



ALLIANCE GLOBAL

THE SPIRIT OF EXCELLENCE

ANNUAL REPORT 2012

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ABOUT THE COVER

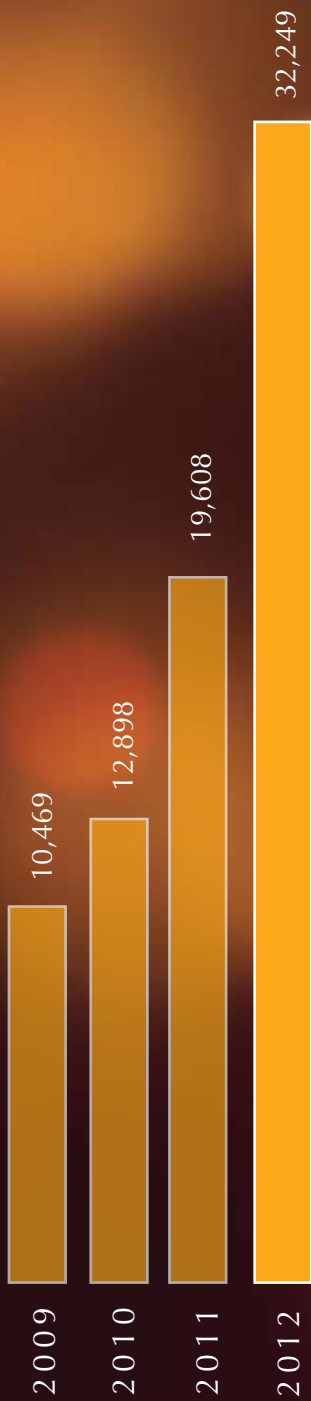
Much like the free flow of liquid, AGI's fluidity sparkles with a golden dynamism in adapting to a changing economic environment. It reflects THE SPIRIT OF EXCELLENCE imbued in the Company to rise above the challenge in breaking through global standards to achieve a sterling performance in 2012.

FINANCIAL HIGHLIGHTS

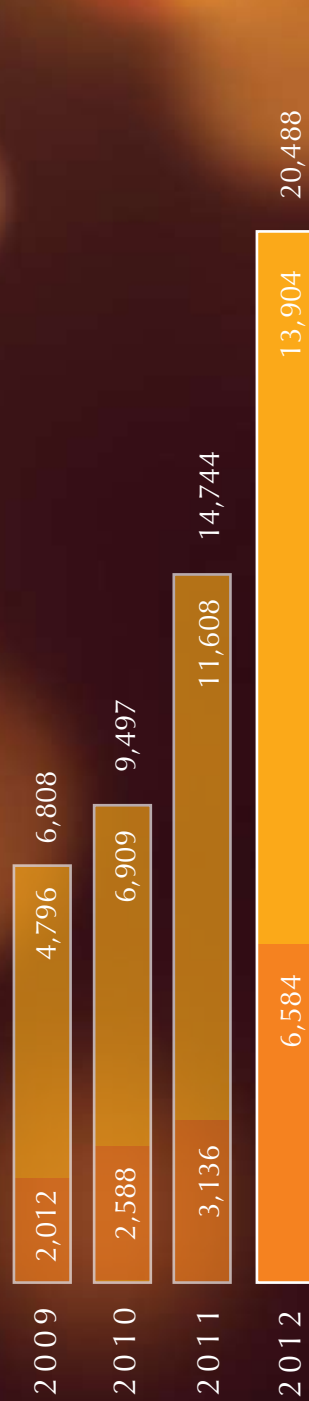
Revenue
(In Million Pesos)



EBITDA
(In Million Pesos)



Net Income
(In Million Pesos)



Attribute to:

- Net Income to AGI
- Net Income to MI

THE SPIRIT OF EXCELLENCE

The year 2012 was a favorable one not only for your Company but for the Philippines as a whole. The year saw the Philippine's GDP growing by 6.6%, on the back of the active trade, services, real estate, and construction sectors, even exceeding expectations of economists and market analysts.

Contributing to the country's sterling economic growth, AGI continues to improve on past record performances. Our major business segments—real estate through Megaworld Corporation (Megaworld) and Global-Estate Resorts, Inc. (GERI); food and beverage through Emperador Distillers, Inc. (EDI); quick-service restaurants through Golden Arches Development Corporation (GADC), which holds the local franchise for McDonald's fast-food restaurants; and tourism-entertainment and gaming through Travellers International Hotel Group, Inc. (Travellers International)—all turned in exceptional figures for the year.

Our total revenues grew by a record 63.1% to P102.72 billion in 2012 from P62.97 billion the previous year, primarily due to revenues contributed by Resorts World Manila which amounted to P32.5 billion. Also contributing substantially to our revenue growth are the 17% growth in the sale of goods such as consumer products and real estate and the 220% increase in the rendering of services due to revenues added from Travellers.

With the consolidation of Travellers in 2012, AGI's tourism-entertainment and gaming business became the biggest contributor to total revenues for the year, putting in 31.6%. The real estate business, through Megaworld, was the second highest contributor with 26.8%. This was followed by EDI's food and beverage business with 23%, and GADC's quick-service restaurant business with 13.6%.

Our net income increased by 76% to P20.5 billion in 2012 from P11.6 billion the previous year, before the P3.1 billion non-recurring income from the acquisition of a subsidiary. The portion attributable to owners of the parent company grew by 64% to P13.9 billion from P8.5 billion in 2011, propelled by the strong results from our real estate, tourism-entertainment and gaming, and food and beverage segments.

As the biggest contributor to our bottom line in 2012, Travellers turned in an impressive performance for the year. Travellers' flagship project, Resorts World Manila, registered an average foot traffic of 17,200 per day and a total of 6.3 million visits by the year end, a 4% increase from 2011 figures. The increase in foot traffic was due to a series of new promotional events and services and the production of the award-winning musical *The King and I*. Moreover, Resorts World Manila's membership reached 1.7 million by end-2012.

On the other hand, Megaworld continued to lead the real estate industry as it sold more than 12,000 residential units worth roughly P63.5 billion in 2012, maintaining its distinction as the biggest residential developer in the country. The company launched 11 new projects for the year while continuing its work on existing ones. Prior to the consolidation of Travellers, Megaworld had consistently

been our best achiever and our biggest revenue contributor. Megaworld's share in the achievement of our financial objectives for 2012, however, remains substantial.

EDI remained a strong player in the local distilled spirits industry as Emperador Brandy and The BaR flavored alcoholic drinks continued to benefit from continuously growing customer patronage. The demand for Emperador Light also remained very strong. In 2012 alone, Emperador sold 31 million cases, making it the 2nd largest consumed brand spirit globally and the world's largest-selling brandy.

EDI expanded its production capacity and technical capabilities through the acquisition of the Sta. Rosa plant of Diageo Philippines Inc. that increased the total bottling capacity of the company by about 20%. This acquisition helps boost the company's competitiveness in promoting Emperador as a strong global brand.

In turn, GADC continued its strong showing in the quick-service restaurant business as its revenues substantially grew. As in previous years, the company owed its revenue growth to the opening of new McDonald's company-owned and franchised restaurants.

GERI, our newest subsidiary, is now deep into the development of two major projects—Boracay Newcoast and Twin Lakes. We have allotted a total of P20 billion for these two flagship projects which will feature integrated master-planned layouts that include world-class resorts and first-rate facilities and amenities. Moreover, through GERI, we will be developing over 1,300 hectares of prime land in Boracay, Tagaytay and Nasugbu, Batangas into world-class tourism estates.

Taking into account everything that happened in 2012, I am happy and proud to say that your Company outdid itself again, and in grand fashion. Our efforts in building strong brands that will weather any kind of economic storm or take advantage of beneficial socio-economic climates paid off quite well.

In the face of unpredictable global economic conditions, we remain upbeat on our prospects for continued growth and increased profitability. Allow me to assure you that we will not rest on our laurels but will continually aspire to outdo ourselves every single year. We are committed to do even better than before, and to reach greater levels of achievement in the spirit of excellence.



ANDREW L. TAN
Chairman & CEO

SUMMARY OF EXCELLENCE



Emperor Distillers, Inc. (EDI) remained a strong player in the local distilled spirits industry as Emperor Brandy, Emperor Light, and The BaR flavored alcoholic drinks continued to benefit from continuously growing customer patronage. In 2012 alone, Emperor sold 31 million cases, making it the 2nd largest consumed brand spirit globally and the world's largest-selling brandy.



Megaworld performed impressively in 2012 as demand for the company's world-class townships and BPO office spaces continued to grow. For the year, Megaworld sold more than 12,000 residential units worth roughly P63.5 billion, maintaining its distinction as the biggest residential developer in the Philippines. Megaworld also continued to be the biggest BPO office space provider in the country. In 2012, the company launched 11 new projects while continuing its work on existing ones.



TRAVELLERS

INTERNATIONAL

Travellers International continued its momentum of growth in 2012 as its flagship project, Resorts World Manila, remained a favorite leisure destination for the year. The complex registered an average foot traffic of 17,200 per day and a total of 6.3 million visits by the year-end, a 4% increase from 2011 figures. The increase in foot traffic was due to a series of new promotional events, new services, and the production of the award-winning musical *The King and I*.



Golden Arches Development Corporation (GADC) continued its fine showing in the quick-service restaurant business as revenues once again substantially grew in 2012. As in previous years, the company owed its revenue growth to the opening of new McDonald's restaurants, the increase in business extensions, and the re-imaging of company-owned outlets. A total of 49 new restaurants were opened in key metropolitan areas in 2012, bringing the total number of stores nationwide to 376.



GLOBAL-ESTATE

Global-Estate Resorts, Inc. (GERI) is currently deep into the development of two major projects—Boracay Newcoast and Twin Lakes. The company has allotted a total of P20 billion for these two flagship projects which will feature integrated master-planned layouts that include world-class resorts and first-rate facilities and amenities. GERI will be developing over 1,300 hectares of prime land in Boracay, Tagaytay and Nasugbu, Batangas into world-class tourism estates.







EMPERADOR DISTILLERS, INC.

THE REWARDS OF EXCELLENCE



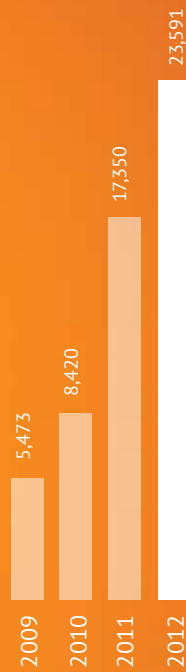
In 2012 alone,
Emperor sold
31 million cases,
making it the 2nd largest
consumed brand spirit
globally and the world's
largest-selling brandy.

The quest for excellence has always been a challenging pursuit. Many people believe that excellence is elusive. Emperor Distillers Inc. (EDI), the food and beverage arm of AGI, believed that excellence in operation and innovation are worthwhile pursuits and are attainable. This belief has propelled their flagship product Emperor Brandy, to become as the largest-selling brandy in the world by volume loved by million of consumers in the country and compatriots living abroad.

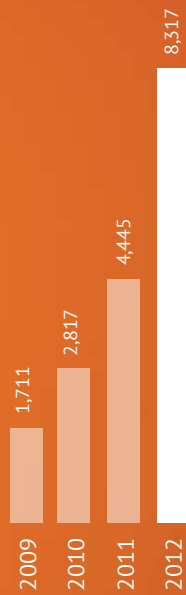
As a brand, Emperor is one of the leaders in the international brandy market, carrying an outstanding track record in sales and several global distinctions under its belt. In 2012 alone, Emperor sold 31 million cases, making it the 2nd largest consumed brand spirit globally and the world's largest-selling brandy.



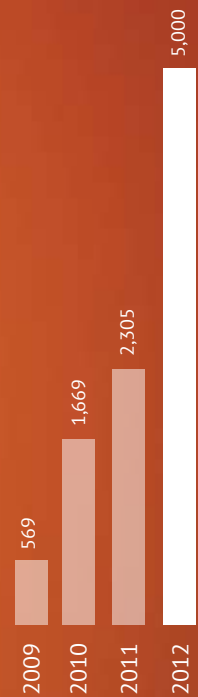
REVENUES
(In Million Pesos)



GROSS PROFIT
(In Million Pesos)



NET INCOME
(In Million Pesos)





EDI once again turned in a record performance as net income grew by a huge **116%** to **P5 billion** from P2.31 billion the previous year.

In 2012, EDI once again turned in a record performance as net income grew by a huge 116% to P5 billion from P2.31 billion the previous year. Emperador Brandy and The BaR flavored alcoholic drinks contributed significantly to the bottom line as these products continued to benefit from growing customer patronage. The demand for Emperador Light during the year also remained very strong and this helped in boosting the company's sales. Similarly, EDI's total revenues grew by a hefty 36% to P23.59 billion in 2012 from P17.35 billion the previous year.

The company introduced its next generation of The BaR—a ready-to-serve cocktail. The BaR Margarita caters to new set of drinkers who prefer sophisticated yet convenient products. The Margarita Cocktail is the first in a line of exciting new products to be launched under The BaR brand. The new generation of the BaR beverage comes at the heel of the success of the flavored vodka line.



EDI expanded its production capacity and technical capabilities through the acquisition of the Sta. Rosa plant of Diageo Philippines Inc. that increased the total bottling capacity of the company by about **20%**.

EDI's philosophy is to offer the best world class quality products that the Filipino consumers can enjoy. All of our products are considered world class in terms of taste and quality. Because of the phenomenal growth in sales, EDI expanded its production capacity and technical capabilities through the acquisition of the Sta. Rosa plant of Diageo Philippines Inc. that increased the total bottling capacity of the company by about 20%. This acquisition helps boost the company's competitiveness in promoting Emperador as a strong global brand.

The quest and pursuit of excellence in operations and quality is what will propel the company ahead in the years to come.





MEGAWORLD CORPORATION

WHAT DREAMS ARE MADE OF



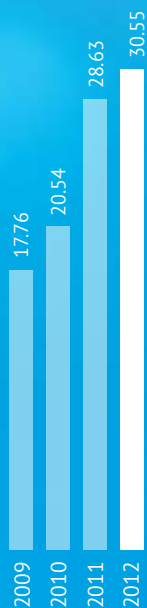
Net income amounted to **P7.41 billion**, increasing by a hefty **23.91%** from the 2011 consolidated net income of P5.98 billion

It is said that the future belongs to those who believe in the beauty of their dreams. If such is the case, then the future definitely belongs to Megaworld. The company believed not only in the beauty of its dreams but in the idea that, once realized, the company's dreams will bring about the uplifting of the people's standards of living. When Megaworld started its operations in 1989, the company's management dreamed of being able to enhance the Philippine landscape and provide comfort and leisure to those who would follow their own dreams. By daring to dream, and taking concrete steps to realize these big dreams, Megaworld has basically assured itself of a future in the property development industry. Now, after 23 years, Megaworld is at the forefront of the local real estate industry.

In 2012, as the Philippine real estate industry experienced a boom like it never had in several years and outpacing other major Philippine industries, Megaworld performed impressively as demand for the company's world-class townships and BPO office spaces continued to grow. As such, consolidated net income amounted to P7.41 billion, increasing by a hefty 23.91% from the 2011 consolidated net income of P5.98 billion, net of the P2.18 billion non-recurring gain from the sale of investments.



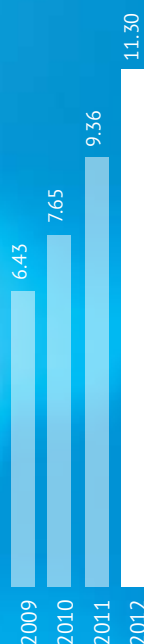
Consolidated Revenues
(In Billion Pesos)



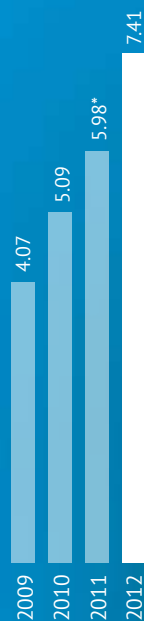
Real Estate Revenues
(In Billion Pesos)



EBITDA
(In Billion Pesos)



Net Income
(In Billion Pesos)



*excludes non-recurring gains from sale of AGI shares in 2011



Consolidated total revenues—composed of real estate sales, rental income, hotel income, and other revenues—also surged by 16%, excluding the 2011 non-recurring gain on sale of investments. The bulk of generated consolidated revenues came from the sale of condominium units amounting to P18.17 billion in 2012, a 14% increase from P15.89 billion in 2011.

Megaworld launched 11 new projects in 2012, located in different parts of the metropolis. The company's operations, however, are centered on their nine mega-communities, all of which have garnered considerable success in sales and pre-sales since their respective launches. These integrated townships have been responsible for the company's continuing leadership in the real estate industry in the country and can only be described as that which dreams are made of.

EASTWOOD CITY

Eastwood City is Megaworld's most successful project to date. Not only is it the first-ever integrated township project, it is also the very first mega-community that strove to offer complete facilities, amenities, and establishments for living, working, playing, and shopping. The 18-hectare project is the first-ever "live-work-play" community by

Megaworld and in the country, housing 15 completed luxury condominium towers, 10 first-class corporate buildings, seven ongoing residential projects, the country's very first IT park, and a high-end mall.

Eastwood City was launched in 1997 and is envisioned to be a sprawling community of 20 high-rise residential towers housing 8,087 condominium units upon its completion. Moreover, it will have more than 270,000 square meters of high-grade office buildings and 60,000 square meters of entertainment and retail space. The project has also earned for itself the distinction of being the top employer and dollar-earner among all the 70 IT special economic zones in the Philippines. Right now, Eastwood City is home to more than 25,000 residents and over a hundred office tenants and BPO companies.

FORBES TOWN CENTER

Megaworld's Forbes Town Center is a P15-billion, five-hectare mega-township in Bonifacio Global City. The community is one of the newest landmarks to emerge in the area and is envisioned to have 12 residential towers which will house a total of 3,500 units upon completion. Forbes Town Center is adjacent to the Manila Polo Club and Forbes Park, as well as the Manila Golf



and Country Club, which gives the residents of Forbes Town Center a panoramic half-a-kilometer-long view of its golf course.

The focal point of activity in Forbes Town Center is the aptly named Forbes Town Road, a retail strip with 37 restaurants and shops that cater to the diverse needs of residents in the area. Forbes Town Center's newest attraction is the Burgos Circle, a leisure spot with residential condominiums and a small park that's designed for the young, trendy and hip residents and visitors of the community.

McKINLEY HILL

McKinley Hill is a huge 50-hectare township in Fort Bonifacio, Taguig City and is by far Megaworld's largest and most important property development project in Metro Manila. McKinley Hill is envisioned to abide perfectly to Megaworld's "live-work-play-learn-shop" with single detached homes, townhouses, a mid-rise condominium, high-rise luxury residences, BPO office buildings, a Venetian-themed mall, and a special events venue upon completion. These projects are currently in the works and are in different stages of development. In fact, when completed, McKinley Hill will have 34 residential

McKinley Hill is a huge 50-hectare township in Fort Bonifacio, Taguig City and is by far Megaworld's largest and most important property development project in Metro Manila.



condominium buildings with a total of around 4,713 condominium units, 482 residential lots, and 18 first-class offices with a total area of around 300,000 square meters. The mega-township is currently home to three international schools, three international embassies, and a PEZA-accredited CyberPark. You can also find there The Venice Luxury Residences, a residential complex designed to capture the visual grandeur and the romantic ambience of Venice itself; the man-made Grand Canal, the only one of its kind in the country; and the Venice Piazza, a world-class Italian-inspired mall that features replicas of well-known Venetian icons like the St. Mark's Clock Tower, one of Venice's most recognizable landmarks.

MANHATTAN GARDEN CITY

Megaworld's Manhattan Garden City stands out as the very first transit-oriented residential development project in the country. The community was innovatively designed to seamlessly integrate with the city's mass-transit system. Situated at the heart of Araneta Center in Quezon City, Manhattan Garden City also stands as Megaworld's contribution to the Quezon City government's redevelopment plan for the Araneta Center, the city's premier commercial center in the 60s and 70s. The 5.7-hectare Manhattan Garden City is considered the largest single residential development in the country by far

with a total of around 9,000 units upon completion. The residential complex also features a 720-meter elevated garden walkway that connects the complex's 20 towers. Another first in Philippine real estate development, the walkway links the condominium complex to the Light Rail Transit 2 and Metro Rail Transit 3 systems, providing residents with easy access to trains bound for other parts of the metropolis.

NEWPORT CITY

In just seven years after its launch, Newport City has grown to become a world-class venue for the total entertainment of local and international travelers. The 25-hectare Newport City was designed with the aim of becoming the first-ever tourist city in the country and reviving the country's ailing tourism industry by fully integrating luxury residences with prime corporate office spaces and a world-class entertainment complex. The project is located in Pasay City, right across the new Terminal 3 of the Ninoy Aquino International Airport (NAIA).

Newport City is home to several high-end residential projects and a cyber park that hosts a number of corporate offices and BPO buildings. The center of activity in Newport City is Resorts World Manila, the country's first



integrated tourism estate. A project of AGI subsidiary Travellers International, the 12-hectare Resorts World Manila has earned the distinction of being the new leisure capital of the Philippines with multi-cultural fine dining restaurants, a state-of-the-art performing arts theater that has already featured numerous world-class acts and musicals, an upscale shopping mall, a first-class gaming center, and three modern hotels: the five-star Marriott Hotel; the six-star all-suites Maxims Hotel, the first of its kind in the country; and the budget-class three-star Remington Hotel.

CITYPLACE

Cityplace is definitely one of the most important real estate development projects in the Binondo area in recent years. For one thing, the 2.5-hectare residential and commercial complex is the largest and most modern real estate development project in that part of Manila in the last 20 years.

Envisioned to bring back the former glory of Old Manila, one of the attractions within the Cityplace complex is the newly opened Lucky Chinatown Mall, a world-class shopping center offering Hong Kong-style shopping that's perfect for Filipinos. Spanning at 108,000 square meters,

the new five-level mall—the first full-scale establishment of its kind in the area—features 168 shops and restaurants, a supermarket, and an arcade. Cityplace also features the Chinatown Walk, a 20-meter-wide and 200-meter-long stretch of retail shops and restaurants in a typically Oriental setting.

Cityplace Twin Towers will have 525 residential condominium units located in the upper levels. These were designed so that shop-owners who own stores, restaurants and offices in the lower floors can set up their homes in the upper floors. Indeed, Cityplace has become a distinct landmark that clearly shows the modernization of old Manila.

McKINLEY WEST

McKinley West is the newest integrated township project of Megaworld. The huge 34.5-hectare mixed-use community development is located in the former Jusmag property in Fort Bonifacio, at the back of Forbes Park and stands as one of the largest projects of Megaworld to date. Megaworld is investing some P22 billion over the next 20 years to develop the huge McKinley West property. Around 60 percent of the entire area will be used for residential development projects while the rest will be used for leisure amenities, access roads and wide open



spaces with lush greenery. This project will bring the total development portfolio of Megaworld at the Bonifacio Global City to around 105 hectares.

THE MACTAN NEWTOWN

In 2012, Megaworld took a huge step to expand its reach and bring its highly successful “live-work-play-shop” development concept to the province. The company launched during the year The Mactan Newtown, the company’s first major community development in Cebu and its first outside of Metro Manila. The Mactan Newtown is a sprawling 25-hectare mega-community that combines office spaces, luxury condominiums, leisure amenities, retail shops, and a hotel in one setting, much like most of Megaworld’s integrated communities. The project also features a cyber park, which is home to several office buildings like the recently completed One World Center and the newly launched Two World Center. The cyber park will also be home to Eight Newtown Boulevard, Pacific Garden Tower, and Pacific World Tower, all of which host prime BPO offices. The Mactan Newtown is also adjacent to Shangri-La Mactan and Portofino and is near the Magellan Bay, thus offering residents easy access to beaches and resorts.

ILOILO BUSINESS PARK

In line with Megaworld’s efforts to extend its reach to provincial centers, the company launched a major project in Western Visayas particularly in Iloilo City, the region’s business and commercial center. The project is called the Iloilo Business Park, a sprawling 72-hectare mixed-use development project located in Mandurriao, Iloilo City. On a piece of prime property that used to be a major airport, Megaworld intends to put up first-class hotels, a commercial area, a modern lifestyle mall, BPO office buildings, and a convention center that can accommodate thousands of people.

One of the major attractions of the business park is the Iloilo Convention Center, a joint venture between Megaworld and the local government and is slated to open in 2015. The project’s master plan also includes the construction of the Richmonde Hotel, several other BPO buildings, and an area devoted to mixed-use development. This move to Iloilo City is part of the company’s plan to transform cities outside of Metro Manila to become progressive and financially viable investment centers and tourist destinations.



The **15.4-hectare** Uptown Bonifacio is Megaworld's newest township project in the area and is envisioned to be a huge community of modern condominiums, offices, and retail establishments.

UPTOWN BONIFACIO

Megaworld is also currently developing Uptown Bonifacio in Bonifacio Global City under a joint venture arrangement with the Bases Conversion and Development Authority. The 15.4-hectare Uptown Bonifacio is Megaworld's newest township project in the area and is envisioned to be a huge community of modern condominiums, offices, and retail establishments. To be developed in phases, Uptown Bonifacio will have 500,000 square meters of residential space, 400,000 square meters of office space and 90,000 square meters of commercial space upon completion. With all these accomplishments in their belt, Megaworld is rightfully at the helm of the property development industry and is not only recognized as the country's largest residential condominium developer in recent years, it is also considered the leading BPO office space provider in the Philippines.

Through the years, the company has built a reputation of careful project planning, prudent decision-making and continuous innovating. This they achieved by daring to dream at the start. More importantly, they not only believed in the beauty of their own dreams, they also made sure that what they provide their market is the stuff of which dreams are made. And this is what truly sets them apart from the competition.





TRAVELLERS
INTERNATIONAL

TRAVELLERS INTERNATIONAL
HOTEL GROUP, INC.

REDEFINING
LEISURE AND
ENTERTAINMENT





Resorts World Manila's impressive performance in 2012 carried Travellers International to become the biggest contributor to AGI's revenues for the year.

Saying that 2012 is a banner year for Travellers International is actually making an understatement. For the year was not just a good one for the tourism-entertainment and gaming company, it was actually what we can call a breakout year. Travellers International turned in record performances in almost all aspects of its operations for the year and garnered success in all its major projects.

Travellers International became AGI's fourth major subsidiary when the latter began venturing into tourism-related development in 2008, starting with the PAGCOR-initiated Entertainment City project. Since its inception, Travellers International has been initiating projects that redefine Philippine entertainment and leisure and has been helping turn the country into a major tourism force in Asia and the Pacific.

The company's flagship project Resorts World Manila, for one thing, has become synonymous to world-class entertainment. The company had allotted over US\$600 million to develop the 12-hectare leisure complex which is located within the 25-hectare Newport City in Pasay.



Opened to the public in August 2009, Resorts World Manila is considered the country's very first integrated tourism estate. It has one of the largest gaming facility in the Philippines that's housed in three levels, with 300 table games and over 1,800 slot machines. The complex has three fully operational hotels: the five-star Marriott Hotel, the six-star Maxims Hotel, and the newly opened budget-class Remington Hotel which caters mostly to local middle-class tourists.

Two more hotels are in the works: the five-star Sheraton Hotel Manila and the five-star Hilton Manila Hotel. These hotels are expected to boost the room inventory in Resorts World Manila to 2,400 hotel rooms by 2016 when tourist arrivals in the Philippines are expected to hit close to 10 million.

One of the most exciting spots in the tourism estate is Newport Mall—an upper-class, four-level mall that houses shops of international apparel brands and dining and amusement establishments. The resort also has state-of-the-art cinemas that show current blockbuster movies.

The centerpiece of Resorts World Manila, however, is the Newport Performing Arts Theater. The theater is equipped with state-of-the-art stage, sound and lighting equipment and features an elegant vestibule with crystal chandeliers and a bar designed by world-renowned Filipino sculptor Impy Pilapil. The theater has served as a venue for special events like beauty pageants and corporate programs and productions. More importantly, the theater has been used to showcase some of the best local and international acts and artists as well as musicals like *The Sound of Music* and *The King and I*.

The Sound of Music, which ran from October 15, 2011 until May 27, 2012, set a record for the longest run of a Rodgers and Hammerstein musical in Southeast Asia. *The King and I*, Resorts World Manila's third major theater production, opened in September 15, 2012 but already proved highly successful after only three months that its extension to May of the following year was already announced in December.



Resorts World Manila's impressive performance in 2012 carried Travellers International to become the biggest contributor to AGI's revenues for the year. For one thing, Resorts World Manila's foot traffic averaged around 17,200 per day in 2012 with a total of 6.3 million visits by year-end, or a 4% increase from 2011 figures. The complex's foot traffic was boosted by a series of promotions, tournaments for international and local markets, supplementary guest services like shuttle services and bus programs, and the staging of *The King and I*.

