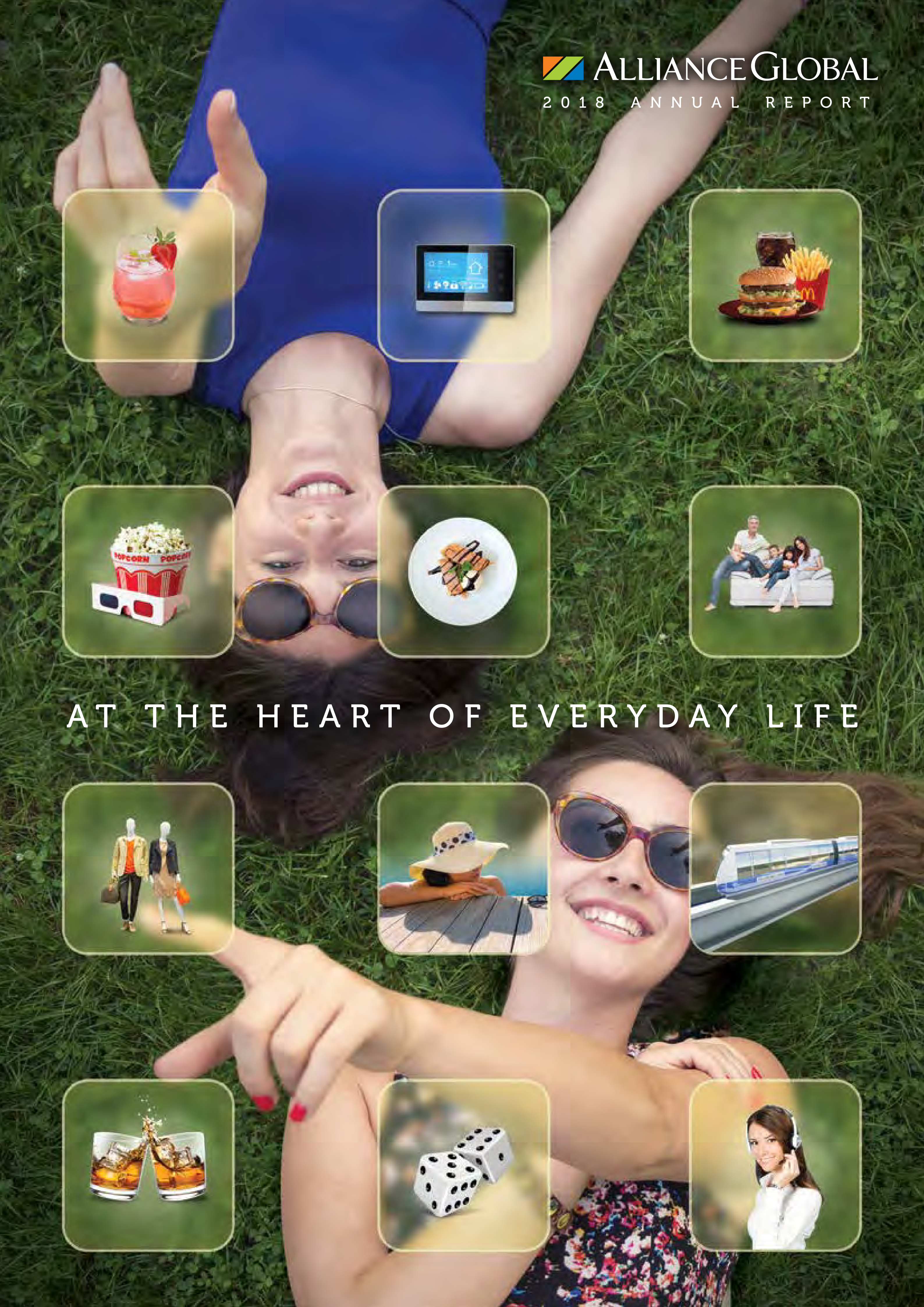


ALLIANCE GLOBAL

# 2018 ANNUAL REPORT

## AT THE HEART OF EVERYDAY LIFE

ALLIANCE GLOBAL GROUP, INC.

# What's Inside



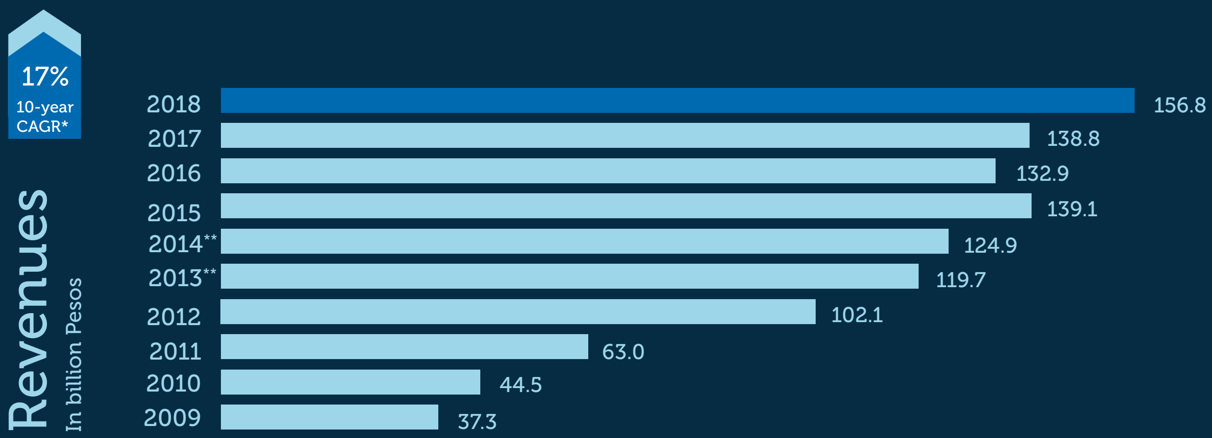


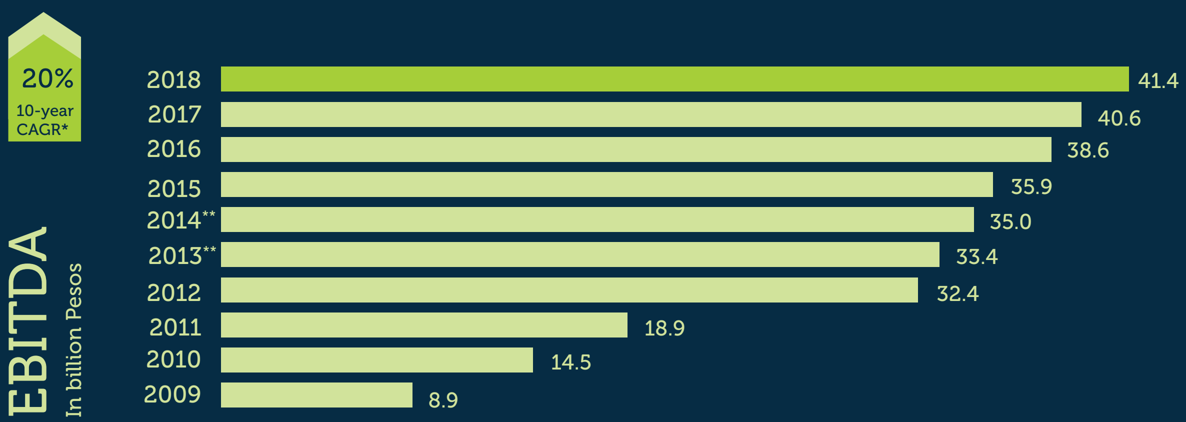


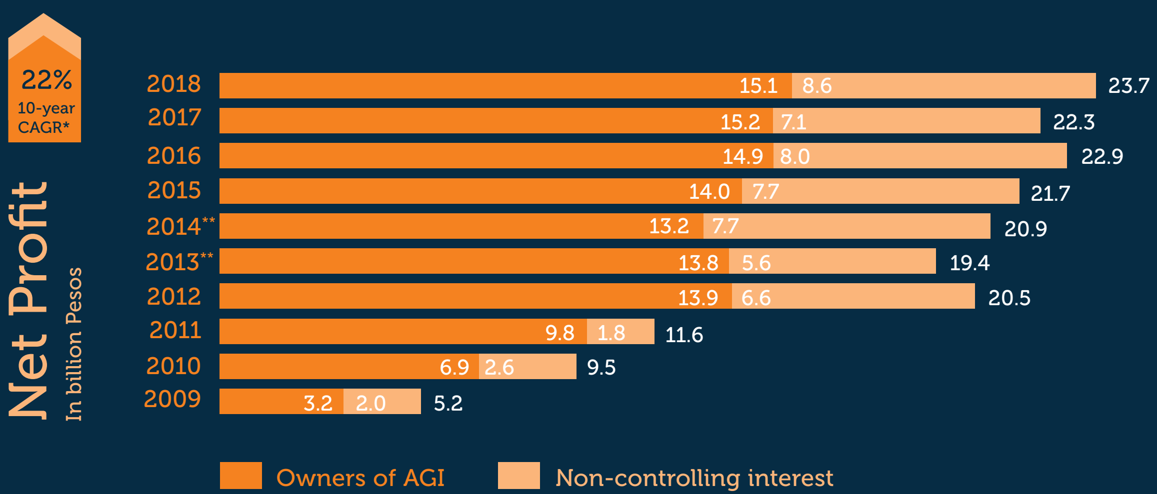
## Our Cover

Like a perfect world of lush greenery, fresh air, and warm sunshine affectionately embracing all of nature's creation, AGI is at the heart of everyday life. With all things nice and wonderful, it is about living and loving every moment in the world of AGI.

# Financial Highlights






*Data shown for 2016 and 2017 are restated.*
**CAGR is compounded annual growth rate.*
***Figures exclude non-recurring items.*

# Chairman's Message

# Creative & Conscientious: For Tomorrow's Success

The year 2018 was another period of strong performance for Alliance Global Group, Inc. (AGI). Our subsidiaries broke barriers, set newest trends and surpassed expectations as we continue to disrupt the market and outperform the competition.

We recorded unprecedented level of consolidated revenues of P156.8 billion and a net income of P23.7 billion for the year. The strong performance of our subsidiaries has placed us once more at a business highpoint. This was achieved through our aggressive expansion strategies in the past five years with prudent financial management across our various business segments.

Megaworld Corporation, our property development arm, posted record earnings of P15.8 billion on revenues of P57.4 billion in 2018.

During the year, it has launched its biggest series of residential projects yet since it initially broke ground 30 years ago. Totaling P106 billion worth of development projects with over 11,200 residential units were made available to the market in Metro Manila, as well as in the northern and southern regions of the country.

New lifestyle malls were built within its townships, bringing to 700,000 square meters its total gross floor area of commercial spaces designed to provide a new level of retail experience to its customers. More office towers were also completed, beefing up gross leasable space to an aggregate of 1.1 million square meters.

Topping our list of office projects, we are very pleased to be the chosen firm of JP Morgan Chase Bank NA. to construct its build-to-suit global service center in the Philippines. This huge project brokered something more than just an edifice: the proffered trust proved most invaluable. Contracts akin to these should reinforce Megaworld's foothold in the real estate industry.

As we align ourselves with the continued growth in the country's tourism sector, our Group opened the doors of more new hotels in Metro Manila and in other key provincial cities. To-date, AGI – under the combined hotel portfolio of Megaworld and Travellers International Hotel Group, Inc.– currently offers a total of 5,175 rooms to our valued guests, bringing us closer to our target of 12,000 keys in three to five years.

# Chairman's Message

*"The year 2018 was another period of strong performance for Alliance Global Group, Inc. Our subsidiaries broke barriers, set newest trends and surpassed expectations as we continue to disrupt the market and outperform the competition."*

The Hilton Hotel and Sheraton Hotel now tower within the Resorts World Manila complex and will soon be joined by other world-renowned brands such as Hotel Okura and the Ritz-Carlton Hotel. Iloilo City finally has its first international hotel on the unveiling of the Courtyard by Marriott in Iloilo Business Park. Our homegrown brands have also performed well, including our newly-launched Twin Lakes Hotel & Spa in Batangas. Aggregate revenues from our hotel operations have reached P5.0 billion in 2018.

Resorts World Manila, owned and operated by Travellers, still maintains its position as the country's most expansive integrated leisure and entertainment resort. Travellers recorded P1.4 billion in net profit in 2018 as gross revenues reached P24.7 billion.

Gross gaming revenues rose by 17%, driven by the strong surge in VIP rolling volumes while its mass segment also recovered. The soft opening of the Grand Wing saw an upturn in property visitation which averaged at 28,500 per day while hotel occupancy rate stood at 79% across its various international hotel brands.

Emperador Inc. rides high on its brandy dominance in the global market and record-breaking feats in international whisky sales. In 2018, its consolidated revenues reached P47.1 billion while net profit amounted to P6.8 billion as we continued to expand our spirits portfolio in terms of product variation and market performance.

Whyte and Mackay maintains its remarkable growth, driven by its leading single malt brands The Dalmore and Jura. The Dalmore remains at the apex of the Scotch whisky single malt category as the brand attracted new consumers through both the Core Range and the Rare Expressions. Our other single malt whiskies Jura, Tamnavulin and Fettercairn have widened their market reach with numerous product launches. Our blended whisky, Shackleton, also continues to strengthen its market stature in the UK, US and Travel Retail, and sees Asia as a new region to conquer this year.

Bodegas Fundador prevails as one of the world leaders in the brandy segment.

P156.8B
Consolidated Revenues

P23.7B
Net Income

Its Fundador Supremo 18YO, a super-premium Brandy de Jerez, has earned recognition as the Best Grape Brandy at the Hong Kong International Wine & Spirit Competition. Our Domecq trademarks have also gained a firm commercial reach to South America, specifically Brazil and Colombia, and in the US.

Despite fierce competition among local brands, our flagship product Emperador Brandy maintains its nationwide market leadership, particularly in key metro cities. Emperador Light celebrated its success as it honors the resilience of the Filipinos with the *"Galing ng Pilipino"* ad campaign that cuts across different media platforms and complete with its original accompanying song, *"Ating Tagumpay"*. We successfully launched in the local market The Bar Premium Gin in Pink, Lime and Premium Dry variants which has become a certified party favorite among the young crowd. Slowly but surely, our spirits brands have captured the taste and patronage of strong drinks aficionados both here and overseas.

Our quick service restaurant business under Golden Arches Development Corporation has launched its first batch of NXTGEN stores in 2018, bringing innovations that will upgrade service and consumer dining experience to the next level. McDonald's ended the year with 620 stores, effectively adding one store a week under its aggressive expansion program across the country. This, coupled with a healthy growth in same-store sales, have underpinned its improvement in revenues to P28.3 billion and profit to P1.6 billion during the year.

The youngest enterprise among our line-up of subsidiaries, Infracorp Development Inc., has succeeded to be granted original proponent status in both of its maiden projects. The Fort Bonifacio-Makati Skytrain, a 2-kilometer monorail which will link our Uptown Bonifacio township to Makati City, will immensely alleviate the everyday commute of the riding public. Another project, the rehabilitation and upgrade of the Ninoy Aquino International Airport (NAIA), will help increase the capacity of NAIA in accommodating an estimated 47 million passengers in 2021 and about 65 million passengers by 2023.

Through a quarter of a century since our incorporation, AGI has built a proven track record of creating value over time and in delivering sustainable and profitable growth for its stakeholders. We continue to embrace change as we maintain a conscientious and creative atmosphere for all of our business segments.

AGI will always rely on the staunch dedication and unwavering support of all of our stakeholders for continued corporate advancement and in pursuit of nation-building. Once more I seek the same passion and your unrelenting commitment to spur our group to initiate and innovate more groundbreaking strategies for the fulfillment of our goals for 2019 and the years to come.

**DR. ANDREW L. TAN**
Chairman

# View from **the Top**

As AGI marches towards the future, the conglomerate welcomes the enterprising vision of Mr. Kevin L. Tan, who succeeds his father—Dr. Andrew L. Tan—as the Group's Chief Executive Officer.

With almost two decades of corporate experience in the various AGI companies, Kevin Tan mirrors the passion and drive of Dr. Tan as he steers the Group in strengthening its industry-leading position further.

He is best recognized for spearheading the success of Eastwood City, Megaworld's first township development, which has enjoyed a reputable standing as a pioneering real estate project in the Philippines. He was also instrumental in leading Megaworld Lifestyle Malls—the property giant's brand for mall and commercial developments—to contribute significantly towards a record-setting P12-billion in rental revenues in 2017.

In Emperador Inc., Kevin Tan was the company's Director, where he was actively involved in the company's overseas expansion, highlighted by the landmark acquisition of foreign liquor giants such as Whyte & Mackay of Scotland, Bodegas Fundador, Pedro Domecq and Bodega San Bruno of Spain.

In late 2017, Kevin Tan was appointed President of the conglomerate's newly-formed infrastructure arm, Infracorp Development, Inc. He successfully led the company's unsolicited proposal to the government to build the Skytrain monorail system that will connect the business districts of Makati City and Taguig City.

Today, with him at the helm of AGI, all the businesses under the conglomerate have taken on new endeavors to promote innovation to enhance productivity and efficiency, provide greater value to consumers and stakeholders, utilize the power of technology as a game-changer, build a stronger relationship with customers and stakeholders, and engage with sincere awareness on fostering the environment.

AGI remains steadfast in its pursuit of sustainable advancements and will continue to blaze trails with innovative "firsts" with Kevin Tan now leading the charge. The rest of the organization stands by the commitment to provide nothing but the best experiences to its stakeholders, and it all begins by creating everyday moments filled with excitement, promise, and fulfillment.

