.63:1.00 as of December 31, 2016, 2015 and 2014, 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 2016 and 2015. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

	2016		2015	
	+1%	**-1%**	+1%	-1%
Consolidated net results for the year	**(P 3,283,288)**	**P 3,283,288**	(P 19,675,000)	P 19,675,000
Consolidated equity	**(2,298,301)**	**2,298,301**	(13,772,500)	13,772,500

31.3 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	**2016**	2015
Cash and cash equivalents	5	**P 16,395,663,456**	P 22,763,063,173
Trade and other receivables – net	6	**62,670,975,654**	55,148,505,013
Advances to associates and other related parties	11, 27.3	**2,507,516,083**	3,959,157,797
AFS debt securities	9	**66,501,898**	65,334,355
Guarantee and other deposits	14	**983,982,727**	822,930,111
		P 82,624,639,818	P 82,758,990,449

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:

	2016	2015
Not more than 3 months	**P 1,323,419,533**	P 1,152,518,898
More than 3 months but not more than 6 months	**464,509,857**	445,589,200
More than 6 months but not more than one year	**303,215,454**	267,533,633
More than one year	**144,702,602**	104,813,390
	P 2,235,847,446	P 1,970,455,121

31.4 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, 2016 and 2015, the Group's financial liabilities have contractual maturities which are presented below.

	2016		
	Within 1 Year	**1 to 5 Years**	**More than 5 Years**
Interest-bearing loans and borrowings*	P 7,638,691,154	P 35,150,365,101	P 1,478,120,046
Trade and other payables	13,303,336,111	-	-
Bonds payable*	954,316,762	12,945,153,375	12,717,881,563
Redeemable preferred shares*	28,933,722	1,064,257,763	251,597,580
Advances from associates and other related parties	-	2,424,926,309	-
	P 21,925,277,749	**P 51,584,702,548**	**P 14,447,599,189**

	2015		
	Within 1 Year	1 to 5 Years	More than 5 Years
Interest-bearing loans and borrowings*	P 5,625,001,999	P 26,378,266,996	P 5,054,286,885
Trade and other payables	9,937,812,130	-	-
Bonds payable*	903,605,573	12,894,005,250	12,543,208,125
Redeemable preferred shares*	28,933,722	835,807,161	508,981,904
Advances from associates and other related parties	-	1,491,160,829	-
	P 16,495,353,424	P 41,599,240,236	P 18,106,476,914

**Inclusive of future interest costs*

The contractual maturities in the previous page reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting dates.

31.5 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, 2016 and 2015 are summarized as follows:

	Observed Volatility Rates	Impact on Equity	
		Increase	Decrease
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)**
2015			
Investment in equity securities:			
Holding company	+/-7.49%	P 147,789,372	(P 147,789,372)
Tourism and leisure	+/-31.47%	264,181,970	(264,181,970)
Manufacturing	+/-6.82%	34,165,835	(34,165,835)

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Group's favor.

32. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

32.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below and in the succeeding page.

	Notes	2016		2015	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	5	**P 16,395,663,456**	**P 16,395,663,456**	P 22,763,063,173	P 22,763,063,173
Trade and other receivables – net	6	**62,670,975,654**	**62,670,975,654**	55,148,505,013	55,148,505,013
Advances to associates and other related parties	11, 27.3	**2,507,516,083**	**2,507,516,083**	3,959,157,797	3,959,157,797
Guarantee and other deposits	14	**983,982,727**	**983,982,727**	822,930,111	822,930,111
		P 82,558,137,920	**P 82,558,137,920**	P 82,693,656,094	P 82,693,656,094
AFS securities:	9				
Equity securities		**P 3,595,778,288**	**P 3,595,778,288**	P 4,634,249,299	P 4,634,249,299
Debt securities		**66,501,898**	**66,501,898**	65,334,355	65,334,355
		P 3,662,280,186	**P 3,662,280,186**	P 4,699,583,654	P 4,699,583,654

	Notes	2016		2015	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	15	**P 38,852,773,041**	**P 38,852,773,041**	P 31,672,631,662	P 31,672,631,662
Bonds payable	16	**22,330,589,969**	**22,330,589,969**	20,929,920,130	20,929,920,130
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	**13,303,336,111**	**13,303,336,111**	9,937,812,130	9,937,812,130
Advances from associates and other related parties	27.4	**2,424,926,309**	**2,424,926,309**	1,491,160,829	1,491,160,829
		P 78,169,613,330	**P 76,169,613,330**	P 65,289,512,651	P 65,289,512,651

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 31.

32.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set-off financial instruments in 2016 and 2015 and does not have relevant offsetting arrangements, except as disclosed in Notes 27.3 and 27.4. 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).

33. FAIR VALUE MEASUREMENT AND DISCLOSURES

33.1 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.

33.2 Financial Instruments Measurement at Fair Value

The table below shows the fair value hierarchy of the Group's investments in AFS Securities measured at fair value in the consolidated statements of financial position on a recurring basis as at December 31, 2016 and 2015 (see Note 9).

	Level 1	Level 2	Level 3	Total
2016				
Equity securities	**P3,568,328,390**	**P -**	**P 27,449,898**	**P3,595,778,288**
Debt securities	**66,501,898**	**-**	**-**	**66,501,898**
2015				
Equity securities	4,606,799,401	-	27,449,898	P 4,634,249,299
Debt securities	65,334,355	-	-	65,334,355

The Group has no financial liabilities measured at fair value as at December 31, 2016 and 2015.

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, 2016 and 2015, 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., Frankfurt Exchange) at the end of the reporting period and is categorized within Level 1.

33.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The 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 includecash and cash equivalents, which are categorized as Level 1, and trade andother 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 Level 3.

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.

33.4 Fair Value Investment Properties Measured at Cost for which Fair Value is Disclosed

The fair value of the Group's investment properties except for investment properties of API and LFI (see Note 12) was determined by calculating the present value of the cash inflows anticipated until the life of the Investment properties using a discount rate of 8%. On the other hand, the fair value of API and LFI was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's investment properties is their current use.

As at December 31, 2016 and 2015, 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 2016 and 2015.

34. 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.

	2016	2015
Interest-bearing loans and borrowings	**P 38,852,773,041**	P 31,672,631,662
Bonds payable	**22,330,589,969**	20,929,920,130
	P 61,183,363,010	P 52,602,551,792
Total equity	**P 143,618,340,329**	P 134,413,354,643
Debt-to-equity ratio	**0.43 : 1.00**	0.39 : 1.00

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for the years presented above.

35. EVENTS AFTER THE END OF THE REPORTING PERIOD

In March 2017, the SEC approved the shelf registration of P30.0 billion fixed rate bonds of the Company. Relative to the first tranche of shelf registration, the SEC also granted the Company a permit to sell P8.0 billion, with an over subscription option of up to P4.0 billion, seven-year Series B fixed rate bonds due in 2024 with an interest rate of 5.3535%. On March 28, 2017, the Company issued P12.0 billion bonds relative to the offer.

36. 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 series on November 21, 2002.

Effective November 25, 2011, the Company has upgraded its Certification to ISO 9001:2008 for its quality management system. The scope of the certification covers all areas of the Company's real estate development and marketing. Among others, the Company is required to undergo surveillance audits every six months.

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