Gaming revenues increased to P28 billion for the year, a 10.3% surge from P25.4 billion in 2011. This increase was due to an overall growth in gaming capacity, a steady win factor and a hike in overall guest visits. A change in the gaming mix and an increase in mass-market tables and table limits that optimized overall yield also contributed to improved gaming revenues.

Hotel and food and beverage revenues, in turn, increased to P2.7 billion, up by 16.3% from the 2011 total mainly due to the impressive initial performance of the newly

opened Remington Hotel and the increased occupancy rates for the Maxims and Marriott hotels. Remington Hotel became fully operational only towards the end of 2012, yet it already made a significant contribution to AGI's revenues. Marriott Hotel Manila had an 81% occupancy rate in 2012; Maxims Hotel had 69% and Remington Hotel had 51%. Net profit for Travellers in 2012 amounted to P6.73 Billion, up to 39%, from P4.84 Billion in 2011.

To top everything off, Resorts World Manila's membership reached a record 1.7 million by the end of 2012.

This isn't the only thing that Travellers International is looking forward to, however. Resorts World Manila has already started the preparations for the staging of Rodgers and Hammerstein's *Cinderella* which will again feature an all-Filipino cast and production team. This newest major production will significantly boost Travellers' bid to turn Resorts World Manila into the theater capital of Asia where most major theater productions in the region are staged.



The construction of the new Hilton Manila Hotel, Sheraton Hotel Manila and Marriott Grand Ballroom in the complex is something that the management of Travellers is also eagerly awaiting. The Hilton and Sheraton brand will substantially enhance the prestige and glamor of Resorts World Manila and make it more attractive to international tourists.

Indeed, the future looks bright for the young tourism-entertainment and gaming company. With the full support of AGI, the company is armed to the hilt with everything it needs to pursue its twin objectives of redefining leisure and entertainment in the country and putting the Philippines in the global tourism map.

Net profit for Travellers in 2012 amounted to **P6.73 Billion**, up to **39%**, from **P4.84 Billion** in 2011.





GOLDEN ARCHES
DEVELOPMENT CORPORATION

MODERNIZING THE RESTAURANT EXPERIENCE



GOLDEN ARCHES DEVELOPMENT CORPORATION



GADC total revenues grew by **17%** from P11.91 billion in 2011 to **P13.93 billion** in 2012

The love affair between the Golden Arches and Filipinos began in 1981 as McDonald's opened its doors to Filipino customers through their first branch in Morayta, Manila. Throughout the years, McDonald's has become a place not just for great tasting food and fast service but a place where everyday moments are made more special. For the budget conscious professional, McDonald's affordable meal offers hit the spot for breakfast or lunch. For the student who looks for a place to hang out, McDonald's offers a familiar and comforting place best shared with friends or alone for some late night studying. McDonald's has become part of the Filipino routine, may it be families enjoying dinner after a day at the mall or the young working professional taking a quick breather from a hectic day.

In the Philippines, the McDonald's master franchise is owned by Golden Arches Development Corporation headed by Chairman George T. Yang. In 2005, GADC partnered with AGI to make it a 100% Filipino owned company with President & CEO Kenneth S. Yang leading its daily operations. Since this partnership, the company has embarked on a mission to become the Filipino's first choice with its trademark innovation in its menu offers, restaurant openings and reimagining, and fresh marketing campaigns

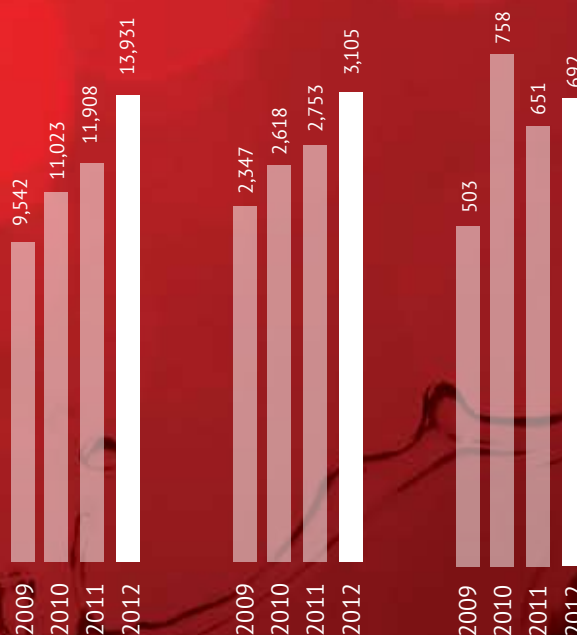


that continue to enrapture the market and strengthen its affinity with Filipino customers. Driven by its brand pillars of value, service, and convenience, McDonald's remains committed to all Filipino families in offering only the best tasting food at affordable prices paired with convenient service initiatives and a modern restaurant experience that no other quick service restaurant brand can deliver.

The last five years have shown big momentum for McDonald's Philippines in terms of sales and revenue, and, in 2012, some 31 years after its inception, GADC total revenues grew by 17% from P11.91 billion in 2011 to P13.93 billion in 2012. Similarly, net income increased by 6% year on year.

The increase in revenues was supported by a strong Philippine economy with a GDP growth of 6.6% in 2012—stronger than other neighbouring countries in Asia Pacific. Within this economy is the growth of the Informal Eat Out (IEO) industry by 5.3% with the Quick Service Restaurant (QSR) industry growth at 10.8%. Indicative of this growth is the opening of 49 new restaurants in 2012, including openings in new territories like Boracay, Kalibo and Palawan, bringing the total number of restaurants nationwide to 376-of which 207 are owned by the company. These new restaurant openings contributed 5% to total system sales

REVENUES (In Million Pesos) GROSS PROFIT (In Million Pesos) NET INCOME (In Million Pesos)





GADC plans to continue with its expansion program aiming to have a total of **500 stores** by 2015

with most of the openings happening during the fourth quarter. 31 company-owned and franchised restaurants were also re-imaged. Other drivers of the strong performance of the company include the growth of brand extensions like McDelivery, Drive-Thru, Dessert Centers and day parts like breakfast and midnight hours. Restaurant sales from company-owned stores rose by 14% while revenues from franchised restaurants--in terms of rent, royalties and other revenues--went up by 22%.

The introduction of new products and aggressive advertising and promotional campaigns propelled McDonald's performance during the year, opening 2012 strong with the launch of its breakfast campaign, "Hooray for Today", resulting in a double-digit growth of the breakfast platform from its 2011 performance.

Strengthening and sustaining its value programs, Everyday McSavers and McSaver Meals, were also key strategies in increasing revenues and store visits. McDonald's expanded its McSaver Meals range to include other menu items above Php 50 such as the Cheeseburger and Chicken McDo Value Meal, while retaining its popular Php 50 offers such as the Crispy Chicken Fillet Sandwich with drink, Crispy Chicken Fillet with rice and drink and McSpaghetti with drink.



In delivering best tasting food, McDonald's excited its customers with new offers and experiences. The McFloat Summer Medley was launched during the summer, introducing a range of McFloat flavors perfect for the season. Other new beverage offers like McCafé Iced Coffee and Coffee Float gave coffee lovers more reasons to keep coming back.

Continuing the strong momentum in driving best taste, McDonald's brought back for a limited time only, the cult favourite, Twister Fries, generating massive buzz online it sparked international media interest but perhaps the biggest news of the year came with the launch of a new permanent menu item, Big N' Tasty—proving once again to customers the brand's commitment to taste and quality. More than just delivering on great value and taste, another focus of McDonald's was bringing families and friend together, with McCelebrations – allowing customers to “celebrate anything,” any kind of personal milestone, with affordable packages that start at Php 150 per head for a minimum of ten guests.

As in previous years, GADC attributes the continued success of its McDonald's franchise to the company's commitment to its customers whether through providing value for money offers, fast and efficient service or being available any time anywhere, have served them well through the years. These practices have guided the company towards the consistent achievement if their company goals every year. In 2013 GADC will continue to focus on its customers with the aim of substantially building on what the company has achieved by far.

Moreover, GADC plans to continue with its expansion program aiming to have a total of 500 stores by 2015 coupled with more restaurant re-imaging and brand extensions.

Considering all these plans, the company expects a brighter future ahead, that despite challenging economic conditions in the past, GADC was able to sustain its excellent performance in the quick-service restaurant industry. As such, the company is bullish about the future given improving economic conditions and commitment to becoming the Filipino's first choice.





GLOBAL-ESTATE

GLOBAL-ESTATE RESORTS INC.

TAKING PHILIPPINE TOURISM TO NEW HEIGHTS



In only its second year as an AGI subsidiary, GERI turned in total revenues amounting to **P1.39 billion** in 2012

Global-Estate Resorts Inc. (GERI) may be AGI's newest subsidiary but its contributions to the holding company's objectives remain impressive. In a span of two years since AGI acquired it, GERI has initiated groundbreaking projects that are poised to change the landscape of Philippine tourism and take it to new heights.

GERI is the leading developer of integrated tourism estates in the Philippines with over 3,100 hectares of land bank. These master-planned communities, featuring world class lifestyle and leisure offerings, are envisioned to set new standards in the country's tourism industry.

In only its second year as an AGI subsidiary, GERI turned in total revenues amounting to P1.39 billion in 2012, a huge 32% increase from the company's total revenue figure of P1.05 billion in 2011. Similarly, net income grew from P220 million in 2011 to P265 million in 2012, a significant 20% increase.

GERI's two major tourism projects right now are the Boracay Newcoast and the Twin Lakes resort community near Metro Tagaytay. The company has initially allotted a total of P20 billion for these two flagship projects



The **P15-billion** Boracay Newcoast is being developed on a **150 hectares** that occupies **15%** of Boracay, the single largest piece of land in the island.

which will feature integrated master-planned layouts that include world-class resorts and first-rate facilities and amenities. The P15-billion Boracay Newcoast is being developed on 150 hectares that occupies 15% of Boracay, the single largest piece of land in the island. Boracay Newcoast is designed to be a leisure-driven community that features four world-class hotels, one of which is AGI's own hotel brand. Boracay Newcoast aims to drive Boracay's long-term tourism growth and help attract at least 350,000 more tourists to Boracay each year. Three projects within Boracay Newcoast are currently being developed: Newcoast Village, Boutique Hotel District, and Shophouse District.

In 2012, GERI launched another project in Boracay Newcoast—the Oceanway Residences 1 and 2, a cluster of seven modern medium-rise residential condominiums, the first of its kind in the complex. Oceanway Residences is located on Newcoast Drive and overlooks the Fairways and Bluewater golf course on either side.

Boracay Newcoast also saw the launch in 2012 of the 559-room Boracay Savoy Hotel which is positioned to be the Ibiza of Asia where various electronic dance music festivals and concerts are regularly held.



Savoy Hotel is envisioned to redefine the night scene in the island. Also a part of the Savoy Hotel complex is a row of retail establishments with a 400-square-meter roof deck dance floor that overlooks the pool and the bars.

GERI's other flagship project is Twin Lakes, a 1,200-hectare community in Laurel, Batangas, near Metro Tagaytay. GERI is initially putting in P5 billion for this vineyard resort community, the first of its kind in the Philippines. Twin Lakes is also envisioned to be the premiere medical and educational tourism destination in the country. Overlooking the Taal Volcano and the Taal Lake, Twin Lakes offers a kind of resort lifestyle that revolves around Tagaytay's lush greenery and cool weather the whole year round.

In Twin Lakes, the company is currently at work on Domaine Le Jardin, a garden-themed exclusive residential village. The 50-hectare project is inspired by garden laden attractions and botanical gardens and is the first residential community of its kind to offer properties with specially built terrace areas.

GERI is also currently developing The Vineyard Residences, a cluster of residential towers located in a 177-hectare mixed-use complex called the Vineyard.

GERI also launched in 2012 the construction of the **559-room** Boracay Savoy Hotel which is positioned to be the Ibiza of Asia where various electronic dance music festivals and concerts are regularly held.



The Vineyard Residences is made up of two prime condominiums aptly named Merlot and Chardonnay, which offer a relaxed and luxurious lifestyle amid Tagaytay's cool climate and scenic views. Moreover, The Vineyard Residences will be beside the first and only chateau and vineyard in Calabarzon.

Twin Lakes not only offers a totally fresh resort experience to Tagaytay visitors, it aims to redefine the standard of leisure and relaxed living in this erstwhile favorite weekend destination.

Given an overall favorable economic environment, GERI continues to project growth in the coming years, as it pursues its long-term objective of becoming the leader in the development of master-planned integrated tourism estates, an innovative concept pioneered by the company.

Keeping in mind the rapidly growing and ever-changing domestic and foreign tourism market, the company intends to continually introduce fresh,

innovative and complementary components to these integrated tourism estates. Moreover, with the continuous development of the projects launched, the steady buildup of reservation sales that started in 2011, and the availability of numerous components within the company's two aforementioned integrated tourism estates, GERI is confident that growth can be sustained on a long-term basis.

Indeed, GERI has begun to make its presence felt not only in the AGI family but in the whole country as well. Its groundbreaking integrated tourism estate projects are envisioned to contribute significantly to the country's image as the newest world-class tourist destination in Asia, thereby enhancing the country's tourism industry and eventually contributing to overall national development.

BOARD OF DIRECTORS PROFILE



ANDREW L. TAN
Chairman &
Chief Executive Officer



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

Andrew L. Tan

Mr. Tan, Filipino, has served as Director since 2003 and Chairman of the Board and Chief Executive Officer since September 2006. Previously, he was Vice-Chairman of the Board from August 2003 to September 2006. He pioneered the live-work-play-learn model in the real estate development through the Company's integrated township communities, fueling the growth of the business process outsourcing (BPO) industry, food and beverage, and quick service restaurants industries. Mr. Tan is concurrently the Chairman of the Board and President of Megaworld Corporation, Megaworld Land, Inc., Megaworld Globus Asia, Inc., Megaworld Newport Property Holdings, Inc., Mactan Oceanview Properties and Holdings, Inc., Richmonde Hotel Group International Limited, The Bar Beverage, Inc. and Yorkshire Holdings, Inc. He is also the Chairman of Alliance Global Group Cayman Islands, Inc. Empire East Land Holdings, Inc., Alliance Global Brands, Inc., Emperador Distillers, Inc., Global-Estate Resorts, Inc., Suntrust Properties, Inc., Adams Properties, Inc., Consolidated Distillers of the Far East, Inc., and Townsquare Development, Inc. He sits in the boards of Eastwood Cyber One Corporation, Megaworld Cayman Islands, Inc., Forbes Town Properties & Holdings, Inc., Gilmore Property Marketing Associates, Inc., Megaworld Central Properties, Inc., Raffles & Company, Inc., Travellers International Hotel Group, Inc., The Andresons Group, Inc. He is also the Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation and a Director and Treasurer of Andresons Global, Inc. Mr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

Sergio R. Ortiz-Luis, Jr.

Mr. Ortiz-Luis, Jr., Filipino, has served as Vice Chairman and Independent Director since September 2007. He is also an Independent Director of AB Capital and Waterfront Philippines, Inc.; President of Philippine Exporters Confederation, Inc. ("PHILEXPORT") and Honorary Chairman-Treasurer of the Philippine Chamber of Commerce & Industry. He is concurrently the Vice-Chairman of the Export Development Council, and a member of the board of the Employers Confederation of the Philippines, Philippine Estate, Manila Exposition Complex, Inc., Holy Angel Memorial Park and Philippine International Trading Corp. He was a past President of the Rotary Club of Greenmeadows, Quezon City, a Senator of the Philippine Jaycee Senate, and a member of the League of Corporate Foundation and the Council of Advisers of the Philippine National Police. Mr. Ortiz-Luis, Jr. has broad experience in business management/administration and in the export sector. He obtained his Bachelor of Arts and Bachelor of Science in Business Administration and Masters of Business Administration from the De La Salle College and was awarded Honorary Doctorates in Humanities and Business Technology by the Central Luzon State University and Eulogio Rodriguez Institute of Science and Technology, respectively.



KINGSON U. SIAN
Director & President



WINSTON S. CO
Director

Kingson U. Sian

Mr. Sian, Filipino, has served as President and Chief Operating Officer of the Company since February 2007. He is currently a member of the Board of Megaworld Corporation and is its Executive Director. He is concurrently President and Director of Travellers International Hotel Group, Inc., Forbestown Properties Holdings, Inc., and Eastwood Cyber One Corporation and a Director of Alliance Global Group Cayman Islands, Inc. He is also Chairman and President of Prestige Hotels & Resorts, Inc. and is the Chief Operating Officer of Megaworld Land, Inc. Mr. Sian was formerly a Vice President of FBP Asia Ltd/First Pacific Bank in Hongkong from 1990 to 1995 and, prior to that, was connected with Citicorp Real Estate, Inc. in the United States from 1988 to 1990. He graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Masters Degree in Business Administration for Finance and Business Policy from the University of Chicago.

Winston S. Co

Mr. Co, Filipino, has served as Director since 1998. He previously served as Vice Chairman of the Board from November 1999 to August 2003 and Chairman from June 1998 to October 1999. His field of expertise is in finance and marketing of consumer products. He is concurrently Chairman and President of New Town Land Partners, Inc. and Chairman of Anglo Watsons Glass, Inc. He is also a Director and President of Emperador Distillers, Inc., a Director of Alliance Global Brands, Inc., Forbes

Town Properties & Holdings, Inc., McKester Pik-Nik International Limited, Raffles & Company, Incorporated, and The Bar Beverage, Inc. and Senior Vice President of The Andresons Group, Inc. Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce. He is a member of the Philippine Association of National Advertisers and Philippine Marketing Association.

Katherine L. Tan

Ms. Tan, Filipino has served as Director and Treasurer since February 2007. She has also served as a member of the board of Megaworld Corporation since 1989. She is concurrently Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc., Director and President of The Andresons Group, Inc., Consolidated Distillers of the Far East, Inc., and Raffles & Company, Inc., and Director and Treasurer of Alliance Global Brands, Inc., Yorkshire Holdings, Inc., New Town Land Partners, Inc., and Emperador Distillers, Inc. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

Alejo L. Villanueva, Jr.

Mr. Villanueva, Filipino, has served as an Independent Director since August 2001. He is concurrently an Independent Director of Empire East Land Holdings, Inc. and a Director of First Capital Condominium Corporation, a non-stock non-profit corporation. He is also the Chairman of Ruru Courier Systems, Inc. and Vice Chairman of Public Relations Counselors Foundations of the Philippines, Inc.

BOARD OF DIRECTORS PROFILE



KATHERINE L. TAN
Director & Treasurer

ALEJO L. VILLANUEVA, JR.
Independent Director

KEVIN ANDREW L. TAN
Director

He is a professional consultant who has more than twenty years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse (BOT program, a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, summa cum laude. He has a master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

Kevin Andrew L. Tan

Mr. Tan, Filipino, was elected as a Director on 20 April 2012 to serve the unexpired term of Mr. Renato M. Piezas. Mr. Tan, 32 years old, has over 11 years of experience in retail leasing, marketing and operations. He currently heads the Commercial Division of Megaworld Corporation, which markets and operates the Megaworld Lifestyle Malls, including Eastwood Mall and The Clubhouse at Corinthian Hills in Quezon City, Venice Piazza at McKinley Hill and Burgos Circle at Forbestown Center, both in Fort Bonifacio, California Garden Square in Mandaluyong City, Newport Mall at Resorts World Manila in Pasay City, and Lucky Chinatown Mall in Binondo, Manila. He is concurrently Director of Emperador Distillers, Inc. Alliance Global Brands, Inc., Anglo Watsons Glass, Inc. Yorkshire Holdings, Inc., The Bar Beverage, Inc., Emperador Brandy, Inc., New Town Land Partners, Inc., and Consolidated Distillers of the Far East, Inc. He holds a degree in Business Administration major in Management from the University of Asia and the Pacific.

CORPORATE GOVERNANCE

In 2002, the Company adopted a Manual on Corporate Governance in order to institutionalize the rules and principles of good corporate governance in the entire organization in accordance with the Code of Corporate Governance promulgated by SEC.

Audit Committee

The Company's Audit Committee is responsible for ensuring that all financial reports comply with internal financial management and accounting standards, performing oversight financial management functions, pre-approving all audit plans, scope and frequency and performing direct interface functions with internal and external auditors. This Committee has three members, two of whom are independent directors. An independent director serves as the head of the committee.

Compensation And Remuneration Committee

The Company's Compensation and Remuneration Committee is responsible for establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, as well as providing oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Company's culture, strategy and control environment. This Committee consists of three members, including at least one independent director.

Nomination Committee

The Company's Nomination Committee pre-screens and shortlists all candidates nominated to become a member of the Board of Directors in accordance with qualifications prescribed by law and the Company's Manual of Corporate Governance. This Committee has three voting members, including at least one independent director.

Evaluation System,

The Company has designated a Compliance Officer who is tasked with monitoring compliance with the provisions of its Manual of Corporate Governance. The Compliance Officer, who is directly reporting to the Chairman of the Board, has established an evaluation system to measure or determine the level of compliance by the Company with its Manual. A Self-Rating System on Corporate Governance was implemented and submitted to SEC and PSE in July 2003.

Deviations From Manual And Sanctions Imposed

In 2009, the Company substantially complied with its Manual of Corporate Governance and did not materially deviate from its provisions. No sanctions have been imposed on any director, officer or employee on account of non-compliance.

Plan To Improve Corporate Governance

Pursuant to SEC Memorandum Circular No. 6, Series of 2009, the Company has revised its Manual of Corporate Governance to make its provision compliant with the Revised Code of Corporate Governance.

Among the measures undertaken by the Company in order to fully comply with the provisions of the leading practices on good corporate governance adopted in its Manual on Corporate Governance are monitoring and evaluation of the internal control system for corporate governance. The Company likewise maintains an active website where its Annual Reports, Quarterly Reports, Financial Statements and other disclosures are uploaded for easy access and reference by the investing public. The Company is committed to good corporate governance and continues to improve and enhance the evaluation system for purposes of determining the level of compliance by the Company with its Manual on Corporate Governance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

a. Key Performance Indicators

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

In Million Pesos	2012	2011*	2010
REVENUES	102,718	62,965	44,495
NET PROFIT	20,488	11,629	9,497
NET PROFIT TO OWNERS OF AGI	13,904	8,476	6,908
TOTAL ASSETS	272,535	220,532	164,241
CURRENT ASSETS	152,670	128,628	91,413
CURRENT LIABILITIES	45,551	36,254	26,448
Revenue growth	63.1%	41.5%	14.6%
Net profit growth	76.2%	22.5%	39.5%
Attributable to equity holders of parent	64.0%	22.7%	44.0%
Net profit rate	19.9%	18.5%	21.3%
Attributable to equity holders of parent	13.54%	13.46%	15.5%
Return on investment/assets	7.5%	6.7%	5.8%
Current ratio	3.35x	3.55x	3.46x
Quick ratio	2.14x	2.37x	2.97x

*For comparability of results, the P3.132 billion income from acquisition of GERI in 2011, being a nonrecurring item, is excluded in the above presentation. Such represents the excess of the proportionate share in GERI's net assets over the price paid.

- o Revenue growth – measures the percentage change in revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- o Net profit growth – measures the percentage change in net profit over a designated period of time.
- o Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs.
- o Return on investment [or capital employed]– the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income.
- o Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

b. Discussion and Analysis of Operation

The following discussion and analysis must be read in conjunction with the submitted audited consolidated financial statements and the related notes thereto.

b.1. Results of operations:

For the Year Ended December 31, 2012 vs. 2011

	TEG	RE	F&B	QSR	Corporate & Others	TOTAL
2012						
Revenues ¹	32.48	29.25	24.48	13.93	2.58	102.72
EBIT	7.91	10.41	6.95	1.15	2.42	28.83
Interest expense	0.99	1.02		0.13	1.57	3.71
Tax	0.07	2.31	1.87	0.33	0.05	4.63
Net profit	6.84	7.08	5.08	0.69	0.79	20.49
Net profit to owners	3.12	4.58	5.08	0.33	0.79	13.90
2011²						
Revenues ^{1,3}	2.42	27.23	18.49	11.91	2.92	62.97
EBIT	2.42	8.97	3.31	1.09	1.82	17.61
Interest expense		1.00		0.11	1.52	2.63
Tax		2.05	0.91	0.33	0.06	3.35
Net profit	2.42	5.91	2.40	0.65	0.24	11.62
Net profit to owners	2.20	3.34	2.40	0.31	0.24	8.49
Year-on-year Change						
Revenues	7.4%	32.4%	17.0%	-11.6%	63.1%	
EBIT	15.9%	110.0%	5.5%	32.9%	63.7%	
Interest expense	2.0%		18.2%	3.3%	41.1%	
Net profit	19.8%	111.7%	6.2%	229.2%	76.3%	
Net profit to owners	37.2%	111.7%	6.4%	229.2%	63.7%	

Amounts are in billion Pesos. Numbers may not add up due to rounding off.
¹Revenues exclude intersegment sales and include share in net profits of associates and joint ventures.
²The P3.13 billion income on acquisition of subsidiary in 2011 is excluded from Others in the above presentation.
³Excluded from RE is MEG's P2 billion gain from sale of AGI shares which was reclassified under Equity section at AGI consolidated level.
⁴Travellers is consolidated in 2012; for 2011, the group's share in net profits of Travellers is shown under TEG, therefore RE does not reflect MEG's 10% share in net profits of Travellers anymore.

AGI sustained its upward growth trajectory with net profit soaring 76% to P20.5 billion from P11.6 billion (before P3.1 billion nonrecurring income from acquisition of a subsidiary) a year ago. The portion attributable to owners of the parent company grew by 64% to P13.9 billion from P8.5 billion a year ago, as propelled by the strong results from the RE, TEG and RE segments.

TEG beefed up total revenues as Travellers is consolidated this year. It is the biggest contributor to this year's revenues, followed by RE and F&B.

All significant subsidiaries reflected double-digit growth in net profit and revenues.

Comparative results of the subsidiaries that rolled into the consolidated totals are as follows:

Amounts in Billion	2012	2011	Growth	Contribution 2012	Contribution 2011
Pesos					
REVENUES					
Travellers ¹	32.47	2.42	n/m	31.6%	3.8%
MEG ²	27.54	26.15	5.3%	26.8%	41.5%
EDI	23.59	17.35	36.0%	23.0%	27.6%
GERI	1.38	1.04	32.8%	1.3%	1.6%
GADC	13.93	11.91	17.0%	13.6%	18.9%
Others	3.81	4.10	-7.07%	3.7%	6.6%
Consolidated total	102.72	62.97	63.1%	100.0%	100.0%

NET PROFIT					
Travellers ¹	6.73	2.42	n/m	32.8%	20.8%
MEG ²	6.50	5.67	14.6%	31.7%	48.8%
EDI	5.01	2.31	116.9%	24.4%	19.8%
GERI	0.26	0.22	18.2%	1.3%	1.9%
GADC	0.69	0.65	6.1%	3.4%	5.6%
Others	1.30	0.35	271.4%	6.4%	3.1%
Consolidated total	20.49	11.62	76.3%	100.0%	100.0%

¹ Consolidated in 2012 and accounted for under equity method in 2011, thus 2011 column shows the group's 50% share in its net profit. Travellers reported revenues and net profit of P29.07B and P4.84B, respectively, in 2011, or 11.7% and 39% growth, respectively.

² Adjusted to take out its 10% share in net profit of Travellers and intersegment sales in both years and the gain on sale of AGI shares in 2011, such gain being reclassified under Equity in consolidation. n/m Not meaningful.

	2012	2011*	Change
REVENUES			
Sale of goods	44.08	37.71	16.9%
Consumer goods	23.70	18.13	30.7%
Real estate	16.76	16.36	2.4%
Realized gross profit on prior year's real estate sales	2.29	2.00	14.8%
Interest income on real estate sales	1.33	1.22	8.9%
Services	51.01	15.9	220.1%
Gaming	28.06		
Company-operated quick-service restaurant sales	12.62	10.76	17.3%
Franchised revenues	1.03	0.85	21.2%
Rental income	5.35	3.86	38.6%
Hotel operations	3.36	0.39	755.62%
Other services	0.59	0.07	693.5%
Share in net profits of associates and joint ventures	0.12	2.54	-95.3%
Finance and other income	7.50	6.78	10.8%
TOTAL	102.72	62.97	63.1%

Amounts in billion pesos; numbers may not add up due to rounding off; 2011 exclude income from acquisition of GERI

	2012	2011	Change
TEG	32.48	2.42	
RE	29.25	27.23	7.42%
F&B	24.48	18.49	32.4%
QSR	13.93	11.91	17%
Others	2.58	2.91	-11.5%
TOTAL	102.72	62.96	63.1%

Revenues increased by 63% primarily due to the revenues contributed by RWM (P32.5 billion represents 31.6% of group total) and 17% growth in sale of goods (consumer products and real estate sales). Rendering of services grew by 220% due to revenues added from Travellers.