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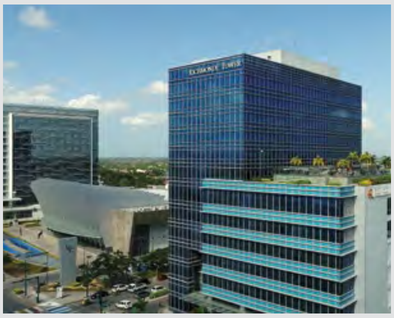
ALLIANCE GLOBAL GROUP, INC.

# Subsidiaries

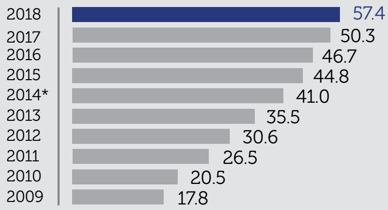




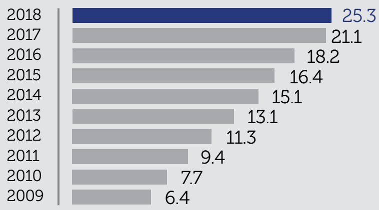
## MEGAWORLD

**Megaworld Corporation** is the country's leading real property developer with commercial leases and residential spaces for businesses and individuals. Its township development provides its residents, office and commercial tenants the "Live, Work, Play" concept expressing a most wonderful mix of lifestyle dynamics.

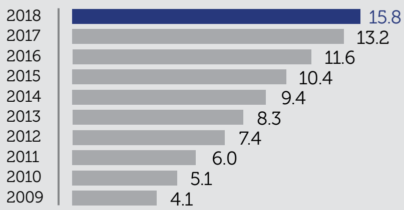
### Consolidated Revenues




### EBITDA



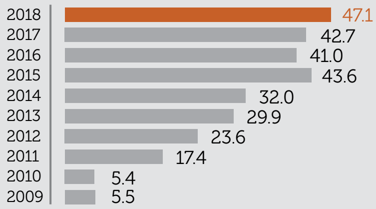

### Net Income



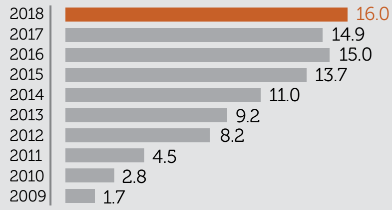

## EMPERADOR INC.

**Emperador Inc.** is the Philippines biggest liquor company and the world's largest brandy manufacturer. Its local and acquired global brands of distilled spirits and other alcoholic beverages are currently available in 55 countries across the continents of Asia, North and South America, Europe and Africa and in 300 airport retail stores worldwide.

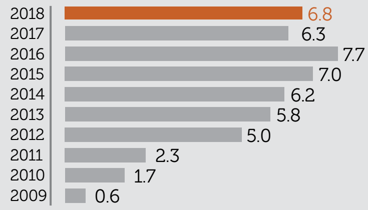
### Revenues




### Gross Profit



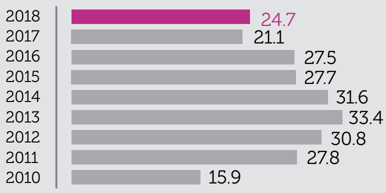

### Net Income



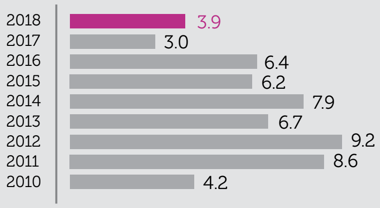

**Figures are in billion pesos and exclude non-recurring items.*

**Travellers International Hotel Group, Inc.** is the developer and operator of Resorts World Manila, the first integrated resort and gaming complex in the Philippines. Travellers also manages top-tiered international hotel brands like The Marriott Hotel Manila, Hilton Manila, Courtyard by Marriott, Sheraton Hotel Manila, Holiday Inn Express and soon-to-open Hotel Okura and the Ritz-Carlton.

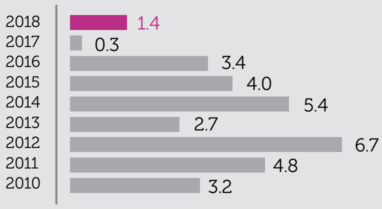
Gross Revenues




EBITDA



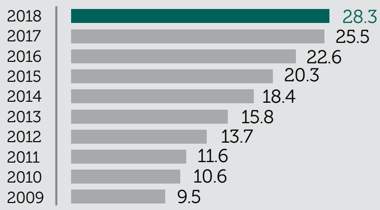

Net Income



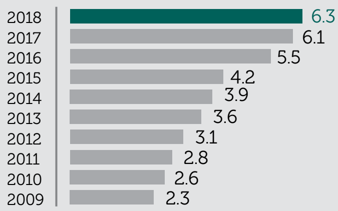

GOLDEN ARCHES DEVELOPMENT CORPORATION

**Golden Arches Development Corporation** is the master franchise holder of McDonald's in the Philippines. It has successfully made the international brand an all-time favorite quick service restaurant among the Filipinos for several decades.

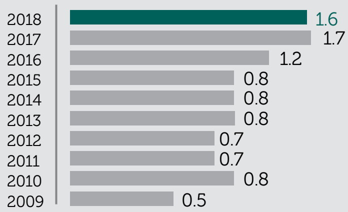
Revenues




Gross Profit




Net Income




**Infracorp Development, Inc.** is the conglomerate's venture in infrastructure development with initial projects in transport solutions and the rehabilitation of the country's main international airport. Its monorail project poses to streamline the nexus of AGI properties.

ALLIANCE GLOBAL GROUP, INC.

# At a Glance


## ALLIANCE GLOBAL

**47,635**
Groupwide Employees

**5,175**
Hotel Room Keys

**6**
International Hotel Brands

**9**
Home-grown Hotel Brands

## MEGAWORLD

**24**
Townships and Integrated Lifestyle Communities

**19**
Lifestyle Malls

**4,688**
Hectares of developable landbank

**63**
Office Towers

**696**
Residential Developments Launched

## TRAVELLERS INTERNATIONAL

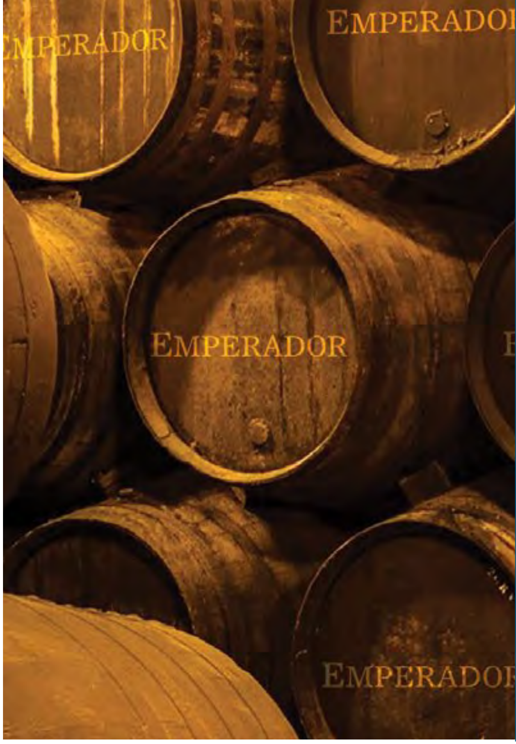
**95**
Retail Outlets

**28,500**
Average Daily Visitors

**13,160**
Maximum Seating Capacity of MICE Venues

**2,528**
Hotel Room Keys

**79**
Hotel Occupancy Rate (percent)




## EMPERADOR INC.

**55**
Countries of EDI Distribution Footprint

**99**
Philippine Brandy Market Share (percent)

**102**
Countries in Global Distribution System

**900**
Bodegas Fundador Trademarks Worldwide

**700**
WMG Trademark Worldwide

## GOLDEN ARCHES DEVELOPMENT CORPORATION

**620**
Number of Stores

**61**
Number of New Stores in 2018

**267**
Dessert Centers

**282**
Stores with drive-thru

**357**
Mcdelivery hubs


## INFRACORP

**100**
Fort Bonifacio - Makati Skytrain Average Daily Passengers (thousand)

**2**
Infrastructure Projects

**65**
NAIA Passengers per annum by 2023 (million)

ALLIANCE GLOBAL GROUP, INC.

# Milestones

## 1993

ALLIANCE GLOBAL

Incorporation of Alliance Global Group, Inc.

## 1996

Megaworld began to focus on the development of mixed-use communities

## 2003

TRAVELLERS INTERNATIONAL

Incorporation of Travellers International Hotel Group, Inc.

EMPERADOR INC.

Incorporation of Emperador Inc.


1990 1995 2000 2005

## 1994

Initial operation of AGI as a glass-container manufacturer

MEG PM public listing in the PSE

## 1999

AGI PM public listing in the PSE

## 2005

Diversification of AGI into the Quick Service Restaurant

## 2007

AGI follow-on offering

## 2008

Travellers partnership deal with Genting HK Ltd.

Awarding of PAGCOR license to Travellers

## 2009

Launch of Resorts World Manila

2010

2015

2020

## 2011

EMP PM public listing in the PSE

Expansion into integrated tourism estate development outside of Metro Manila.

## 2013

RWM PM public listing in the PSE

Emperador acquisition of Bodegas San Bruno

## 2014

Emperador acquisition of Whyte and Mackay

## 2016

Emperador acquisition of Bodegas Fundador

## 2017

INFRACORP

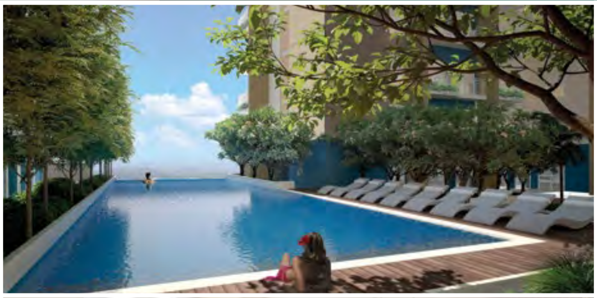
Incorporation of Infracorp

Emperador acquisition of Pedro Domecq brands

## 2018

AGI's 25th year of incorporation as a holding company

# Living the Dream



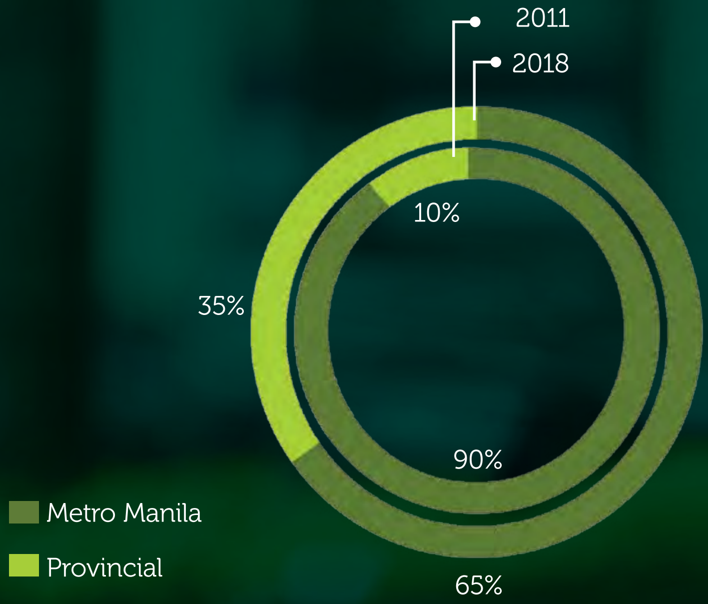
Whether it's single-living or growing a family, there's a residence created especially for Filipinos in any of Megaworld's real estate developments across the nation.

The residential addresses are in townships located at the central districts of the country's key major cities.

With personalized branding in sustainable living and all the essential features of sustainable and modern living, it is just the way a Home should be, because Home is where the Heart is.



RESIDENTIAL PROJECT LAUNCHES
(based on number of projects)



# Living the Dream

*Capital Town*
*City of San Fernando, Pampanga*

Riding along the positive economic currents of the country, Megaworld launched on what is yet the largest series of new residential projects in its 30 years in the real estate industry. Megaworld is supported by its subsidiaries, Global-Estate Resorts, Inc. (Global-Estate), Empire East Land Holdings, Inc. (Empire East), and Suntrust Properties, Inc.

Kingson U. Sian, AGI President and Executive Director of Megaworld remarked, "The whole country needs good township development and we see this

Uptown Arts Residences Uptown Bonifacio, Taguig City

Vion Tower Makati City



as an opportunity to provide demographic-focused residential projects complete with amenities in major capital cities and the suburban areas as well. We want to help enhance the lifestyle of our consumers."

A total of P106 billion worth of residential developments were launched in 2018 with 84% under the Megaworld brand. Global-Estate and Empire East would take up the remaining balance with residential unveilings in cities within Metro Manila.

Projects in Metro Manila include the posh 45-storey tower Uptown Arts Residence. The cosmopolitan skyscraper is strategically located in Uptown Bonifacio township and is within comfortable distance from international businesses, medical and academic institutions and commercial establishments. The 452-unit tower is set to rise near the proposed Skytrain Uptown Station and Mega Manila Subway with project completion eyed by 2024.

Megaworld's vision to build the tallest residential building along EDSA-Makati arises as the Vion Tower will stand 57 storeys high and possesses the Megaworld trademark of eco-friendly designs with advanced technology-equipped structure.

The golden touch of the real estate brand on township-expertise has reached Northern Luzon via its initial project in San Fernando, Pampanga. Capital Town, a 35.6-hectare township with neo-classical architecture and art deco vibe, launched its mid-rise residential condominium, Chelsea Parkplace. The charming edifice takes inspiration and namesake from the iconic neighborhood of Chelsea in New York City.

# Living the Dream

*One Regis*
*The Upper East, Bacolod*

*St. Dominique*
*Iloilo Business Park, Iloilo City*

Visayas is also at the forefront of Megaworld's uptown development. Bacolod City will be home to One Regis, a 9-storey condominium in the Upper East community, the newest and most modern central business district in the city to-date.

Megaworld has presently completed 300,000 units in all its endeavored residential development projects.

Kevin L. Tan, AGI's newly-minted Chief Executive Officer (CEO) sees a great promise in the Philippine property sector and the real estate undertakings of Megaworld, "As an institution in

*The Verdin*
*Maple Grove, Cavite*



the real estate business, we have seen decades of fiscal growth of the country. We will continue on developing sustainable and technology-driven townships. The Philippines remains as a bright spot in Asia. Many Filipinos are now more interested and capable of acquiring RFO units and many are even coming to terms with having real estate as part of their investment portfolio, seeing it as a wise financial venture."

Revenues from real estate sales contributed P38 billion to the Group's consolidated revenues in 2018.

*La Victoria Global Residences*
*The Mactan Newtown, Cebu*

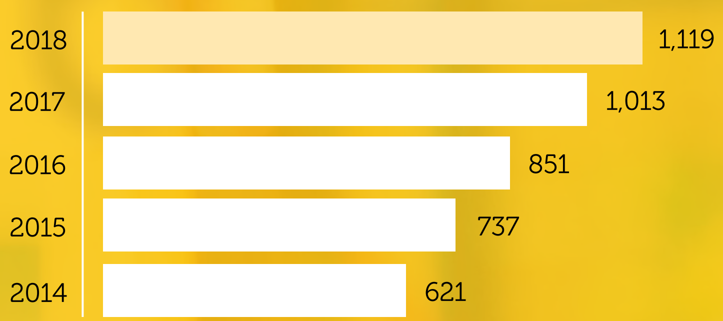
# Working Hand in Hand

The business and knowledge process outsourcing industry has grown significantly over the last decade.

True to its mandate to promote the sector, Megaworld develops townships that can fully integrate the industry that's currently propelling the country's economy.

With its growing portfolio of hi-tech and modern office towers, Megaworld continues to assert itself as the leading real estate developer in the country.

OFFICE GROSS LEASABLE AREA
(in thousand square meters)



# Working Hand in Hand

Megaworld has also reaffirmed its vibrant leadership in the office segment. Its multiple urban workplace expansions found in key cities nationwide achieved a record high both in leased areas and revenue gains as they cater to the fast-growing business and knowledge process outsourcing firms.


*South East Asian Campus McKinley Hill, Taguig City*


*Worldwide Plaza Uptown Bonifacio, Taguig City*

"We always want to be the catalyst of growth. Megaworld is the biggest advocate of the BPO industry and other diverse businesses. Our heavy investments are propelled by the bullish market and the entry of other financial ventures in the country," stated Kevin Tan.

Office rentals contributed P8.7 billion to the Group's consolidated revenues during the year.

Four office towers catalogued at 106,400 square meters in total office space were completed at year's end bringing the aggregate leasable office space inventory of the company to 1.1 million square meters.

Among the newly-constructed office projects were the Eastwood Global Plaza in Eastwood City, Two Techno Place in Iloilo Business Park, 10 West Campus in McKinley West and Southwoods BPO Tower 1 in Southwoods City.

The 10 West Campus is a high-rise office tower situated in Fort Bonifacio. This 17-storey office building stands alongside the other six office towers along Le Grand Avenue offering an additional 36,000 square meters of leasable spaces, befitted for BPO and retail.

2018 also saw two industry leaders in a massive corporate development agreement. Megaworld has signed a deal to construct a 25-storey build-to-suit office tower for the Philippine Global Service Center of JPMorgan Chase Bank, N.A., the leading global banking and financial

*10 West Campus*
*McKinley West, Taguig City*

services provider. It is considered to be the biggest single office lease transaction in the country and in ASEAN in terms of transaction value and total office space leased to a single company.

*One Paseo*
*ArcoVia City, Pasig City*

The landmark development will be in a 70,000 square meter leasable area along 38th Street corner 9th Avenue in Uptown Bonifacio. UK-based award winning architectural firm Broadway Malyan designed the tower which is expected to be operational by 2022.

"There is much excitement in Megaworld on this newly-inked transaction. This creates optimism and buoyancy that move the company towards finer innovation and inner resolve to face bigger future accounts," adds Tan.

Megaworld is on track on its plans in intensifying its countrywide office development projects in support of the ever-growing outsourcing industry. It targets to offer a total of 1.5 million square meter of gross leasable area by 2020.

# Enthralling Sights & Sounds



Convenience and indulgence are now just a few steps away for those in the South.

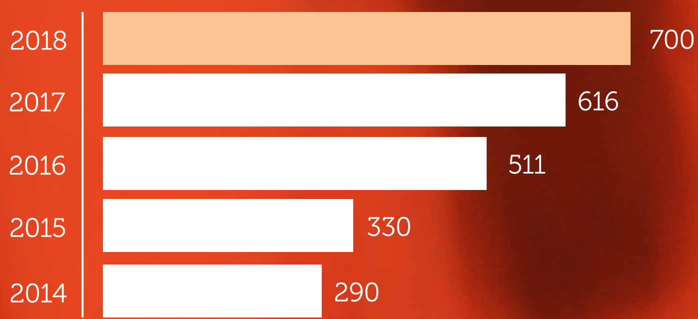
Megaworld opened the doors of Southwoods Mall, the largest mall in South Luzon and added more reasons to smile in Iloilo City with the unveiling of the Festive Walk Mall.

The regions outside Mega Manila are bustling with activities and Megaworld will continue to complement the wonders of the cities and its people with its lifestyle malls.

What's basic, what's trendy, what keeps the people happy, they're all in the Megaworld Lifestyle Malls.



LIFESTYLE MALLS GROSS FLOOR AREA
(in thousand square meters)



# Enthralling Sights & Sounds


Shopping malls have become an integral structure in the daily lives of the Filipinos, enjoyed mostly by different generations of mallgoers. In the three decades of its presence in the realm of real property, Megaworld has revolutionized the usual place of shopping and get-together to a splendid venue of lifestyle. Within each township, the Megaworld Lifestyle Malls have become a signature destination and a must-haven for its consumers.

The company expanded its corporate retail portfolio for the year with the opening of five (5) commercial properties among its townships throughout the country. Megaworld ended the year with 700,000 square meters of floor area for mall and commercial properties.

The Village Square Alabang is the latest lifestyle destination south of Metro Manila, replete with merchandise, dining and service hubs for those living in Parañaque and Las Piñas City.


*The Village Square*
*Las Piñas City*

The doors of retail opened in two of Megaworld's newest township developments –12.3-hectare urban masterpiece ArcoVia City and the 62-hectare Beverly Hills-themed Alabang West– both are home to Landers Superstore. A membership grocery retailer, Landers also offers a variety of conveniences and essential services at a discount for its active members.

Lifestyle malls are also at the high-end locations of McKinley Hill and Uptown Bonifacio, both in Taguig City.



# Enthralling Sights & Sounds


*Festive Walk Mall*
*Iloilo Business Park, Iloilo City*


*Uptown Parade*
*Uptown Bonifacio, Taguig City*

Other areas in Southern Philippines also experienced the accessibility of basics and trends.

A more recently opened commercial area in Western Visayas region is the Festive Walk Mall within the Iloilo Business Park township. The P2.2 billion structure, considered the first full-scale grand mall in the whole of Iloilo City, has 90,000 square meters

*Festive Walk Parade*
*Iloilo Business Park, Iloilo City*

of commercial space with lush gardens. It is also the city's first pet-friendliest mall having its own dog park and a concept café for pet owners who wish to dine-in with their pets. The mall won the Highly Commended Award for "Best Retail Architectural Design" at the 2018 Philippines Property Award, again a first for any mall in the whole of Western Visayas. "It is best to move in relation to opportunity. We have accelerated our efforts in deepening our investment portfolio by providing more townships with complementary lifestyle malls not just in Mega Manila but also in the central cities of the regions. These developments translate to convenience, green living, tourism and employment," explains Kevin Tan. Rental revenues from Megaworld Lifestyle Malls and commercial properties contributed P5.5 billion to the Group's consolidated revenues during the year.

# Holiday Stay Made Unforgettable

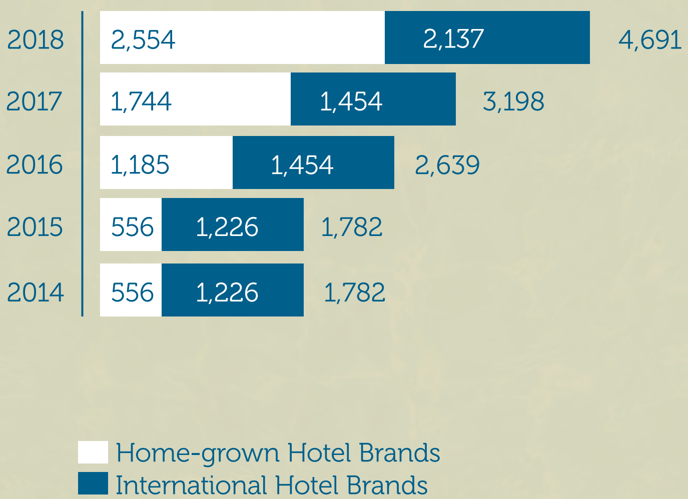

The tourism industry of the Philippines is soaring to new heights.

AGI is set to provide in various places of the country the much-needed relaxation spaces, from our home-grown hotel brands to the world's biggest names in luxury hotels.

AGI aims to be the country's largest hotel operator in terms of room keys targeting to reach 12,000 hotel rooms in the near-term.

#travelgoalsPhilippines

## HOTEL ROOM KEYS



# Holiday Stay Made Unforgettable

*Port Bar*
*Hilton Manila*


*Hilton Hotel Manila*
*Newport City, Pasay City*

AGI intensified its tourist-oriented business by priming its hospitality portfolio, confident on the recent economic outlook and the continuing influx of travelers in the country. Prospects run high on the strategic establishments of its broad range of hotels and resorts facilities.

AGI, through its subsidiaries Megaworld and Travellers International Hotel Group, Inc. further reinforced its position as the country's largest player in the Philippine tourism sector as it finally opened the doors of its newest hotels in 2018.

"We've always aimed to be the country's largest hotel chain operator. We can achieve the goal by developing our homegrown


Hilton and Sheraton Hotel Manila Pool Area




hotel brands and, at the same time, continue building a solid partnership with first-rate global hotel names," said Kingson Sian. He further adds, "The Philippines is fast becoming one of Asia's leading destinations. It is growing intensively in many aspects especially in travel and tourism. We want to satisfy the essentials and more, to help create that exhilarating experience for the consumers."

Travellers' exquisite range of global hotels make a splendid silhouette against the country's urban skylines. The Hilton Manila opened within the Resorts World Manila complex at Newport City, making it highly accessible about 5 minutes away from the NAIA, with direct connections to Terminal 3 via the Runway Manila skybridge. The luxury oasis offers 357 rooms equipped with the brand's signature features and innovations, including the Digital Key "direct-to-room" technology, which allows guests to use their smartphone or tablet as their room key for easy access. This feature is exclusively available for Hilton Honor members.

# Holiday Stay Made Unforgettable

Courtyard by Marriott
Iloilo Business Park, Iloilo City

The conglomerate's hotel development is wide-ranging as it extends towards Western Visayas. The capital city of Iloilo just opened its very first international hotel, Courtyard by Marriott. The 326-room grand hotel sits at the sprawling 72-hectare Iloilo Business Park by Megaworld. Guests are walking-distance away from the Iloilo Museum of Contemporary Art, the new lifestyle shopping center Festive Walk Mall and other establishments.

AGI, through Megaworld, also launched during the year two of its homegrown hotels: the Savoy Hotel Manila and Twin Lakes Hotel & Spa.

Savoy Hotel Manila is a P5 billion development property inside the Newport City. The 684-room hotel is designed for the millennial business and leisure travelers. It offers themed spaces fittingly called The Squares that are equipped with high-speed internet connection, books, snack corners and express check-out counters where guests can access these amenities 24/7.

Twin Lakes Hotel & Spa is situated in Laurel, Batangas, within the incorporated tourism estate development of Twin Lakes—a premium township that completes the tourism atmosphere with the panoramic view of the famed

Twin Lakes Hotel and Spa
Pool Area

Twin Lakes Hotel and Spa
Twin Lakes, Batangas



Taal volcano and lake, in addition to its remarkable shopping village. The magnum opus of the country's first and only vineyard resort community is its 177-hectare vineyard that will bring Europe's winemaking traditions to the Philippines. Guests are more than welcome to pick the ripened grapes and enjoy their harvest for the season.

The exceptional design, location, and tourism potential won Twin Lakes Hotel the "Best Hotel Development" Award at the 2018 Philippines Property Awards. In Bangkok, Thailand, the hotel was bestowed the Country Award for Best Hotel Development in Asia category.

The aggressive stance of AGI on full-service hospitality will see more hotel launches all over the metro areas of the Philippines in the next few years. The Sheraton Manila was launched in January 2019 while Hotel Okura and the swanky Ritz-Carlton Hotel will soon tower over at the Resorts World Manila complex. Cebu will also shortly welcome Megaworld's homegrown Belmont Hotel in Mactan.

Kevin Tan is pleased with the current pace of the conglomerate in its hotel endeavors, "It is very viable as AGI reaches its target of 12,000 hotel room keys in the near term. Our strategy is to broaden our focus in order to cater to the whole spectrum of travelers. In line with this, we will continue to expand outside Metro Manila and provide what best suits the guest."

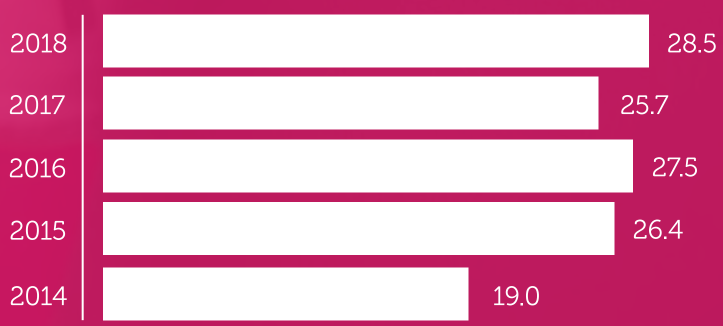
# Exhilarating Experience

With revitalized energy, Travellers' Resorts World Manila unveiled the soft opening of its Grand Wing with new gaming areas and its amazing line of international and local hotel brands.

Once again, the integrated resort has reasserted itself as the most exciting destination as it brought more world-class quality entertainment and events.

More games, more music, more shows, more food. It's definitely more fun at Resorts World Manila.

RWM COMPLEX VISITATION
(in thousands)



# Exhilarating Experience

*Resorts World Manila*
*Newport City, Pasay City*


The sharp rise in revenues and foot traffic at Resorts World Manila (RWM) in 2018 reestablished its position as the country's most exciting leisure and entertainment destination.

Travellers International, which owns and operates RWM, posted a recovery in gaming revenues in 2018, rising 17% to P20.0 billion. Its non-gaming segment, led by hotel and MICE operations, posted a record high of P4.7 billion in revenues. Property visitation improved with a daily average of 28,500 for the year.

Travellers' much anticipated soft opening of its Grand Wing brought the aggregate of the RWM complex gaming area to around 30,000 square meters with a total of 299 casino tables and 1,822 slot machines that cater to premium mass and VIP patrons. The Grand Wing features a state-of-the-art live entertainment bar with a dynamic stage that allows premium views of shows from every corner of the bar. It complements the Garden Wing which houses the non-VIP area on the ground floor with a themed high energy zone and live entertainment, and VIP area at the third floor that includes the exclusive Genting Club, an invitation-only private gaming facility that features luxurious furnishings, fine dining options, and a high-end lounge.

"Everyone deserves to be entertained to his or her liking from the millennials to the baby boomers. That's why in RWM, we saw the importance to address the desires and demands of all these segments," remarked Kingson Sian, Travellers CEO. "We are very pleased to have our new hotels, gaming, entertainment, and retail spaces together with other new facilities now available for everyone's




consumption and enjoyment. For the coming year and beyond, expect more from us in Resorts World Manila."

Guests flocked to watch the live performances of both local and foreign acts in the various entertainment venues of the integrated resort complex. RWM's noteworthy endeavors in making many local productions come alive says much of its staunch confidence in the Filipino artists. The El Calle Food & Music Hall at the second floor of the Newport Mall is a favorite chill-out spot among the patrons for that perfect acoustic vibe. People enjoy its nightly entertainment featuring the country's best acoustic acts with El Calle's unique choices of food and drinks.

The all-original musical *Ang Huling El Bimbo* was also a crowd favorite when it top-billed at the Newport Performing Arts Theater. Produced by RWM and Full House Theater Company, *Ang Huling El Bimbo* is a story about the friendship, heartbreaks and life journey among four friends. Currently on its second run, the musical hit features more than 30 of the original songs of one of the most iconic rock bands of the Philippines, the Eraserheads. The restaging of the beloved show is just one of the many special highlights of RWM on its 10th anniversary.

"This 2019 marks the 10th anniversary of Resorts World Manila and we came up with the "X" campaign. X meaning 10 in the Roman numerical system. This means many "X"-tra special offerings await our guests," said Sian.

RWM's complete list of activities, marketing promotions and updates on facilities are easily accessed through its mobile app.




Emperador Inc. introduces its newest additions to its line-up of brew: Fundador Supremo and The Bar Premium Gin.

It is a most promising year for Emperador as it raised the bar another notch higher with the overall high performances of its international and local brands, both in the overseas and the Philippine markets.

Proof of Filipino ingenuity and global strength, Emperador raises its glass as a salute to every Filipino's success.

## PREMIUMIZATION STRATEGY

| | |
|---|---|
| Luxury | Dalmore |
| Super Premium | Shackleton, Jura, Fettercairn, Tamnavulin |
| Premium | Whyte & Mackay, Fundador |
| Standard | Andy Player, Tres Cepas, Emperador Deluxe, John Barr |
| Millennials/ RTD | Smirnoff Mule, Raffa, Hot Shot, Andy Cola, The Bar Gin |
| Mainstream | Emperador Red, Emperador Light, Emperador Gold, Emperador Brandy |

# Spirit of Excellence

Emperador Inc., the Philippines' premier liquor company and the world's largest brandy producer has once more kept its dominant position in the local industry and continues its journey to global highpoint with its foreign brands.

Driven by its international whisky and brandy operations, Emperador sets a new record in consolidated revenues, bringing the level 10% higher to P47.0 billion in 2018.



"We broke the barrier when the Philippine's first brandy, Emperador Brandy was launched in 1990, while the foreign acquisitions made the company an industrial game-changer.  Both occasions placed Emperador in an optimistic position to revolutionize the spirits industry while keeping alive the legacy of its products," said Kevin Tan.


Its brand acquisition Whyte and Mackay Group (WMG) has remained the primary growth driver with its revered Scotch whisky brand, the Dalmore retaining its position at the apex of the single malt category through both the Core Range and the Rare Expressions. WMG added the Dalmore Port Wood Reserve to the Core Range and carried on with limited releases of 35YO, 40YO, 45YO and Vintage Expressions.

Other single malt whisky brands of WMG have also gained extensive market attention through series of liquor launches.
Jura enjoys increasing popularity with its redesigned products, its introduction of new expressions and the launch of an exclusive product range for travel retail.
Distilled, matured and bottled in Scotland, Tamnavulin maintains its strong retail presence with the release of its rare expressions 2000, 1979, 1973 and 1970 from its Vintage Collection.

The fourth single malt brand Fettercairn was relaunched in 2018 with its 12YO, 28YO, 40YO and 50YO expressions, all showcasing the iconic unicorn symbol.

WMG expanded its portfolio with the introduction of a new blended Scotch whisky, The Woodsman. Another blended whisky, Shackleton, continues to widen its market stature in the UK, US and Travel Retail.
Whyte and Mackay took home a set of enviable awards for the year - the Distiller of the Year by Whisky Magazine China, 9 golds from the International Wine & Spirit Competition (IWSC) and International Spirits Challenge and the trophy for Best Aged Blend from IWSC.

Another Emperador brand asset, Bodegas Fundador embarked in 2018 its global expansion plans with new partners. Fundador Brandy, an aspirational Spanish brandy in the Philippines, is being promoted throughout Asia. Fundador Supremo, a super-premium Brandy De Jerez with 12YO, 15YO and 18YO

statements, is now available in Travel Retail. Its 15YO Supremo won the Silver Award Cask Category at the 2018 IWSC held in Guildhall, London and the 18YO gained a trophy at the prestigious W&S Competition in Hongkong. Another Bodegas Fundador brand, Terry Centenario, introduced two new expressions "Double Wood" and "Triple Wood" and started their distribution through new largescale partnerships.


To bring the taste of Spain's Fundador closer to the Filipinos, Emperador launched Fundador Café, the first-of-its kind concept store in the country at the Venice Grand Canal in McKinley Hill that has a wide variety of hot and cold beverages and food infused with Fundador's finest liquors.