Sale of consumer goods climbed 31% over last year because the strong demand for Emperador continues to rise. Real estate sales showed 2% growth after intersegment sales. Revenues from hotel operations ballooned significantly because of the revenues coming from RWM's three hotels – Maxims, Marriott and Remington – that were consolidated effective this year; otherwise, hotel operations had increased by 18%. The QSR business is brisk as it expanded by 17%.

RE revenues, which increased by 13%, come from sales of lots, condominium and office units; golf course maintenance contracts; rental/lease of office and commercial spaces; hotel operations; finance and other income. RE portfolio offers a wide array encompassing all markets through projects of Megaworld, Empire East, Suntrust and GERI. The group's registered sales came from the following projects: (MEG) Eight Newtown Residences, One Uptown Residences, 8 Forbestown Road, One Central, Two Central, One Eastwood Avenue, Eastwood Le Grand, Morgan Suites, The Venice Luxury Residences, Manhattan Heights, 81 Newport Boulevard; (GERI) Newcoast Shophouse

District and Boutique Hotel, Sta. Barbara Heights, Twin Lakes Domaine Le Jardin; (ELI) Pioneer Woodlands, San Lorenzo Place, The Sonoma, Little Baguio Terraces, The Cambridge Village, California Garden Square, Greenhills Garden Square, and Laguna BelAir.

Rental income grew as a result of additional property completed during the year that were offered to meet the increasing demand for office spaces from BPO companies. Retail spaces and escalation in rental rates also contributed to the growth.

TEG revenues come from RWM's gaming; its three hotels, food and beverage; four cinemas, theater productions, retail shopping mall operations; and commercial and office space rentals.

In 2011, only the group's share in net profit of Travellers was presented in revenues (under RE).

F&B revenues surged by 32% from a year ago as Emperador Brandy and The BaR flavored alcoholic drinks continued to benefit from the growing customer patronage. The demand for Emperador Light remained very strong and it boosted sales.

Pik-Nik also expanded sales by 12% as it penetrated new markets in Saudi Arabia, Kuwait, Korea and Curacao. It sold 11% more cases this year in international markets and 6% more cases in USA.

QSR revenues grew by 17% and this is primarily attributed to opening of 49 new restaurants (23 of which are sub-franchised), reimagining of 31 existing restaurants, the additional business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of new products, aggressive advertising and promotional campaigns to support Breakfast, Premium Desserts, McDelivery, Iced Coffee, McSaver Meals, Twister Fries and McSavers (Sundae, floats, fries and burger McDo). Reimagining levels up customer experience and drives value-for-money perception. Restaurant sales from the 207 company-owned and operated stores rose by 17% while revenues from franchisees (rent, royalties and others) went up by 21%. The 49 new restaurants contributed 5% to total system sales, as half of them were opened in fourth quarter only.

Finance and other income improved by 11% primarily due to higher market values of financial assets at FVTPL resulting in fair value gains this year, a recovery from last year's fair value loss reported under finance costs and other charges. Foreign currency gains dropped due to the continuous appreciation of the Philippine peso vis-à-vis the US dollar.

Share in net profits seemed to drop substantially because Travellers is consolidated this year.

	2012	2011	Change
COSTS AND EXPENSES			
Cost of Goods Sold	28.32	26.72	6.02%
Consumer goods sold	15.20	13.31	14.2%
Real estate sales	9.65	10.32	-6.4%
Deferred gross profit on real estate sales	3.47	3.09	12.3%
Cost of Rendering Services	23.13	9.25	150.1%
Gaming	10.52		
Services	12.61	9.25	36.4%
Operating Expenses	21.94	8.24	166.2%
Selling expenses	11.58	3.59	222.3%
General and administrative	10.36	4.65	122.5%
Finance costs and other charges	4.21	3.77	11.4%
TOTAL	77.60	47.98	61.7%

Amounts in billion pesos; numbers may not add up due to rounding off.

	2012	2011	Change
TEG	25.56		
RE	19.87	19.25	3.2%
F&B	17.53	15.19	15.4%
QSR	12.91	10.92	18.2%
Others	1.73	2.62	-3.4%
TOTAL	77.60	47.98	61.7%

Costs and expenses went up by 62% largely due to Travellers' costs and expenses which totaled P25.6 billion during the year. Excluding Travellers, costs and expenses expanded by 8%, reflecting robust sales and service rendition. The higher sales and services rendered translated into higher commissions, advertising and promotions, freight, royalty, salaries, depreciation and utility expenses.

The top three components in the manufacture of alcoholic drinks are raw materials, depreciation and amortization, and factory supplies representing about 93% of cost. In the QSR, these were food and paper, rental and utilities and personnel costs, representing about 85% of cost.

Travellers' gaming license fees (to PAGCOR) and promotional allowance (which is the value of points earned by RWM members based on the relative fair values of the complimentary goods or services) accounted for 34% of group's cost of rendering services.

The group's highest operating expenditures were on advertising and promotions, salaries and employee benefits, depreciation and amortization, utilities, and commissions. More new employees were hired to support the expanding operations of Travellers, GADC and MEG. These three companies spent on marketing and advertising campaigns to promote their respective products, especially RWM.

Finance cost and other charges went up by 11% due to higher interest expense on bonds and loans and unrealized loss on interest rate swap (of Travellers). The impact, however, is reduced by the reversal in fair value of marketable securities, from loss reported last year to gain this year.

Tax expense totaled P4.6 billion from P3.3 billion a year ago as a result of higher taxable income.

For the Year Ended December 31, 2011 vs. 2010

AGI's net profit for the year hit record level of P14.7 billion which was 55.3% higher than the P9.5 billion reported a year ago. This was on the back of strong operating results of its F&B and RE segments and consolidation income from acquisition of shares of a new subsidiary, GERI. Nonetheless, net profit jumped by 22.3% year-on-year without this P3.1 billion acquisition gain. (Income from acquisition of GERI represents the excess of the proportionate share in the net assets acquired over the acquisition cost paid. Net profit attributable to owners of the parent company hit P11.6 billion, a 68.0% growth year-on-year.

Moreover, this year's net profit did not include MEG's P2B gain from sale of AGI shares, which, in consolidation, was taken out of the income statement and reclassified under equity section of the statement of financial position.

The revenues and net profit of selected subsidiaries are as follows:

In Billion Pesos				Contribution	
	2011	2010	Growth	2011	2010
REVENUES					
MEG ^{1,2}	26.63	20.43	30.3%	42.3%	45.9%
EDI	17.35	8.42	106.1%	27.6%	18.9%
Travellers ²	1.94	1.29	50.2%	3.0%	2.9%
GADC	11.91	11.02	8.0%	18.9%	24.8%
GERI	1.04			1.7%	
Others ³	4.10	3.34	22.7%	6.5%	7.5%
Consolidated total ³	62.97	44.50	41.5%	100%	100%
NET PROFIT					
MEG ^{1,2}	6.15	4.97	11.8%	52.9%	52.3%
EDI	2.31	1.67	38.1%	19.9%	17.6%
Travellers ²	1.94	1.29		16.7%	13.6%
GADC	0.65	0.76	-14.5%	5.6%	8.0%
GERI	0.22			1.9%	
Others ³	0.35	0.81	-82.5%	3.0%	8.5%
Consolidated total ³	11.62	9.50	22.4%	100%	100%

¹ In 2011, MEG realized P2 billion gain from sale of AGI shares that it held. In consolidation at AGI level, such gain was removed from the income statement and reclassified as additional paid-in capital in equity statement.

² This represents 40% equity share in Travellers' net profit. Another 10% is already included in MEG's income statements.

³ For comparability, nonrecurring income from acquisition of GERI in 2011 is excluded from the 2011 numbers.

Amounts in Billion Pesos	2011	2010	Change
REVENUES			
Sale of goods	37.71	24.17	56.0%
Consumer goods	18.13	8.77	106.9%
Real estate	16.36	13.11	24.8%
Realized gross profit on prior year's real estate sales	2.00	1.36	47.5%
Interest income on real estate sales	1.22	0.93	30.6%
Services	15.94	13.65	16.8%
Company-operated quick-service restaurant sales	10.76	9.89	8.8%
Franchised revenues	0.85	0.66	28.2%
Rental income	3.86	2.86	34.8%
Hotel operations	0.39	0.23	68.5%
Other services	0.07	0.06	122.4%
Share in net profits of associates and joint ventures	2.54	1.73	46.5%
Finance and other income	6.78	4.94	37.2%
TOTAL	62.96	44.49	41.5%

Numbers may not add up due to rounding off. The P3.13 billion income on acquisition of subsidiary in 2011 is excluded in presentation.

Revenues, excluding the P3.13 billion income on acquisition of a subsidiary, jumped 41.5% to P63.0 billion from P44.5 billion a year ago, primarily due to 56.0% growth in sales of consumer goods, 16.8% in rendering of services and 46.5% in share in net profits of associates and joint ventures. Segment-wise, RE made the highest contribution this year, followed by F&B and QSR. RE current sales, in particular, represent 26.0% of total revenues while consumer product sales contributed 28.8% to total revenues. RE rental income comprised 6.1% of total revenues.

RE revenues come from sales of lots, condominium and office units, and golf club and resort shares, rental/lease of office and commercial spaces and hotel operations, and finance and other income. RE portfolio targets a wider spectrum through projects of newly-consolidated subsidiaries GERI, ELI and SPI.

Megaworld launched eight projects in 2011 – One Eastwood Avenue in Eastwood City, Quezon City; 101 Newport Boulevard and Belmont Luxury Hotel in Newport City, Pasay City; One Uptown Residence in Global City; Tower 1 of The Viceroy in McKinley Hill, For Bonifacio; second tower of Manhattan Heights in Araneta Center; Greenbelt Hamilton in Makati City; and Eight Newtown Boulevard, Megaworld's first luxury residential project in Mactan, Cebu.

ELI booked sales from its mid-rise to high-rise condominiums located in key place in Metro Manila and single-detached homes in progressive suburban areas.

GERI launched projects in Boracay New Coast, the first integrated tourism estate in Boracay. It is not yet expected to contribute significantly in short-term. Its real estate sales in 2011 came from sale of condominium units, residential lots and commercial lot outside of Metro Manila.

The Group's RE revenues were derived mostly from the following projects: (MEG) Eight Forbes Town in Fort Bonifacio; Eastwood Le Grand in Eastwood City; McKinley West, Morgan Suites, and The Venice Luxury Residences in Taguig City; Newport City, Newport Palm Tree Villas, and 81 Newport Boulevard in Pasay; (GERI) Eight Sto. Domingo Place in Quezon City; Magnificat Executive Village in Lipa, Batangas; Riverina in Laguna; Monte Cielo De Naga in Naga City; and Sta. Barbara Heights in Iloilo City; and commercial lots in Carmona, Cavite; (ELI) California Gardens Square, Little Baguio Terraces, Pioneer Woodlands, The Cambridge Village, San Lorenzo Place, Kasara Urban Resort Residences, Laguna Bel Air Projects, Suntrust Aurora Gardens, The Gentry Heights and The Sonoma. Rental income from office and retail tenants

grew due to high occupancy in both the BPO offices and retail spaces, and escalation of rental prices.

RE revenues also included P2.4 billion share in net profit of Travellers, as compared to P1.6 billion a year ago [inclusive of equity share reported under MEG]. Travellers reported net profit of P4.8 billion this year, a 50% growth from P3.2 billion a year ago. Comparatively, revenues grew to P26.3 billion from P14.9 billion while operating expenses increased to P9.1 billion from P5.4 billion due to new hires to support the expanding operations as well as marketing and advertising efforts to promote the integrated resort. Resorts World Manila opened in August 2009 and revenues were derived from the gaming, hotel, food and beverage, theatre, cinema operations and retail shopping mall and commercial office space rentals.

F&B revenues doubled last year's results due to invigorating demand for the distilled spirits products. Emperador Brandy and The BaR flavored alcoholic drinks continued to enjoy *spirited* sales during the year. The BaR variants - the pricey Citrus Tequila, the popular Strawberry Vodka and the pure Silver, which were launched in the market in April this year, May and November last year, respectively - provided incremental growth that pushed up sales further. The demand for Emperador Light, with its catchy 'Gawin mong light' campaign, swelled and this boosted sales.

Pik-Nik had a good year also and performed at above the industry average. Sales rose by 23% from a year ago, with its USA sales gaining 11% while international sales outside of USA expanded by 38%. The weak US dollar has been beneficial for exports and Pik-Nik profited through increased export volumes.

QSR revenues grew by 9.6%. Product sales generated from company-operated restaurants, in particular, went up by 8.8% and revenue from franchised restaurants by 19.9%. The growth came primarily from the opening of new restaurants during the year plus the increase in business extensions (24-hour delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart) and the re-imagining of company-owned restaurants. Twenty-one new restaurants were opened from a year ago, bringing the total number of stores nationwide to 329 stores, 185 of which are company-owned. The new stores contributed 2.3% to total system sales.

Aggressive advertising and promotional campaigns continued to support McDelivery, McSaver Meals, P25 McSavers (sundae, floats, fries and Burger McDo), Breakfast and Premium Desserts.

Income from the acquisition of a subsidiary represents primarily the excess of proportionate share in the consolidated net assets of GERI, the acquiree, over the acquisition cost paid for the shares of stock.

Share in net profits includes P2.4 billion, which represents the Group's equity in Travellers' net income of P4.8 billion for the current year.

Finance and other income, which represented 10.2% of total revenues, grew by 37.0% due to higher interest earnings which, on the other hand, soared by 85.9%.

Amounts in Billion Pesos	2011	2010	Change
COSTS AND EXPENSES			
Cost of Goods Sold	26.72	16.67	60.32%
Consumer goods sold	13.31	5.63	136.6%
Real estate sales	10.32	8.61	19.9%
Deferred gross profit on real estate sales	3.09	2.43	27.2%
Cost of Rendering Services	9.25	8.36	10.7%
Services	9.25	8.36	10.7%
Operating Expenses	8.24	5.26	56.6%
Selling expenses	3.59	2.22	61.7%
General and administrative	4.65	3.04	52.8%
Finance costs and other charges	3.77	2.13	77.5%
TOTAL	47.98	32.42	48%

Costs and expenses went up by 48.0% to P48.0 billion from P32.4 billion due to 136.6%, 19.9%, 27.2% and 61.7% rise in cost of consumer goods, cost of real estate sales, deferred gross profit on real estate sales, and selling expenses, respectively, reflecting robust sales and service rendition. The higher sales translated into higher commissions, advertising and promotions, freight, royalty and fuel expenses.

The top three cost components in the manufacture of alcoholic drinks were raw materials, depreciation and amortization, and factory supplies representing 90% of cost. In the QSR, these were food and paper, rental and utilities and personnel costs, representing about 84% of cost.

General and administrative expenses rose by 52.8% because depreciation, salaries and employee benefits increased, particularly in RE business. GERI expended P419 million during the year.

Finance costs and other charges, which represented 7.9% of total costs and expenses, went up by 77.5% to P3.8 billion from P2.1 billion a year ago, due to interest on interest-bearing notes and bonds which comparably increased this year. P1.5 billion was recorded this year for the AGI Cayman bonds, as compared to P 567 million a year ago.

Tax expense totaled P3.4 billion from P2.6 billion a year ago as a result of increased sales and profits.

b.2. Liquidity and Capital Resources

Consolidated total assets reached P272 billion at end of 2012 from P220 billion at beginning of the year, or a 24% increase, primarily due to consolidation of Travellers' assets and increased activity in RE segment. Total assets of Travellers is approximately P48 billion.

For most of the balance sheet accounts, there is a corresponding note to the audited consolidated financial statements where details, breakdown or composition of the accounts could be found. Please refer to those notes accompanying the consolidated financial statements. In summary:

Cash and cash equivalents increased by P19.1 billion – to end at P68.3 billion from P49.1 billion at the beginning of the year. The increase came significantly from operations, bank borrowings and the year-end balance of Travellers. Cash flows from operating, financing and investing activities during the year were presented in the consolidated statements of cash flows.

Current trade and other receivables went down by P2.8 billion or 11% due to collection efforts on maturing receivables. Non-current portion went up by P3.7 billion or 18% due to increased real estate sales.

Financial assets at fair value through profit or loss decreased by P4.7 billion or 42%, primarily due to reduction in investments in bonds and marketable securities. Financial assets classified in this category are held for selling in the short term and are measured at fair value. The fair value gain on the appreciation in market prices was included under Finance and Other Income in consolidated statements of comprehensive income. The Group does not actively engage in the trading of financial assets for speculative purposes.

Inventories increased by P11.9 billion or 41% due to increase in real estate for sale which represent the completed portion of costs attributed to ongoing projects, including golf and resort shares for sale. Raw materials for brandy manufacture also increased from a year ago because there are now two plants running.

Land for future development increased by P2.5 billion or 27% due to land acquisitions plus incidental costs by GERI.

Property and equipment rose by P28.3 billion or 432% from the property of Travellers (P25.8 billion as of end-2012); capital expenditures for new McDonald's stores, kiosks and ongoing renovations; acquisitions of and for the distillery plant annex; and installation of new furnace for the glass plant.

Investment property increased by P5.7 billion or 44% primarily due to the additional condominium units (P4.7 billion) and building property of Travellers (P1.4 billion).

Investments in and advances to associates and other related parties decreased by P13.0 billion or 68.3% primarily due to consolidation of Travellers, which is formerly reported as an associate. The carrying value of Travellers at equity amounted to P12.89 billion at end-2011.

Deferred tax assets increased by P108.9 million or 16% while deferred tax liabilities by P815 million or 15% due to timing differences in taxation, particularly of Megaworld, Travellers and GERI.

Other current assets increased by P673 million or 22% due to assets from Travellers (one-year time deposit and prepaid taxes, insurance and rentals)

and an increase in GERI's input taxes. Other non-current assets, on the other hand, expanded by P860million or 80% which was attributable to assets from Travellers and increase in GADC's assets, primarily resulting from deposits on asset purchases.

Currently maturing interest-bearing loans and borrowings increased by P1.7 billion or 60% arising from Travellers' loans (P2.6 billion), net of settlements made during the year. Non-current portion of loans swelled by P7.5 billion or 125% due to Travellers' loans (P4.5 billion) and new long-term bank loans availed during the year to support the group's working capital and investment requirements.

Bonds payable went up by P10.8 billion or 31% due to the \$300-million notes of Travellers which were issued in 2010.

Trade and other payables went up by P6.0 billion or 35% primarily from RWM's liabilities (P4.8 billion) and increases in liabilities of Megaworld and GADC. RWM's liabilities include unredeemed gaming chips, unredeemed gaming points, PAGCOR license fees, and accrued advertising and employee benefits. Heightened construction activities at Megaworld and GADC are reflected on the increase in payables to contractors and suppliers, including retentions.

Income tax payable went up by P54 million or 10% primarily due to higher tax liability of EDI.

Advances from related parties swelled by P632 million or 282% due to increases in advances taken by Megaworld and GERI. GERI's accounts represent the share of joint venture partners in the proceeds from the sale under joint venture agreements. Megaworld's accounts increased due to deconsolidation of a subsidiary.

Retirement benefit obligation increased by P258 million or 44% due to end-balance in Travellers and additional incurrence in retirement plans of Megaworld, GADC and GERI.

Redeemable preferred shares escalated by P1.3 billion or 314% due to the redeemable preferred shares issued by GERI in September 2012, in exchange for certain parcels of land with a total fair value of P1.3 billion. SEC has not yet issued its approval on the subscription as of December 31, 2012. This account also includes the accretion of interest in the carrying value of GADC's shares which amounted to P52 million as of end-2012.

Current and non-current other liabilities increased by P1.5 billion or 9% and P3.3 billion or 32%, respectively, due to intensified RE development and pre-selling/leasing activities. These accounts include customers' deposits, reserve for property development, and deferred income on real estate sales. The reserve pertains to cost to complete the development of various projects while the deferred income represents unearned revenue.

The changes in equity components are presented in detail in the consolidated statements of changes in equity.

The decrease in revaluation reserves of P778 million represents the improvement in the fair value of available-for-sale financial assets.

Accumulated translation adjustments represent the translation adjustments resulting from the conversion of foreign currency denominated financial statements of certain subsidiaries into the Philippine pesos, the Group's presentation currency. The change of P511 million of 130% reflects principally the strengthening of the Philippine peso.

Equity attributable to AGI's stockholders totaled P84.1 billion and P73.5 billion as of December 31, 2012 and 2011, respectively.

The consolidated balance sheets showed strong liquidity. Current assets as of December 31, 2012 and 2011 amounted to P152.7 billion and P128.6 billion, respectively, while current liabilities for the same respective years-end remained low at P45.5 billion and P36.2 billion, respectively. Thus, current ratios were at 3.4:1 and 3.6:1 as of respective year-ends. Total-liabilities-to-equity ratios were at 0.9:1 and 0.8:1 at the end and beginning of the year, respectively, while interest-bearing-debt-to-controlling-equity ratios were 0.60:1 and 0.76:1 at the beginning and end of the year.

The Group's net cash position will enable it to pursue strategic activities.

Amounts in Billion Pesos	December 31, 2012	December 31, 2011
Cash and equivalents	68.30	49.15
Interest-bearing debt [bonds included]	64.08	44.02
Net cash	4.22	5.13
Cash and cash equivalents to		
interest-bearing debt	107%	112%
Interest-bearing debt to		
controlling equity	76%	60%

b.3. Prospects for the future

AGI has a proven track record of creating value over time and is confident in its ability to deliver sustainable profitable growth and value for its stakeholders. AGI remains vigilant on delivering its business goals and intends to continue to adopt prudent measures to ensure financial sustainability. It is always on the lookout for new opportunities that will enhance the overall profitability of the group while maintaining established markets.

In 2013, all the business segments are expected to sustain their growth trajectory, capitalizing on the strong and positive economy. It will be another banner year.

b.4. Others

There are no other known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way. The Company does not have nor anticipate having any cash flow or liquidity problems within the next twelve months. AGI and its subsidiaries are not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no other known events that will trigger direct or contingent financial obligation that is currently considered material to the Company, including any default or acceleration of an obligation. There are no other material off-balance sheet transactions, arrangements, obligations, and other relationships with unconsolidated entities or other persons created during the reporting period.

There are no other known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. There are also no known events that will cause material change in the relationship between costs and revenues.

There are no other significant elements of income or loss that did not arise from continuing operations.


The business has no seasonal aspects that had a material effect on the financial condition and results of operations of the Group.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **Alliance Global Group, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.



ANDREW L. TAN
Chairman of the Board



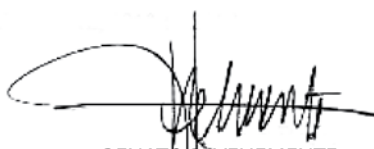
KINGSON U. SIAN
President



DINA D.R. INTING
*First Vice President for Finance
Chief Financial Officer*

SUBSCRIBED AND SWORN to before me this April 19, 2014 affants exhibiting to me their to me their Passport/SSS No., as follows:

Names	Passport No./SSS No.	Date	Place of Issue
Andrew L. Tan	EB1964603	February 23, 2011 to 2016	Manila
Kingson U. Sian	EB7369260	February 12, 2013 to 2018	Manila
Dina D.R. Inting	SSS 03-5204775-3		



RENATO R. VEHEMENTE
Notary Public for Makati City
Appt. No. M-105 Unit 31 Dec 2014
Roll of Attorney No 56568
IBP 908152 12-05-2012 Mkt City
PTR No. 3674486 01-07-2012 Mkt City
3672 A Cuenca St., Palanan, Mkt City

Doc. No. 246
Page No. 50
Book No. II
Series of 2013

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders Alliance Global Group, Inc. and Subsidiaries

7th Floor, 1880 Eastwood Avenue
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

We have audited the accompanying consolidated financial statements of Alliance Global Group, Inc. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alliance Global Group, Inc. and subsidiaries as of December 31, 2012 and 2011, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO



By: **Mailene Sigue-Bisnar**
Partner

CPA Reg. No. 0090230

TIN 120-319-128

PTR No. 3671451, January 2, 2013, Makati City

SEC Group A Accreditation

Partner - No. 0396-AR-2 (until Aug. 8, 2015)

Firm - No. 0002-FR-3 (until Jan. 18, 2015)

BIR AN 08-002511 20-2012 (until May 15, 2015)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 3, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousand Philippine Pesos)

	Notes	2012	2011
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	P 68,301,336	P 49,147,858
Trade and other receivables - net	6	22,640,055	25,492,120
Financial assets at fair value through profit or loss	7	6,561,953	11,313,947
Inventories - net	8	40,906,578	28,952,674
Property development costs	2	10,561,983	10,696,529
Other current assets	9	3,697,787	3,025,159
		<u>152,669,692</u>	<u>128,628,287</u>
Total Current Assets			
NON-CURRENT ASSETS			
Trade and other receivables - net	6	24,245,682	20,576,511
Advances to landowners and joint ventures	10	4,849,194	4,876,468
Available-for-sale financial assets	11	5,281,446	5,444,324
Land for future development	2	11,969,290	9,419,790
Investments in and advances to associates and other related parties	12	6,028,761	18,994,275
Property, plant and equipment - net	13	34,888,271	6,560,730
Investment property - net	14	18,751,336	13,033,771
Intangible assets - net	15	11,141,696	11,257,149
Deferred tax assets	28	779,272	670,408
Other non-current assets	9	1,930,765	1,070,573
		<u>119,865,713</u>	<u>91,903,999</u>
Total Non-current Assets			
TOTAL ASSETS		<u>P 272,535,405</u>	<u>P 220,532,286</u>

	Notes	2012	2011
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	16	P 23,139,795	P 17,093,308
Interest-bearing loans	17	4,640,956	2,906,873
Income tax payable		574,452	520,772
Other current liabilities	20	<u>17,196,099</u>	<u>15,733,591</u>
Total Current Liabilities		<u>45,551,302</u>	<u>36,254,544</u>
NON-CURRENT LIABILITIES			
Interest-bearing loans	17	13,449,793	5,960,520
Bonds payable	18	45,990,629	35,156,343
Advances from related parties	29	856,403	224,178
Retirement benefit obligation	27	849,137	591,343
Redeemable preferred shares	19	1,728,086	417,657
Deferred tax liabilities	28	6,405,540	5,590,008
Other non-current liabilities	20	<u>13,691,960</u>	<u>10,332,589</u>
Total Non-current Liabilities		<u>82,971,548</u>	<u>58,272,638</u>
Total Liabilities		<u>128,522,850</u>	<u>94,527,182</u>
EQUITY			
Equity attributable to owners of the parent company	21	84,142,019	73,482,828
Non-controlling interest		<u>59,870,536</u>	<u>52,522,276</u>
Total Equity		<u>144,012,555</u>	<u>126,005,104</u>
TOTAL LIABILITIES AND EQUITY		<u>P 272,535,405</u>	<u>P 220,532,286</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousand Philippine Pesos, Except Per Share Amounts)

	Notes	2012	2011	2010
REVENUES				
Sale of goods	23	P 44,082,631	P 37,713,496	P 24,165,946
Rendering of services	23	51,012,703	15,936,980	13,650,570
Share in net profits of associates and joint ventures - net	12	118,461	2,540,047	1,733,994
Finance and other income	26	7,503,935	9,906,529	4,944,687
		102,717,730	66,097,052	44,495,197
COSTS AND EXPENSES				
Cost of goods sold	24	28,325,961	26,718,744	16,665,658
Cost of services	24	23,130,172	9,247,341	8,357,328
Other operating expenses	25	21,935,109	8,240,069	5,262,483
Finance cost and other charges	26	4,206,420	3,776,827	2,128,299
		77,597,662	47,982,981	32,413,768
PROFIT BEFORE TAX AND PREACQUISITION INCOME		25,120,068	18,114,071	12,081,429
PREACQUISITION INCOME	12	-	17,327	-
PROFIT BEFORE TAX		25,120,068	18,096,744	12,081,429
TAX EXPENSE	28	4,632,110	3,353,004	2,584,871
NET PROFIT		20,487,958	14,743,740	9,496,558
OTHER COMPREHENSIVE INCOME				
Net unrealized fair value gains (losses) on available-for-sale financial assets	11	608,331	(763,784)	253,354
Reduction in revaluation reserves due to available-for-sale financial assets of a consolidated subsidiary		15,916	(695,199)	-
Increase (decrease) in revaluation reserves due to available-for-sale financial assets sold by subsidiaries		152,323	(20,862)	(13,401)
Reduction in revaluation reserves due to available-for-sale financial assets of a deconsolidated subsidiary	11	-	-	(403,956)
Share in other comprehensive income (loss) of associates and joint ventures	12	1,093	(737)	73,177
Translation adjustments	2	(581,993)	134,797	(513,181)
Deferred tax income relating to components of other comprehensive income	28	70,794	3,843	55,817
		266,464	(1,341,942)	(548,190)
TOTAL COMPREHENSIVE INCOME		P 20,754,422	P 13,401,798	P 8,948,368
Net profit attributable to:				
Owners of the parent company		P 13,904,149	P 11,608,210	P 6,908,587
Non-controlling interest		6,583,809	3,135,530	2,587,971
		P 20,487,958	P 14,743,740	P 9,496,558
Total comprehensive income attributable to:				
Owners of the parent company		P 14,170,613	P 10,266,268	P 6,360,397
Non-controlling interest		6,583,809	3,135,530	2,587,971
		P 20,754,422	P 13,401,798	P 8,948,368
Earnings Per Share for the Net Income Attributable to				
Owners of the Parent Company :	22			
Basic		P 1.3754	P 1.1776	P 0.7108
Diluted		P 1.3745	P 1.1773	P 0.7108