In pursuit of further growth, Emperador extended its international distribution to 55 countries by end of 2018, coinciding with the successful launches of Emperador Hotshot in the US and Zabana 8 in Hongkong. The company affirms its global imprint by fortifying its presence in travel retail at more than 300 international airports of 100 countries.


Though the giant industry player is very pleased with the international run of its products, domestic premiumization is its key strategy to ensure a continuing strong foothold in the local market.

The company launched three new delicious variants of The Bar for the new generation of gin drinkers. Pink Gin is a berry-flavored concoction that is a recent craze in Europe. Green Gin is the refreshing citrusy-lime flavored variant. The Bar Premium Dry Gin is for those that prefer something more refined to their taste. The variants are all infused with essences of botanicals from the gardens of Andalusia, Spain.


Smirnoff Mule also shares in the market limelight by retaining the Philippines' Most Preferred Drink in the Alcoholic Ready-To-Drink category for 2018.

Emperador Light celebrates its success with the *"Galing ng Pilipino'* thematic campaign that pays tribute to the commendable qualities of the Filipino that makes him a cut above the rest: *Magaling. Ibang Klase ang Talino, May Sipag na Angat sa iba.* The promotional campaign is based on the original song, *Ating Tagumpay,"* sang by Coco Martin, one of the country's biggest celebrities who also stars in the ad commercial. The campaign runs in different media platforms which include above-the-line and digital channels.

Kendrick Tan, Emperador Executive Director enthuses, "We are committed to innovation and reinvention. We are slowly seeing a turn of preferences of the Filipino consumer because of what we have been offering: value-added drinks that wonderfully appeal to their senses and lifestyle." Emperador also hinges on the overall economic forecast of positive growth of the country for 2019, eyeing this as an opportunity of more Emperador products for Filipino consumers and the world market.

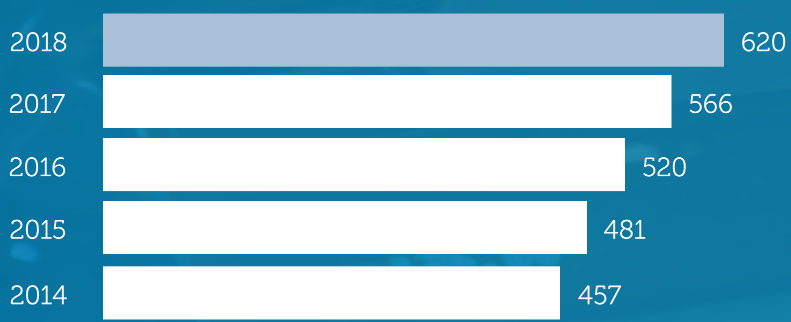
# Taking a Bigger Bite

McDonald's Philippines adds another feather to its cap: 600th store in 2018, and counting. Plus, there's more to just establishing stores.

Take a sneak peek at the NXTGEN stores, boasting Self-Ordering Kiosks-a new way to order your McDonald's favorites.



## STORE COUNT



# Taking a Bigger Bite

*McKinley West, Taguig City*

Golden Arches Development Corporation (GADC), master franchise holder of McDonald's in the Philippines, continued to strengthen its position in the quick service restaurant industry.

GADC ended 2018 with McDonald's opening its 620th store in Cavite. The restaurant chain surpassed expectations by opening a record-breaking 61 new stores during the year. This comes after an increased investment of about P2 billion in support of expanding its foot print in the country with new store openings. The company eyes to open at least 50 new stores in 2019.

Aside from its continued expansion, inclusive within the growth is the company's commitment to elevate the customer experience of Filipinos through restaurant innovations and eCommerce like its McDelivery service.

Kenneth Yang, President and Chief Executive Officer of McDonald's Philippines recognizes


*NXTGEN Ordering kiosks, McKinley West*

the need to leverage on technology to future proof the business. McDonald's has always been a pioneer in innovating to improve the customer experience to respond to their changing needs and lifestyle. We grow with them without compromising our fundamentals." Stressing further, "Food quality, fast, friendly and efficient service, and cleanliness of our restaurants is our core. Our brand of service will never change despite expending technology and innovations"

McDonald's Philippines amplifies its commitment to the Filipinos by continually bringing world-class customer experience of convenience, service, and innovations. It has adopted a multi-point service platform with Self-Ordering Kiosks and a cashless payment system, powered by PayMaya Business, calling this new store format NXTGEN. This new store format provides customers a seamless and more convenient dining. McDonald's Philippines' flagship NXTGEN store opened in October at McKinley West, Taguig City.

Before the year ended, there are 17 NXTGEN stores in the country in cities like San Juan, Pasig, Quezon City and Makati, all in Metro Manila, as well as in key locations in Pampanga, Cavite, Laguna and Boracay. Yang revealed that the company projects 10% of its restaurants to follow the NXTGEN store format by 2019, and to increase to 70% by 2021.

Aside from restaurant innovations, GADC also focused on the growth of its e-Commerce platform, McDelivery. The overall delivery experience was enhanced with the relaunch of its new and improved website and app, which now features a more modern and intuitive interface. McDelivery also increased its customers' accessibility by partnering with the leading food aggregators in the country, foodpanda and GrabFood. As a result, digital orders doubled and total McDelivery sales posted its third straight year of double-digit growth.

Growth through innovation extends not just on technology and service but also to McDonald's Philippines' menu. A new variant of the classic Chicken McDo was introduced to further delight and excite customers—the Spicy Chicken McDo. This is a fiery take on the Chicken McDo, marinated and breaded in a perfect blend of spices and fried to perfection.

# Taking a Bigger Bite

McDonald's strengthened its promotions for its McCafé range, made with great quality and affordable coffee-based beverages. The lineup includes McCafé Premium Roast Coffee, made with 100% Arabica beans with a rich, dark, roasted aroma; McCafé Iced Coffee, with its mix of sweet and creamy goodness; and McCafé Coffee Float, topped with vanilla soft serve sundae and drizzled with chocolate syrup.

Customers are also able to enjoy an enhancement to the well-loved McSpaghetti with its new and improved formulation. The new recipe that was introduced was made even meatier and cheesier, just the way children like it, making it both kid-loved and mom-approved.




In its quest to become every Filipino family's first choice, McDonald's was consistent in mounting its annual family-centric programs, which saw greater participation this year. Children across the country participated in the Kiddie Crew Workshop, McDonald's annual summer




program that lets kids experience play-based activities that allow them to learn good values, build confidence, and discover new talents.

Families can also enjoy their special moments in McDonald's through McCelebrations parties. This year, McDonald's made it easier for parents to book and pay for their kids' birthday parties with the launch of its online birthday party booking website, mccelebrations.com.ph.

Various prestigious award-giving bodies took note of the innovative communications and creative service campaigns of the brand. The industrial giant bagged multiple wins at the 2018 PANAta Awards of the Philippine Association of National Advertisers where McDonald's won five Golds, three Silvers, four Bronzes, and two People's Choice awards. Among the notable campaigns were *"Tuloy Tuloy Pa Rin", "Single Bells", "Love Kita Pa", and "Love Kita Ma."* The *"McDelivery Pin"* campaign for the Undas or Day of the Dead won for MdDonald's the Brand Builder of the Year Award.

McDonald's also won the Advertiser of the Year award at the Philippine Boomerang Awards for "McDelivery Pin". It was presented with Best in Show, Best in Strategic Excellence, Gold in the Food Service category and Silver for Effectiveness-Sales.

At the Asia-Pacific Tambuli Awards, McDonald's Philippines took Silver and Bronze awards for its "Love Kita Pa," "Don't Take Family for Granted," and "McDelivery Pin" campaigns.

During the inaugural YouTube Ads Awards Philippines, the brand was awarded Ad of the Year for its "Wait Lang Po" online video.

On the back of its store expansion, restaurant and service innovations, menu developments, and marketing activities, revenues of McDonald's Philippines through GADC grew 11% to P28.3 billion while net income stood at P1.6 billion.

# Enabling Interactive Connectivity


The well-being of the future starts with the plans of today.

Infracorp acknowledges the full importance of daily commute and the impact of domestic and foreign travels to Philippine citizenry.

Its new projects – the development of the Fort Bonifacio-Makati Skytrain and rehabilitation of the NAIA terminals – shall assure the riding public easy and safe journeys.

A commitment to improved facilities is a commitment to better everyday living.

# Enabling Interactive Connectivity


Infracorp Development Inc. sets a milestone in 2018 as it secured its two flagship projects – the Fort Bonifacio-Makati Skytrain monorail and the rehabilitation of the NAIA terminals. Both undertakings will immensely alleviate conditions of the passage facilities and duly improve the comfort of the riding public. These projects have been granted original proponent status.

The youngest enterprise among the AGI conglomerate, Infracorp, will conduct the Group's infrastructure ventures, highlighting primarily on mass transport.

Infracorp plans to start construction of the Skytrain within the fourth quarter of 2019. The 2-kilometer monorail is set to link the country's two biggest and busiest central business districts, Fort Bonifacio and Makati City,

with stations to be situated at Guadalupe in Makati and Uptown Bonifacio.

The Skytrain will dramatically cut the commuters travel time to five minutes, easing the daily commute of almost 100,000 passengers. "We want to make things more efficient for everyone, and the Skytrain is a main artery of interconnectivity that can help us achieve speed and efficiency to help those working and living in these two major business and uptown areas," said Kevin Tan, Infracorp President.

Frowned upon by critics as one of the world's worst airports, the NAIA will soon get its much-needed upgrade. Infracorp, through parent company AGI, joins the super consortium formed to work closely with the Manila International Airport Authority administration to improve the facilities of the land and air sites of its four terminals.

Based on its plans, the public should see visible changes in the first 18 months of modernization. From the check-in facilities to the air traffic control system, the new improvements are deemed to not only cope with the increasing international and local flights, these also thrust a big boost in Philippine tourism and its economy. Tan further adds, "Right now our country's tourism progress is scaling upwards, it can grow higher if we have a better gateway. I think we can attract more investors and gain more economic growth. And a lot of it is contingent on infrastructures like the airport, so if we fix that, then its sky's the limit for our country."

Both infrastructure undertakings are targeted to be finished by 2021.

Infracorp plans to delve into more opportunities on the development of mass transport system and other infra-based projects. The company expects more infrastructure projects that will generate the enhancement of its subsidiaries as well as the interests of the general public.

## ALLIANCE GLOBAL GROUP, INC

### THE ASSET CORPORATE AWARDS 2018

Gold Anvil Award

- For Governance, Environmental, and Social Responsibility, and Investor Relations

### PROPERTY GURU'S ASIA PROPERTY AWARDS

Dr. Andrew L. Tan
"PropertyGuru Icon Award"

### BIZNEWS ASIA

Dr. Andrew L. Tan
2018 Excellence Awards

## DR. ANDREW L. TAN

### CORPORATE GOVERNANCE ASIA (8TH ASIAN EXCELLENCE AWARD 2018)

Andrew Tan
Chairman and CEO of Megaworld Corporation
Asia's Best CEO (Investor Relations)

### SPANISH GOVERNMENT

Dr. Andrew L. Tan
Spain's highest civil honor with the title Ilustrísimo or Honorable

### THE MANILA TIMES ASIAN LEADERS AWARDS

Dr. Andrew L. Tan
"Lifetime Excellence Awards" for Real Estate
Best Entrepreneur of the Year

## MEGAWORLD CORPORATION

### ANVIL AWARDS

Gold Anvil Award

- #TownshipsAreUs: Public Relations Program on a Sustained Basis Digital Campaign
- #TownshipsAreUs: Public Relations Tools Multimedia/Digital Online Video
- Cause for a New Coast: Public Relations Program on a Sustained Basis Good Governance Social Responsibility

Silver Anvil Award

- Inside World
- Megaworld Foundation
- The Lechon Festival at The Mactan Newtown
- Eastwood City Weekend Gourmet Market
- #TownshipsAreUs: Specialized Public Relations Program Corporate Identity Program

## STEVIE AWARDS

**Cause for a New Coast 2017: A Movement to Save the Island of Boracay**
Award for Innovation in Community Relations or Public Service Communications

**Inside World: Megaworld's Home of Digital Information**
Award for Innovation in House Organizations and Publications

**#TownshipsAreUs: The Magic of Social Media Videos**
Award for Innovation (Events) in the Use of Social Media Award for Innovation (Communication) in the Use of Social Media

**Philippines' biggest 'Beary' Merry Christmas on display**
Award for Innovation in Consumer Events

## TRAVEL AND HOSPITALITY AWARDS

**Belmont Hotel**
Best Airport Hotel

**Savoy Hotel Boracay**
Best Hotel Development (Western Visayas)

## THE GLOBAL CSR SUMMIT & AWARDS 2018

**Boracay Newcoast**
Best Environmental Excellence Award (Platinum)

**Megaworld Public Relations and Media Affairs**
Best Corporate Communication and Investor Relations Award (Platinum)

## PHILIPPINE DEALING SYSTEM ANNUAL AWARDS

**Megaworld Corporation Bonds**
Top Traded Corporation Bond Issue of the Year"

## INTERNATIONAL FINANCE AWARDS

**Megaworld Corporation**
Best Real Estate Development Company - Philippines

**Philippines Property Awards**
**Megaworld Corporation**
Best Developer

**Empire East Land Holdings, Inc.**
Special Recognition in CSR

## DEVELOPMENT AWARDS

**The Albany by Megaworld Corporation**
Best Luxury Condo Development in Metro Manila - Highly-commended

**The Rochester by Empire East**
Best Mid End Condo Development in Metro Manila - Highly-commended

**Suntrust Shanata by Suntrust Properties, Inc.**
Best Affordable Condo Development in Metro Manila

**Iloilo Business Park by Megaworld Corporation**
Best Township Development

**Twin Lakes Hotel by Global-Estates Resorts Inc.**
Best Hotel Development

## DESIGN AWARDS

**Uptown Bonifacio by Megaworld Corporation**
Best Township Architectural Design

**Festive Walk Mall by Megaworld Corporation**
Best Retail Architectural Design - Highly-commended

## BCI ASIA

**Megaworld Corporation**
The Top Developers in the Philippines for five straight years

## 447TH ARAW NG MAYNILA

**Megaworld Corporation**
City of Manila Top Ten Real Property Tax Payers for the 3rd consecutive year

## CORPORATE GOVERNANCE ASIA (8TH ASIAN EXCELLENCE AWARD 2018)

**Megaworld Corporation**
Best Investor Relations Company (Philippines)

## PHILIPPINES CSR LEADERSHIP AWARDS 2018

**Megaworld Foundation**
Best in Corporate Social Responsibility Practices

**Dr. Francisco C. Canuto**
100 Most Impactful CSR Leaders - Global listing

## QUILL AWARDS

**#TownshipsAreUs**
The Magic of Social of Media Videos (Social Media Campaign)
Award of Merit for Communication Skills - Digital Communications
Humanizing Real Estate (Social Media Campaign)
Award of Excellence for Communication Management - Social Media Programmes

**Philippines' Biggest Beary Merry Christmas on Display**
Award of Merit for Communication Management - Media Relations

**Megaworld Foundation Scholarship Program**
Award of Merit for Communication Management - Corporate Social Responsibility

**McKinley Hill Grand Christmas Parade**
Award of Merit for Communication Skills - Special Events

## TRIP ADVISOR

**Belmont Hotel**
Certificate of Excellence

## STEVIE AWARDS' INTERNATIONAL BUSINESS AWARDS

**Inside World: Megaworld's Home of Digital Information**
Award for Innovation in House Organizations and Publications

**#TownshipsAreUs: The Magic of Social Media Videos**
Award for Innovation (Events) in the Use of Social Media

**Megaworld Foundation Scholarship Program: Building Homes, Building Lives**
Corporate Social Responsibility Program of the Year - in Asia, Australia and New Zealand

## PHILIPPINE TATLER MEN WHO MATTERS

Kendrick Tan

## THE MANILA TIMES ASIAN LEADERS AWARDS

**Megaworld Corporation**
Grand Winner for "Real Estate Company of the Year"

## FIABCI PHILIPPINES PROPERTY AND REAL ESTATE EXCELLENCE AWARDS

**Megaworld Corporation**
Outstanding Developer of the Year (Hall of Famer)

## PROPERTY GURU'S ASIA PROPERTY AWARDS

Twin Lakes Hotel
Best Hotel Development (Asia)

Iloilo Business Park
Best Township Development (Asia)

Megaworld Corporation
Best Developer (Asia)

## 2018 INTERNATIONAL AWARD IN EXCELLENCE AND QUALITY CONVENTION

Megaworld International
Diamond award for Excellence and Quality

## FWN GLOBAL 100

Ms. Marivic Acosta
Most Influential Filipina Women in the World!