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousand Philippine Pesos)

	Notes	2012	2011	2010
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY				
Capital Stock	21	P 10,269,828	P 10,269,828	P 10,269,828
Additional Paid-in Capital	2			
Balance at beginning of year		33,501,909	27,175,174	27,157,647
Sale of treasury shares		-	6,326,735	17,526
Balance at end of year		33,501,909	33,501,909	27,175,173
Treasury Shares - at cost	21			
Balance at beginning of year		(1,018,752)	(3,194,861)	(4,334,613)
Sale of treasury shares		-	2,922,650	298,877
Addition representing the shares held by a consolidated subsidiary	21	-	(746,541)	-
Reduction representing the shares held by a deconsolidated subsidiary	21	34,240	-	840,875
Balance at end of year		(984,512)	(1,018,752)	(3,194,861)
Revaluation Reserves				
Balance at beginning of year		(1,542,070)	(61,488)	29,488
Net unrealized fair value gains (losses) on available-for-sale financial assets	11	608,331	(763,784)	253,204
Reduction representing the shares held by a consolidated subsidiary		-	(695,199)	-
Increase (decrease) in revaluation reserves due to available-for-sale financial assets sold by subsidiaries		168,239	(20,862)	(13,401)
Share in other comprehensive income (loss) of associates and joint venture	12	1,093	(737)	73,177
Reduction in revaluation reserves due to available-for-sale financial assets of a deconsolidated subsidiary		-	-	(403,956)
Balance at end of year		(764,407)	(1,542,070)	(61,488)
Accumulated Translation Adjustments	2			
Balance at beginning of year		(392,144)	(530,784)	(73,570)
Currency translation adjustments during the year		(511,199)	138,640	(457,214)
Balance at end of year		(903,343)	(392,144)	(530,784)
Dilution Gain	21			
Balance at beginning of year		1,289,848	1,196,567	1,196,567
Dilution gain (loss) recognized during the year	15	(12,001)	93,281	-
Balance at end of year		1,277,847	1,289,848	1,196,567
Share Options	21			
Balance at beginning of year		1,890	-	-
Share-based compensation expense recognized during the year		105,763	1,890	-
Balance at end of year		107,653	1,890	-
Retained Earnings				
Appropriated				
Balance at beginning of year		300,000	446,297	446,297
Appropriation during the year	21	1,400,000	-	-
Reversal of appropriation during the year	21	(300,000)	(146,297)	-
Balance at end of year		1,400,000	300,000	446,297
Unappropriated				
Balance at beginning of year		31,072,319	22,946,740	16,613,196
Net profit for the year		13,904,149	11,608,209	6,908,587
Cash dividends declared during the year	21	(3,639,424)	(3,628,927)	(575,043)
Appropriation during the year	21	(1,400,000)	-	-
Reversal of appropriation during the year	21	300,000	146,297	-
Balance at end of year		40,237,044	31,072,319	22,946,740
Total Retained Earnings		41,637,044	31,372,319	23,393,037
Total		84,142,019	73,482,828	58,247,472
NON-CONTROLLING INTEREST				
Balance at beginning of year		52,522,276	33,466,430	30,796,066
Non-controlling interest in additional investments		1,125,526	16,510,141	-
Share in consolidated net profits		6,583,809	3,135,530	2,587,971
Dividend from investee		(361,075)	(589,825)	(472,722)
Treasury shares retirement		-	-	555,115
Balance at end of year		59,870,536	52,522,276	33,466,430
TOTAL EQUITY		P 144,012,555	P126,005,104	P 91,713,902

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousand Philippine Pesos)

	Notes	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax and preacquisition income		P 25,120,068	P 18,114,071	P 12,081,429
Adjustments for:				
Interest income	26	(3,918,826)	(3,892,786)	(2,092,836)
Income from acquisition of a subsidiary	26	-	(3,131,994)	-
Interest expense	26	3,709,981	2,652,864	1,341,679
Depreciation and amortization	24, 25	3,537,287	1,418,389	1,208,376
Fair value losses (gains) - net	26	(1,433,952)	1,143,963	745,023
Unrealized foreign currency losses (gain) - net		(931,404)	46,677	40,567
Unrealized loss on interest rate swap	26	368,646	-	-
Gain on sale of investment in available-for-sale financial assets	26	(272,103)	(295,738)	(629,194)
Share in net profits of associates and joint ventures	12	(118,461)	(2,540,047)	(1,733,994)
Stock option benefit expense	27	105,763	2,152	4,215
Impairment and other losses	6, 8	87,979	38,283	11,513
Net losses (gains) on disposal of property, plant and equipment, investment property and intangible assets		17,061	-	11,742
Dividend income	26	(10,516)	(6,334)	(60,674)
Operating income before working capital changes		26,261,523	13,529,500	10,927,846
Decrease (increase) in trade and other receivables		1,381,941	(3,502,109)	(4,642,266)
Decrease (increase) in financial assets at fair value through profit or loss		6,185,946	1,525,509	(12,311,944)
Increase in inventories		(11,851,290)	(5,160,464)	(336,475)
Decrease (increase) in property development costs		134,546	(531,814)	(77,406)
Increase in other current assets		(474,121)	(996,529)	(261,383)
Increase in trade and other payables		1,687,119	609,829	1,544,647
Increase in other current liabilities		1,458,555	7,024,873	3,047,806
Increase in retirement benefit obligations		200,318	96,607	26,896
Increase (decrease) in other non-current liabilities		(4,312,783)	(5,485,966)	466,196
Cash generated from (used in) operations		20,671,754	7,109,436	(1,616,083)
Cash paid for taxes		(3,867,432)	(2,289,786)	(1,655,469)
Net Cash From (Used in) Operating Activities		16,804,322	4,819,650	(3,271,552)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Property, plant and equipment	13	(8,385,883)	(1,586,114)	(1,214,585)
Investment property	14	(4,965,225)	(3,094,692)	(991,267)
Available-for-sale financial assets	11	(28,180)	(5,259,527)	(642,274)
Other non-current assets		(321,798)	-	(529,561)
Land for future development	2	(67,768)	(3,250,482)	(213,000)
Intangible assets	15	-	-	(23,247)
Proceeds from:				
Sale of available for sale financial assets		753,571	295,738	629,194
Disposal of property, plant and equipment		45,496	68,522	396,355
Disposal of investment property		34,058	27,417	-
Disposal of intangible assets		102	-	-
Redemption of preferred shares		-	-	2,580,000
Collection of advances from related party	12	-	-	-
Interest received		3,850,839	3,802,145	2,063,750
Additional investments in and advances to associates		(761,736)	(576,255)	(538,205)
Collections from landowners and joint ventures		27,274	644,748	-
Cash dividends received		10,516	6,334	514,354
Advances to landowners and joint ventures		-	-	(1,500,000)
Net Cash From (Used in) Investing Activities		(9,808,734)	(8,921,966)	531,514
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Interest-bearing loans and bonds		3,730,000	10,020,468	23,771,052
Sale of treasury shares		-	7,756,303	316,403
Interest paid		(4,832,441)	(2,564,340)	(1,510,975)
Dividends paid	21	(3,639,424)	(3,628,927)	(575,043)
Payment of interest-bearing loans		(1,846,232)	(6,922,815)	(2,817,685)
Advances received from related parties	29	1,010,001	194,550	-
Advances granted to related parties	29	(365,112)	(1,094,657)	(322,404)
Payment of derivative liability		(206,589)	-	-
Net Cash From (Used in) Financing Activities		(6,149,797)	3,760,582	18,861,348
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		845,791	(341,734)	16,121,310
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		49,147,858	47,264,487	31,145,329
CASH AND CASH EQUIVALENTS OF A DECONSOLIDATED SUBSIDIARY		-	-	(2,152)
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARIES	4	18,307,687	2,225,105	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 68,301,336	P 49,147,858	P 47,264,487

Supplemental Information on Non-cash Investing and Financing Activities:

In the normal course of business, the Group enters into noncash 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 Property as the property goes through its various stages of development (see Note 14).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousand Philippine Pesos,
Unless Otherwise Indicated, Except Per Share Amounts)

1. CORPORATE INFORMATION

Alliance Global Group, Inc. (the Company, Parent Company, or AGI) was registered with the Philippine Securities and Exchange Commission (SEC) on October 12, 1993 and began operations in 1994 as a glass-container manufacturer. On March 12, 1999, it obtained approval from the SEC to broaden its primary business into that of a holding company. Given a wider scope of business, AGI immediately diversified its investment holdings and on April 19, 1999, AGI listed its shares in the Philippine Stock Exchange (PSE). Currently, the Company and its subsidiaries and associates (collectively referred to as "the Group") operate businesses in real estate development, tourism-entertainment and gaming, food and beverage, and quick service restaurant segments under the following entities (see Notes 4 and 12):

Subsidiaries/Associates/Jointly Controlled Entities	Explanatory Notes	Percentage Of Effective Ownership of AGI		
		2012	2011	2010
<i>Subsidiaries</i>				
Real Estate				
Megaworld Corporation (Megaworld)	(a)	63%	58%	57%
Megaworld Land, Inc.	(a)	63%	58%	57%
Prestige Hotels And Resorts, Inc.	(a)	63%	58%	57%
Mactan Oceanview Properties and Holdings, Inc.	(a)	63%	58%	57%
Megaworld Cayman Islands, Inc.	(a, o)	63%	58%	57%
Richmonde Hotel Group International (RHGI)	(a, n)	63%	58%	57%
Eastwood Cyber One Corporation (ECOC)	(a)	63%	58%	57%
Forbes Town Properties And Holdings, Inc.	(a)	63%	58%	57%
Megaworld Newport Property Holdings, Inc.	(a)	63%	58%	57%
Oceantown Properties, Inc.	(a)	63%	58%	57%
Piedmont Property Ventures, Inc.	(a)	63%	58%	57%
Stonehaven Land, Inc.	(a)	63%	58%	57%
Streamwood Property, Inc.	(a)	63%	58%	57%
Suntrust Properties, Inc. (SPI)	(a)	56%	48%	-
Townsquare Development, Inc. (TDI)	(a)	49%	47%	47%
Megaworld-Daewoo Corporation	(a)	38%	35%	34%
Megaworld Central Properties, Inc.	(a)	48%	30%	29%
Megaworld Globus Asia, Inc.	(a)	32%	29%	28%
Philippine International Properties, Inc.	(a)	32%	28%	28%
Empire East Land Holdings, Inc. (EELHI)	(a)	50%	35%	-
Laguna Bel-Air School, Inc.	(b)	36%	25%	-
Valle Verde Properties, Inc.	(b)	50%	35%	-
Empire East Communities, Inc.	(b)	50%	35%	-
Sherman Oak Holdings, Inc.	(b)	50%	35%	-
Eastwood Property Holdings, Inc.	(b)	50%	35%	-
Gilmore Property Marketing Associates Inc. (GPMAI)	(c)	-	67%	-
New Town Land Partners, Inc. (NTPLI)		100%	100%	100%
First Centro, Inc. (FCI)		100%	100%	100%
First Oceanic Property and Management, Inc. (FOPMI)	(d)	-	-	100%
Citylink Coach Services, Inc. (CCSI)	(d)	-	-	100%
Oceanic Realty Group International, Inc.		100%	100%	100%
ERA Real Estate Exchange, Inc.		100%	100%	100%
Megaworld Resort Estates, Inc. (MREI)	(e)	81%	79%	78%
Adams Properties, Inc. (Adams)		60%	60%	60%
Global Estate Resorts, Inc. (GERI)		64%	62%	-
Fil-Estate Properties, Inc.	(f)	64%	62%	-
Aklan Holdings Inc.	(f)	64%	62%	-
Blu Sky Airways, Inc.	(f)	64%	62%	-
Fil-Estate Subic Development Corp.	(f)	64%	62%	-
Fil-Power Construction Equipment Leasing Corp.	(f)	64%	62%	-
Golden Sun Airways, Inc.	(f)	64%	62%	-
La Compañia De Sta. Barbara, Inc.	(f)	64%	62%	-
MCX Corporation	(f)	64%	62%	-
Pioneer L-5 Realty Corp.	(f)	64%	62%	-
Prime Airways, Inc.	(f)	64%	62%	-
Sto. Domingo Place Development Corp.	(f)	64%	62%	-
Fil-Power Concrete Blocks Corp.	(f)	64%	62%	-
Fil-Estate Golf And Development, Inc	(f)	64%	62%	-
Golforce, Inc.	(f)	64%	62%	-

Subsidiaries/Associates/Jointly Controlled Entities	Explanatory Notes	Percentage Of Effective Ownership of AGI		
		2012	2011	2010
<i>Subsidiaries</i>				
Real Estate				
Fil-Estate Urban Development Corp.	(f)	64%	62%	-
Boracay Newcoast Hotel Group, Inc.	(f)	64%	-	-
Fil-Estate Industrial Park, Inc.	(f)	51%	49%	-
Sherwood Hills Development Inc. (SHDI)	(f)	35%	34%	-
Fil-Estate Ecocentrum Corp.	(f)	36%	34%	-
Philippine Aquatic Leisure Corp.	(f)	36%	34%	-
Oceanfront Properties, Inc. (OPI)	(f)	32%	-	-
Novo Sierra Holdings Corp.	(f)	64%	62%	-
Twin Lakes Corp. (TLC)	(f)	44%	33%	-
Megaworld Global-Estate, Inc.	(g)	63%	60%	-
Sonoma Premiere Land, Inc.	(h)	70%	61%	56%
Manila Bayshore Property Holdings, Inc.	(i)	55%	55%	-
Tourism – Entertainment And Gaming				
Travellers International Hotel Group, Inc. (Travellers)	(j)	46%	-	-
Apec Assets Limited (APEC)	(k)	46%	-	-
Bright Leisure Management, Inc.	(k)	46%	-	-
Deluxe Hotels And Recreation, Inc.	(k)	46%	-	-
Entertainment City Integrated Resorts & Leisure, Inc.		46%	-	-
Grand Services, Inc.	(k)	46%	-	-
Grand Integrated Hotels and Recreation, Inc.	(k)	46%	-	-
Grand Venture Management Services, Inc.	(k)	46%	-	-
Lucky Star Hotels And Recreation, Inc.	(k)	46%	-	-
Majestic Sunrise Leisure & Recreation, Inc.	(k)	46%	-	-
Net Deals, Inc.	(k)	46%	-	-
Newport Star Lifestyle, Inc.	(k)	46%	-	-
Royal Bayshore Hotels & Amusement, Inc.	(k)	46%	-	-
Food And Beverage				
Emperador Distillers, Inc.		100%	100%	100%
Anglo Watsons Glass, Inc.		100%	100%	100%
The Bar Beverage, Inc.		100%	100%	100%
Tradewind Estates, Inc.		100%	100%	100%
Great American Foods, Inc.	(l)	100%	100%	100%
Mckester America, Inc.	(l)	100%	100%	100%
Quick Service Restaurant				
Golden Arches Development Corporation (GADC)		49%	49%	49%
Golden Arches Realty Corporation	(m)	49%	49%	49%
Clark Mac Enterprises, Inc.	(m)	49%	49%	49%
Golden Laoag Foods Corporation	(m)	38%	38%	38%
Advance Food Concepts Manufacturing, Inc. (AFCMI)	(m)	37%	37%	37%
Davao City Food Industries, Inc.	(m)	37%	37%	37%
First Golden Laoag Ventures	(m)	34%	34%	34%
Retiro Golden Foods, Inc.	(m)	34%	34%	34%
McDonald's Puregold Taguig	(s)	29%	-	-
McDonald's Bench Building	(s)	27%	-	-
Corporate And Others				
Alliance Global Brands, Inc.		100%	100%	100%
Mckester Pik-Nik International Limited	(n)	100%	100%	100%
Emperador International Ltd. (EIL)	(n)	100%	100%	100%
Venezia Universal Ltd.	(n)	100%	100%	100%
Travellers Group Ltd.	(n)	100%	100%	100%
Alliance Global Group Cayman Islands, Inc. (AG Cayman)	(o)	100%	100%	100%
Greenspring Investment Holdings Properties Ltd.	(n)	100%	100%	-

Subsidiaries/Associates/Jointly Controlled Entities	Explanatory Notes	Percentage Of Effective Ownership of AGI		
		2012	2011	2010
Associates				
GPMAI	(c)	45%	-	47%
Alliance Global Properties, Inc. (AGPL)	(p)	30%	30%	25%
Suntrust Home Developers, Inc. (SHDI)	(q)	27%	25%	24%
FOPMI	(d)	27%	25%	-
CCSI	(d)	27%	25%	-
Palm Tree Holdings And Development Corporation (PTHDC)	(q)	25%	23%	23%
Genting Star Tourism Academy, Inc.		23%	23%	23%
OPI	(r)	-	31%	-
Fil-Estate Network, Inc. (FENI)	(r)	13%	12%	-
Fil-Estate Sales, Inc. (FESI)	(r)	13%	12%	-
Fil-Estate Realty And Sales Associates, Inc. (FERSAI)	(r)	13%	12%	-
Fil-Estate Realty Corp. (FERC)	(r)	13%	12%	-
Nasugbu Properties, Inc. (NPI)	(r)	9%	9%	-
EELHI		-	-	27%
Jointly Controlled Entities				
Golden City Food Industries, Inc. (GCFII)	(s)	24%	24%	24%
Travellers	(j)	-	46%	46%

Explanatory notes:

- (a) Subsidiaries of Megaworld; Megaworld is 40% directly owned by AGI and 23% owned through other subsidiaries (NTLPI and FCI). Effective ownership over Megaworld increased due to additional acquisition of shares by AGI.
- (b) Subsidiaries of EELHI
- (c) Became an associate in 2012; Ownership interest derived from TDI, MREI and Megaworld
- (d) Subsidiaries of FCI in 2010; In 2011, became subsidiaries of SHDI, an associate of Megaworld
- (e) AGI and Megaworld directly owns 49% and 51%, respectively.
- (f) Subsidiaries of GERI; Effective ownership over GERI increased due to additional acquisition of shares by AGI.
- (g) A subsidiary of AGI through 60% and 40% direct ownership of GERI and Megaworld, respectively
- (h) A subsidiary of AGI through 60% and 40%, direct ownership of EELHI and FCI, respectively
- (i) A subsidiary of AGI through 50/50 ownership of Travellers and Megaworld.
- (j) Formerly a jointly-controlled entity. As of the beginning of 2012, AGI has the power to govern the financial and operating policies of Travellers. As such, after considering the provisions of applicable accounting standards, Travellers qualified as a subsidiary in 2012 and, accordingly, the accounts of Travellers have been consolidated into the Group's financial statements beginning 2012. Travellers is 20% directly owned by AGI and 25%, 10%, and 5% through Adams, Megaworld and FCI, respectively.
- (k) Subsidiaries of Travellers.
- (l) Foreign subsidiaries operating under the laws of United States of America
- (m) Subsidiaries of GADC
- (n) Foreign subsidiaries operating under the Business Companies Act of the British Virgin Islands (BVI)
- (o) Foreign subsidiaries operating under the laws of the Cayman Islands
- (p) A foreign associate operating in the BVI; AGI's ownership interest is through the 39% and 5% direct interest of RHGI and AG Cayman, respectively. AG Cayman only acquired interest starting 2011.
- (q) Associates of Megaworld
- (r) Associates of GERI; OPI was consolidated in 2012.
- (s) Joint ventures of GADC

AGI's shares of stock and those of Megaworld, GERI, EELHI and SHDI are listed in and traded through the PSE.

The principal activities of the Group are further described in Note 4.

The Company's registered office and primary place of business is located at the 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City.

As authorized by the Board of Directors (BOD), the Audit Committee has approved on April 3, 2013, the release of the consolidated financial statements for the year ended December 31, 2012 (including comparatives for the years ended December 31, 2011 and 2010).

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. The policies have been consistently applied to all the periods 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 (IASB).

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

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS 1), Presentation of Financial Statements. The Group presents all items of income and expense in a single consolidated statement of comprehensive income.

Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

Certain line items (i.e., customers' deposit, reserve for property development, and deferred income on real estate sales), which are not minimum line items required by PAS 1, were consolidated into single line item of other current liabilities and other non-current liabilities.

Also as driven by the increasing number of revenue streams contributed by consolidation of a previously jointly-controlled company, revenue line items were instead presented in general terms (i.e., sale of goods and rendering of services) in the consolidated statement of comprehensive income and the details or breakdown (i.e., sale of real estate, gaming revenue, sale of goods and etc.) of which have been presented in the notes to the consolidated financial statements.

These changes in groupings of accounts with a corresponding breakdown in the notes to the consolidated financial statements are allowed under PAS 1 following the principle of materiality and aggregation. The changes did not have an impact on retained earnings, current and non-current classification and net profit, thus, management believes this will not trigger presentation of the third consolidated statement of financial position.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values are presented in thousands except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Company's functional currency (see Note 2.18). Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Basis of Consolidation

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as enumerated in Note 1, as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses, dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

In addition, shares of stock of the Company acquired by any of these subsidiaries are recognized as treasury shares and these are presented as deduction in the consolidated statement of changes in equity at cost. Any changes in their market values as recognized separately by the subsidiaries are likewise eliminated in full. Gain or loss on the sale of these treasury shares is presented as addition to or deduction from additional paid-in capital (APIC).

Financial statements of entities in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

The Group accounts for its investments in subsidiaries and associates, interests in joint ventures, and transactions with non-controlling interest as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Control also exists in exceptional cases when the Company owns half or less than half the voting power of an entity when there is: (a) power over more than half of the voting rights

by virtue of an agreement with other investors; (b) power to govern the financial and operating policies of the entity under a statute or an agreement; (c) power to appoint or remove the majority of the members of the BOD or equivalent governing body and control of the entity is by that board or body; or (d) power to cast the majority votes at meetings of the BOD or equivalent governing body and control of the entity is by that board or body.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases. The acquisition method is applied to account for acquired subsidiaries (see Note 2.10). 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 and the equity interests issued by the Company, 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 Company 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 previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recognized as goodwill (see Note 2.11). 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 consolidated profit or loss.

(b) Investments in Associates

Associates are those entities over which the Company 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 using the equity method.

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associates is included in the amount recognized as investment in associates. All subsequent changes to the share of interest in the equity of the associate are recognized in the carrying amount of the Company's investment. Changes resulting from the profit or loss generated by the associate are shown as Share in Net Profits (Losses) of Associates and Joint Ventures in the Group's consolidated statement of comprehensive income and, therefore, affect the net results of operations of the Group. These changes include subsequent depreciation, amortization and impairment of the fair value adjustments of the associate's assets and liabilities.

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale (AFS) financial assets, are recognized in the consolidated other comprehensive income or equity of the Group, as applicable. Any non-income related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associate's shareholders are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments in behalf of the associate. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits exceeded the accumulated share of losses that has previously not been recognized.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Interests in Joint Ventures

For interest in a jointly-controlled operations, the Company recognize in its consolidated financial statements its share of the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. No adjustments or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint venture are recognized in the separate financial statements of the venturers.

For interest in a jointly controlled entity, the Company recognizes in its consolidated financial statements its interest using the equity method. Under the equity method, the interest in a jointly controlled entity is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share in the profit or loss of the joint venture after the date of acquisition. Unrealized gains arising from transactions with jointly controlled entity are eliminated to the extent of the Company's interest in joint venture against the related investment. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

(d) *Transactions with Non-controlling Interest*

The Group's transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interest result in gains and losses for the Group that are also recognized in consolidated 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 consolidated profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to consolidated profit or loss.

2.3 Adoption of New and Amended PFRS

(a) *Effective in 2012 that are Relevant to the Group*

In 2012, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Tax: Recovery of Underlying Assets

Discussed below are relevant information about these new and amended standards.

- (i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any change in the Group's disclosures in its consolidated financial statements.
- (ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretations Committee 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring deferred tax on depreciable asset that are measured using revaluation model in PAS 16, *Property, Plant and Equipment*, should always be assumed on a sale basis of the asset. The amendment has no impact on the Group's consolidated financial statements as it has no investment properties and non-depreciable property, plant and equipment which are measured at fair values.

(b) *Effective in 2012 that is not Relevant to the Group*

PFRS 1, *First-time Adoption of PFRS*, was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Group's consolidated financial statements.

(c) *Effective Subsequent to 2012 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- (i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company's management expects that this will change the current presentation of items in other comprehensive income (i.e., unrealized fair value gains and losses on AFS financial assets).

- (ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;
 - streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
 - enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Currently, the Group is using the corridor approach and its unrecognized actuarial loss as of December 31, 2012 amounted to P350.0 million (see Note 27.2) which will be retrospectively recognized as actuarial loss in consolidated other comprehensive income in 2013.

- (iii) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of PFRS 8, *Operating Segments*. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

(iv) Consolidation Standards

The Group is currently reviewing the impact on its consolidated financial statements of the following consolidation standards which will be effective from January 1, 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 11, *Joint Arrangements*. This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.
- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Amendment), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
- PAS 28 (Amendment), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in International Financial Reporting Standard (IFRS) 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

- (v) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on its consolidated financial statements.

- (vi) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate* (effective January 1, 2015). This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and the SEC after giving due considerations on various application issues and the implication on this interpretation of the IASB's ongoing revision of the Revenue Recognition standard. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage of completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue upon completion or after delivery. The Group is currently evaluating the impact of this interpretation on its consolidated financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines.
- (vii) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to assess the impact of the new standard on the Group's consolidated financial statements.
- (viii) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:
- (a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:
- Requirements for the opening statement of financial position

If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.
 - Requirements for additional comparative information beyond minimum requirements

If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.
- (b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.
- (c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.
- (ix) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.
- (x) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair

value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. 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 main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

2.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in consolidated profit or loss.

The financial asset categories currently relevant to the Group are financial assets at FVTPL, loans and receivables and AFS financial assets. A more detailed description of these financial assets is as follows:

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held-for-trading or that meets certain conditions and are designated by the entity to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in consolidated profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group's financial assets included in this category consist mainly of investments in marketable debt and equity securities, and derivative assets.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. 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, discounted at the effective interest rate.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances to Contractors and Suppliers), Advances to Associates and Other Related Parties (included under Investments in and Advances to Associates and Other Related Parties account), Short-term Placements (included under Other Current Assets account) and Refundable Security Deposits (included under Other Non-current Assets account). Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(c) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets classification in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months after the end of the reporting period. All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in consolidated equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in Revaluation Reserves is reclassified from consolidated equity to consolidated profit or loss and is presented as reclassification adjustment within consolidated other comprehensive income. Reversal of impairment losses on AFS equity instruments is not recognized through the consolidated profit or loss. On the other hand, if in a subsequent period the fair value of an AFS financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through consolidated profit or loss.

The Group's AFS financial assets include investments in marketable equity securities where the Group held no significant influence and shares that are not listed in the stock exchange and investments in marketable debt securities designated as AFS by management at initial recognition.

All income and expenses relating to financial assets that are recognized in profit or loss are presented under Finance Income or Finance Costs, which are presented as Finance and Other Income and Finance Cost and Other Charges in the consolidated statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, 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 asset base of the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in consolidated profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

A financial asset is reported net of financial liability in the consolidated statement of financial position when there is a 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 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.

2.5 Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using weighted average method, except for food, paper, and promotional items which use the first-in, first-out method. Finished goods and work-in-process include the cost of raw materials, direct labor and a proportion of manufacturing overhead based on normal operating capacity. The cost of raw materials include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. NRV of raw materials, spare parts and other operating supplies is the current replacement cost.

Real estate for sale are carried at the lower of cost and NRV. Cost includes costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction (see Note 2.16). Accounting policies for real estate development transactions are discussed in more detail in Note 2.6.

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 the Land for Future Development account. These costs are reclassified to Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs on certain loans, if any, incurred during the development of the real estate properties are also capitalized by the Group as part of Property Development Costs (see Note 2.16). Once a revenue transaction occurs on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Real Estate for Sale classified under Inventories account (see Note 2.5) in the consolidated statement of financial position.

The cost of real estate property sold before completion of the development, if any, is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined by the project engineers, are presented as part of Cost of Goods Sold in the consolidated statement of comprehensive income with a corresponding credit to the liability account, Reserve for Property Development account (see Note 20).

Costs of properties and projects accounted for as Land for Future Development Costs, Property Development Costs and Real Estate for Sale are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and NRV. NRV 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. Any impairment loss from a real estate project is charged to operations during the period in which the loss is determined.

2.7 Other Assets

Other assets presented either under current or non-current assets classification in the consolidated statement of financial position pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), such assets are classified as non-current assets.

2.8 Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. As no finite useful life for land can be determined, the related carrying amount is not depreciated. Land held for use in production or administration is stated at cost less any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use, including borrowing costs (see Note 2.16) and asset retirement obligation (ARO) relating to property and equipment installed/constructed on leased properties [see Note 3.2 (k)]. GADC is legally required under various lease agreements to dismantle the installations and restore the leased sites at the end of the lease term. It is also a Group's policy to remove permanent improvements or additions which contain designs and configurations inherent to GADC's business signs, trademarks, trade names, patent and other similar intellectual property rights belonging to McDonald's Corporation upon the termination or expiration of lease contract. The present value of ARO is recognized as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The outstanding ARO as at the end of the reporting period is presented as part of Other Non-current Liabilities in the consolidated statement of financial position. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and land improvements	5 to 40 years
Condominium units	10 to 25 years
Machinery and equipment	2 to 12 years
Fixtures and other equipment	3 to 10 years
Transportation equipment	3 to 10 years

Leasehold improvements are amortized over the life of the assets of 5 to 40 years or the term of the lease, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.16) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

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

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

2.9 Investment Property

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property and are carried at cost less accumulated depreciation and any impairment in value (see Note 2.19).

Cost capitalization, depreciation, impairment loss and asset derecognition are recorded in the same manner as in Property, Plant and Equipment (see Note 2.8). Depreciation of investment property (excluding land) is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years.

2.10 Business Combinations

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

The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or

assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss in the consolidated statement of comprehensive income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at the date of acquisition.

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 consolidated profit or loss or as a change to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the date of acquisition that if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its fair value at the date of acquisition (the date the Group attains control) and recognize the resulting gain or loss, if any, in the consolidated profit or loss or consolidated other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the date of acquisition that have previously been recognized in other comprehensive income are reclassified to profit or loss in the consolidated statement of comprehensive income, where such treatment would be appropriate if that interest were disposed of.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of the related goodwill (see Note 2.11).

2.11 Intangible Assets

Intangible Assets include goodwill, trademarks, leasehold rights and computer software. Except goodwill, all other intangible assets have finite lives and are carried at cost less accumulated amortization and any impairment in value. Goodwill is not amortized, but is reviewed for impairment at least annually.

Goodwill represents the excess of the cost of investment in shares of stocks over the fair value of the Group'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. Any impairment loss is recognized immediately in consolidated profit or loss and is not subsequently reversed (see Note 2.19).

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.

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the consolidated profit or loss on disposal.

The cost of trademarks, leasehold rights and computer software includes the acquisition price and other direct costs. Capitalized costs are amortized on a straight-line basis over the estimated useful life of 10 and 3 years, for trademarks and computer software, respectively, and over the term of the lease for leasehold rights. In addition, these assets are subject to impairment testing as described in Note 2.19. When these assets are retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

Costs associated with maintaining computer software and any costs associated with research activities are recognized as expense in consolidated profit or loss as incurred.

2.12 Financial Liabilities

The categories of financial liabilities relevant to the Group are more fully described below.

(a) Financial Liabilities at FVTPL

Financial liabilities are classified in this category if they are held-for-trading or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group occasionally uses derivative financial instruments, such as foreign exchange forward contracts and interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative, which are presented under the Other Assets or Other Liabilities (current and non-current) account in the consolidated statements of financial position.

The Group's derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

(b) Financial Liabilities at Amortized Costs

This category pertains to financial liabilities that are not held-for-trading or not designated as FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities, which include Interest-bearing Loans, Bonds Payable, Trade and Other Payables (except tax related payables), Advances from Related Parties, Redeemable Preferred Shares, Security Deposits and Payable to MRO under Stock Option Plan are recognized when the Group becomes a party to the contractual agreements of the instrument.

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

Interest-bearing Loans and Bonds Payable are raised for support of long-term funding of operations. These are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to consolidated profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and Other Payables, Advances from Related Parties, Security Deposits and Payable to MRO under Stock Option Plan are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Redeemable Preferred Shares, which are mandatorily redeemable at the option of the holder, are recognized at fair value, net of transaction costs, on inception date and presented as liability in the consolidated statement of financial position; the liability is subsequently measured at amortized cost. The corresponding accretion of the liability and the dividends paid on those shares are charged as part of Interest Expense under Finance Costs and Other Charges account in the consolidated statement of comprehensive income.

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

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.13 Provisions and Contingencies

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

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

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

2.14 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the initial issuance or reissuance of capital stock. Any transaction costs associated with such issuances of shares are deducted from APIC, net of any related income tax benefits. Excess of proceeds over acquisition cost of treasury shares is also added to APIC.

Treasury shares are AGI shares reacquired by the Company but not cancelled or AGI shares held by subsidiaries for investment purposes. These are carried at cost of reacquiring such shares (see also Note 2.2).

Revaluation reserves represent unrealized fair value gains or losses on AFS financial assets pertaining to cumulative mark-to-market valuations [see Note 2.4(c)] and share in other comprehensive income of associates and joint ventures attributable to the Group.

Accumulated translation adjustments represent the translation adjustments resulting from the conversion of foreign currency denominated financial statements of certain subsidiaries into the Group's presentation currency (see Note 2.18).

Dilution gain or loss arises when an investor exercises its pre-emptive rights to maintain its ownership interest in an investee. This represents the difference between the book value per share in an investee versus the investee's offer price at the time the rights are exercised. This also includes the Company's share in previous period's profit (loss) as a result of the current increase (decrease) in equity ownership over its subsidiaries. Dilution gain or loss is recognized on investments of which the Company continues to exercise control.

Share options represent the value of share options during vesting period upon recognition of share-based remuneration expense in profit or loss [see Note 2.20(d)].

Retained earnings, the appropriated portion of which is not available for dividend declaration, represent all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income, reduced by the amount of dividends declared.

2.15 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured by reference to the fair value of consideration received or receivable by the Group; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue, net of rebates and trade discounts, is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer acknowledged delivery of goods.
- (b) *Sale of residential and condominium units [included as part of Sale of Goods – Real Estate (RE) Sales]* – For financial reporting purposes, revenues from transactions covering sales of residential and condominium units are recognized under the percentage-of-completion method. Under this method, realization of gross profit is recognized by reference to the stage of development of the properties (i.e., revenue is recognized in the period in which the work is performed). The unrealized gross profit on a year's sales is presented as Deferred Gross Profit on Real Estate Sales (under Cost of Goods Sold) in the consolidated statement of comprehensive income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales (under Other Current and Non-current Liabilities) in the consolidated statement of financial position.

The sale is recognized when a certain percentage of the total contract price has already been collected. 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 buyer are initially recorded Customers' Deposits and presented as part of Other Liabilities (current and non-current) in the consolidated statement of financial position.

Any adjustments relative to previous years' sales are recorded in the current year as they occur.

For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from real estate sales is used by the Group.

- (c) *Interest income on real estate sales (included as part of Revenue from RE Sales)* - are considered in the determination of total revenue for real estate sales (see Note 2.3). It is recognized when interest accrues taking into account the underlying sale of real estate under installment method through in-house financing (not through externally financed home loans obtained by customers).
- (d) *Sale of undeveloped land and golf and resort shares (included as part of Sale of goods - RE 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 have passed to the buyer and the amount of revenue can be measured reliably.
- (e) *Gaming Revenues* – Revenue is recognized from net wins from gaming activities which represent the difference between coins and currencies deposited into the gaming machines and the payments to customers and, for other games, the difference between gaming wins and losses.
- (f) *Revenue from Hotel Operations* – Revenue from hotel operations is recognized when services are rendered.
- (g) *Sales from Company-operated quick-service restaurants* – Revenue from restaurant sales operations are recognized when the services are rendered, that is, food and beverage products or promotional items purchased by customers have been delivered and accepted by the customers.
- (h) *Franchise revenues* – Revenue from franchised McDonald's restaurants (including the restaurant operated by a joint venture) includes continuing rental, royalty and management fees. These are recognized in the period earned.

- (i) *Rentals* – Rental income is recognized on a straight-line basis over the duration of the lease terms. For tax purposes, rental income is recognized based on the contractual terms of the lease. Advance rentals and refundable rental deposits, if any, are recorded as deferred rental. Deferred rental, specifically the refundable rental deposit, is measured at amortized cost using the effective interest rate method.
- (j) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.
- (k) *Dividends* – Revenue is recognized when the right to receive the payment is established.

Revenue and expenses are recognized excluding the amount of value-added tax.

The Group provides a membership card for its gaming patrons (i.e., of Travellers). Members earn points on gaming activity and such points are redeemable for complimentary goods and services such as rooms, food, beverages and others. Members may also earn special coupons or awards as determined during marketing promotions. The Group records revenue for the original transaction and a provision (and a corresponding recognition of promotional allowances in profit or loss) for the value of the points earned by members by reference to the relative fair values of the complimentary goods or services.

Cost and expenses (other than cost of real estate sales) are recognized in profit or loss upon utilization of the services or receipt of the goods or at the date they are incurred. All finance costs are reported in consolidated profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.16).

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

2.16 Borrowing Costs

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 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.

2.17 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in consolidated profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in consolidated profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) Group as Lessor

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company's net investment in the lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in consolidated profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.18 Foreign Currency Transactions and Translation

(a) Transactions and Balances

Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

(b) Translation of Financial Statements of Foreign Subsidiaries

The operating results and financial position of foreign subsidiaries (see Note 1) which are measured using the United States (U.S.) dollars, their functional currency, are translated to Philippine pesos, the Group's functional currency as follows:

- (i) Monetary assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) Non-monetary assets and liabilities for each statement of financial position presented, which are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities which are measured at fair value are translated using the exchange rates at the date when the fair value was determined;
- (iii) Income and expenses for each profit or loss account are translated at the average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- (iv) All resulting exchange differences are recognized in consolidated other comprehensive income and in a separate component of consolidated equity under Accumulated Translation Adjustments.

When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the consolidated statement of comprehensive income as part of the gain or loss on sale.

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

2.19 Impairment of Non-financial Assets

The Group's Investments in Associates and Joint Ventures, Intangible Assets, Investment Property, Property, Plant 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 for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.20 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Defined Benefit Plan

Retirement benefit cost is actuarially determined using the projected unit credit method as computed by actuaries covering all regular full-time employees of each of the respective entities within the Group as applicable.

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.

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, together with adjustments for unrecognized actuarial gains or losses and past service costs. 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 and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to consolidated

profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in consolidated profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

(b) *Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Share-based Employee Remuneration*

Certain employees of GADC received remuneration in the form of stock options on the shares of McDonald's Corporation (McDonald's). The cost of the stock options was measured by reference to the fair value of the stock options, which was the compensation charged by McDonald's for participating in the plan on the date of grant.

The cost of the stock options is recognized as employee benefits in profit or loss, with a corresponding increase in liability, over a period beginning on the date of grant and ending on the date on which the qualified employees become fully entitled to the award (vesting date). The cumulative expense recognized for the stock options at each reporting date until the vesting date reflects the extent to which the vesting period has expired, without regard to the number of awards that will ultimately vest.

In addition, the Company, Megaworld and GERI also grant share options to key executive officers and employees eligible under each stock 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 profit or loss and the corresponding share option is presented as Share Options account in the equity section of the consolidated statement of financial position.

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 vested on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as APIC, and the cost of the stock option under Share Options account is reclassified to APIC.

(e) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

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 end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in 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 carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in consolidated profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in consolidated other comprehensive income or directly in consolidated equity, respectively.

2.22 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares (e.g. vested share options – see Note 21.6)

2.23 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee 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 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 financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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

2.24 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Group and close members of the family of any such individual, and (d) certain funded retirement plans, administered by trustee banks, of two significant subsidiaries.

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

2.25 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require 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) *Impairment of AFS Financial Assets*

In determining when an investment is other-than-temporarily impaired, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, 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 its recent evaluation, management concluded that a certain unquoted equity security is impaired, and accordingly, impairment loss has been recognized during the year (see Note 11).

(b) *Distinction Between Investment Property, Owner-Occupied Properties and Land for Future Development*

In determining whether a property qualifies as investment property, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Investment property comprise of properties held to earn rental or for capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process while Land for future Development are properties intended solely for future development. The Group considers each property separately in making its judgment.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the Group's main line of business or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the Group's main line of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(c) *Distinction between Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. In distinguishing each lease agreement as either an operating or finance lease, management looks 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.

(d) *Classification of Preferred Shares as Financial Liability*

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

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and relevant disclosures 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 financial year:

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

The Group uses the percentage-of-completion method in accounting for its realized gross profit on real estate sales. The use of the percentage-of-completion method requires the Group to estimate the portion completed using relevant information such as costs incurred to date as a proportion of the total budgeted cost of the project and estimates by engineers and other experts [see Note 2.15 (b)]. Should the proportion of the percentage of completed projects differ by 5% from management's estimates, the effect on the amount of revenue recognized is not significant.

There were no changes in the assumptions or basis for estimation during the year. The realized gross profit on real estate sales recognized in 2012, 2011 and 2010 is disclosed in Note 23.

(b) *Impairment of Trade and Other Receivables*

The Group maintains an adequate amount of allowance for impairment of receivables, where objective evidence of impairment exists. The Group evaluates the amount of allowance based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' payment behaviour, average age of accounts, and historical loss experience.

The carrying value of trade and other receivables and an analysis of allowance for impairment on such receivables are presented in Note 6.

(c) *Net Realizable Values of Inventories and Real Estate Properties*

In determining the net realizable values of inventories and real estate properties, management takes into account the most reliable evidence available at the times the estimates are made. Net realizable value is one of the key variables used in analyzing property development costs, residential and condominium units for sale, golf and resort shares for sale and land for future development for possible impairment. The Group's core business is subject to changes in market factors that directly affect the demand for inventories and real estate properties such as purchasing power of consumers, degree of competition, and other market-related factors. Future realization of the carrying amounts of these assets is also affected by price changes in the costs incurred necessary to make a sale. Changes in the sources of estimation may cause significant adjustments to the Group's inventories and real estate properties within the next financial year.

The amounts of allowance for inventory obsolescence made by management are based on, among others, age and status of inventories and the Group's past experience. The net realizable value of inventories and an analysis of allowance for inventory write-down are presented in Note 8.

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

(d) *Fair Value of Financial Assets Other than Loans and Receivables*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

Management estimates the fair value of financial instruments where active market quotes are not available based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying amounts of financial assets at FVTPL and AFS financial assets are disclosed in Notes 7 and 11, respectively.

(e) *Fair Value of Investment Property*

Investment property is measured using the cost model. The fair value disclosed in Note 14 to the consolidated financial statements were estimated either by: (i) using the fair value of similar properties in the same location and condition; or, (ii) using the discounted cash flows valuation technique since the information on current or recent prices of certain investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(f) *Fair Value of Stock Options*

The Group estimates the fair value of the Executive Stock Option (ESOP) by applying an option valuation model, considering the terms and conditions on which the executive stock option were granted. The estimates and assumptions used are presented in Note 21.6 which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the share price (i.e., the Company's, Megaworld, GERI and McDonalds) and fair value of the specific common shares. Changes in these factors can affect the fair value of stock options at grant date.

The fair value of the ESOP recognized as part of Salaries and Employee Benefits is shown under Operating Expenses in the 2012 consolidated statement of comprehensive income (see Note 25). A corresponding credit to Share Options Outstanding for options related to the Group is presented in the equity portion of the 2012 consolidated statement of financial position (see Note 21).

(g) *Useful Lives of Property, Plant and Equipment, Investment Property and Intangible Assets with Finite Lives*

The Group estimates the useful lives of property, plant and equipment, investment property and intangible assets with finite lives based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property, plant equipment, investment property and intangible assets are analyzed in Notes 13, 14 and 15, respectively. Actual results, however, may vary due to changes in factors mentioned above.

Based on management assessment, no change in the estimated useful lives of property, plant and equipment, investment property and intangible assets is necessary in 2012 and 2011.

(h) *Impairment of Non-financial Assets*

Goodwill is reviewed annually for impairment. An impairment review on all other non-financial assets is performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment loss recognized on Property, Plant and Equipment is discussed in Note 13. There is no impairment loss recognized on the Group's intangible assets and other non-financial assets based on management evaluation for the years ended December 31, 2012, 2011 and 2010.

(i) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. An analysis of the carrying amount of deferred tax assets, which management assessed to be fully utilizable in the coming years, is presented in Note 28.1.

(j) *Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets and salary rate increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 27.2.

(k) *Provision for Restoration of Leased Property*

Property, plant and equipment includes the estimated cost of dismantling and restoring leased properties (building and leasehold improvements) to their original condition for which GADC is liable, or asset retirement obligation (ARO) (see Note 2.8). The estimated cost was initially based on a recent cost to dismantle facilities. This was adjusted to consider estimated incremental annual cost up to the end of the lease term. The estimated dismantling cost was discounted using the prevailing market rate at the inception of the lease for an instrument with maturity similar to the term of the lease.

The carrying amount of ARO is presented in Note 20.

(l) *Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in consolidated profit or loss in the subsequent period.

4. SEGMENT INFORMATION

4.1 *Business Segments*

The Group is organized into four major business segments, namely real estate, tourism – entertainment and gaming, food and beverage and quick service restaurant. Presented below is the basis of the Group in reporting its primary segment information.

- (a) The *Real Estate* segment is engaged in the development of real estate, integrated resorts, leasing of properties and hotel operations businesses.
- (b) The *Tourism – Entertainment and Gaming* segment relates to tourism-oriented business that integrates entertainment, hospitality and leisure, including gaming, as that of Resorts World Manila.
- (c) The *Food and Beverage* segment refers to the manufacture and distribution of distilled spirits, glass containers and potato snacks products.
- (d) The *Quick Service Restaurant* refers to operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement with McDonald's Corporation, USA.

4.2 *Segment Assets and Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash and cash equivalents, trade and other receivables, inventories, property, plant and equipment, intangible assets and investment property. Segment liabilities include all operating liabilities and consist principally of trade and other payables, interest-bearing loans and bonds payable.

4.5 Reconciliation

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

	2012	2011	2010
Revenues			
Total segment revenues	P 102,138,569	P 58,148,865	P 40,903,309
Unallocated corporate revenue	2,581,803	6,033,785	2,377,595
Share in the net profits of associates and joint ventures	118,461	2,540,047	1,733,994
Elimination of intersegment revenues	<u>(2,121,103)</u>	<u>(625,646)</u>	<u>(519,701)</u>
Revenues as reported in consolidated profit or loss	<u>P 102,717,730</u>	<u>P 66,097,051</u>	<u>P 44,495,197</u>
Profit or loss			
Segment operating profit	P 21,695,485	P 9,492,682	P 7,466,673
Unallocated corporate profit	795,115	3,336,657	815,592
Share in the net profits of associates and joint ventures	118,461	2,540,047	1,733,994
Elimination of intersegment revenues	<u>(2,121,103)</u>	<u>(625,646)</u>	<u>(519,701)</u>
Profit as reported in consolidated profit or loss	<u>P 20,487,958</u>	<u>P 14,743,740</u>	<u>P 9,496,558</u>
Assets			
Segment assets	P 240,285,211	P 173,515,890	
Unallocated corporate assets	<u>32,250,194</u>	<u>47,016,396</u>	
Total assets reported in the consolidated statements of financial position	<u>P 272,535,405</u>	<u>P 220,532,286</u>	
Liabilities			
Segment liabilities	P 104,014,608	P 68,365,468	
Unallocated corporate liabilities	<u>24,508,242</u>	<u>26,161,714</u>	
Total liabilities reported in the consolidated statements of financial position	<u>P 128,522,850</u>	<u>P 94,527,182</u>	

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	Note	2012	2011
Cash on hand and in banks		P 17,541,833	P 6,174,960
Short-term placements	30	<u>50,759,503</u>	<u>42,972,898</u>
		<u>P 68,301,336</u>	<u>P 49,147,858</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates (see Note 26).

Short-term placements are made for varying periods between 15 to 90 days and earn effective interest per annum ranging from 3.00% to 5.00% in 2012 and 3.50% to 4.90% in 2011. Placements amounting to P108.4 million and earning effective interest of 3.5%, which have a longer term of 360 days, are shown under Other Current Assets account in the 2012 consolidated statement of financial position (see Note 9).

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

	Notes	2012	2011
Current:			
Trade receivables	17(g), 29.5	P 17,834,692	P 22,150,404
Advances to contractors and suppliers		3,016,608	1,640,582
Due from employees and related parties	29.7	1,195,325	1,017,268
Accrued interest receivable		185,034	422,649
Others		1,060,014	876,375
		23,291,673	26,107,278
Allowance for impairment		(651,618)	(615,158)
		22,640,055	25,492,120
Non-current:			
Trade receivables	29.5	24,257,907	20,574,671
Others		3,826	14,065
		24,257,907	20,588,736
Allowance for impairment		(12,225)	(12,225)
		24,245,682	20,576,511
		P 46,885,737	P 46,068,631

Most receivables from trade customers, particularly those relating to real estate sales, are covered by postdated checks. Certain trade receivables amounting to P332.7 million have been discounted with recourse basis to a local bank [see Note 17(g)].

The installment period of real estate sales contracts averages from one to five years. These trade receivables are noninterest-bearing and are carried at amortized cost using the effective interest method based on the interest rate of comparable financial instruments in the market. Interest income from amortization amounted to P1,327.5 million, P1,218.8 million and P933.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. These amounts are presented as Interest Income on Real Estate Sales under Revenue from Sale of Goods account in the consolidated statements of comprehensive income (see Note 23).

Advances to contractors and suppliers pertain to noninterest-bearing and unsecured advances to the Group's contractors and suppliers as initial payment or mobilization funds for services to be rendered and goods to be delivered to the Group. These are reduced proportionately upon receipt of progress billings from said suppliers.

Due from employees and related parties pertain to noninterest-bearing, unsecured and immediately demandable advances, settlement of which is generally made in cash, or through deduction from employees' salary or employees' liquidation of business related expenses (see Note 29.7).

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer as the titles to the real estate properties remain with the Group until the receivables are fully collected.

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

	Notes	2012	2011
Balance at beginning of year		P 627,383	P 92,680
Impairment losses during the year	25	36,627	23,247
Write-off of trade receivables previously provided with allowance		(167)	(21,544)
Allowance carried from new subsidiaries		-	541,492
Reversals due to recovery and collection of accounts	26	-	(8,492)
Balance at end of year		P 663,843	P 627,383

Impairment losses are presented as part of Other Operating Expenses (see Note 25). Reversals of previously impaired receivables due to subsequent recovery and collection in the reporting period are shown as part of Miscellaneous under Finance and Other Income (see Note 26).

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.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of foreign investments, held for trading, as follows:

	<u>2012</u>	<u>2011</u>
Marketable debt securities	P 5,286,575	P 11,313,947
Equity securities - quoted	610,247	-
	<u>665,131</u>	<u>-</u>
	<u>P 6,561,953</u>	<u>P 11,313,947</u>

Marketable debt securities, which bear interest ranging from 4.63% to 8.88% per annum, are measured at their fair values determined directly by reference to published prices quoted in an active market as of December 31, 2012 and 2011. The net changes in fair values of these financial assets are presented as part of either Fair Value Gains – Net or Fair Value Losses – Net under Finance and Other Income or Finance Cost and Other Charges, respectively, in the consolidated statements of comprehensive income (see Note 26). The amount of interest income amounts to P808.5 million and P1,064.9 million for 2012 and 2011, respectively and is shown as part of Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

A portion of marketable debt securities placed with certain foreign banks is covered by a set-off provision. The loans set-off against marketable debt securities amounted to U.S.\$116.9 million (P4,814.7 million) as of December 31, 2012 and U.S.\$132.4 million (P5,818.8 million) as of December 31, 2011.

Derivative assets represent the fair market value gain of foreign currency forward option contract with certain banks maturing with certain currencies against the U.S. dollar in 2012. The derivative asset is valued at U.S.\$16.1 million (P665.1 million) as of December 31, 2012. Changes in foreign currency value arising from such investments are taken up in profit or loss and are recorded as part of Fair Value Gains – Net under Finance and Other Income in the 2012 consolidated statement of comprehensive income.

8. INVENTORIES

The details of inventories are shown below.

	<u>2012</u>	<u>2011</u>
At cost:		
Real estate for sale	P 34,623,677	P 24,681,989
Finished goods	481,706	654,186
Raw materials	<u>2,624,057</u>	<u>858,341</u>
	<u>37,729,440</u>	<u>26,194,516</u>
At net realizable value:		
Golf and resort shares for sale	2,083,085	2,065,799
Food, supplies and other consumables	<u>1,094,053</u>	<u>692,359</u>
	<u>3,177,138</u>	<u>2,758,158</u>
	<u>P 40,906,578</u>	<u>P 28,952,674</u>

Real estate for sale mainly pertain to residential houses, lots and condominium units for sale. No borrowing costs were capitalized for the periods ended December 31, 2012 and 2011.

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

Food, supplies and other consumables include paper and packaging, promotional materials, membership program items, operating supplies, spare parts, fuel and lubricants. These are stated at NRV which is equal or lower than their cost.

The carrying amounts of golf and resort shares for sale and food, supplies and other consumables are net of allowance for inventory write-down of P140.4 million and P119.6 million as of December 31, 2012 and 2011. A reconciliation of this allowance for inventory write-down at the beginning and end of the reporting periods is shown below.

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year		P 119,598	P 26,354
Additional losses during the year	25	28,008	24,432
Reversals of write-down	26	(7,249)	(9,396)
Allowance carried from new subsidiaries		-	78,208
Balance at end of year		<u>P 140,357</u>	<u>P 119,598</u>

The additional losses on inventories of P28.0 million, P24.4 million and P2.4 million for the years ended December 31, 2012, 2011 and 2010, respectively, were recognized to reduce the golf and resort shares for sale and promotional materials and supplies to their net realizable values. The reversals of inventory write-down amounting to P7.2 million, P9.4 million and P14.1 million for the years ended December 31, 2012, 2011 and 2010, respectively, were recognized from disposal to third parties of previously written down items. The additional losses are shown as Write-down of Inventories under Other Operating Expenses account (see Note 25) while the reversals are shown as part of Miscellaneous under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

9. OTHER ASSETS

The composition of this account is shown below.

	Note	<u>2012</u>	<u>2011</u>
Current:			
Input VAT		P 1,640,656	P 1,498,285
Prepayments		476,293	432,296
Creditable withholding tax		434,862	262,085
Advances to suppliers		328,237	528,460
Time deposits	5	108,404	-
Others		709,335	304,033
		<u>3,697,787</u>	<u>3,025,159</u>
Non-current:			
Refundable deposits		682,308	564,549
Deferred input VAT		186,541	108,937
Claims for tax refund		112,282	112,282
Deposit on asset purchased		118,797	33,368
Rental receivable		41,602	48,184
Accumulated jackpot seed money		43,890	-
Others		745,345	203,253
		<u>1,930,765</u>	<u>1,070,573</u>
		<u>P 5,628,552</u>	<u>P 4,095,732</u>

10. ADVANCES TO LANDOWNERS AND JOINT VENTURES

The Group enters into numerous joint venture agreements for the joint development of various projects. The joint venture (JV) agreements stipulate that the Group's joint venturer shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of condominium to be constructed on the properties. Costs incurred for these projects are recorded under the Property Development Costs account 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 the JV agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the JV 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.

Repayments 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.

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

The net commitment for construction expenditures of the Group amounts to:

	<u>2012</u>	<u>2011</u>
Total commitment for construction expenditures	P 13,307,544	P11,638,217
Total expenditures incurred	(10,167,480)	(8,946,331)
Net commitment	<u>P 3,140,064</u>	<u>P 2,691,886</u>

The Group's interests in jointly-controlled operations and projects, ranging from 55% to 95% in both 2012 and 2011, are as follows:

Megaworld:	EELHI:
• Forbeswood Heights	• Pioneer Woodlands
• Forbeswood Parklane 1 & 2	• San Lorenzo Place
• Greenbelt Excelsior	• Various Metro Manila and Calabarzon projects
• Manhattan Parkway Residences	
• McKinley Hills	
• Newport City	
• The Noble Place	
SPI:	GERI:
• Adriatico Gardens	• Caliraya Spring
• Capitol Plaza	• Forest Hills
• Governor's Hill	• Kingsborough
• Mandara	• Monte Cielo De Penafrancia
• Sta. Rosa Heights	• Mountain Meadows
• Sta. Rosa Hills	• Newport Hills
• Sentosa	• Parklane Square
	• Southwoods Peak

The aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 related to the Group's interest in joint ventures, presented above, are not presented or disclosed as the joint ventures in which the Group is involved are not jointly-controlled entities (see Note 2.2).