## LAPU-LAPU CITY GOVERNMENT

Megaworld Corporation
Top taxpayers in Cebu

## ASIA CEO AWARDS

Grand Winner –
Executive Leadership Team of the Year

Circle of Excellence –
Executive Leadership Team of the Year

## THE MANILA TIMES

Megaworld Corporation
One of the top advertisers of the year

## TRIPZILLA EXCELLENCE AWARDS 2018

Savoy Hotel Manila
Best New Hotel (Philippines)

Richmonde Hotel Ortigas
Best 3-star hotel

## THE ASSET CORPORATE AWARDS 2018

Megaworld Corporation
Gold award for Governance, Environmental Responsibility, Social Responsibility and Investor Relations

## LAMUDI THE OUTLOOK (NOVEMBER 15)

Megaworld Corporation
Best Developer Visayas & Mindanao

Iloilo Business Park
Best Mixed-Use Development Visayas & Mindanao

McKinley Hill
Best Mixed-Use Development Luzon

Shanata of Suntrust Properties Inc.
Best Affordable Condominium - Luzon

Verona of Suntrust Properties Inc.
Best Affordable House - Luzon

## DEPARTMENT OF TOURISM VI

Megaworld Corporation
Tourism Recognition Award

## PEOPLE ASIA

Kevin Tan
One of the "People of the Year" 2018

## COMMUNITAS AWARDS 2018

**Megaworld Foundation**
- Excellence in Community Service - Company Sponsored Volunteer Project
- Excellence in Community Service - Philanthropy
- Excellence in Community Service - Organization's Specific Program
- Excellence in Corporate Social Responsibility - Corporate Social Responsibility/New Category (Provision of Educational Access)
- Excellence in Corporate Social Responsibility - Making a Difference

## INTERNATIONAL CSR EXCELLENCE AWARDS 2018

**Gold Award**
- Socio Economic
- Community Commitment

**Silver Award**
- Corporate Leadership
- Initiatives
- Partnerships/Sponsorship

# EMPERADOR INC.

## INTERNATIONAL SPIRIT CHALLENGE 2018

**Gold Medal**
- Dalmore Cigar Malt Reserve
- Dalmore 40YO
- Fettercairn 40YO New ('18 RELEASE)

**Silver Medal**
- Fundador Exclusivo
- Fundador Supremo 15YO Amontillado

**Bronze Medal**
- Zabana Blanco Rum

## INTERNATIONAL WINE SPIRIT COMPETITION 2018

**Silver Outstanding Medal**
- Fundador Exclusivo
- Fundador Supremo 12YO Pedro Ximenez
- Fundador Supremo 15YO Amontillado

**Gold Medal**
- Dalmore 25YO
- Dalmore 35YO
- Dalmore 40YO
- Dalmore 50YO
- Jura The Loch
- Jura 30YO
- Fettercairn 28YO ('18 RELEASE)
- Fettercairn 40YO New ('18 RELEASE)
- Fundador Supremo 18YO Oloroso

## CHINA WINE & SPIRIT AWARDS 2018

Double Gold Medal
- Fundador Supremo 12YO Pedro Ximenez

Gold Medal
- Fundador Supremo 15YO Amontillado

Bronze Medal
- Fundador Supremo 18YO Oloroso

## WORLD SPIRITS AWARDS 2018

Gold Award
- Zabana White Rum

## MONDE WORLD SELECTION 2018

Gold Award
- Zabana White Rum

## HONG KONG INTERNATIONAL W&S COMPETITION 2018

Trophy Gold Medal
- Fundador Supremo 18YO Oloroso

Silver Medal
- Fundador Supremo 12YO Pedro Ximenez
- Fundador Supremo 15YO Amontillado
- Zabana White Rum
- Zaban Blanco Rum

Gold Medal
- Zabana Double Aged Rum

## SAN FRANCISCO WINE AND SPIRIT COMPETITION 2018

Gold Medal
- Fundador Supremo 15YO Amontillado

Silver Medal
- Fundador Supremo 12YO Pedro Ximenez
- Fundador Supremo 18YO Oloroso

# GOLDEN ARCHES DEVELOPMENT CORPORATION

## PHILIPPINE ASSOCIATION OF NATIONAL ADVERTISERS (PANA)

McDonald's Philippines – McDelivery Pin
Brand Builder of the Year Award

## PHILIPPINE BOOMERANG AWARDS

Mcdonald's Philippines – McDelivery Pin
Digital Advertiser of the Year Award

## YOUTUBE AD AWARDS 2018

"Wait Lang Po" (Just a Minute)
Ad of the Year

"Kamusta Ka" (How Are You?)
#1 Spot on the YouTube Leaderboad

# TRAVELLERS INTERNATIONAL HOTEL GROUP

## ASIA-PACIFIC STEVIE AWARDS

Chitty Chitty Bang Bang Interactive Souvenir Programme
Stevie Award for Innovation in Marketing

Kaya Natin 'To benefit show
Stevie Award for Innovation in Internal (Corporate) Events

Run With Me
The Stevie Award for Innovation in Community Relations

## INTERNATIONAL CSR SUMMIT

LOVE Dish Project
Asia Responsible Enterprise Award (AREA) for Social Empowerment

# Corporate Social Responsibility

Corporate Social Responsibility (CSR) plays a vital role in the company culture of AGI. The interests of the consumers, partners, stakeholders, employees, and the wider community are reflective on the social engagements of the individual companies of the conglomerate that altogether are committed to AGI's ultimate goal of nation-building.

For over 20 years, the Megaworld Foundation has been at the forefront in extending financial and other forms of assistance especially in the sector of education. AGI founding mogul and Megaworld Foundation chairman, Dr. Andrew Tan, has always believed in the development of the youth through education, in order for them to become the ideal leaders for the succeeding generations.

From its initiative of two pilot universities, the Megaworld Foundation is partnered currently with 26 of the country's leading universities and colleges, offering free tuition fees and stipends to deserving candidates. Presently supporting 477 students, these undergraduates are showing academic excellence in their chosen fields of studies. Since 2005 up to the present, the Megaworld Foundation has awarded almost 6,000 grants, produced more than 600 scholars, with 291 of them graduating with honors.

This year the Megaworld Foundation has added full high school scholarship grants with allowances for both private and public secondary schools.

The Megaworld Foundation also believes that the preservation and embrace of the homegrown culture is fundamental to nation building. As such, it has initiated the opening of the first art institution in the Visayas and Mindanao, the Iloilo Museum of Contemporary Art, solely dedicated to featuring the creative and contemporary works of mostly Filipino and Ilonggo artists.

Aside from academic scholarships and local cultural promotions, the Megaworld Foundation is also keen on affording help to charitable causes, giving financial aid to institutions across the Philippines. Admittedly, part of the key components in achieving the fullest sense of its CSR activities is the continuous voluntary participation of its employees.

Care of the environment is also one of the advocacies of the foundation. In April 2018, Global-Estate Resorts, Inc. (GERI , a subsidiary brand of Megaworld), together with its employees and volunteers, has organized a tree-growing campaign at Twin Lakes, the company's tourism township near Tagaytay. It's "I Love Nature" campaign series was dedicated to cultivating the company's enduring pact with Mother Nature. A total of 152 seedlings of flowering trees now adorn the landscape of the township, thanks to the 100 employee-volunteers of GERI-Megaworld.

Megaworld has been taking great considerations in implementing technological advances espousing them with its aesthetics to create true sustainable living within its townships, posing minimal-to-no-risk to the environment.

# Corporate Social Responsibility


Resorts World Manila (RWM) of Travellers gained another milestone event on the success of its 3rd annual *Run With Me* charity race held at the Mall of Asia grounds on August 26. The globally recognized charity event had 5,000 runners participate to raise funds for six partner beneficiaries of the premier lifestyle and entertainment destination.

The 2018 event raised the largest amount so far of all the *Run With Me* events with P3.5 million donated to charities YESPinoy Foundation, HERO Foundation, Right Start Community Development, Inc., Empowering Brilliant Minds Foundation, ERDA Tech Foundation, and EPCALM Adult Leukemia Foundation, Inc.

The children of Pasay City were also recipients of the benevolence of RWM and its employees. The company's five-year old CSR initiative League of Volunteer Employees or LOVE Plus program led by its Safety, Security and Health Department, together with friends from the Philippine Army, attended the *'Brigada Eskwela'* event on the building of the new school benefitting elementary students.

Other LOVE Plus program volunteers from RWM's Human Resources and F&B teams banded with the members of the Economic Journalists Association of the Philippines (EJAP) for a LOVE Plus outreach activity and financial sustainability talk for the benefit of the Pasay Social Welfare and Development (PSWD) Department. There was also a meal-sharing and gift-giving activity with around 60 children together with their house parents.

The LOVE program of RWM allows company employees to introduce and participate in civic-minded activities that provide various types of assistance to particular beneficiaries through its umbrella program LOVE Grants.



Travellers continues to support Filipino talents in the performing arts through scholarships via its Original Pilipino Performing Arts Foundation. With the initial seed of P100 million since its inception last 2015, 43 students are now considered *OPPA* scholars engaging in courses like theater, dancing, and acting, to technical skills training.

*OPPA* Chairman Kingson Sian states, "Resorts World Manila is doing more than just flex its strength in doing business; we're also placed in this position to make a difference in the lives of the Filipino people. We have always believed in the genius of the Filipinos especially in the performing arts. We will continue to champion the Filipino talents."

# Corporate Social Responsibility



McDonald's Philippines charity of choice Ronald McDonald House Charities (RMHC) has been a consistent partner for better change towards the improvement of the lives of the Filipino children. Its two local flagship programs, Ronald McDonald's Read to Learn and *Bigay Tulong*, have given tremendous contributions that support the children's needs for education, shelter and happiness.

The Read To Learn program has partnered with almost 10,000 schools, trained 27,046 educators in a span of 16 years. The program has also distributed more than 300,000 books that benefitted some 12,000,000 Filipino children.

Ronald McDonald's Bigay Tulong program helps affected families in calamity-struck areas. McDonald's restaurants serve as drop-off centers for in-kind donations during disaster relief operations. All collected donations are turned over to partner organizations for proper distribution. More than

2.7 million families have received assistance through this relief program since its launch in 2007.

This year, McDonald's Philippines through RMHC opened 4 new Ronald McDonald Bahay Bulilit Training Centers in the southern part of the country, namely: Davao, Marawi, Cebu and Mandaue. These learn-and-play spaces welcome about 70 children per day that are assisted by accredited social workers and community volunteers from the City Social Welfare and Development (CSWD). Here children are taught basic skills in preparation for formal schooling. Children also develop social skills and sportsmanship as they play.

The *Bahay Bulilit* in Marawi is the biggest one in the country and the first that has a separate playground. To date, there are 32 Ronald McDonald *Bahay Bulilit* Training Centers across the nation.

# Board of Directors

## Dr. Andrew L. Tan
Chairman of the Board

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

## Kevin Andrew L. Tan
Director and Chief Executive Officer

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

## Kingson U. Sian
Director and President

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

# Board of Directors

## Katherine L. Tan
Director and Treasurer

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

## Sergio R. Ortiz-Luis, Jr.
Independent Director

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

## Winston S. Co
Director

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

## Alejo L. Villanueva, Jr.
Independent Director

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

# Key Officers

**Kevin Andrew L. Tan**
Chief Executive Officer

**Kingson U. Sian**
President



**Dina D.R. Inting**
Chief Financial Officer

**Atty. Dominic V. Isberto**
Corporate Secretary

# Subsidiaries Top Management

## MEGAWORLD CORPORATION

*From Left:*

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

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

**Kevin Andrew L. Tan**
Senior Vice President
Chief Strategic Officer

## EMPERADOR INC.

*From Left:*

**Winston S. Co**
President
Chief Executive Officer

**Dina D.R. Inting**
Chief Financial Officer
Compliance Officer
Corporate Information Officer

**Kendrick Andrew L. Tan**
Executive Director

TRAVELLERS INTERNATIONAL HOTEL GROUP, INC.

*From Left:*

**Bernard Than Boon Teong**
Chief Financial Officer
Treasurer

**Hakan Dagtas**
Chief Gaming Officer

**Kingson U. Sian**
President
Chief Executive Officer

**Stephen James Reilly**
Chief Operations Officer

GOLDEN ARCHES DEVELOPMENT CORPORATION

*From Left:*

**Robert P. Ramos**
Vice President for Finance

**Margot S. Torres**
Managing Director

**Kenneth S. Yang**
President
Chief Executive Officer

# 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*

| | 2018 | 2017 | 2016 | Percent Growth 2018 | 2017 |
|---|---|---|---|---|---|
| **REVENUES** | **156,785** | **138,789** | **132,895** | **12.97%** | **4.44%** |
| **NET PROFIT** | **23,676** | **22,276** | **22,947** | **6.28%** | **-2.92%** |
| **NET PROFIT TO OWNERS OF AGI** | **15,122** | **15,192** | **14,917** | **-0.46%** | **1.84%** |
| Net profit rate | 15.10% | 16.05% | 17.27% | | |
| NP Attributable to parent | 9.64% | 10.95% | 11.22% | | |
| Return on investment/assets [NP/TA] | 4.02% | 4.16% | 4.97% | | |
| | 31-Dec-18 | 31-Dec-17 | 31-Dec-16 | | |
| TOTAL ASSETS | 588,251 | 535,612 | 461,931 | 9.83% | 15.95% |
| CURRENT ASSETS | 277,726 | 250,043 | 215,061 | 11.07% | 16.27% |
| CURRENT LIABILITIES | 92,440 | 96,733 | 107,435 | -4.44% | -9.96% |
| Current ratio | 3.0x | 2.6x | 2.0x | | |
| Quick ratio | 1.3X | 1.2x | 0.9x | | |

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

*b.* **Discussion And Analysis Of Operations**

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

b.1. ***Results Of Operations – By Subsidiary Groups***

| | MEG | EMP | RWM | GADC | Others | TOTAL |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| **Revenues** | 57,272 | 47,038 | 22,522 | 28,620 | 5,432 | 160,884 |
| Intercompany/ Adjustment | (366) | 7 | (110) | - | (3,630) | |
| Consolidated | **56,906** | **47,045** | **22,412** | **28,620** | **1,802** | **156,785** |
| % contribution | 37% | 30% | 14% | 18% | 1% | 100% |
| **Costs and expenses** | 35,883 | 38,601 | 20,937 | 26,213 | 3,562 | **125,196** |
| Intercompany/ Adjustment | (56) | (28) | (31) | (89) | 9 | |
| Consolidated | **35,827** | **38,573** | **20,906** | **26,124** | **3,571** | **125,001** |
| **Tax Expense** | **5,544** | **1,607** | **145** | **758** | **54** | **8,108** |
| **Net profit** | 15,845 | 6,830 | 1,440 | 1,649 | 1,816 | 27,580 |
| Intercompany/ Adjustment | (310) | 35 | (79) | 89 | (3,639) | |
| Consolidated | **15,535** | **6,865** | **1,361** | **1,738** | **(1,823)** | **23,676** |
| % contribution | 66% | 29% | 6% | 7% | -8% | 100% |
| **Net profit to owners** | 15,219 | 6,658 | 1,444 | 1,646 | 1,819 | 26,786 |
| Intercompany/ Adjustment | (5,292) | (1,111) | (871) | (751) | (3,639) | |
| Consolidated | **9,927** | **5,547** | **573** | **895** | **(1,820)** | **15,12** |
| % contribution | 66% | 37% | 4% | 6% | -13% | 100% |
| **2017*** | MEG | EMP | RWM | GADC | Others | TOTAL |
| **Revenues** | 50,116 | 42,669 | 18,818 | 25,907 | 6,202 | 143,712 |
| Intercompany/ Adjustment | (173) | | (67) | | (4,683) | |
| Consolidated | **49,943** | **42,669** | **18,751** | **25,907** | **1,519** | **138,789** |
| % contribution | 35% | 31% | 15% | 18% | 1% | 100% |
| **Costs and expenses** | 32,346 | 34,813 | 18,320 | 23,501 | 2,178 | 111,158 |
| Intercompany/ Adjustment | (1,584) | (31) | (37) | (89) | 529 | |
| Consolidated | **30,762** | **34,782** | **18,283** | **23,412** | **2,707** | **109,946** |
| **Tax Expense** | **4,063** | **1,503** | **218** | **755** | **28** | **6,567** |
| **Net profit** | 13,707 | 6,353 | 280 | 1,651 | 3,996 | 25,987 |
| Intercompany/ Adjustment | 1,411 | 31 | (30) | 89 | (5,212) | |
| Consolidated | **15,118** | **6,384** | **250** | **1,740** | **(1,216)** | **22,276** |
| % contribution | 68% | 29% | 1% | 8% | -5% | 100% |
| **Net profit to owners** | 13,146 | 6,322 | 289 | 1,628 | 4,017 | 25,402 |
| Intercompany/ Adjustment | (2,894) | (1,125) | (180) | (741) | (5,270) | |
| Consolidated | **10,252** | **5,197** | **109** | **887** | **(1,253)** | **15,192** |
| % contribution | 68% | 34% | 1% | 6% | -8% | 100% |
| **2016*** | MEG | EMP | RWM | GADC | Others | TOTAL |
| **Revenues** | 44,275 | 40,938 | 23,352 | 22,811 | 5,604 | **136,980** |
| Intercompany/ Adjustment | (126) | (22) | (82) | - | (3,855) | |
| Consolidated | **44,149** | **40,916** | **23,270** | **22,811** | **1,749** | **132,895** |
| % contribution | 32% | 30% | 20% | 17% | 1% | 100% |
| **Costs and expenses** | 28,957 | 31,502 | 19,849 | 21,049 | 2,790 | **104,147** |
| Intercompany/ Adjustment | 3 | (26) | (34) | - | (30) | |
| Consolidated | **28,960** | **31,476** | **19,815** | **21,049** | **2,760** | **104,060** |
| **Tax Expense** | **3,497** | **1,742** | **64** | **529** | **56** | **5,888** |
| **Net profit** | 11,821 | 7,694 | 3,439 | 1,233 | 2,758 | **26,945** |
| Intercompany/ Adjustment | (129) | 4 | (48) | - | (3,825) | |
| Consolidated | **11,692** | **7,698** | **3,391** | **1,233** | **(1,067)** | **22,947** |
| % contribution | 51% | 34% | 15% | 5% | -5% | 100% |
| **Net profit to owners** | **11,493** | **7,693** | **3,442** | **1,220** | **2,758** | **26,606** |
| Intercompany/ Adjustment | (3,820) | (1,400) | (1,951) | (622) | (3,896) | |
| Consolidated | **7,673** | **6,293** | **1,491** | **598** | **(1,138)** | **14,917** |
| % contribution | 52% | 42% | 10% | 4% | -8% | 100% |

# Management's Discussion and Analysis

| Year-on-year Change | MEG | EMP | RWM | GADC | Others | TOTAL |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Revenues | 13.94% | 10.25% | 19.53% | 10.47% | 18.76% | 12.97% |
| Costs and expenses | 16.47% | 10.90% | 14.35% | 11.58% | 31.92% | 13.69% |
| Tax Expense | 36.44% | 6.94% | -33.65% | 0.47% | 93.93% | 23.47% |
| Net profit | 2.75% | 7.86% | 444.69% | -0.12% | 52.32% | 6.28% |
| Net profit to owners | -3.16% | 6.75% | 422.69% | 1.04% | 45.45% | -0.46% |
| **2017** | | | | | | |
| Revenues | 13.12% | 4.29% | -19.42% | 13.57% | -13.19% | 4.44% |
| Costs and expenses | 6.22% | 10.51% | -7.73% | 11.23% | -1.93% | 5.66% |
| Tax Expense | 16.21% | -13.73% | 239.57% | 42.57% | -51.23% | 11.52% |
| Net profit | 29.30% | -17.33% | -92.63% | 41.07% | 12.02% | -2.92% |
| Net profit to owners | 33.59% | -17.42% | -92.65% | 48.27% | 9.98% | 1.84% |

- Amounts are in million Pesos. Numbers may not add up due to rounding off. Percentages are taken based on full numbers, not from the presented rounded amounts.
- At AGI consolidated level, as presented above, revenues and costs and expenses may not tally the totals as separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs or expenses at AGI consolidated level.
- 2017 and 2016 were as restated to conform to 2018 presentation.
- RWM revenues are presented net of promotional allowance.