As of December 31, 2012 and 2011, the Group 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.

All of the Group's advances have been reviewed for indications of impairment. Based on management's evaluation, no impairment loss is required to be recognized for the years ended December 31, 2012 and 2011.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following:

	2012	2011
Marketable debt securities - quoted	<u>P 5,015,804</u>	<u>P 4,327,804</u>
Equity securities:		
Quoted	<u>67,984</u>	<u>1,116,520</u>
Unquoted	<u>200,916</u>	<u>-</u>
Allowance for impairment	<u>(3,258)</u>	<u>-</u>
	<u>197,658</u>	<u>-</u>
	<u>265,642</u>	<u>1,116,520</u>
	<u>P 5,281,446</u>	<u>P 5,444,324</u>

The securities can be further analyzed as follows:

	2012	2011
Local	<u>P 268,900</u>	<u>P 1,116,520</u>
Allowance for impairment	<u>(3,258)</u>	<u>-</u>
	<u>265,642</u>	<u>-</u>
Foreign	<u>5,015,804</u>	<u>4,327,804</u>
	<u>P 5,281,446</u>	<u>P 5,444,324</u>

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

	2012	2011
Balance at the beginning of year	<u>P 5,444,324</u>	<u>P 1,609,031</u>
Additions	<u>28,180</u>	<u>5,259,327</u>
Disposals	<u>(560,293)</u>	<u>(1,090,785)</u>
Gains (losses) - net	<u>369,235</u>	<u>(333,249)</u>
Balance at end of year	<u>P 5,281,446</u>	<u>P 5,444,324</u>

In 2012 and 2011, marketable debt securities bear interests ranging from 5.4% to 11.0% per annum. As of December 31, 2012 and 2011, there were no permanent decline in value on these securities; therefore, no losses are transferred from equity to profit or loss.

Equity securities consist of local shares of stock and various club shares which are denominated in Philippine pesos. Golf club shares are proprietary membership shares. In 2012, the management determined that there is objective evidence that the decline in value of an investment in unquoted equity shares is permanent for which P3.23 million is provided.

The fair values of quoted AFS financial assets have been determined by reference to published prices in an active market. The changes in the fair value arising from these AFS financial assets amounted to P609.4 million gain in 2012, P763.8 million loss in 2011 and P253.2 million gain in 2010 and are presented as Net Unrealized Fair Value Gains (Losses) on AFS Financial Assets in the consolidated statements of comprehensive income.

Upon disposal of various AFS investments, the Group realized gains amounting to P272.1 million, P295.7 million and 629.2 million for the years 2012, 2011 and 2010, respectively, and is presented as Gain on Sale of Investment in AFS Financial Assets under Finance and Other Income and Finance Cost and Other Charges in the consolidated statements of comprehensive income (see Note 26).

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

12.1 Breakdown of Carrying Values

The details of investments in and advances to associates and other related parties and interest in joint ventures, which are carried at equity, are as follows:

	2012	2011
Investments of Megaworld in associates -		
Acquisition costs:		
AGPL	P 2,463,056	P 2,463,056
SHDI	875,445	875,445
PTHDC	64,665	64,665
GPMAI	86,830	-
	<u>3,489,996</u>	<u>3,403,166</u>
Accumulated share in net profits (loss):		
Balance at beginning of year	(516,168)	1,586,157
Reversal resulting from consolidation of GPMAI	-	(2,216,306)
Share in net profits for the year	121,280	113,981
Balance at end of year	<u>(394,888)</u>	<u>(516,168)</u>
Share in other comprehensive income	<u>1,093</u>	-
	<u>3,096,201</u>	<u>2,886,998</u>
Investments of GERI in associates -		
Acquisition costs:		
NPI	734,397	734,397
FERC	28,000	28,000
FENI	10,000	10,000
FESI	7,808	7,808
FERSAI	4,000	4,000
OPI	-	3,125
	<u>784,205</u>	<u>787,330</u>
Accumulated share in net losses:		
Balance beginning of year	37,643	28,508
Share in net losses for the year	5,891	9,135
Reversal due to consolidation of OPI	(182)	-
Balance at end of year	<u>43,352</u>	<u>37,643</u>
	<u>740,853</u>	<u>749,687</u>
Investment of AG Cayman in AGPL		
Acquisition cost	<u>285,461</u>	<u>285,461</u>
Accumulated share in net profits:		
Balance at beginning of year	16,208	2,384
Share in net profits for the year	-	13,824
Balance at end of year	<u>16,208</u>	<u>16,208</u>
	<u>301,669</u>	<u>301,669</u>

	<u>2012</u>	<u>2011</u>
Investment in Travellers		
Acquisition cost		
Balance at beginning of year	P -	P 9,309,856
Accumulated share in net profits:		
Balance at beginning of year	3,578,626	1,159,359
Share in net profits for the year	-	2,419,267
Reversal due to consolidation of Travellers	(3,578,626)	-
Balance at end of year	<u>-</u>	<u>3,578,626</u>
Accumulated share in other comprehensive income:		
Balance at beginning of year	1,763	2,500
Share in other comprehensive loss for the year	-	(737)
Reversal due to consolidation of Travellers	(1,763)	-
Balance at end of year	<u>-</u>	<u>1,763</u>
	<u>-</u>	<u>12,890,245</u>
Investment of GADC in GCFII, a joint venture –		
Acquisition cost	10,000	10,000
Accumulated share in net profits:		
Balance at beginning of year	7,846	5,736
Share in net profits	3,072	2,110
Balance at end of year	<u>10,918</u>	<u>7,846</u>
	<u>20,918</u>	<u>17,846</u>
Advances to associates and other related parties (see Note 29.6)	1,869,120	2,147,830
	<u>P 6,028,761</u>	<u>P 18,994,275</u>

The total share in net profits of P118.5 million, P2,540.0 million and P1,734.0 million for the years ended December 31, 2012, 2011 and 2010, respectively, is shown as Share in Net Profits of Associates and Joint Ventures – Net in the consolidated statements of comprehensive income.

The carrying costs of Investments in Associates is lower than the book values of such investments, hence, the management has assessed that the recognition of impairment losses in 2012 and 2011 is not necessary.

12.2 EELHI, SPI and GPMAL

EELHI and GPMAL became subsidiaries in 2011, through Megaworld's increase in ownership in EELHI, and they were consolidated beginning that year. In 2012, EELHI decreased its ownership interest and lost control in GPMAL so the latter ceased to be a subsidiary of neither Megaworld nor EELHI. GPMAL is considered as an associate because EELHI has retained significant influence over it.

SPI, previously an associate of FCI, was also consolidated starting in 2011 because of the increase in ownership by the Group through EELHI.

12.3 SHDI

The shares of stock of SHDI are listed in the PSE. The total quoted or market value of investments in this associate amounted to P516.1 million and P498.0 million as of December 31, 2012 and 2011, respectively.

12.4 Summarized Financial Information

The aggregated amounts of assets, liabilities, revenues and net profit (loss) of the associates and jointly controlled entities are as follows as of December 31, 2012 and December 31, 2011:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
2012:				
AGPL	P 6,380,453	P 6,848	P 431,546	P 404,976
NPI	1,329,026	1,319,026	-	-
PTHDC	1,136,627	1,004,829	71	(327)
SHDI	348,748	226,010	209,038	5,371
FERC	341,189	285,550	4,043	(8,470)
FERSAI	155,071	162,621	4,460	(8,858)
FESI	131,507	32,824	24,693	(2,548)
FENI	100,223	108,258	6,887	(9,580)
GCFII	51,001	11,641	79,906	6,143
	<u>P 9,973,845</u>	<u>P 3,157,607</u>	<u>P 760,644</u>	<u>P 386,707</u>
2011:				
Travellers	P 45,595,379	P 26,801,262	P 26,348,582	P 4,838,534
AGPL	6,043,588	8,264	295,614	282,114
NPI	1,325,050	1,315,150	-	-
PTHDC	1,137,403	1,005,277	115	(157)
OPI	614,462	607,854	794	563
FERC	337,533	258,944	4,793	(11,312)
SHDI	334,478	217,111	176,784	6,438
FERSAI	149,518	154,299	8,897	(25,489)
FESI	141,823	40,590	21,235	(4,118)
FENI	102,515	100,908	12,423	(8,535)
GCFII	40,235	4,599	74,718	4,219
	<u>P 55,821,984</u>	<u>P 30,514,258</u>	<u>P 26,943,955</u>	<u>P 5,082,257</u>

13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of property, plant and equipment at the beginning and end of the reporting periods are shown below.

	<u>Land and Land Improvements</u>	<u>Buildings and Leasehold Improvements</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Condominium Units, Fixtures and Other Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2012							
Cost	P 7,676,126	P 22,161,585	P 7,870,986	P 2,010,381	P 4,023,149	P 1,218,336	P 44,960,563
Accumulated depreciation, amortization and impairment	(97,063)	(3,649,629)	(3,296,605)	(787,489)	(2,241,506)	-	(10,072,292)
Net carrying amount	<u>P 7,579,063</u>	<u>P 18,511,956</u>	<u>P 4,574,381</u>	<u>P 1,222,892</u>	<u>P 1,781,643</u>	<u>P 1,218,336</u>	<u>P 34,888,271</u>
December 31, 2011							
Cost	P 975,882	P 5,205,439	P 4,107,451	P 426,268	P 1,228,114	P 59,386	P 12,002,540
Accumulated depreciation, amortization and impairment	(82,351)	(2,247,310)	(2,063,131)	(228,950)	(820,068)	-	(5,441,810)
Net carrying amount	<u>P 893,531</u>	<u>P 2,958,129</u>	<u>P 2,044,320</u>	<u>P 197,318</u>	<u>P 408,046</u>	<u>P 59,386</u>	<u>P 6,560,730</u>
January 1, 2011							
Cost	P 726,872	P 3,931,521	P 3,316,556	P 343,850	P 1,038,563	P 107,264	P 9,464,626
Accumulated depreciation, amortization and impairment	(33,648)	(1,808,820)	(1,643,372)	(139,160)	(711,103)	-	(4,336,103)
Net carrying amount	<u>P 693,224</u>	<u>P 2,122,701</u>	<u>P 1,673,184</u>	<u>P 204,690</u>	<u>P 327,460</u>	<u>P 107,264</u>	<u>P 5,128,523</u>

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

	Land and Land Improvements	Buildings and Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Condominium Units, Fixtures and Other Equipment	Construction in Progress	Total
Balance at January 1, 2012, net of accumulated depreciation, amortization and impairment	P 893,531	P 2,958,129	P 2,044,320	P 197,318	P 408,046	P 59,386	P 6,560,730
Property, plant and equipment of newly acquired subsidiaries	4,504,494	13,167,651	1,128,039	1,173,883	1,255,293	1,567,670	22,797,030
Additions	2,195,929	1,735,095	2,289,597	130,105	838,150	1,197,007	8,385,883
Disposals – net	(150)	(34,113)	(38,494)	(11,649)	(113)	-	(84,519)
Reclassifications – net	(29)	1,580,118	19,862	839	4,937	(1,605,727)	-
Impairment loss	-	(30,593)	-	-	-	-	(30,593)
Depreciation and amortization charges for the year	(14,712)	(864,331)	(868,943)	(267,604)	(724,670)	-	(2,740,260)
Balance at December 31, 2012, net of accumulated depreciation amortization and impairment	<u>P 7,579,063</u>	<u>P 18,511,956</u>	<u>P 4,574,381</u>	<u>P 1,222,892</u>	<u>P 1,781,643</u>	<u>P 1,218,336</u>	<u>P 34,888,271</u>
Balance at January 1, 2011, net of accumulated depreciation, amortization and impairment	P 693,224	P 2,122,701	P 1,673,184	P 204,690	P 327,460	P 107,264	P 5,128,523
Property, plant and equipment of Newly acquired subsidiaries	98,219	384,752	2,471	24,038	97,969	-	607,449
Additions	117,017	553,008	719,491	51,479	91,282	53,837	1,586,114
Reclassifications – net	1,600	187,923	49,932	-	3,913	(101,715)	141,653
Disposals – net	(3,026)	(5,051)	(27,995)	(27,025)	(5,425)	-	(68,522)
Depreciation and amortization charges for the year	(13,503)	(285,204)	(372,763)	(55,864)	(107,153)	-	(834,487)
Balance at December 31, 2011, net of accumulated depreciation amortization and impairment	<u>P 893,531</u>	<u>P 2,958,129</u>	<u>P 2,044,320</u>	<u>P 197,318</u>	<u>P 408,046</u>	<u>P 59,386</u>	<u>P 6,560,730</u>

Construction in progress includes accumulated costs incurred on the casino and hotel sites and entertainment commercial center being constructed as part of Travellers' investment commitment in accordance with its Provisional License Agreement with PAGCOR (see Note 30.3), including capitalized borrowing costs amounting to P282.7 million in 2012, representing the actual borrowing costs, net of related investment income, incurred on loans obtained to fund the construction project [see Note 17(a)].

In 2012, the Group recognized impairment loss of P30.6 million to write down to recoverable amount certain property and equipment. In 2011 and 2010, the Group recognized gain on reversal of impairment losses amounting to P43.9 million and P16.4 million. Impairment loss is presented as Impairment Loss on Property, Plant and Equipment under Other Operating Expenses in the 2012 consolidated statement of comprehensive income (see Note 25), while the gain on reversal of the impairment losses are presented as part of Miscellaneous under Finance and Other Income account in the 2011 and 2010 consolidated statements of comprehensive income (see Note 26).

The recoverable amount was based on value in use computed through the discounted cash flows method at the current prevailing interest rate.

The Group recognized a net gain on disposal of various property, plant and equipment totaling P0.2 million in 2012, which is presented as part of Miscellaneous under Finance and Other Income account in the 2012 consolidated statement of comprehensive income (see Note 26).

The amount of depreciation is allocated as follows (see Notes 24 and 25):

	2012	2011	2010
Cost of goods sold	P 167,703	P 103,467	P 50,270
Cost of services	591,277	47,360	11,549
Other operating expenses	1,981,280	683,660	591,266
	<u>P 2,740,260</u>	<u>P 834,487</u>	<u>P 653,085</u>

The Group's aircraft, held by Travellers, with carrying amounts of P970.1 million as of December 31, 2012 and presented as part of Transportation Equipment is used as a collateral for Travellers' interest-bearing loan [see Note 17 (b)].

The purchase of land and building amounting to P120.0 million, by GADC from a certain local bank, was made through avilment of an interest-bearing loan. The purchased land and building served as collateral to the loan. As of December 31, 2012, the carrying values of the land and building amounted to P112.1 million and P19.2 million, respectively [see Note 17(k)].

The carrying amounts of property, plant and equipment also increased in 2012 due to the consolidation of property, plant and equipment of newly acquired subsidiaries (see Note 12).

14. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land, building and improvements which are held for investment purposes only, either to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of the reporting periods are shown below:

	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Condominium Units</u>	<u>Total</u>
December 31, 2012				
Cost	P 1,942,749	P 10,338,981	P 9,694,516	P 21,976,246
Accumulated depreciation	(132,481)	(2,020,519)	(1,071,910)	(3,224,910)
Net carrying amount	<u>P 1,810,268</u>	<u>P 8,318,462</u>	<u>P 8,622,606</u>	<u>P 18,751,336</u>
December 31, 2011				
Cost	P 1,895,937	P 8,619,932	P 4,977,715	P 15,493,584
Accumulated depreciation	(130,551)	(1,541,524)	(787,738)	(2,459,813)
Net carrying amount	<u>P 1,765,386</u>	<u>P 7,078,408</u>	<u>P 4,189,977</u>	<u>P 13,033,771</u>
January 1, 2011				
Cost	P 1,556,549	P 6,115,342	P 3,958,470	P 11,630,361
Accumulated depreciation	-	(1,050,190)	(603,193)	(1,653,383)
Net carrying amount	<u>P 1,556,549</u>	<u>P 5,065,152</u>	<u>P 3,355,277</u>	<u>P 9,976,978</u>

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

	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Condominium Units</u>	<u>Total</u>
Balance at January 1, 2012, net of accumulated depreciation	P 1,765,386	P 7,078,408	P 4,189,977	P 13,033,771
Investment property of newly acquired subsidiaries	-	1,446,112	-	1,446,112
Additions	95,068	201,613	4,716,801	5,013,482
Disposals	-	(10,138)	-	(10,138)
Reclassifications – net	(48,257)	-	-	(48,257)
Depreciation charges for the year	(1,929)	(397,533)	(284,172)	(683,634)
Balance at December 31, 2012, net of accumulated depreciation	<u>P 1,810,268</u>	<u>P 8,318,462</u>	<u>P 8,622,606</u>	<u>P 18,751,336</u>
Balance at January 1, 2011, net of accumulated depreciation	P 1,556,549	P 5,065,152	P 3,355,277	P 9,976,978
Investment property of newly acquired subsidiaries	166,578	337,766	-	504,344
Additions	91,939	1,960,089	1,042,664	3,094,692
Disposals	(3,200)	(5,205)	(19,012)	(27,417)
Reclassifications – net	(44,547)	-	-	(44,547)
Depreciation charges for the year	(1,933)	(279,394)	(188,952)	(470,279)
Balance at December 31, 2011, net of accumulated depreciation	<u>P 1,765,386</u>	<u>P 7,078,408</u>	<u>P 4,189,977</u>	<u>P 13,033,771</u>

Rental income earned from the investment property amounted to P5.4 billion, P3.9 billion and P2.9 billion for the years ended December 31, 2012, 2011 and 2010, respectively, and shown as Rental Income under Rendering of Services in the consolidated statements of comprehensive income (see Note 23). The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property amounted to P186.4 million, P150.4 million and P103.4 million in 2012, 2011 and 2010, respectively, are presented as part of Cost of Goods Sold and Services in the consolidated statements of comprehensive income (see Note 24). The operating lease commitments of the Group as a lessor are fully disclosed in Note 30.1.

Depreciation charges are presented as part of Depreciation and Amortization under Cost of Services account in the consolidated statements of comprehensive income.

A Portion of investment property held for lease is used as collateral for various interest-bearing loans as of December 31, 2012 and 2011 [see Note 17(g),(j) and (o)].

The fair values of these properties amounted to P88.0 billion and P74.5 billion as of December 31, 2012 and December 31, 2011, respectively. These are estimated either by reference to current prices for similar properties or by calculation of the present value of the estimated cash inflows anticipated until the end of the life of the investment property.

15. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of the reporting periods are shown below (see Note 2.11).

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Leasehold Rights</u>	<u>Computer Software</u>	<u>Total</u>
December 31, 2012					
Cost	P 10,700,040	P 1,012,573	P 61,470	P 23,247	P 11,797,330
Accumulated amortization	-	(597,334)	(37,636)	(20,664)	(655,634)
Net carrying amount	<u>P 10,700,040</u>	<u>P 415,239</u>	<u>P 23,834</u>	<u>P 2,583</u>	<u>P 11,141,696</u>
December 31, 2011					
Cost	P 10,701,998	P 1,012,573	P 63,610	P 23,247	P 11,801,428
Accumulated amortization	-	(496,077)	(35,287)	(12,915)	(544,279)
Net carrying amount	<u>P 10,701,998</u>	<u>P 516,496</u>	<u>P 28,323</u>	<u>P 10,332</u>	<u>P 11,257,149</u>
January 1, 2011					
Cost	P 10,621,713	P 1,012,573	P 63,610	P 23,247	P 11,721,143
Accumulated amortization	-	(394,820)	(30,670)	(5,166)	(430,656)
Net carrying amount	<u>P 10,621,713</u>	<u>P 617,753</u>	<u>P 32,940</u>	<u>P 18,081</u>	<u>P 11,290,487</u>

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

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Leasehold Rights</u>	<u>Computer Software</u>	<u>Total</u>
Balance at January 1, 2012, net of accumulated amortization	P 10,701,998	P 516,496	P 28,323	P 10,332	P 11,257,149
Reduction due to deconsolidation	(1,958)	-	-	-	(1,958)
Disposals	-	-	(102)	-	(102)
Amortization for the year	-	(101,257)	(4,387)	(7,749)	(113,393)
Balance at December 31, 2012, net of accumulated amortization	<u>P 10,700,040</u>	<u>P 415,239</u>	<u>P 23,834</u>	<u>P 2,583</u>	<u>P 11,141,696</u>
Balance at January 1, 2011, net of accumulated amortization	P 10,621,713	P 617,753	P 32,940	P 18,081	P 11,290,487
Addition due to consolidation	80,285	-	-	-	80,285
Amortization for the year	-	(101,257)	(4,617)	(7,749)	(113,623)
Balance at December 31, 2011, net of accumulated amortization	<u>P 10,701,998</u>	<u>P 516,496</u>	<u>P 28,323</u>	<u>P 10,332</u>	<u>P 11,257,149</u>

Trademarks include brand names "Emperador Brandy", "Generoso Brandy" and "The Bar" which were acquired up to 2008. The amortization of these trademarks amounted to P101.3 million for each of the three years ended December 31, 2012 and are shown as part of Depreciation and Amortization under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

The remaining useful lives, as of December 31, of the trademarks are as follows:

	<u>2012</u>	<u>2011</u>
Emperador brandy	4 years	5 years
Generoso brandy	4 years	5 years
The Bar	5.5 years	6.5 years

Based on the Group's assessment, no impairment loss is required to be recognized on the carrying value of the Group's trademarks as the products that carry such brands are fast moving consumer products that registered topline sales in 2012 for the Group of approximately P22.0 billion, a 34% growth from the previous year. Further, no impairment loss is required to be recognized on the carrying value of the other intangible assets (goodwill, leasehold rights and computer software) as of December 31, 2012, 2011 and 2010.

As of December 31, 2012, the Group has no contractual commitments for the acquisition of any additional trademarks, leasehold rights and computer software.

16. TRADE AND OTHER PAYABLES

The breakdown of this account follows:

	Notes	2012	2011
Trade payables	29.4, 29.1	P 13,387,859	P 11,562,673
Accrued expenses	18, 29.2, 29.9	3,539,928	2,261,956
Retention payable		2,316,658	1,349,445
Due to related parties	25, 29.7	887,770	697,049
Liabilities for land acquisition		575,301	375,326
Gaming license fee payable		492,995	-
Unredeemed gaming points		390,747	-
Output VAT payable		89,880	4,382
Others		1,458,657	842,477
		<u>P 23,139,795</u>	<u>P 17,093,308</u>

Trade payables represent obligations to subcontractors and suppliers of construction materials for the Group's projects and suppliers of inventories. It also includes unredeemed gaming chips determined as the difference between total gaming chips placed in service and the actual inventory of gaming chips under control and custody.

The unredeemed gaming points liability represents the estimated costs of unredeemed casino gaming points issued, which are redeemable for complimentary goods or services of the Group (see Note 2.15).

Accrued expenses include accruals for interest, salaries and wages, utilities, local and overseas travel, training and recruitment, advertising, interest, rentals and other operating expenses of the Group.

Retention payable pertains to amount withheld from payments made to contractors for construction works performed to ensure compliance and completion of contracted projects. Upon completion of the contracted projects, the retained amounts are returned to the contractors.

Liabilities for land acquisition represent the unpaid portion of land for future development acquired by the Group.

17. INTEREST-BEARING LOANS

The composition of the Group's outstanding bank loans is shown below.

	2012	2011
Current:		
Local	P 4,111,301	P 1,847,171
Foreign	529,655	1,059,702
	<u>4,640,956</u>	<u>2,906,873</u>
Non-current:		
Local	12,825,378	5,434,440
Foreign	624,415	526,080
	<u>13,449,793</u>	<u>5,960,520</u>
	<u>P 18,090,749</u>	<u>P 8,867,393</u>

The summarized terms and conditions of each availed loan as of December 31, 2012 and 2011 are as follows:

Outstanding Principal Balance (in Million Pesos)		Explanatory Notes	Interest Rate	Security	Maturity date
2012	2011				
P 4,392.7	P -	(a)	Variable at 2% + benchmark	Unsecured	2016
263.6	-	(b)	Variable at a minimum of 3.0%	Secured	2014
2,619	3,570.0	(c)	Variable based on PDSTF-R plus spread	Unsecured	2016
1,351.0	1,370.0	(d)	Fixed at 9.0%	Unsecured	2016
482.5	487.5	(e)	Variable based on PDSTF-R plus spread	Unsecured	2016
418.7	650.7	(f)	Variable based on 91-day treasury bills	Secured	2013
389.9	639.2	(g)	Fixed at range of 7.8% to 10.5%	Secured and unsecured	2014
330.0	400.0	(h)	Fixed at 5.5%	Unsecured	2016
907.1	-	(i)	Variable prevailing market rate	Secured	Upon collection of related assigned trade receivables
25.4	47.0	(j)	Fixed at 8%	Secured	2014
120.0	120.0	(k)	Fixed at 7%	Secured	2021
0.4	0.8	(l)	Fixed at 15%	Unsecured	2014
400.0	-	(m)	Fixed at 5.15%	Unsecured	2019
492.6	526.1	(n)	Fixed at 10.0%	Unsecured	2025
-	54.0	(o)	Variable at LIBOR plus spread	Secured	2014
397.8	1,005.8	(p)	Fixed at 0.85%	Unsecured	28 days
3,000.0	-	(q)	Variable based on PDST-F plus spread	Secured	2017
2,500.0	-	(r)	Fixed at 5.8%	Unsecured	30-180 days
P 18,091.0	P 8,867				

- (a) The loan was drawn by Travellers in 2012 from an P11.0 billion loan facility with a local bank, to settle Traveller's secured loans from the same bank.
- (b) This is the amount outstanding from a US\$9.6 million loan obtained by APEC from a universal bank to repay its liability to Travellers in relation to its acquisition of an aircraft. The aircraft serves as part of the security over the loan and is presented as part of Transportation equipment under Property, Plant and Equipment account in the 2012 consolidated statement of financial position (see Note 13).
- (c) This is the unpaid balance from a P5.0 billion loan availed by Megaworld from a local bank in 2008 and 2009 to fund the development of its various real estate projects. The loan is payable in seven years with a grace period of two years, divided into 21 consecutive equal quarterly payments.
- (d) This is the amount outstanding from the seven-year corporate notes issued by Megaworld to several financial institutions in February 2009; principal amortization and interest are payable semi-annually.
- (e) This is the amount outstanding from a seven-year loan obtained by Megaworld from a local bank in May 2009; interest is payable semi-annually.
- (f) These are the outstanding portions of ten-year loans obtained by Megaworld from a local bank in 2003, 2005 and 2006, with a three-year grace period on principal payments, payable quarterly thereafter. The loans are collateralized by certain investment property of Megaworld with carrying value of P43.5 million and P46.7 million as of December 31, 2012 and 2011, respective (see Note 14).

- (g) The balance includes local bank loans arising from trade receivable discounted on a with-recourse basis amounting to P332.7 million (see Note 6) and balance of a P400.0 million seven-year loan obtained by EELHI in 2006. Certain investment property with carrying value of P861.1 million and P1.6 billion as of December 31, 2012 and 2011, respectively, are used as collateral for these bank loans (see Note 14).
- (h) Short-term loans availed by SPI from a local bank for working capital requirements. The balance outstanding will mature in 2016 (see Note 6).
- (i) Loan balance of SPI arising from discounting its trade receivables on a with-recourse basis with local banks.
- (j) Balance from loan obtained by GADC in January 2011 from Goldpath Properties Development Corporation relating to the acquisition of parcels of land amounting to P87.1 million from the latter. Amortization of principal plus interest is payable monthly.
- (k) Loan granted to GADC in December 2011 by Planters Development Bank for the purchase of land and building amounting to P130.0 million from the latter. Initial cash payment amounted to P10.0 million and the remaining balance is payable monthly, commencing on the third year of the term of the loan. The purchased land and building with respective carrying values of P112.1 million and P19.2 million as of December 31, 2012 served as collateral to the loan (see Note 13).
- (l) Loan balance arising from the purchase of property and equipment by AFCMI from a local financial institution, payable on monthly installments.
- (m) Loan drawn by GADC in December 2012 from a P1.0 billion credit facility approved by a local bank in December 2012. The seven-year loan, with grace period of two years, is payable in 20 equal quarterly installments.
- (n) This is a US\$12.0 million loan from a related party (see Note 29.2).
- (o) The balance of this long-term loan facility, obtained by ECOC in 2002 with original amount of U.S.\$25.0 million from a foreign financial institution, was fully settled in January 2012 and the related mortgage over ECOC's certain investment property amounting to P553.1 million (see Note 14) was released. The proceeds of this loan were used in the construction of several information technology buildings at the Eastwood CyberPark which are operated by ECOC.
- (p) Short-term loan granted by a foreign bank to fund acquisition of financial assets from the same foreign bank as fund manager of a foreign subsidiary.
- (q) Bank loans obtained by AGI and NTLPI to fund the acquisition of Megaworld shares through exercise of their Megaworld warrants. The loan is secured by 2.1 million Megaworld shares owned by NTLPI.
- (r) Short-term loans acquired by Travellers from various financial institutions for working capital purposes.

As of December 31, 2012, the Group complied with related loan covenants, including maintaining certain financial ratios, at the reporting dates.

Total interest expense attributable to these loans amounted to P506.9 million, P320.8 million and P770.0 million for the years ended December 31, 2012, 2011 and 2010, respectively, and are presented as part of Finance Cost and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2012, 2011 and 2010 amounted to P465.8 million, P355.6 million and P384.1 million, respectively (see Note 13).

18. BONDS PAYABLE

This account consists of bonds payable of the Company's subsidiaries as follows:

	<u>2012</u>	<u>2011</u>
AG Cayman	P 20,335,112	P 21,617,429
Travellers	12,098,889	-
Megaworld	13,556,628	13,538,914
	<u>P 45,990,629</u>	<u>P 35,156,343</u>

The significant terms of the bonds are discussed below.

<u>Face Amount</u>	<u>Outstanding Principal Balance</u>		<u>Explanatory Notes</u>	<u>Interest Rate</u>	<u>Nature</u>	<u>Term</u>
	<u>2012</u>	<u>2011</u>				
\$500.0 million	P 20.3 billion	P 21.6 billion	(a)	Fixed at 6.50%	Unsecured	2017
\$ 300.0 million	12.1 billion	-	(b)	Fixed at 6.90%	Unsecured	2017
P 5.0 billion	5.0 billion	5.0 billion	(c)	Fixed at 8.46%	Unsecured	2015
\$200.0 million	8.6 billion	8.5 billion	(d)	Fixed at 6.75%	Unsecured	2018
	<u>P 46.0 billion</u>	<u>P 35.1 billion</u>				

- (a) On August 18, 2010, AG Cayman issued seven-year bonds with interest payable semi-annually in arrears on February 18 and August 18 of every year. The bonds are listed in the Singapore Exchange Securities Trading Limited. The net proceeds of the bonds are used to finance capital and project expenditures, refinance certain existing indebtedness of certain subsidiaries, and for general corporate purposes.

Subject to certain exceptions, the bonds may be redeemed by AG Cayman at their principal amount plus any accrued and unpaid interest. The bonds are unconditionally and irrevocably guaranteed by AGI which, together with certain subsidiaries, is required to comply with certain covenants.

- (b) On November 3, 2010, Travellers issued seven-year bonds with interest payable semi-annually in arrears every May 3 and November 3 of each year. The bonds are listed in the Singapore Exchange Securities Trading Limited. The net proceeds of the bonds are intended to finance capital and project expenditures, to refinance certain existing indebtedness, and for general corporate purposes of Travellers.

Subject to certain exceptions, Travellers may, at its option, redeem the bonds:

(i) in full at a price of 100.0% of the principal if certain changes in laws, treaties, regulations or rulings affecting taxes would require Travellers to pay certain additional amount; and, (ii) at any time prior to November 3, 2014, up to 35.0% of the principal amount at a price of 106.9% of the principal amount with the net cash proceeds of an equity offering. Also, Travellers is required to make an offer to purchase the bonds at a price of 101.0% of the principal amount following a change in control (e.g., a sale or other disposition of all or substantially all of the properties or assets of Travellers to any person or entity).

- (c) On November 18, 2009, Megaworld issued bonds with a term of five years and six months. The proceeds received were intended to finance Megaworld's capital expenditures related to real estate development projects for the years 2009 up to 2013.
- (d) On April 15, 2011, Megaworld issued seven-year term bonds with interest payable semi-annually in arrears every April 15 and October 15 each year. The proceeds received from this bond are also being used by Megaworld to finance its capital expenditures for its real estate projects.

Interest expense on the bonds payable, including amortization of capitalized transaction costs, amounted to P3.0 billion in 2012 and P2.0 billion in 2011 and these amounts are presented as part of Interest expense under Finance and Other Charges in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for both 2012 and 2011 amounted to P423 million. The amounts of outstanding interest payable as at December 31, 2012 and 2011 amounting to P644.1 million and P686.5 million, respectively, are presented as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

19. REDEEMABLE PREFERRED SHARES

The Group's redeemable preferred shares pertain to preferred shares issued by subsidiaries as follows:

19.1 GADC's Redeemable Preferred Shares

The shares were issued in March 2005 to McDonald's Restaurant Operations, Inc. (MRO), a company incorporated in the U.S.A. and is a subsidiary of McDonald's. These preferred shares with par value per share of P61,066 each have the following features (in exact amounts):

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

Additional features of the preferred shares are as follows:

- (a) Redeemable at the option of the holder after the beginning of the 19th year from the date of issuance for a total redemption price equivalent to the peso value on the date that the shares were issued;
- (b) Has preference as to dividend declared by the BOD, but in no event shall the dividend exceed P1 per share; and,
- (c) Further, the holder of preferred shares is entitled to be paid a certain amount of peso equivalent for each class of preferred shares, together with any unpaid dividends, in the event of liquidation, dissolution, receivership, bankruptcy or winding up of GADC.

The redeemable preferred shares are recognized at fair values on the date of issuance which were determined as the sum of all future cash payments, discounted using the prevailing market rates of interest as of the transaction date for similar instruments with similar maturities (18 years). Based on the terms of subscription and in accordance with PAS 39, the difference between the fair values of the redeemable preferred shares on the date of issuance and the subscription amounts were recognized as APIC.

The accretion of the GADC redeemable preferred shares in 2012, 2011 and 2010 amounted to P52.4 million, P45.8 million and P40.9 million, respectively, and is presented as part of Interest Expense under Finance Cost and Other Charges account in the consolidated statements of comprehensive income (see Note 26). As of December 31, 2012 and 2011, the carrying value of the GADC redeemable preferred shares amounted to P470.1 million and P417.7 million, respectively, shown as part of Redeemable Preferred Shares account in the consolidated statements of financial position.

19.2 TLC's Redeemable Preferred Shares

These were issued by TLC in September 2012 consisting of 1,258.0 million shares which are nonvoting, earns dividend at a fixed annual rate of 2.5% and subject to the existence of TLC's unrestricted retained earnings.

The preferred shares have a maturity of 10 years and shall be redeemed every anniversary date beginning on the sixth anniversary date until expiration of the 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.

20. OTHER LIABILITIES

The breakdown of this account is as follows:

	Note	2012	2011
Current:			
Reserve for property development		P 6,281,718	P 5,331,263
Customers' deposits		4,748,506	4,243,036
Deferred income on real estate sales		4,431,528	3,967,374
Unearned income		1,463,820	1,513,745
Deferred rental income		246,308	27,698
Derivative liability		-	413,420
Others		24,219	237,055
		17,196,099	15,733,591
Non-current:			
Reserve for property development		4,768,078	4,337,575
Deferred income on real estate sales		2,864,336	2,160,283
Deferred rental income		2,058,308	1,943,654
Customers' deposit		1,741,952	456,004
Derivative liability		1,246,124	-
Security deposits – net		113,395	87,685
Accrued rent		77,613	100,682
Asset retirement obligation		30,570	24,358
Payable to MRO under stock option plan	27.3	82	3,164
Others		791,502	1,219,184
		13,691,960	10,332,589
		P 30,888,059	P 26,066,180

Other payables mainly comprised of commission payable to the Group's real estate agents and SPI's liability on assigned receivables.

The current derivative liability represents the reduction in fair market value as of December 31, 2011 of currency forward options contract entered into with a certain foreign bank. On the other hand, the non-current derivative liability consists of the fair market value of the interest rate swap entered into by Travellers with a certain foreign bank at a notional amount of \$250.0 million. Changes in the fair values of these current derivatives financial liabilities are presented as part of Fair Value Losses while those for non-current financial liability are presented under Unrealized Loss on Interest Rate Swap under Finance Cost Other Charges account in the consolidated statements of comprehensive income (see Note 26).

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2012	2011	2010	2012	2011	2010
Common shares – P1 par value						
Authorized	12,950,000,000	12,950,000,000	12,950,000,000	P 12,950,000	P 12,950,000	P 12,950,000
Issued and outstanding:	10,269,827,979	10,269,827,979	10,269,827,979	P 10,269,828	P 10,269,828	P 10,269,828
Treasury stock – at cost	(160,317,400)	(163,317,400)	(976,768,100)	(984,512)	(1,018,752)	(3,194,861)
Total outstanding	10,109,510,579	10,106,510,579	9,293,059,879	P 9,285,316	P 9,251,076	P 7,074,967

On March 12, 1999, the SEC approved the initial public offering of the Company's 336.1 million shares (248.1 million then outstanding and 88.0 million new issues) at P1.27 per share. The shares were initially listed in the PSE on April 19, 1999.

A 10% stock dividend was approved by the SEC and listed in September 1999. Three private placements ensued up to January 2011, of which 1.5 billion shares were listed in 2006. Then, a 10% rights offering of 200.47 million shares and 1:1 stock rights of 2.2 billion shares were approved and listed in 2005 and 2007, respectively. In 2007, there were also a share-swap transaction and a follow-on international offering wherein 4.1 billion and 1.8 billion shares, respectively, were issued and listed.

As of December 31, 2012, the quoted closing price per share was P16.76, and there are 1,207 holders, which include nominees, of the Company's total issued and outstanding shares. The percentage of the Company's shares of stock owned by the public is 40.14%.

21.2 Additional Paid-in Capital

APIC consists mainly of P21.9 billion from the stock rights offering, share swap transaction and international offering in 2007. In 2011, the Group reissued treasury shares, resulting to an increase in APIC by P6.3 billion.

21.3 Dilution Gain

The movement in dilution gain is a direct result of dilution in the Company's ownership interest in certain subsidiaries when such subsidiaries offer pre-emptive stock rights, underwent international stock offering, and acquire additional shares, in years prior to 2011.

21.4 Dividends

On June 5, 2012 and August 5, 2011, the BOD approved the declaration of cash dividends of P0.36 per share for both years, while in June 28, 2010, same is approved for P0.06 per share. Total dividends of P3,697.1 million for both 2012 and 2011 were payable to stockholders of record as of June 26, 2012 and August 22, 2011, respectively, and P583.2 million was payable to stockholders of record as of July 15, 2010. The dividends were paid in full on July 20, 2012, September 19, 2011 and August 10, 2010, respectively. The amounts presented in the consolidated statements of changes in equity is net of dividends paid to subsidiaries.

21.5 Share Options

On July 27, 2011, the Company's BOD approved an ESOP for the Company's key executive officers, and on September 20, 2011, the stockholders adopted it. Under the ESOP, the Company shall initially reserve for exercise of stock options up to 300.0 million common shares, or 3% of the outstanding capital stock, which may be issued out of the authorized but unissued shares. Stock options may be granted within 10 years from the adoption of the ESOP and continue to be exercisable in accordance with terms of issue.

The options shall vest within three years from date of grant (offer date) and the holder may exercise only a third of the option at the end of each year of the three-year vesting period. The vested option may be exercised within seven years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for nine months immediately preceding the date of grant.

Pursuant to this ESOP, on December 19, 2011, the Company granted stock options to certain key executives to subscribe to 46.5 million common shares of the Company, at an exercise price of P9.175.

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	7 years
Share price at grant date	P 10.28
Exercise price at grant date	P 9.175
Average fair value at grant date	P 2.70
Average standard deviation of share price returns	37.75%
Average dividend yield	1.70%
Average risk-free investment rate	2.87%

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.

A total of P105.8 million and P1.9 million share-based executive compensation is recognized and presented as part of Salaries and Employee Benefits under Other Operating Expenses account in the 2012 and 2011 consolidated statements of comprehensive income respectively (see Note 25) with a corresponding credit to Share Options account.

21.6 Appropriated Retained Earnings

In December 2012, the BOD of GADC appropriated P1.4 billion for future expansion up to 2014. The BOD of AWGI reversed in full the balance of its appropriation amounting to P300.0 million, since the planned capital expenditure was already completed in 2012.

22. EARNINGS PER SHARE

Earnings per share is computed (full amounts are used and not truncated) as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Basic:			
Net profit attributable to owners of the parent company	P 13,904,149,802	P 11,608,209,438	P 6,908,586,791
Divided by the weighted average number of outstanding common shares	<u>10,109,214,787</u>	<u>9,857,383,542</u>	<u>9,719,727,979</u>
	<u>P 1.3754</u>	<u>P 1.1776</u>	<u>P 0.7108</u>
Diluted:			
Net profit attributable to owners of the parent company	P 13,904,149,802	P 11,608,209,438	P 6,908,586,791
Divided by the weighted average number of outstanding common shares	<u>10,115,754,423</u>	<u>9,859,676,692</u>	<u>9,719,727,979</u>
	<u>P 1.3745</u>	<u>P 1.1773</u>	<u>P 0.7108</u>

There were no dilutive potential common shares as of December 31, 2010; hence, the EPS was the same as the diluted EPS for the year then ended. As of December 31, 2012 and 2011, there are 20.8 million and 5.24 million potentially dilutive shares, respectively, from the Company's ESOP (see Note 21.6). However, such number of dilutive shares has no significant effect on the weighted average number of outstanding common shares and, consequently, has little effect on the 2012 and 2011 diluted EPS.

23. REVENUES

The breakdown of revenues is presented below.

	<u>Notes</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Sale of Goods:				
Real estate (RE) sales		P 16,757,140	P 16,360,036	P 13,110,567
Realized gross profit RE sales		2,295,102	1,999,416	1,355,982
Interest income on RE sales	6	<u>1,327,542</u>	<u>1,218,789</u>	<u>933,424</u>
Revenues from RE sales		20,379,784	19,578,241	15,399,973
Sales of consumer goods		<u>23,702,847</u>	<u>18,135,255</u>	<u>8,765,973</u>
		<u>P 44,082,631</u>	<u>P 37,713,496</u>	<u>P 24,165,946</u>
Rendering of Services:				
Gaming		P 28,058,258	P -	P -
Sales by company operated				
quick-service restaurants		12,622,396	10,760,597	9,887,057
Rental income	14, 29.3	5,350,764	3,862,808	2,864,773
Hotel operations		3,355,505	392,171	232,757
Franchise revenues		1,033,430	846,757	660,338
Others		<u>592,350</u>	<u>74,647</u>	<u>5,645</u>
		<u>P 51,012,703</u>	<u>P 15,936,980</u>	<u>P 13,650,570</u>

Individual sublicense arrangements granted to franchisees and joint venturers generally include a lease and a license to use the McDonald's system in the Philippines and, in certain cases, the use of restaurant facility, generally for a period of 3 to 20 years provided, however, that should GADC's license rights from McDonald's be terminated at an earlier date or not renewed for any reason whatsoever, these sublicense agreements shall thereupon also be terminated.

24. COST OF GOODS SOLD AND SERVICES

The components of cost of goods sold and services are as follows:

	Notes	2012	2011	2010
Cost of Goods Sold:				
Cost of consumer goods sold:				
Direct materials used		P 12,509,498	P 11,172,299	P 4,019,477
Change in work in process and finished goods	8	1,850,912	1,586,754	1,142,897
Indirect materials and other consumables		187,538	163,221	132,637
Depreciation and amortization	13, 15	179,839	115,833	85,252
Salaries and employee benefits	27.1	143,858	47,271	65,115
Supplies		68,644	48,772	31,984
Repairs and maintenance		61,571	41,146	28,991
Utilities		61,515	55,951	51,516
Outside services		48,386	39,665	7,767
Taxes and licenses		15,922	2,457	1,456
Other direct and overhead costs		71,302	38,565	60,487
		15,198,985	13,311,934	5,627,579
Cost of RE sales		9,654,881	10,315,107	8,606,699
Deferred gross profit on RE sales		3,472,095	3,091,703	2,431,380
		P 28,325,961	P 26,718,744	P 16,665,658
Cost of Services:				
Food, supplies and other consumables		P 6,249,178	P 4,262,499	P 3,852,135
Gaming license fees		6,185,726	-	-
Salaries and employee benefits	27.1	3,159,650	1,320,211	1,125,849
Rental		2,369,692	1,985,758	1,971,995
Promotional allowance		1,687,446	-	-
Depreciation and amortization	13, 14, 15	1,274,911	517,638	487,598
Outside services		279,367	270,161	224,645
Entertainment, amusement and recreation		279,288	-	-
Hotel operations		277,659	223,732	124,464
Other direct and overhead costs		1,367,255	667,342	570,642
		P 23,130,172	P 9,247,341	P 8,357,328

25. OTHER OPERATING EXPENSES

The details of operating expenses are shown below.

	Notes	2012	2011	2010
Advertising and promotions		P 8,331,842	P 1,581,033	P 1,030,346
Salaries and employee benefits	21.6, 27.1	2,881,313	1,496,302	1,163,035
Depreciation and amortization	13, 15	2,082,537	784,918	635,526
Utilities		1,131,604	339,379	181,696
Commissions		962,851	934,994	480,121
Freight and handling		784,234	460,233	231,858
Management fees	29.9	685,418	-	-
Royalty		646,450	559,245	500,675
Taxes and licenses		578,275	319,299	157,909
Rental		495,014	261,269	156,496
Professional fees and outside services		471,549	234,303	107,151
Transportation and travel		421,475	259,747	213,916
Repairs and maintenance		244,182	42,083	29,727
Representation and entertainment		171,864	96,993	45,485
Communication and office expenses		41,763	48,124	29,096
Impairment of receivables	6	36,627	23,247	9,135
Impairment of property, plant and equipment	13	30,593	-	-
Write-down of inventories	8	28,008	24,432	2,378
Insurance		7,073	6,631	3,922
Others		1,902,437	767,837	284,011
		P 21,935,109	P 8,240,069	P 5,262,483

These other operating expenses are classified by function as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General and administrative expenses	P 10,354,114	P 4,652,978	P 3,044,267
Selling and marketing expenses	11,580,995	3,587,091	2,218,216
	<u>P 21,935,109</u>	<u>P 8,240,069</u>	<u>P 5,262,483</u>

GADC was granted by McDonald's the nonexclusive right to adopt and use the McDonald's System in its restaurant operations in the Philippines. The license agreement, as renewed in March 2005 for another 20 years, provides for a royalty fee, presented as Royalty, based on a certain percentage of net sales from the operations of all GADC's restaurants, including those operated by the franchisees. The balance of royalty fees and other advances payable to McDonald's as of December 31, 2012 and 2011 amounted to P112.1 million and P93.4 million, respectively, and is shown as part of Due to Related Parties under Trade and Other Payables account in the consolidated statements of financial position (see Notes 16 and 29.5).

26. OTHER INCOME AND CHARGES

Other income and charges provide details of Finance and Other Income account and Finance Cost and Other Charges account as presented in the statement of comprehensive income.

	Notes	<u>2012</u>	<u>2011</u>	<u>2010</u>
Finance income:				
Interest income on cash and cash equivalents and others	5, 7	P 3,918,826	P 3,892,786	P 2,093,764
Other income:				
Fair value gains – net	7	1,433,952	-	-
Foreign currency gains – net		711,154	1,569,197	1,672,680
Gain on sale of investment in AFS financial assets		272,103	295,738	629,194
Construction income		130,163	138,492	101,962
Commission income		112,417	73,432	352
Gain on refunds		30,645	-	-
Dividend income		10,516	6,334	60,674
Income from acquisition of a subsidiary		-	3,131,994	-
Miscellaneous	6, 8, 13	884,159	798,556	386,061
		<u>P 7,503,935</u>	<u>P 9,906,529</u>	<u>P 4,944,687</u>
Finance cost:				
Interest expense	17, 18			
	19, 28	P 3,709,981	P 2,632,864	P 1,341,679
Other charges:				
Unrealized loss on interest rate swap	20	368,646	-	-
Loss on write-off of property development costs		61,518	-	-
Fair value losses – net	7, 20	-	1,143,963	745,023
Miscellaneous		66,275	-	41,597
		<u>P 4,206,420</u>	<u>P 3,776,827</u>	<u>P 2,128,299</u>

27. SALARIES AND EMPLOYEE BENEFITS

27.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	Notes	<u>2012</u>	<u>2011</u>	<u>2010</u>
Short-term employee benefits		P 5,827,670	P 2,723,550	P 2,317,333
Post-employment defined benefit	27.2	251,388	138,082	32,451
Stock option benefit expense	27.3	105,763	2,152	4,215
		<u>P 6,184,821</u>	<u>P 2,863,784</u>	<u>P 2,353,999</u>

These are classified in the consolidated statements of comprehensive income as follows:

	Notes	2012	2011	2010
Cost of goods sold	24	P 143,858	P 47,271	P 65,115
Cost of services	24	3,159,650	1,320,211	1,125,849
Other operating expenses	25	2,881,313	1,496,302	1,163,035
		<u>P 6,184,821</u>	<u>P 2,863,784</u>	<u>P 2,353,999</u>

27.2 Post-employment Defined Benefit

Except for Megaworld, GERI, and GADC, the Company and all other subsidiaries have no established corporate retirement plans. Travellers, EDI, AWGI and TEI computes its retirement obligation based on the provisions of Republic Act (R.A) No. 7641, *The Retirement Law*. The amounts of retirement benefit expense and obligation were actuarially determined using the projected unit credit method for those with corporate retirement plans and those retirement plans following R.A. 7641. Whereas, the Company and the other subsidiaries within the Group have not accrued any retirement benefit obligation as each entity has less than 10 employees, except for Travellers, EDI, AWGI, and TEI. The Group's management believes that the nonaccrual of the estimated retirement benefits will not have any material effect on the Group's consolidated financial statements.

Megaworld maintains a funded, tax-qualified, noncontributory retirement plan that is being administered by a trustee bank covering all regular and full-time employees. GERI has an unfunded, noncontributory defined benefit plan covering all regular employees. GERI's plan provides for a lump-sum benefit equal to 85% to 150% of the employees monthly salary for every year of qualified duration of service. GADC has a funded, defined contribution retirement plan covering all regular and full-time employees, which allows voluntary employee contribution. Actuarial valuations for Megaworld, GERI and GADC are made annually to update the retirement benefit costs and the amount of accruals.

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

	2012	2011
Present value of the obligation	P 1,562,455	P 1,178,851
Fair value of plan assets	(348,356)	(283,320)
Deficiency of plan assets	1,214,099	895,531
Unrecognized actuarial loss	(349,990)	(300,531)
Unrecognized past service cost	(14,972)	(3,657)
	<u>P 849,137</u>	<u>P 591,343</u>

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

	2012	2011
Balance at beginning of year	P 1,178,851	P 569,197
Current service and interest costs	262,526	150,353
Additions due to consolidation of new subsidiaries	79,062	116,065
Actuarial loss	54,247	355,557
Benefits paid by the plan	(12,231)	(12,321)
Balance at end of year	<u>P 1,562,455</u>	<u>P 1,178,851</u>

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

	2012	2011
Balance at beginning of year	P 283,320	P 217,035
Contributions paid into the plan	42,000	48,428
Expected return on plan assets	20,827	16,423
Actuarial gain	13,604	9,601
Additions due to consolidation of new subsidiaries	-	3,105
Benefits paid by the plan	(11,395)	(11,272)
Balance at end of year	<u>P 348,356</u>	<u>P 283,320</u>

The Group expects to contribute in 2013, P12.0 million and P40.0 million to the retirement plan maintained for Megaworld and GADC, respectively. GERI has yet to decide the amount of future contributions to its existing unfunded retirement plan.

The plan assets of Megaworld (pertaining only to cash and equivalents amounted to P89.8 million) and GADC consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	P 94,729	P 92,425
Loans and receivables	853	6,011
Investments in:		
Unit investment trust fund	209,452	106,631
Other securities and debt instruments	26,443	55,679
Long-term equity investments	16,879	22,574
	<u>P 348,356</u>	<u>P 283,320</u>

Actual returns on GADC plan assets amounts to P31.5 million and P16.8 million in 2012 and 2011, respectively.

The amounts of retirement benefits expense recognized as part of salaries and employee benefits (see Note 27.1) in the consolidated statements of comprehensive income are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current service cost	P 181,239	P 91,964	P 28,599
Interest cost	81,287	58,389	27,922
Expected return on plan assets	(20,827)	(16,423)	(9,609)
Net actuarial losses (gains) recognized during the year	9,489	(6,895)	(14,461)
Past service cost	200	199	-
Effects of settlement/curtailment	-	10,848	-
	<u>P 251,388</u>	<u>P 138,082</u>	<u>P 32,451</u>

The amounts of retirement benefit expense are allocated as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cost of goods sold and services	P 71,286	P 38,166	P 8,753
Other operating expenses	180,102	99,916	23,698
	<u>P 251,388</u>	<u>P 138,082</u>	<u>P 32,451</u>

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and deficiency of plan assets of Megaworld and GADC.

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Present value of the obligation	P 1,360,982	P 1,093,610	P 490,232	P 257,004	P 164,262
Fair value of plan assets	(348,357)	(283,321)	(217,035)	(174,808)	(119,553)
Deficiency of plan assets	<u>P 1,012,625</u>	<u>P 810,289</u>	<u>P 273,197</u>	<u>P 82,196</u>	<u>P 44,709</u>
Experience adjustments	<u>P 21,577</u>	<u>(P 208,207)</u>	<u>(P 163,366)</u>	<u>P -</u>	<u>(P 125,388)</u>

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2012</u>	<u>2011</u>
Discount rates	5.02%-7.93%	5.80% - 9.30%
Expected rate of return on plan assets	8.00%-11.00%	3.00% - 10.00%
Expected rate of salary increases	3.00%-10.00%	6.00% - 8.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The discount rates assumed were based on the yields of long-term government bonds, as of the valuation dates. The applicable period used approximate the average years of remaining working lives of the Group's employees.

27.3 Stock Option Benefit

The Group's stock option benefit expense includes the amount of compensation recognized by the Company and GERI over the vesting period of the options granted by them. None of the stock options granted by Megaworld has vested as of December 31, 2012 while GADC's stock options already fully vested as of December 31, 2011.

In February 2012 and December 2011, GERI and the Company, respectively, granted stock options to certain key executives to subscribe to a specific number common shares of GERI and the Company, respectively, at an agreed exercise price (see Note 21.6).

Stock option benefits expense, included as part of Salaries and Employee Benefits (see Note 27.1) amounted to P105.8 in 2012, P2.2 million in 2011 and P4.2 million in 2010. The related payable, amounting to P82.0 million and P3,164.0 million as of December 31, 2012 and 2011, respectively, is presented as Payable to MRO Under Stock Option Plan which is part of the Non-current portion of Other Liabilities in the consolidated statements of financial position (see Note 20).

28. TAXES

28.1 Current and Deferred Taxes

The tax expense reported in the consolidated statements of comprehensive income for the year ended December 31 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<i>Reported in consolidated profit or loss</i>			
Current tax expense:			
RCIT at 30%	P 3,536,607	P 2,322,589	P 1,787,997
Final tax at 20% and 7.5%	287,702	270,008	162,006
Minimum corporate income tax (MCIT) at 2%	26,568	10,077	1,426
Preferential tax rate at 5%	-	18,803	19,479
Others	74,565	18,327	-
	<u>3,925,442</u>	<u>2,639,804</u>	<u>1,970,908</u>
Deferred tax expense relating to origination and reversal of temporary differences	<u>706,668</u>	<u>713,200</u>	<u>613,963</u>
	<u>P 4,632,110</u>	<u>P 3,353,004</u>	<u>P 2,584,871</u>
<i>Reported in consolidated other comprehensive income -</i>			
Deferred tax expense (income) relating to origination and reversal of temporary differences	(P 70,795)	<u>P 3,843</u>	<u>P 55,817</u>

The reconciliation of tax on consolidated pretax income computed at the applicable statutory rates to consolidated tax expense is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tax on consolidated pretax income at 30%	P 7,536,020	P 5,429,023	P 3,624,429
Adjustment for income subjected to different tax rates	(845,041)	(629,378)	(246,509)
Tax effects of:			
Income not subject to RCIT	(9,983,062)	(2,012,122)	(1,671,279)
Nondeductible expenses	7,042,567	528,758	824,060
Tax benefit arising from unrecognized deferred tax asset	785,145	31,645	71,409
Additional deduction with the use of Optional Standard Deduction (OSD)	(20,338)	(14,097)	(8,753)
Gross income generated from PEZA-registered activities	(969)	(1,513)	(2,131)
Others	117,788	20,688	(6,355)
	<u>P 4,632,110</u>	<u>P 3,353,004</u>	<u>P 2,584,871</u>
Tax expense reported in consolidated profit or loss	<u>P 4,632,110</u>	<u>P 3,353,004</u>	<u>P 2,584,871</u>

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

	<u>2012</u>	<u>2011</u>
Deferred tax assets:		
Retirement benefit obligation	P 285,030	P 259,292
Net Operating Loss		
Carry-over (NOLCO)	185,389	174,154
Allowance for impairment losses	181,299	157,264
Accrued rent	48,115	39,397
Gross profit for tax purposes	17,446	-
MCIT	15,809	11,004
Allowance for inventory write-down	15,395	9,207
Share based employee compensation	11,554	-
Unrealized income – net	3,304	2,988
Unrealized foreign currency losses	127	1,903
Others	15,804	15,199
	<u>P 779,272</u>	<u>P 670,408</u>
Deferred tax liabilities:		
Uncollected gross profit	P 5,072,458	P 4,184,468
Capitalized interest	1,135,380	953,498
Difference between the tax reporting base and financial reporting base of property, plant and equipment	200,167	143,528
Uncollected rental income	143,688	96,614
Accrued retirement cost for tax purposes	(116,695)	(55,361)
Translation adjustments	(102,277)	(31,482)
Unrealized foreign currency gains	52,848	39,282
Others	19,971	259,461
	<u>P 6,405,540</u>	<u>P 5,590,008</u>

The deferred tax expense reported in the consolidated statements of comprehensive income is shown below.