These strong performances are reflected in the profit and loss accounts, as follows:

| *In Million Pesos* | 2018 | 2017 | 2016 | 2018 vs 2017 | 2017 vs 2016 |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Sale of goods | 85,275 | 77,352 | 71,986 | 10.24% | 7.45% |
| Consumer goods | 47,608 | 43,237 | 41,608 | 10.11% | 3.91% |
| Revenues from real estate (RE) sales | 37,667 | 34,115 | 30,378 | 10.41% | 12.30% |
| Rendering of services | 66,177 | 58,292 | 57,952 | 13.53% | 0.59% |
| Gaming | 20,016 | 17,115 | 23,649 | 16.95% | -27.63% |
| Less: Promotional allowance | 4,134 | 2,540 | 4,307 | 62.77% | -41.03% |
| Net Gaming | 15,882 | 14,575 | 19,342 | 8.96% | -24.64% |
| Sales by company-operated quick-service restaurant | 25,605 | 23,070 | 20,540 | 10.99% | 12.32% |
| Franchise revenues | 2,728 | 2,470 | 2,089 | 10.45% | 18.25% |
| Rental income | 14,741 | 12,458 | 10,572 | 18.33% | 17.83% |
| Other services | 7,221 | 5,719 | 5,409 | 26.25% | 5.74% |
| Hotel operations | 5,005 | 4,187 | 3,790 | 19.55% | 10.47% |
| Other services | 2,216 | 1,532 | 1,619 | 44.55% | -5.35% |
| Share in net profits of associates and joint ventures | 291 | 273 | 356 | 6.78% | -23.31% |
| Finance and other income | 5,042 | 2,872 | 2,601 | 75.57% | 10.41% |
| TOTAL | 156,785 | 138,789 | 132,895 | 12.97% | 4.44% |

| *In Million Pesos* | 2018 | 2017 | 2016 | 2018 vs 2017 | 2017 vs 2016 |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| COSTS AND EXPENSES | | | | | |
| Cost of goods sold | 51,609 | 46,044 | 42,761 | 12.09% | 7.68% |
| Consumer goods sold | 31,274 | 28,003 | 26,024 | 11.68% | 7.61% |
| RE sales | 20,335 | 18,041 | 16,737 | 12.72% | 7.79% |
| Cost of services | 34,962 | 30,022 | 29,056 | 16.46% | 3.32% |
| Gaming | 8,546 | 7,748 | 9,042 | 10.30% | -14.31% |
| Services | 26,416 | 22,274 | 20,014 | 18.60% | 11.29% |
| Other operating expenses | 31,577 | 26,996 | 24,961 | 16.97% | 8.15% |
| Selling and marketing | 13,528 | 9,832 | 10,209 | 23.64% | -3.69% |
| General and administrative | 18,049 | 17,164 | 14,752 | 12.42% | 16.35% |
| Finance costs and other charges | 6,853 | 6,884 | 7,282 | -0.45% | -5.47% |
| TOTAL | 125,001 | 109,946 | 104,060 | 13.69% | 5.66% |
| TAX EXPENSE | 8,108 | 6,567 | 5,888 | 23.47% | 11.52% |
| NET PROFIT | 23,676 | 22,276 | 22,947 | 6.28% | -2.92% |

Amounts in million pesos; numbers may not add up due to rounding off. n/m-not meaningful

**For the Year Ended December 31, 2018 vs. 2017**

**The Group** closed the year 2018 with record breaking consolidated revenues and net profit as all business segments contributed well to these growth results. The Group turned in P23.7 billion **net profit**, up 6% or P1.4 billion year-on-year from P22.3 billion a year ago with **consolidated revenues** reaching P156.9 billion, up 13% or P18.0 billion year-on-year from P138.8 billion a year ago. Net profit to owners remained flat as a result of intersegment transactions.

**Megaworld**, the country's largest developer and pioneer of integrated urban townships, saw its group net profit and the portion attributable to owners respectively rising 16% and 17% year-on-year to P15.8 billion and P15.2 billion, respectively. It reported consolidated revenues growing 15% to P57.4 billion from P50.1 billion a year ago as key businesses performed at double-digit rates year-on-year. The rental income from the leasing business, comprising of office and lifestyle mall leasing, leaped 21% to P14.3 billion, as gross leasable area expanded to 1.5 million sqm. In 2018, Megaworld opened its biggest mall development outside of Metro Manila, the Festive Walk Mall in Iloilo Business Park. It also opened new community malls namely the San Lorenzo Place in Makati and The Village Alabang in Las Piñas. MEG also closed a historic deal after bagging the long-term lease contract to build the Philippine Global Service of JP Morgan Chase Bank. This contract to build the 25-storey property is regarded as the country's biggest single lease transaction to date, with around 70 thousand sqm of 'built to suit' offices for a single company. The residential business recorded 12% growth to P38.0 billion from P34.1 billion during the same period in the previous year, contributing 66% to MEG's total consolidated revenues during the year. There were about 25 residential projects launched in 2018, with a total sales value of around P106 billion. Megaworld also achieved P135 billion sales reservations during the year. The Megaworld-GERI-Empire East-Suntrust brands turned over 63-17-9-11 of real estate sales. In later part of 2018, the 4th residential development in the 30-hectare The Mactan Newtown in Lapu-Lapu City was introduced, named as the La Victoria Global residences reflecting the historical significance of Galleon Victoria with the target completion in 2022 in line with the commemoration of the ship's 500th year of circumnavigation. There is also the 57-storey Vion Tower that will rise along EDSA which will be highlighted by future-ready facilities. Vion Tower is set to become a landmark in this side of Makati with its illuminated tower crown. The hotel business grew its revenues by 14% to P1.5 billion from P1.3 billion in 2017. Two new hotels were launched in 2018: the 684-room Savoy Hotel Manila in Newport City and the 126-room Twin Lakes Hotel in Twin Lakes, Laurel, Batangas, which brought the number of Megaworld Hotels to seven (7) by end-2018. The group's operating results brought in 37% and 66% to AGI's consolidated revenues and net profit, respectively.

# Management's Discussion and Analysis

**Emperador**, the world's largest brandy company and owner of the world's 5th largest Scotch whisky manufacturer in the world, turned over P47.0 billion in 2018, a 10% climb from P42.7 billion a year ago attributed to the continuing sales growth from both the Brandy and Scotch Whisky segments, resulting in net profit rising 8% to P6.8 billion from P6.3 billion a year ago. The Scotch Whisky segment turned over revenues to external customers higher by 9% year-on-year. The business is growing not only in UK but also in other parts of the world, especially in Asia where revenues had more than doubled as brands enjoyed success across a number of markets. Own Scotch whisky label The Dalmore, the flagship malt whisky product, was again the main driver of growth as it continued to attract new consumers at the apex of the single malt category through both the Core Range and Rare Expressions. Jura with its redesigned range and exclusive Global Travel Retail range continued to attract acclaim under its 'A long way from ordinary' banner encapsulating the very special nature of this island single malt. The re-launch of Fettercairn in a new packaging, and the launch of Tamnavulin Vintage Collection in the single malt category in 2018 and the new contemporary blended malt brand Shackleton in 2017 further boosted revenues during the year The Brandy segment, on the other hand, turned over revenues to external customers higher by 11% year-on-year. The Spanish business is growing in Spain, Philippines, UK and USA, which all together accounted for three-quarters of its revenues. Emperador Brandy remains the nationwide leader, particularly in key metro cities, amid fierce competition among local brands. Recognizing the preference of the young drinkers for variety and excitement, Emperador created a new offering for Emperador Light drinkers by pairing Emperador Light with Club Mix Lime Cordial, dubbed as 'LimeLight' and 'GreenLight'; and, in mid-September, 'the gin for the new generation' The BaR Premium Gin was launched, infused with flavors and botanicals from the gardens of Andalusia, Spain, in Pink, Lime and Premium Dry variants. Gross profit margins (GPM) on consolidated level remained healthy at 35% in both 2018 and 2017. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 32% and 40% in 2018 as compared to 35% and 33% in 2017. The group accounted for 30% of AGI's consolidated revenues and 29% for AGI's consolidated net profit.

**Travellers**, the owner and operator of RWM, reported net profit of P1.4 billion, steeply growing from P300 million a year ago. Its revenues increased 20% to P22.5 billion from last year's P18.8 billion mainly as both the gaming and non-gaming segments showed better results. Gross gaming revenues grew 17% supported by the sustained growth in all gaming segments as property visitation increased 11% averaging 28,500 per day and gaming capacity expanded to 299 tables and 1,822 slot machines, due to the opening of the ground floor gaming area of the Grand Wing. Hotel accommodations turned over P3.5 billion this year, a sharp 22% robust growth from P2.8 billion a year ago. Average occupancy rate for the four hotels in RWM - Marriott Hotel Manila, Maxims Hotel, Hilton Manila and Holiday Inn Express Manila Newport City - was 79% with a total room count of 1,811. Sheraton Manila Hotel soft opened and Hotel Okura Manila will open in the Grand Wing in 2019. RWM will have the highest number of hotel rooms for a single property once the construction of all the hotels are completed. The Courtyard was also opened last May 2018 which is Marriott's first brand in the province of Iloilo. The group contributed 14% and 6% to AGI's consolidated revenues and consolidated net profit, respectively.

**GADC**, the master franchise holder of McDonald's quick-service restaurants brand in the Philippines, ended the year with P1.6 billion stable end result despite the intensified competition and challenging market conditions. Sales revenues rose 11% or P2.5 billion, to end the year with P25.6 billion. Sales momentum is driven by value and bundle promotions as well as limited-time offers. Mcdelivery is also a consistent source of growth with it closing the year with double digit growth. Improvement on sales revenue is also pushed by 61 new stores opened during the year (half are company-owned). Systemwide same-store sales growth for the year is at 4% year-on-year. With its continued store expansion, GADC ended the year with a total store count of 620, compared to 566 stores in 2017. GADC continues to expand its footprints with its 2019 target to add 60 more NXT GEN stores in the country after initially launching 17 NXT GEN stores in 2018. NXT GEN stores come with self-ordering kiosk, modernized menu boards and cashless mode of payment which is an initiative for giving a world class experience to consumers. McDo PH also partners with other well-known delivery networks worldwide to provide more convenient options for its customers. These operating results translated into 18% and 7% of the consolidated revenues and net profit of AGI and subsidiaries.

**Revenues**, as a result of the foregoing, reached P156.8 billion in 2018, a P7.9 billion or 13% jump from last year's P138.8 billion with all segments of the group reporting favorable performances during the year. Sale of goods (real estate, alcoholic beverages, snack products) went up 10% to P85.3 billion from P77.4 billion a year ago. Service revenues (QSR, gaming, rentals, hotels, cinemas) escalated 14% or P7.9 billion ending the year with P66.2 billion as compared to P58.3 billion in 2017.

**Cost and expenses** accelerated 14% to P125.0 billion in 2018. Cost of goods sold expanded 12% or P5.6 billion mainly due to high cost of wine, new bottles and packaging for the new and re/packaged products this year and heightened contracted services and cost of land. Cost of services hiked 16% or P4.9 billion driven by higher food cost, supplies and consumables, gaming fees, utilities, employments costs and depreciation. Other operating expenses also jumped 17% or P4.6 billion as more marketing and selling expenses and general expenses were spent by the four major business segments.

***Share in net profits of associates and joint ventures*** increase 7% or P18 million, due to higher net results from BLC resulting to higher share in net profit.

***Finance and other income*** ballooned 76% or P2.2 billion from a year ago due to higher interest income by the Group and other miscellaneous gains, including the collection of claims and additional recoveries from the gaming business interruption.

**Tax expense** rose P1.5 billion or 23% due to higher taxable income and tax effects of deductible temporary differences for Megaworld as well as EMP especially in the Scotch Whisky segment.

**For the Year Ended December 31, 2017 vs. 2016**

The year 2017 has been a rather challenging year for the Group.

**The Group** attained P15.3 billion **core net profit attributable to owners**, up 3% from P14.8 billion in 2016. Non-recurring loss incurred from a casualty by Travellers in 2017 was reduced by the non-recurring gain on disposal of investment by Megaworld, netting out to P120 million loss as compared to P85 million non-recurring gains in 2016. Taking into account these items, **net profit to owners** hit P15.2 billion in 2017, inching 2% from a year ago, with consolidated revenues reaching P138.7 billion on a 4% growth year-on-year.



**Megaworld**, the country's largest developer and pioneer of integrated urban townships, grew its group net profit to owners to P13.0 billion (net of P113 million non-recurring gain), a 14% jump from P11.5 billion (net of P82 million non-recurring gain) a year ago. The healthy growth was underpinned by the strong performances of its key businesses in residential and hotel developments, office as well as commercial space leasing in malls and shopping centers. Consolidated revenues escalated 13% to P50.1 billion, boosted by the soar of 18% in rentals to P11.8 billion and residential sales of 12% to P34.1 billion. The Megaworld-GERI-Empire East-Suntrust brands turned over 64-15-12-9 of real estate sales. In later part of 2017, GERI launched its 2nd "integrated lifestyle community" and the group's 23$^{rd}$ township, the 300-hectare The Hamptons Caliraya in Lumban-Cavinti, Laguna, where nature becomes the focal point of development.

The group's existing landbank offers abundant nature reserves that can be nurtured and preserved as part of its future community development. Megaworld has turned over 1,000 residential units in Makati Central Business District in 2017 which included the 30-storey Paseo Heights and 50-storey Three Central, and four more towers are under construction. The group also opened its 14$^{th}$ lifestyle mall in 2017, which is GERI's first full-scale mall, the Southwoods Mall, the first and only full-scale mall development within the Biñan-Carmona area. The group's operating results brought in 35% and 68% to AGI's consolidated revenues and net profit, respectively.

# Management's Discussion and Analysis

**Emperador**, the world's largest brandy company and owner of the world's 5th largest Scotch whisky manufacturer in the world, turned over P42.6 billion in 2017, a modest hike of 4% year-on-year attributed to strong sales from offshore subsidiaries. The Scotch Whisky segment turned over revenues to external customers higher by 7% year-on-year. Own Scotch whisky labels The Dalmore and Jura remained to be the growth drivers, with strong sales in UK, Asia, USA, Greater Europe, Latin America and Travel Retail. Jura, with new bottle and packaging upgrade, has a significant launch of the redesigned range in the US. The Brandy segment, on the other hand, turned over revenues to external customers higher by 3% year-on-year. Spanish brandies Fundador, and Terry Centenario and Harveys Bristol Cream sherry enjoyed a good year, with sales growing in Spain, UK and the Philippines. It was a challenging year for Emperador Brandy, yet it keeps its lead in the domestic market. Higher cost of goods sold, strategic marketing expenses and unrealized foreign currency losses dragged clipped net income to P6.3 billion from P7.7 billion a year ago. Nevertheless, gross profit margins (GPM) remained healthy at 35% in 2017 and 38% in 2016. The GPMs of the Brandy and Scotch Whisky segments were respectively posted at 35% and 33% in 2017 and 40% and 30% in 2016. The group accounted for 31% and 29% of AGI's consolidated revenues and net profit, respectively.

**Travellers**, the owner and operator of RWM, reported a 5% increase in non-gaming revenues to P4.0 billion driven by hotel and MICE operations. Gross gaming revenues continued to recover after the loss of the second-floor gaming area in June 2017, increasing 22% in the fourth quarter as compared to the previous quarter and ending 2017 at P17.1 billion as property visitation continued to improve averaging 27,000 in the fourth quarter, up from 23,000 in the third quarter. The casino was closed for 27 days in June and the second-floor gaming area has not been opened. Average occupancy rate for the three hotels stayed high, hovering around the 80% mark, led by Remington Hotel (now Holiday Inn Express) at almost 90%. Total gross revenues amounted to P21.1 billion for the current year with EBITDA of P3.0 billion. The group contributed 15% and 1% to AGI's consolidated revenues and consolidated net profit, respectively.

**GADC**, the master franchise holder of McDonald's quick-service restaurants brand in the Philippines, continued to grow business in 2017 exceeding targets with margins growing at pace with topline sales. Within the QSR market, McDonald's outpaced reported market growth at 8.9%. Net profit surged 34% to P1.6 billion from P1.2 billion a year ago. Sales revenues rose 13% to P25.5 billion, boosted by 52 new store openings (half are company-owned), menu innovations and local store marketing activities which allowed system wide sales to reach P42.6 billion. System wide same-store-sales grew 5.8% year-on-year. Total number of restaurants totaled 566 at end-2017, reaching new territories as far as Antique, Sorsogon, Masbate and San Francisco, Agusan Del Sur. Consumer touchpoints such as drivethru and online delivery have delivered double-digit growths. A strong source of incremental business is the convenient services across the country through McDelivery which made McDonald's post the fastest growth in the QSR industry. These operating results translated into 18% and 8% of the consolidated revenues and net profit of AGI and subsidiaries.

**Revenues**, as a result of the foregoing, showed 4% year-on-year growth to P138.8 billion in 2017, as the strong performances in the real estate, QSR and alcoholic beverages countered RWM's lost gaming revenues. Sale of goods (real estate, alcoholic beverages, snack products) jumped 7%. Service revenues (QSR, rentals, hotels, gaming) improved P340 million, with sales from company-operated and franchised QSR and rental income growing 13% and 18%, respectively, cushioning the impact of 25% drop in gaming revenues.

**Cost and expenses** expanded 6% to P109.9 billion in 2017. Cost of goods sold, as a function of sales, showed almost the same expansion pace of 8% due to higher costs of wine and packaging materials for alcoholic products. Same goes with other operating expenses showing an increase of 8% due to the increase in other administrative and corporate overhead expenses as well as increase in strategic marketing spend(for new products launched).

***Share in net profits of associates and joint ventures*** went down 23% or P83 million, due to decrease in net profit of Megaworld's associates.

***Finance and other income*** increased 10% or P271 million higher than last year from interest income and other miscellaneous gains, including the gain on sale of investment in an associate of Megaworld.

***Finance costs and other charges*** appeared to dwindle 5% because of foreign currency losses reported last year by Megaworld and Travellers from the translation of their foreign-currency bonds, which mitigated the high interest expenses and loss from casualty reported this year.

**Tax expense** rose P678.2 million or a 12% increase due to higher taxable income and tax effects of deductible temporary differences for Megaworld and GADC, and the expiration of a previously recognized deferred tax asset of Travellers from 2014.

**Net profit** totaled P22.3 billion this year, 3% down year-on-year, with **net profit attributable to owners** up by 2% to P15.2 billion.

**Financial Condition**

**December 31, 2018 vs 2017**

**Consolidated total assets** amounted to P588.2 billion at end of 2018 from P535.6 billion at beginning of year. The Group is strongly liquid with **current assets** exceeding **current liabilities** 3.0 times. Current assets amounted to P277.7 billion while current liabilities amounted to P92.4 billion at end of the current year.

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



**Cash and cash equivalents** decreased 15% or P8.0 billion to end the year at P44.8 billion from P52.8 billion at the beginning of the year, primarily due to dividend payment, capital expenditures and ongoing purchase of treasury shares of a subsidiary. Cash flows from operating, financing and investing activities during the period were presented in the consolidated statements of cash flows.

**Current trade and other receivables** increased 25% or P12.0 billion mainly from real estate trade receivables, higher alcoholic product sales in the lead up to Christmas holidays, advances to contractors and suppliers and transactions with franchisees and affiliated restaurants arising from product deliveries, rentals, royalty and other service charges. **Non-current trade and other receivables**, on the other hand, decreased 25% or P4.4 billion mainly from reclassification of currently maturing receivables.

**Contract assets** which represent the reclassified portion of trade and other receivables relating to rights to payment which are conditioned upon the completion of units sold and represent excess of progress of work over the right to an amount of consideration, went up 89% or P5.2 billion for the **current**ly maturing assets while **non-current**ly maturing assets went up 11% or P1.1 billion.

**Inventories** grew 14% or P15.8 billion from the real estate inventories, cased stocks from new products and Scotch whisky fillings due to high demand for the products. Real estate inventories include residential units for sale, raw land for development and property development cost, reflective of new project launches of Megaworld.

**Other current assets** went up 18% or P2.5 billion mainly due to an increase in the amount of unutilized input vat, prepayments, creditable withholding taxes and deferred commissions at year-end.

**Advances to landowners and joint ventures** escalated 15% or P921 million due to additional advances made by Megaworld relating to its ongoing development projects.

# Management's Discussion and Analysis

Due to the adoption of a new accounting standard, **Available-for-sale financial assets** are designated as **Financial assets at fair value through other comprehensive income** amounting to P460.0 million for such financial assets are held by the Group for long-term strategic investments and are not expected to be traded in the short-term to medium-term.

**Investment in and advances to associates and other related parties** decreased 8% or P723 million primarily due to the reclassification of PCMI from being an associate into becoming a subsidiary of Megaworld this 2018 and the recognition of impairment loss from a number of associates from writing-off its investments from such associates.

**Property, plant and equipment** increased 20% or P19.5 billion primarily attributed to ongoing expansion of Travellers, Megaworld and Emperador. RWM completed the construction of Courtyard Iloilo last May 2018 and Hilton Manila in October. The Grand Wing also completed some gaming areas. There was also an increase in construction in progress related to two other hotels and other gaming areas to be completed. The Grand Wing is comprised of three luxury hotels- Sheraton Manila Hotel, Hilton Manila and Hotel Okura Manila. It would also include approximately 14,000 sqm. and 3,200 sqm. of gaming and retail space respectively. Additional costs were also incurred from MEG's hotel buildings and EMP's distillery plant.

**Investment property** rose 8% or P7.4 billion as more revenue-generating malls, commercial centers and office buildings were completed by Megaworld group.

**Deferred tax assets** jumped 26% or P208 million from an increase in income tax provisions from prior months and from taxable temporary differences.

**Other non-current assets** grew 11% or P615 million due to the increase in advances made by RWM to PAGCOR in connection with the development of Site A.

**Trade and other payables** went up 26% or P10.1 billion as trade payables, accrued expenses and retention payable to contractors swelled up. It also included unredeemed gaming points and unredeemed gaming chips. Accrued expenses increased due to timing of accruals at year-end.

**Contract liabilities** represent MEG's excess of collection over the progress of work under Meg, with **current** portion increasing 53% or P918 million and **non-current** portion decreasing 11% or P342 million.

**Current bonds payable** in 2017 were paid this 2018.

**Current interest-bearing loans** dipped 25% or P8.2 billion while **non-current interest-bearing loans** ballooned 32% or P34.6 billion, for a net increase of P26.4 billion which is mainly attributed to additional loans obtained by Megaworld and Travellers intended for capital expenditures and EMP for inventory purchases of Scotch fillings.

**Income tax payable** surged 75% or P720 million, mainly from higher unpaid income taxes at current year-end which is attributed to higher taxable profit.

**Other current liabilities** went up by 18% or P2.2 billion while **other non-current liabilities** increased by 17% or P2.6 billion mainly from customers' deposits which pertains to amounts received from customers for sales from residential lots and condo units not yet qualified for revenue recognition. Deferred rental income and commissions payable also contribute to such increase.

**Retirement benefit obligation** reduced 8% or P153.4 million from lower recognized liabilities on employee benefits by MEG.

**Non-current redeemable preferred shares**, dipped 8% or P144.8 million due to the redemption of preferred shares in MEG.

**Deferred tax liabilities** went up 42% or P3.3 billion due to the tax effect in MEG's taxable and deductible temporary differences.

The **changes in equity components** are presented in detail in the consolidated statements of changes in equity. The equity attributable to owners increased 5% while non-controlling interest increased 7% each, from the share in net profit and other comprehensive income. Treasury shares pertain to the acquisition cost of the shares that have been brought back from the market pursuant to the Group's ongoing buyback program. Opening retained earnings also reflected the effect of adoption of an accounting standard that was applied retrospectively through the opening balance only.

**December 31, 2017 vs 2016**

**Consolidated total assets** amounted to P535.6 billion at end of 2017 from P461.9 billion at beginning of year. The Group is strongly liquid with **current assets** exceeding **current liabilities** 2.6 times. Current assets amounted to P250.0 billion while current liabilities amounted to P96.7 billion at end of the current year.

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

**Cash and cash equivalents** went up 15% or P7.0 billion to end the year at P52.8 billion from P45.7 billion at the beginning of the year, primarily from loan proceeds. Cash flows from operating, financing and investing activities during the period were presented in the consolidated statements of cash flows.

**Financial assets at fair value through profit or loss** soared 29% or P3.0 billion from marketable securities purchased during the year.

**Contract assets** were the reclassified portion of trade and other receivables relating to rights to payment which are conditioned upon the completion of units sold and represent excess of progress of work over the right to an amount of consideration. Current contracts went down 7% while non-current contracts went down 17%.



**Current trade and other receivables** increased 29% or P10.9 billion mainly from real estate sales and rental transactions, advances to contractors and suppliers (mostly relating to ongoing construction works), booked insurance claims, and receivable from sale of land. **Non-current trade and other receivables** on the other hand refer to the outstanding receivable from rental income of the company from its associates and other related parties and from sale of properties other than those receivable in the span on one year or less.

**Inventories** expanded 12% or P12.4 billion from the maturing liquids of Scotch whisky and Spanish brandy and real estate for-sale inventories. Emperador group acquired inventories relating to 'Domecq' brandies and Bodegas Garvey in 2017. It also includes residential units for sale, raw land for development and property development cost.

**Other current assets** went up 18% or P2.1 billion mainly due to an increase in the amount of unutilized input vat, prepayments and refundable deposits at end-2017.

**Advances to landowners and joint ventures** escalated 23% or P1.1 billion due to additional advances made by Megaworld relating to its ongoing development projects.

**Non-current Available-for-sale financial assets** decreased 29% or P175.0 million from securities sold to get fresh funds. **Current available-for-sale financial assets** at end-2016 already matured in 2017.

**Investment in and advances to associates and other related parties** decreased 6% or P559.0 million primarily due to reduction in capitalization of a Spanish joint venture (BLC) and the transfer of such to a newly incorporated Spanish subsidiary (DBLC).

**Property, plant and equipment** increased 18% or P15.0 billion primarily attributed to Travellers, Megaworld and Emperador. Expansion works in RWM are in full swing with the Grand Wing, comprising of three hotels (Hilton Manila, Sheraton Manila and Hotel Okura Manila) and retail and gaming areas expected to be completed by the end of 2018. Megaworld completed its corporate headquarters in Uptown and Travellers completed RunWay Manila which opened to the public in April. There were also asset acquisitions (vineyards, bodegas wineries, real estate) in Spain and Mexico made during the year.

**Investment property** increased 17% or P14.2 billion as more revenue-generating malls, commercial centers and office buildings were completed by Megaworld group.

**Intangible assets** amplified 11% or P4.1 billion from trademarks acquired by Emperador from its asset acquisitions relating to 'Domecq' intellectual properties held by Pernod Ricard and those of Grupo Garvey which include brandies and sherry wines.

**Deferred tax assets** were reduced 18% or P179.4 million principally due to lapsing of the three-year validity of Travellers' MCIT in 2014.

**Trade and other payables** went up 14% or P4.7 billion from trade payables and accruals incurred by new subsidiaries of EMP in 2017.

**Contract liabilities** represent MEG's excess of collection over the progress of work with current portion going up 80% or P775 million and non-current portion rising 22% or P558 million.

**Current bonds payable** plummeted 75% or P29.8 billion from the settlement of Cayman $500 million bonds which matured in August 2017 (P24.9 billion) and full settlement of Traveller's $300 million notes in November 2017 (P14.9 billion). Megaworld's $200 million bonds maturing in April 2018 (P10.0 billion) is reclassified (from non-current last year-end) to this account. **Non-current bonds payable** increased 9% or P2.1 billion from additional issuance of bonds by Megaworld for general corporate purposes. Megaworld issued P12.0 billion seven-year bonds which carry 5.3535% p.a. coupon on March 28, 2017.

**Current interest-bearing loans** ballooned 55% or P11.6 billion while **non-current interest-bearing loans** surged 95% or P52.8 billion, for a total increase of P64.4 billion which is mainly attributed to additional loans obtained by Travellers (P24.4 billion) and Megaworld (P1.7 billion) intended for capital expenditures; by AGCayman (P34.8 billion) to refinance its bonds and for investment purposes; and by Emperador offshore (P8.8 billion) for the purchase of stocks and capital expenditures in UK and Spain.

**Income tax payable** were reduced 14% or P163 million, mainly due to application of creditable withholding taxes, which come significantly from sale of land plus collections from franchisees which resulted in lower accrued income tax of GADC.

**Other current liabilities** went up by 19% or P1.9 billion while **other non-current liabilities** increased by 8% or P1.1 billion mainly from customers' deposits which pertains to amounts received from customers for sales from residential lots and condo units not yet qualified for revenue recognition. Advance rent and security deposits from new tenants also contribute to such increase.

**Non-current advances from related parties** swelled 34% or P588.7 million due to advances received by Megaworld during the year.

**Retirement benefit obligation** reduced 25% or P660.8 million primarily driven by the increase in the fair value of Emperador group's plan assets.

**Redeemable preferred shares**, current and non-current portions combined, rose 5% or P94.9 million relating to the accretion of GADC's redeemable preferred shares.

**Deferred tax liabilities** increased 32% or P1.9 billion due to the tax effect in MEG's taxable and deductible temporary difference.

The **changes in equity components** are presented in detail in the consolidated statements of changes in equity. The equity attributable to owners and to non-controlling interest increased 10% each, from the share in net profit and other comprehensive income. Treasury shares pertain to the acquisition cost of the shares that have been brought back from the market pursuant to the Group's ongoing buyback program.

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

The consolidated statements of financial position showed strong liquidity with current assets exceeding current liabilities 3.0 times and 2.6 times at end of 2018 and 2017, respectively. Total-liabilities-to-equity ratios were at 1.0:1 at the end of both 2018 and 2017, while interest-bearing-debt-to-total-equity ratios were correspondingly at 68% and 66%. Assets exceeded liabilities 2 times and equity 2 times as well.

In general, working capital was sourced internally from operations and bank loans during the year. In the ensuing year, the Group expects to meet its working capital and investment requirements from operating cash flows and debt. It may also from time to time seek other sources of funding, if necessary, depending on its financing needs and market conditions.

| ***Amounts in Million Pesos*** | 31-Dec-18 | 31-Dec-17 | 31-Dec-16 |
|---|---|---|---|
| Cash and equivalents | 44,779 | 52,784 | 45,734 |
| FVTPL/AFS financial assets | 14,077 | 13,948 | 11,072 |
| Total Available | 58,856 | 66,733 | 56,806 |
| Interest-bearing debt-current | 24,530 | 42,677 | 60,831 |
| Interest-bearing debt-noncurrent | 167,974 | 132,662 | 77,831 |
| Equity-linked securities-non-current* | 5,259 | 5,227 | 5,263 |
| Total Debt | 197,763 | 180,566 | 143,924 |
| Net cash (debt) | -138,906 | -113,833 | -87,118 |
| Available Cash and financial assets to interest-bearing debt | 30% | 37% | 39% |
| Interest-bearing debt to total equity | 68% | 66% | 58% |

*Equity-linked debt securities are presented under Other non-current liabilities.

*b.3.* ***Prospects for the future***

AGI has a proven track record of creating value over time and is confident in its ability to deliver sustainable profitable growth and value for its stakeholders. AGI looks forward to maintain momentum of all the business segments' strong contribution to the Group's success backed by aggressive expansion strategies implemented.

Emperador group is best positioned to capitalize on premiumization opportunities, with its bigger product portfolio of brandy and scotch whisky and greater global reach. New products are initiated to capture the discriminating taste of its consumers who look for variety and innovations.

Megaworld, being the leader of the country's integrated urban townships, has a strong portfolio nationwide that are backed by adequate land banking and carefully-thought masterplans. Its aggressive thrust to grow its investment properties has resulted in increased recurring income stream. It continues to innovate its real estate development and targets to add more developments under this category. It intends to acquire more land and other investment properties.

Travellers sees a lot of potential for further growth, as it continues to expand its non-gaming facilities and offerings. It is looking forward to the completion of its Grand Wing in RWM which should boost its hotel and overall gaming capacity.

With Megaworld and Travellers combined, AGI now is the country's biggest owner and operator of hotels with over 5,000 room keys which is expected to increase by 1,000 in 2019 as a step toward the Group's objective of achieving total hotel room keys of 12,000 in three to five years.

GADC will continue its brand promise of making delicious feel-good moments easy for every customer and remains steadfast in its expansion inspite of the challenges ahead. It aims to sustain its business momentum as it targets more new store openings with continuous focus on operational excellence, leveraging on its taste heritage and technology, espousing the role of family and community in delivering business while exemplifying good corporate citizenship. To bring McDonald's world-class experience to the country, GADC aims to add 60 NXT GEN stores in 2019 which comes with self-ordering kiosks, modernized menu boards and cashless payment modes.