	Consolidated Profit or Loss			Consolidated Other Comprehensive Income		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Deferred tax expense (income):						
Uncollected gross profit	P 887,990	P 1,487,034	P 402,504	P -	P -	P -
Capitalized interest	181,882	341,878	221,066	-	-	-
Uncollected rental income	47,074	73,593	-	-	-	-
Retirement benefit obligation	(87,072)	(64,742)	(7,280)	-	-	-
Difference between the tax reporting base and financial reporting base of property, plant and equipment	56,636	(38,378)	53,152	-	-	-
Allowance for impairment losses	(24,035)	10,241	(3,289)	-	-	-
Unrealized foreign currency gains - net	13,566	(5,171)	-	-	-	-
Accrued rent	(8,718)	5,131	149,927	-	-	-
NOLCO	(11,235)	1,042	1,363	-	-	-
MCIT	(4,805)	143	(6,630)	-	-	-
Translation adjustments	-	-	-	(70,795)	3,843	55,967
Fair value adjustments on AFS	-	-	-	-	-	(150)
Others	(344,615)	55,626	(47,994)	-	-	-
	706,668	1,866,395	613,963	(70,795)	3,843	55,817
Effect of Megaworld's consolidation of EELHI, SPI and GPMAI	-	(1,129,385)	-	-	-	-
Effect of consolidation of GERI	-	(23,810)	-	-	-	-
Deferred tax expense (income)	<u>P 706,668</u>	<u>P 713,200</u>	<u>P 613,963</u>	<u>(P 70,795)</u>	<u>P 3,843</u>	<u>P 55,817</u>

The details of NOLCO, which can be claimed as deduction from the respective subsidiaries' future taxable income within three years from the year the loss was incurred, are shown below.

<u>Year</u>	<u>Original Amount</u>	<u>Applied in Current Year</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2012	P 1,852,489	P -	P -	P 1,852,489	2015
2011	32,308	-	-	32,308	2014
2010	128,671	-	-	128,671	2013
2009	<u>105,291</u>	<u>(6,899)</u>	<u>(98,392)</u>	<u>-</u>	
	<u>P 2,118,759</u>	<u>(P 6,899)</u>	<u>(P 98,392)</u>	<u>P 2,013,468</u>	

The Group is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations. The details of MCIT, which can be applied as deduction from the entities' respective future regular income tax payable within three years from the year the MCIT was paid, are shown below.

<u>Year Incurred</u>	<u>Original Amount</u>	<u>Expired</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2012	P 20,660	P -	P 20,660	2015
2011	11,292	-	11,292	2014
2010	1,049	-	1,049	2013
2009	<u>785</u>	<u>(785)</u>	<u>-</u>	
	<u>P 33,786</u>	<u>(P 785)</u>	<u>P 33,001</u>	

The following summarizes the amount of NOLCO and other deductible temporary differences as of the end of 2012, 2011 and 2010 for which the related deferred tax assets have not been recognized by certain subsidiaries within the Group based on their assessments that the related tax benefits may not be realized within the provided period. :

	<u>2012</u>		<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
NOLCO	P 3,725,565	P 1,117,669	P 216,828	P 65,049	P 345,813	P 103,744
Unrealized loss on interest rate swap	1,325,831	397,749	-	-	-	-
Unrealized foreign currency losses – net	(536,951)	(161,085)	-	-	-	-
MCIT	43,808	43,808	3,023	3,023	1,549	1,549
Retirement benefit obligation	32,448	9,734	658	197	615	185
Allowance for impairment	23,653	7,096	65,176	19,553	30,845	9,254
Share-based compensation	20,174	6,052	1,890	567	-	-
Accrued rent	2,101	630	7,290	2,187	7,305	2,191
Allowance for inventory write-down	352	105	459	138	372	112
ARO	323	97	547	164	444	133
	<u>P 4,637,304</u>	<u>P 1,421,855</u>	<u>P 295,871</u>	<u>P 90,878</u>	<u>P 386,943</u>	<u>P 117,168</u>

28.2 Optional Standard Deduction

Corporate taxpayers have an option to claim itemized deductions or OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for that particular taxable year.

In 2012, 2011 and 2011, the Companies within the Group opted to continue claiming itemized deductions, except for AWGI which opted to use OSD, in computing for its income tax due.

29. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, associates, jointly controlled entities, the Group's key management personnel and retirement fund, and others as described below.

The summary of the Group's transactions with its related parties as of and for the years ended December 31, 2012 and 2011 are as follows:

Related Party Category	2012			2011	
	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders					
Accounts payable	29.1	(P 1,500,000)	P -	P -	(P 1,500,000)
Loans payable	29.2	(33,480)	492,600	-	526,080
Interest expense from loans	29.2	50,600	18,100	51,900	17,600
Associates:					
Advances granted	29.6	(278,710)	1,869,120	183,463	2,147,830
Rental income	29.3	1,175	800	5,075	800
Related Parties Under Common Ownership:					
Purchase of goods	29.4	7,120,605	760,007	6,512,664	570,080
Other Related Parties					
Receivable from joint venture	29.5	(1,000)	16,000	10,100	17,000
Advances granted	29.7	178,057	1,195,325	418,078	1,017,268
Advanced obtained	29.7	190,721	(887,770)	309,940	(697,049)
Advances from related parties	29.8	(632,225)	(856,403)	(224,178)	(224,178)
Operations and management fees	29.9	104,202	65,225	25,167	20,558

29.1 Due to a Stockholder

As of December 31, 2011, the Company has outstanding noninterest-bearing, unsecured and payable on demand, liability to The Andresons Group, Inc. (TAGI) amounting to P1.5 billion which is presented as part of Trade and Other Payables account (see Note 16). The Company fully paid the entire liability in 2012.

29.2 Loan from McDonald's Restaurant Operations, Inc. (MRO)

GADC has a loan agreement with MRO. The principal amount of the loan of U.S.\$12.0 million is payable in full on March 17, 2025 (see Note 17). Accrued interest payable as of December 31, 2012 and 2011 included as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position amounted to P18.1 million and P17.6 million, respectively (see Note 16).

29.3 Rental Income from Associates

GERI leases its investment property to certain related parties with rental payments mutually agreed before the commencement of the lease. The revenue earned from leases to related parties are included as part of Rental Income under Rendering of Services account in the consolidated statements of comprehensive income (see Note 23). The outstanding receivable is short-term, unsecured, noninterest-bearing, and are generally settled in cash upon demand.

As of December 31, 2012 and 2011, based on management's assessment, the outstanding balance of rental income receivable from associate is not impaired; hence, no impairment losses were recognized.

29.4 Purchase of Goods

EDI sources its raw materials such as alcohol, molasses, flavorings and other supplies from Consolidated Distillers Inc. and Andresons Global Inc. both related parties through common ownership. The outstanding liability related to such purchases is presented as part of Trade Payables under current Trade and Other Payables in the consolidated statements of financial position (see Note 16).

29.5 Receivable from a Joint Venture

Receivables from GCFII are unsecured, interest free and normally settled in cash. These are included in Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

As of December 31, 2012 and 2011, based on management's assessment, the outstanding balance of the receivable from joint venture is not impaired; hence, no impairment losses were recognized.

29.6 Advances to Associates and Other Related Parties

Entities within the Group grant to or obtain advances from associates and other entities for working capital purposes. These advances to and from associates and other related parties are unsecured, noninterest-bearing and repayable upon demand. Settlement is generally made in cash. The outstanding balances of Advances to Associates and Other Related Parties, which are shown as part of Investments in Associates and Other Related Parties account in the consolidated statements of financial position, are presented as follows (these mainly represent advances granted by Megaworld) (see Note 12.1):

	<u>2012</u>	<u>2011</u>
Advances to:		
Associates	P 1,063,503	P 1,023,152
Other related parties	805,617	<u>1,124,678</u>
	<u>P 1,869,120</u>	<u>P 2,147,830</u>

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

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	P 2,147,830	P 1,964,367
Collections	(284,442)	-
Cash advances granted	5,732	19,193
Balance from newly consolidated subsidiaries	-	<u>164,270</u>
Balance at end of year	<u>P 1,869,120</u>	<u>P 2,147,830</u>

As of December 31, 2012 and 2011, based on management's assessment, the outstanding balances of advances to associates and other related parties are not impaired, hence, no impairment losses were recognized.

29.7 Due from/to Related Parties

Transactions with related parties include the following: financing of opening of letters of credit and payment of progress billing, royalty fees, rentals, interest and certain expenses in behalf of the entities within Group or other related parties. The amounts due from and to related parties are unsecured, noninterest-bearing and due and demandable any time. Settlement is generally made in cash. As of December 31, 2012 and 2011, based on management's assessment, the outstanding balances of advances to associates and other related parties are not impaired, hence, no impairment losses were recognized.

The outstanding balances of Due from/to Related Parties are presented under Trade and Other Receivables (see Note 6) and Trade and Other Payables (see Note 16) accounts, respectively, in the consolidated statements of financial position as follows:

	<u>2012</u>	<u>2011</u>
<i>Due from Related Parties</i>		
Associates	P 246,293	P 257,666
Officers and employees	230,938	116,354
Other related parties	718,094	<u>643,248</u>
	<u>P 1,195,325</u>	<u>P 1,017,268</u>
<i>Due to Related Parties</i>		
Stockholder	P 195,470	P 192,000
Other related parties	692,300	<u>505,049</u>
	<u>P 887,770</u>	<u>P 697,049</u>

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

	<u>2012</u>	<u>2011</u>
<i>Due from Related Parties</i>		
Balance at beginning of year	P 1,017,268	P 599,189
Balance from newly consolidated subsidiaries	-	904,537
Additions	365,112	-
Collections	(187,055)	(486,458)
Balance at end of year	<u>P 1,195,325</u>	<u>P 1,017,268</u>
<i>Due to Related Parties</i>		
Balance at beginning of year	P 697,049	P 387,109
Balance from newly consolidated subsidiaries	-	345,510
Net additions	190,721	-
Repayments	-	(35,570)
Balance at end of year	<u>P 887,770</u>	<u>P 697,049</u>

McDonald's granted GADC the nonexclusive rights to adopt and use the McDonald's System in its restaurant operations in the Philippines. In March 2005, the license agreement was renewed for another 20 years, and provides for a royalty fee based on certain percentage of net sales from the operations of GADC's restaurants, including those operated by the franchisees.

GADC recognized royalty expenses amounting to P646.5 million and P559.2 million for 2012 and 2011, respectively. The outstanding payable to McDonald's relating to royalty expenses amounted to P112.1 million and P93.4 million as of December 31, 2012 and 2011, respectively, and presented as part of Due to Related Parties under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

GADC leases a warehouse and nine restaurant premises from MPRC, a company owned by MRO. The lease terms are for periods which are co-terminus with the lease agreements entered into by GADC with the owners of the land where the warehouse and restaurants are located. Except for the warehouse for which a fixed annual rental of P10.0 million is charged, rentals charged by MPRC to GADC are based on agreed percentages of gross sales of each store.

Rental charged to operations amounted to P42.5 million and P40.8 million in 2012 and 2011, respectively. Outstanding balance pertaining to the said transaction amounted to P3.3 million and P4.0 million as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, based on management's assessment, the outstanding balances of Due from Related Parties are not impaired, hence, no impairment losses were recognized.

29.8 Non-current Advances from Related Parties

Certain expenses of unconsolidated entities within the Group are paid by other related parties on behalf of the former. The advances are unsecured, non-interest bearing and generally payable on demand. Due to JV partners pertain to the share of JV partners in the proceeds from the sale in accordance with various JV agreements entered into by GERI. Total outstanding balance of the accounts is presented as Advances from Related Parties account in the consolidated statements of financial position.

Details of Advances from Related Parties are presented as follows:

	<u>2012</u>	<u>2011</u>
Due from related parties	P 642,006	P 29,627
Due from joint venture partners	214,397	194,551
Balance at end of year	<u>P 856,403</u>	<u>P 224,178</u>

29.9 Operations and Management Agreement with Genting Hongkong Limited (GHL)

Some of Travellers' administrative functions are being handled by certain key officers and employees under the management of GHL as agreed by both parties under the Operations and Management Agreement. Management fees are presented as part of Management fees under the Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding liability arising from this transaction is presented as part of Accrued expenses in the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

29.10 Key Management Personnel Compensation

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Short-term employee benefits	P 550,815	P 274,014	P 204,367
Stock-option benefit expense	105,762	1,890	-
Retirement benefits expense	<u>31,604</u>	<u>20,014</u>	<u>13,566</u>
	<u>P 688,181</u>	<u>P 295,918</u>	<u>P 217,933</u>

29.11 Transactions with the Retirement Plans

The Group has a formal retirement plan established separately for each significant subsidiary, particularly Megaworld, GERI and GADC. These plans are defined benefit post-employment plan maintained for qualified employees, administered and managed by trustee banks (except for GERI which is still an unfunded plan). The carrying amount and the composition of the plan assets as of December 31, 2012 and 2011 are shown in Note 27.2.

Unit investment trust fund and equity and debt securities, which are included as plan assets under the fund consist of investments in corporations listed in the PSE. The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also does not have any investments in the Group's shares of stock.

30. COMMITMENTS AND CONTINGENCIES

30.1 Operating Lease Commitments – Group as Lessor

The Group is a lessor under non-cancellable operating lease agreements covering certain office and commercial spaces. The leases have terms ranging from 3 to 33 years, with renewal options, and include annual escalation rate of 5% to 10%.

Future minimum lease receivables under these leases as of December 31 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Within one year	P 5,547,717	P 4,336,022	P 3,313,448
After one year but not more than five years	26,563,815	21,792,982	15,408,125
More than five years	<u>8,989,365</u>	<u>7,276,834</u>	<u>4,962,942</u>
	<u>P 41,100,897</u>	<u>P 33,405,838</u>	<u>P 23,684,515</u>

30.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases covering condominium units for administrative use. The leases have terms ranging from 1 to 40 years, with renewal options, and include a 5% to 10% annual escalation rate.

The future minimum rental payables under these non-cancellable leases as of the end of the reporting periods are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Within one year	P 310,188	P 197,468	P 201,135
After one year but not more than five years	581,833	467,964	480,027
More than five years	<u>299,994</u>	<u>249,600</u>	<u>306,604</u>
	<u>P 1,192,015</u>	<u>P 915,032</u>	<u>P 987,766</u>

30.3 Provisional License Agreement of Travellers with PAGCOR

On June 2, 2008, PAGCOR issued a Provisional License (License) authorizing Travellers to participate in the integrated tourism development project in two sites and to establish and operate casinos, and engage in gaming activities in the two sites. The term of Travellers' License shall be co-terminus with PAGCOR's franchise which will expire on July 11, 2033, and shall be renewed subject to the terms of the PAGCOR Charter.

(a) Investment Commitments

Under the terms of the License, Travellers is required to complete its U.S. \$1.32 billion (about P54.4 billion) investment commitment in phases, which amount is divided into Site A and Site B with the minimum investment of U.S. \$1.1 billion (about P45.3 billion) and U.S. \$216.0 million (about P8.9 billion), respectively (collectively, the Project).

As a requirement in developing the aforementioned Project, Travellers transferred U.S. \$100.0 million (about P4.1 billion) to an escrow account with a local bank mutually agreed by PAGCOR and Travellers. At any given time, the escrow account shall have a maintaining balance of not lower than U.S. \$50.0 million (about P2.1 billion)(see Note 5). For failure to comply with such maintaining balance requirement, Travellers shall be charged by PAGCOR an amount equal to P2.5 million for every 15 days until the noncompliance is corrected. Travellers is authorized to withdraw from the escrow deposit for the construction costs and other fees for the development of the investment commitment. The investment amount shall be exhausted for each phase of the Project.

As at December 31, 2012, Travellers has spent P235.5 million and P29.7 billion for Site A and Site B, respectively, which is in accordance with the provision agreed with PAGCOR. Significant portion of the amounts incurred in relation to Site A pertains to costs of architectural and design fees.

(b) Taxation of Travellers' Casino Operations

Under the Travellers' License with the PAGCOR, Travellers is subject to the 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues. The license fees are directly remitted by Travellers to PAGCOR as required under the License.

The PAGCOR Charter grants PAGCOR an exemption from taxes, income or otherwise, as well as exemption from any form of charges, fees, or levies, except for the 5% franchise tax on gross revenue or earnings derived by PAGCOR on its casino operations. On February 29, 2012, the BIR issued a circular which affirmed the nonexemption from corporate income taxation of PAGCOR by virtue of the amendment of R.A. 9337 of Section 27(c) of the National Internal Revenue Code of 1997. Considering the provisions of the License, the Group's management believes that no provision for income taxes is necessary to be recognized in the consolidated financial statements.

(c) Requirement to Establish a Foundation

Travellers, in compliance with the requirement of PAGCOR, to incorporate and register a foundation for the restoration of cultural heritage, incorporated Manila Bayshore Heritage Foundation, Inc. (or the Foundation) on September 7, 2011 primarily to engage in various activities for charitable, educational, cultural and artistic purposes, and to promote, perpetuate, preserve and encourage Filipino culture.

The Foundation shall be funded by Travellers by setting aside funds on a monthly basis. The funds set aside shall be remitted to the Foundation on or before the 10th day of the succeeding month. Travellers has recognized accrual, based on 2% of total gross gaming revenues from non-junket tables. In 2012, it remitted a total of P706.6 million representing donations for the current and prior years.

As at December 31, 2012, the Foundation has not yet started its operations.

30.4 Commitment of Travellers to Finance a Construction Project

In 2012, Travellers entered into a Memorandum of Agreement (MOA) with PAGCOR and three other parties for a certain construction project. Under the MOA, Travellers, together with the three other parties thereto, will participate in the development of the said project up to a maximum aggregate amount of P6.5 billion. The actual mode of participation of the parties on the development of the construction project has yet to be finalized. As at December 31, 2012, the said construction project has not yet been started.

30.5 Others

There are other commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying consolidated financial statements. The management of the Group is of the opinion that losses, if any, from these items will not have any material effect on its consolidated financial statements.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, AFS financial assets, interest-bearing loans, bonds payable, trade receivables and payables and derivative asset and liabilities which arise directly from the Group's business operations. The financial debts were issued to raise funds for the Group's capital expenditures.

The Group does not actively engage in the trading of financial assets for speculative purposes.

The Group is exposed to a variety of financial risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

31.1 Market Risk

(a) Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. The currency exchange risk arises from the U.S. dollar-denominated cash and cash equivalents, FVTPL, loans and bonds which have been used to fund new projects.

Foreign currency denominated financial assets and liabilities, translated into Philippine pesos at period-end closing rate are as follows:

	<u>2012</u>		<u>2 011</u>
	<u>U.S. Dollars</u>	<u>HK Dollars</u>	<u>U.S. Dollars</u>
Financial assets	P 37,937,643	P 2,461,548	P 36,570,897
Financial liabilities	(44,194,216)	(875,795)	(31,216,045)
	<u>(P 6,256,573)</u>	<u>P 1,585,753</u>	<u>P 5,354,852</u>

The sensitivity of the consolidated income before tax for the period with regard to the Group's financial assets and the US dollar – Philippine peso exchange rate assumes +/-14% and +/- 16% changes of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2012 and 2011, respectively. The HK dollar – Philippine peso exchange rate assumes +/-13% change for the year ended December 31, 2012. These percentages have been determined based on the average market volatility in exchange rates in the previous year and 12 months, respectively, estimated at 95% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting periods.

If the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, consolidated income before tax would have increased by P0.6 billion and decreased P0.9 billion for the years ended December 31, 2012 and 2011, respectively. If in 2012 the Philippine peso had strengthened against the HK dollar, with all other variables held constant, consolidated income before tax would have decreased by P0.2 billion.

However, if the Philippine peso had weakened against the U.S. dollar and the HK dollar by the same percentages; then consolidated income before tax would have changed at the opposite direction by the same amount.

The Group periodically reviews the trend of the foreign exchange rates and, as a practical move, increases its U.S. dollar-denominated time deposits in times when the Philippine peso is depreciating or decreases its U.S. dollar-denominated placements in times when the Philippine peso is appreciating.

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

(b) Interest Rate Sensitivity

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. At present, the Group is exposed to changes in market interest rates through bank borrowings and cash and cash equivalents, which are subject to variable interest rates. The Group maintains a debt portfolio unit of both fixed and variable interest rates. All other financial assets are subject to variable interest rates.

The sensitivity of the consolidated income before tax for the period to a reasonably possible change in interest rates of +/-2.43% for Philippine peso and +/-0.56% and U.S. dollar in 2012 and +/-2.72% for Philippine peso and +/-0.66% for US dollar in 2011 with effect from the beginning of the period. These percentages have been determined based on the average market volatility in interest rates, using standard deviation, in the previous year and 12 months, respectively, estimated at 95% level of confidence.

The sensitivity analysis is based on the Group's financial instruments held at December 31, 2012 and 2011, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P1.2 billion and P0.4 billion for the years ended December 31, 2012 and 2011, respectively. Conversely, if the interest rates decreased by the same percentage, consolidated income before tax would have been lower by the same amount.

31.2 Credit Risk

Generally, the Group's credit risk is attributable to trade and other receivable arising mainly from transactions with approved franchisees, installment receivables, rental receivables and other financial assets. The carrying values of these financial assets subject to credit risk are disclosed in Note 32.1.

The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Franchisees are subject to stringent financial, credit and legal verification process. In addition, accounts receivable are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant portion of sales, advance payments are received to mitigate credit risk.

With respect to credit risk arising from the other financial assets of the Group, composed of cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Trade and other receivables that are past due but not impaired are as follows:

	<u>2012</u>	<u>2011</u>
Not more than 30 days	P 267,577	P 4,954,379
31 to 60 days	1,754,101	2,993,354
Over 60 days	1,229,152	2,674,209
	<u>P 3,250,830</u>	<u>P 10,621,942</u>

31.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, bonds, and preferred shares.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets. In addition, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues.

As at December 31, 2012, the Group's financial liabilities have contractual maturities which are presented below.

	<u>Current</u>		<u>Non-current</u>	
	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>	<u>Later than 5 Years</u>
Trade and other payables	P 12,529,113	P 9,978,368	P -	P -
Interest-bearing loans	2,849,992	1,390,790	13,584,594	930,621
Bonds payable	1,092,701	1,092,701	46,460,595	8,556,628
Advances from related parties	1,067,406	120,755	856,403	-
Redeemable preferred shares	-	-	1,352,337	1,584,643
Security deposits	-	57,911	26,694	60,577
Payable to MRO stock option	-	82	-	-
Derivative liability	-	-	1,246,124	-
Other liabilities	-	-	665,820	-
	<u>P 17,539,212</u>	<u>P 12,640,607</u>	<u>P 64,192,567</u>	<u>P 11,132,469</u>

As at December 31, 2011, the Group's financial liabilities have contractual maturities which are presented below.

	<u>Current</u>		<u>Non-current</u>	
	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>	<u>Later than 5 Years</u>
Trade and other payables	P 12,386,361	P 4,706,947	P -	P -
Interest-bearing loans	1,269,502	1,807,919	5,575,739	1,085,856
Bonds payable	713,863	713,863	10,710,900	31,931,639
Advances from related parties	-	-	224,178	-
Redeemable preferred shares	-	27,196	53,876	30,328
Derivative liability	-	413,420	-	-
Security deposits	-	-	-	1,574,159
Payable to MRO stock option	-	-	3,164	-
	<u>P 14,369,726</u>	<u>P 7,669,345</u>	<u>P 16,567,857</u>	<u>P 34,621,982</u>

The contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting period.

31.4 Other Price Risk Sensitivity

The Group's market price risk arises from its investments carried at fair value (financial assets classified as AFS financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Group's investments held at fair value and their impact on the equity as of December 31, 2012 and 2011 are summarized as follows:

	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
<u>2012</u>				
Investment in equity securities	+23.34%	-23.34%	<u>P 659,311</u>	<u>(P 659,311)</u>
<u>2011</u>				
Investment in equity securities	+33.63%	-33.63%	<u>P 194,012</u>	<u>(P 194,012)</u>

The maximum additional estimated loss in 2012 and 2011 is to the extent of the carrying value of the securities held as of these reporting dates with all other variables held constant. The estimated change in quoted market price is computed based on volatility of listed companies at the PSE for the past 12 months at 95% confidence level.

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

32. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

32.1 Comparison of Carrying Amounts and Fair Values

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

	Notes	2012		2011	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	P 68,301,336	P 68,301,336	P 49,147,858	P 49,147,858
Trade and other receivables	6	43,869,129	43,869,129	44,428,049	44,428,049
Other financial assets	9	832,314	832,314	612,733	612,733
		<u>P 113,002,779</u>	<u>P 113,002,779</u>	<u>P 93,575,907</u>	<u>P 93,575,907</u>
Financial assets at FVTPL:					
Marketable debt and equity securities	7	P 5,896,822	P 5,896,822	P 11,313,947	P 11,313,947
Derivative asset	7	665,131	665,131	-	-
		<u>P 6,561,953</u>	<u>P 6,561,953</u>	<u>P 11,313,947</u>	<u>P 11,313,947</u>
AFS Financial Assets:					
Debt securities	11	P 5,015,804	P 5,015,804	P 4,327,804	P 4,327,804
Equity securities	11	265,642	265,642	1,116,520	1,116,520
		<u>P 5,281,446</u>	<u>P 5,281,446</u>	<u>P 5,444,324</u>	<u>P 5,444,324</u>
Financial Liabilities					
Financial liabilities at FVTPL -					
Derivative liabilities	20	P 1,246,124	P 1,246,124	P 413,420	P 413,420

	Notes	2012		2011	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial liabilities at amortized cost:					
Trade and other payables	16	P 22,166,173	P 22,166,173	P 17,088,926	P 17,088,926
Interest-bearing loans	17	18,090,749	18,090,749	8,867,393	8,867,393
Bonds payable	18	45,990,629	45,990,629	35,156,343	35,156,343
Redeemable preferred shares	19	1,728,086	1,728,086	417,657	417,657
Due to related parties	29	856,403	856,403	224,178	224,178
Security deposits	20	113,395	113,395	87,685	87,685
		P 88,945,435	P 88,945,435	P 61,842,182	P 61,842,182

See Notes 2.4 and 2.12 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 Fair Value Hierarchy

The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The breakdown of the Group's financial assets and liabilities measured at fair value in its consolidated statements of financial position as of December 31, 2012 and 2011 is as follows:

December 31, 2012

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	P 6,561,953	P -	P -	P 6,561,953
AFS financial assets	5,083,788	197,658	-	5,281,446
Derivative liabilities	(1,246,124)	-	-	(1,246,124)
	P 10,399,617	P 197,658	P -	P 10,597,275

December 31, 2011

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	P 11,313,947	P -	P -	P 11,313,947
AFS financial assets	5,444,324	-	-	5,444,324
Derivative liabilities	(413,420)	-	-	(413,420)
	P 16,344,851	P -	P -	P 16,344,851

33. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to ensure its ability to continue as a going concern; to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and to maintain strong and healthy financial position to support its current business operations and drive its expansion and growth in the future.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

It monitors capital using the debt to equity ratio as shown below.

	<u>2012</u>	<u>2011</u>
Total liabilities	P 128,522,850	P 94,527,182
Equity attributable to owners of the parent company	84,142,019	73,482,828
Debt-to-equity ratio	<u>1.53:1</u>	<u>1.29:1</u>

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

CORPORATE INFORMATION

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DATE OF PUBLIC LISTING

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Emperador Distillers, Inc.
First Centro, Inc.
Global-Estate Resorts, Inc.
Golden Arches Development Corporation
Megaworld Corporation

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