In 2019, all the business segments are expected to sustain growth trajectory in line with targets and will continue to bolster their presence in their respective fields.

*b.4.* ***Others***

There are no other known material events subsequent to the end of the year that would have a material impact on the current year.

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

There are no other known events that will trigger direct or contingent financial obligation that is currently considered material to the Group, including any default or acceleration of an obligation.

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

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

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

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

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

# Statement of Management's Responsibility for Consolidated Financial Statements

The management of ***Alliance Global Group, Inc. and Subsidiaries*** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**ANDREW L. TAN**
Chairman of the Board

**KEVIN ANDREW L. TAN**
Chief Executive Officer

**DINA D.R. INTING**
Chief Financial Officer

**SUBSCRIBED AND SWORN** to before me this APR 25 2019, affiants exhibiting to me their Passport / SSS No., as follows:

| Names | PassportNo./ SSS No. | Date | Place of Issue |
|---|---|---|---|
| Andrew L. Tan | EC1087269 | May 14, 2014 to 2019 | Manila |
| Kevin Andrew L. Tan | P8166916A | Aug. 1, 2018 to July 31, 2028 | Manila |
| Dina D.R. Inting | SSS 03-5204775-3 | | |

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Page No. 28
Book No. XXII
Series of 2019

MA. ESMERALDA R. CUNANAN
Makati City

# Report of Independent Auditors

**The Board of Directors and the Stockholders**
**Alliance Global Group, Inc. and Subsidiaries**
7th Floor, 1880 Eastwood Avenue
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

## Opinion

We have audited the consolidated financial statements of Alliance Global Group, Inc. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

***(a) Consolidation Process***

*Description of the Matter*

The Group's consolidated financial statements comprise the financial statements of Alliance Global Group, Inc. and its subsidiaries, as enumerated in Note 1 to the consolidated financial statements, after the elimination of material intercompany transactions. The Group's consolidation process is significant to our audit because of the complexity of the process. It involves several layers of consolidation, identification and elimination of voluminous intercompany transactions to properly reflect realization of profits and measurement of controlling and non-controlling interests.

The Group's policy on consolidation process is more fully described in Note 2 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Among others, our audit procedures to address the risk associated with the Group's consolidation process are as follows:

- Obtaining an understanding of the Group structure and its consolidation policy and process, including the procedures for identifying intercompany transactions and reconciling intercompany balances;

- Testing the mathematical accuracy of the consolidation done by management and verifying financial information used in the consolidation based on the audited financial statements of the components of the Group and evaluating the consistency of the accounting policies applied by the entities within the Group;

- Testing the accuracy and appropriateness of intercompany elimination entries, the translation of the financial statements of foreign subsidiaries of the Group, and other significant consolidation adjustments;

- Performing analytical procedures at the consolidated level; and,

- Evaluating the sufficiency and adequacy of disclosures in the Group's consolidated financial statements in accordance with PFRS.

***(b) Adoption of PFRS 15, Revenue from Contracts with Customers, on Real Estate Sales***

*Description of the Matter*

The Group adopted PFRS 15, using the full retrospective approach to all contracts not yet completed as of January 1, 2016. The adoption of PFRS 15 is significant to our audit due to the complexity of the application of the new standard and it materially affects the Group's recognition of revenue from real estate sales which accounts for 24% of total revenues of the Group.

In addition, the adoption requires application of significant judgments and estimates which affect the amounts of transactions and balances reported in the consolidated financial statements both in the current period and in the comparative prior periods presented. Areas affected by the adoption which require significant judgments and estimates include determining when a contract will qualify for revenue recognition and measuring the progress of the development of real estate projects which defines the amount of revenue to be recognized. These areas were significant to our audit as an error in application of judgments and estimates could cause a material misstatement in the consolidated financial statements.

The Group's policy for revenue recognition and the effect of the adoption of PFRS 15 to the comparative prior periods presented are more fully described in Note 2 to the consolidated financial statements. The significant judgments and estimates used in the preparation of the consolidated financial statements relative to the adoption of PFRS 15 are more fully described in Note 3 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatements relating to the adoption of PFRS 15 on recognition of revenue from real estate sales include, among others, the following:

On recognition of revenue from real estate sales:

- Obtaining an understanding of the new revenue recognition policy of the Group and checking its compliance with the provisions of PFRS 15 and the related issuances by the Philippine Interpretations Committee and the Securities and Exchange Commission;
- Testing information technology general controls over the automated system which processes revenue transactions;
- Testing design and operating effectiveness of internal controls over contract approval;
- Examining agreements on a sample basis and checking compliance with a set of criteria for revenue recognition;
- Testing the reasonableness of management's judgment in determining the probability of collection of the consideration in a contract which involves a historical analysis of customer payment pattern and behavior;
- Testing the progress reported for the year in reference to the actual costs incurred relative to the total budgeted project development costs which includes testing of controls over recording of costs and direct examination of supporting documents relative to the measurement of progress towards complete satisfaction of performance obligation using the input method. In testing the reasonableness of budgetary estimates, we have ascertained the qualifications of project engineers who prepared the budgets and reviewed the actual performance of completed projects with reference of their budgeted costs;
- Performing physical inspection of selected projects under development to determine if the completion based on costs is not inconsistent with the physical completion of the project; and,
- Testing the adequacy of disclosures.

On prior period adjustments:

- Performing analytical review of prior period adjustments and overall review of actual results.
- Testing of information technology general controls over the automated system which generated the data used as a basis for the adjustments;
- Performing tests of mathematical accuracy and completeness of supporting contract summary; and,
- Examining supporting documents of a sample of agreements and testing compliance with the new accounting policy.

***(c) Revenue Recognition for Sale of Consumer Goods and Sales from Company-operated Quick-service Restaurants***

*Description of the Matter*

Sale of consumer goods amounting to P47.6 billion, which mainly from its Emperador business segment, represents 31% of the Group's total revenues. Revenue from sale of goods is recognized when control over the goods has been transferred at a point in time to the customer, i.e., generally when the customer has acknowledged receipt of the goods.

Sale from company-operated quick-service restaurants amounting to P25.8 billion, which mainly from its GADC business segment, represents 17% of the Group's total revenue. The Group recognizes revenue from restaurant sales at a point in time when services are rendered, that is, when food and beverage products or promotional items purchased by customers have been delivered and accepted by the customers.

We considered revenue recognition from both sources as a key audit matter since it involves significant volume of transactions, requires proper observation of cut-off procedures, and directly impacts the Group's profitability.

The Group's disclosures on its revenue recognition policy and details of total revenues are presented in Notes 2 and 23, respectively, to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

On sale of consumer goods:

- Testing the design and operating effectiveness of the Group's processes and controls over revenue recognition, approval and documentation;
- Evaluating appropriateness of the Group's revenue recognition policy in accordance with the requirements of PFRS 15;
- Testing, on a sample basis, sales invoices, delivery receipts and cash receipts of sales transactions throughout the current period to determine whether sale of goods is valid and existing;
- Confirming trade receivables using positive confirmation, on a sample basis, and performing alternative procedures for non-responding customers, such as, examining evidence of subsequent collections, or corresponding sales invoices and proof of deliveries;
- Testing sales invoices and delivery receipts immediately prior and subsequent to the current period to determine whether the related sales transactions are recognized in the proper reporting period; and,
- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per product/brand and location, and sales mix composition based on our expectations and following up variances from our expectations; and, verifying that the underlying data used in the analyses are valid.

On sales from company-operated quick-service restaurants:

- Testing the design and operating effectiveness of the Group's internal controls over the recognition and measurement of revenues from sales from company-operated quick-service restaurants;
- Testing effectiveness of the implemented I.T. general and application controls over automated systems that process revenue from company-operated quick-service restaurants;
- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per product/brand and location, and sales mix composition based on our expectations and following up variances from our expectations; and, verifying that the underlying data used in the analyses are valid;
- Assessing the impact of PFRS 15 on the revenue recognition of sales from company-operated quick-service restaurants; and,
- Performing test of completeness and cut-off testing by obtaining store reports, on a sample basis, and matching with system wide sales report.

***(d) Revenue Recognition on Gaming Operations***

*Description of the Matter*

The Group, through its Travellers business segment, is the operator of integrated gaming resorts and tourist destination, Resorts World Manila. The total revenue from gaming operations amounted to P20.0 billion in 2018 representing 13% of the Group's total revenues. In our view, revenue recognition is significant to our audit because the amount is significant and it involves voluminous transactions at any given period of time, which undergo complex automated and manual gaming processes and controls under the Group's principal gaming and gaming-related systems.

The Group's disclosures on its revenue recognition policy and details of total revenues are presented in Notes 2 and 23, respectively, to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to revenue recognition on gaming operations, which was considered to be a significant risk, included the following:

- Updating our understanding of the Group's gaming revenue processes and controls over the recognition and measurement of gaming revenues;
- Testing and evaluating the design and operating effectiveness of controls over major casino processes namely: buy-in and pay-out, float maintenance, end-of-day recording, casino credit billing and collection and month-end reconciliation procedures;
- Performing analytical review procedures on gaming revenues, drops and win rates from both gaming tables and slot machines based on our expectations, and resolving variances from our expectations through discussion with the management and corroboration of their responses whether plausible under such circumstances;
- Testing the recognition and measurement of gaming revenues by tracing a sample of transactions throughout the current period to source data to verify the accuracy of reported gaming revenues; and,
- Performing detailed observation of cash count procedures at the end of the reporting period to verify the appropriateness of the Group's cut-off procedures on gaming revenues.

***(e) Impairment of Goodwill and Trademarks with Indefinite Useful Life***

*Description of the Matter*

Under Philippine Accounting Standard 36, *Impairment of Assets*, the Group is required to annually test the carrying amounts of its goodwill and trademarks with indefinite useful lives for impairment. As of December 31, 2018, goodwill amounted to P20.2 billion, while the trademarks with indefinite useful lives amounted to P20.7 billion. We considered the impairment of these assets as a key audit matter because the amounts of goodwill and trademarks are material to the consolidated financial statements. In addition, management's impairment assessment process is highly judgmental, and is based on significant assumptions, specifically the determination of the discount rate and cash flow projections used in determining the value-in-use of the trademarks and the cash-generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

The Group's policy on impairment assessment of goodwill and trademarks with indefinite useful lives is more fully described in Note 2 to the consolidated financial statements; the estimation uncertainty on impairment of non-financial assets, including trademarks and goodwill with indefinite useful lives, is presented in Note 3 to the consolidated financial statements; while their corresponding carrying amounts are presented in Note 15 to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the goodwill and trademarks with indefinite useful lives included, among others, the following:

- Evaluating the appropriateness and reasonableness of methodology and assumptions used in determining the value-in-use of cash-generating units attributable to the trademarks and goodwill, which include the discount rate, growth rate and the cash flow projections, by comparing them to external and historical data;

- Testing the calculation of valuation model for mathematical accuracy and validating the appropriateness and reliability of inputs and amounts used; and,

- Performing independent sensitivity analysis of the projections and discount rate using the valuation model used to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash generating units to exceed the recoverable amount.

***(f) Existence and Valuation of Inventories***

*Description of the Matter*

Inventories amounted to P131.4 billion as at December 31, 2018, which is mainly from its Megaworld and Emperador business segments. The valuation of inventories is at the lower of cost or net realizable value (NRV).

Real estate inventories principally comprise of land for future development, property development costs, raw land inventory, and golf and resort shares for sale while consumable inventories mostly comprise of alcoholic beverages. Future realization of inventories is affected by price changes in the costs incurred necessary to complete and make a sale. Due to the significant volume and carrying amount of inventories, and the high level of judgment in estimating its NRV, we considered the existence and valuation of inventories as significant to our audit.

The Group's disclosures on accounting policy, estimation uncertainty, and Inventories account are presented in Notes 2, 3, and 8, respectively, to the consolidated financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the existence and valuation of inventories included, among others, the following:

On existence of inventories:

- Performing, on a sample basis, physical inspection of real estate properties held as inventories;

- Performing a physical count test on consumer goods, on a sample basis, during the physical inventory count procedures and other test count dates, and verifying the inventory movements during the intervening periods between the actual count and reporting dates to further test the quantities of inventory items as of the reporting date; and,

- Performing substantive analytical review procedures over inventory-related ratios such as, but not limited to, inventory turnover and current period's components of inventories; and, verifying that the underlying data used in the analyses are valid.

On valuation of inventories:

- Testing the design and operating effectiveness of the method of inventory costing and measurement at the lower of cost or NRV;

- Performing a price test, on a sample basis, of inventory items by examining supporting documents such as, but not limited to, construction contracts for real estate inventories, purchase contracts and invoices, and relevant importation documents;

# Report of Independent Auditors

- Performing detailed analysis of the Group's standard costing of inventories through analytical review procedures of actual costs during the current period against the budgeted standard, and testing significant actual costs, on a sample basis, by agreeing with contracts and invoices;
- Determining whether the application of the lower of cost or NRV is appropriate and consistent with prior periods; and,
- Evaluating the sufficiency and appropriateness of the amount of allowance for inventory write-down by testing the key assumptions used on the expected realization of inventories.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

# Report of Independent Auditors

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the 2018 audit resulting in this independent auditors' report is Romualdo V. Murcia III.

**PUNONGBAYAN & ARAULLO**

**By: Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 7333697, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 12, 2019

# Consolidated Statements of Financial Position

## December 31, 2018 and 2017

*(With corresponding Figures as of January 1, 2017)*
*(Amounts in Philippine Pesos)*

| | Notes | 2018 | December 31, 2017 (As Restated - see Note 2) | January 1, 2017 (As Restated - see Note 2) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 5 | **P 44,779,011,533** | P 52,784,400,162 | P 45,734,001,244 |
| Trade and other receivables - net | 6 | **60,518,718,373** | 48,487,383,009 | 37,597,955,305 |
| Contract assets | 6, 23 | **11,131,863,695** | 5,898,824,630 | 6,332,545,332 |
| Financial assets at fair value through profit or loss | 7 | **13,617,425,147** | 13,516,474,011 | 10,465,266,604 |
| Inventories - net | 8 | **131,394,011,426** | 115,546,769,880 | 103,128,613,810 |
| Available-for-sale financial assets | | **-** | - | 66,501,898 |
| Other current assets | 9 | **16,285,340,485** | 13,809,238,325 | 11,735,773,914 |
| Total Current Assets | | **277,726,370,659** | 250,043,090,017 | 215,060,658,107 |
| **NON-CURRENT ASSETS** | | | | |
| Trade and other receivables - net | 6 | **12,984,665,792** | 17,365,617,746 | 10,397,209,523 |
| Contract assets | 6, 23 | **11,095,415,992** | 10,010,996,355 | 12,007,975,652 |
| Advances to landowners and joint ventures | 10 | **6,910,177,902** | 5,988,892,593 | 4,859,000,177 |
| Financial assets at fair value through other comprehensive income | 11 | **459,974,884** | - | - |
| Available-for-sale financial assets - net | 11 | **-** | 431,645,289 | 606,613,388 |
| Investments in and advances to associates and other related parties | 12 | **7,942,876,611** | 8,665,615,820 | 9,224,586,430 |
| Property, plant and equipment - net | 13 | **117,501,643,236** | 98,026,484,627 | 82,993,671,075 |
| Investment property - net | 14 | **104,635,533,741** | 97,228,826,949 | 83,061,041,641 |
| Intangible assets - net | 15 | **41,958,580,601** | 41,637,659,271 | 37,524,214,229 |
| Deferred tax assets - net | 28.1 | **1,009,269,507** | 801,384,002 | 980,756,248 |
| Other non-current assets | 9 | **6,026,685,803** | 5,411,938,778 | 5,214,905,490 |
| Total Non-current Assets | | **310,524,824,069** | 285,569,061,430 | 246,869,973,853 |
| **TOTAL ASSETS** | | **P 588,251,194,728** | P 535,612,151,447 | P 461,930,631,960 |

ALLIANCE GLOBAL GROUP, INC.

# Consolidated Statements of Financial Position

## December 31, 2018 and 2017

*(With corresponding Figures as of January 1, 2017)*
*(Amounts in Philippine Pesos)*

| | Notes | 2018 | December 31, 2017 (As Restated - see Note 2) | January 1, 2017 (As Restated - see Note 2) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 16 | **P 49,181,881,957** | P 39,118,890,804 | P 34,456,626,108 |
| Contract liabilities | 23 | **2,663,104,996** | 1,744,637,866 | 969,762,687 |
| Interest-bearing loans | 17 | **24,530,016,698** | 32,700,476,157 | 21,095,657,317 |
| Bonds payable | 18 | **-** | 9,976,270,876 | 39,734,990,308 |
| Income tax payable | | **1,679,266,461** | 959,058,840 | 1,122,497,897 |
| Redeemable preferred shares | 19 | **251,597,580** | 251,597,580 | - |
| Other current liabilities | 20 | **14,134,269,900** | 11,981,682,468 | 10,055,545,566 |
| Total Current Liabilities | | **92,440,137,592** | 96,732,614,591 | 107,435,079,883 |
| **NON-CURRENT LIABILITIES** | | | | |
| Interest-bearing loans | 17 | **142,871,936,606** | 108,273,087,030 | 55,500,216,708 |
| Bonds payable | 18 | **25,102,042,365** | 24,388,714,176 | 22,330,589,969 |
| Contract liabilities | 23 | **2,705,562,299** | 3,047,255,773 | 2,488,909,001 |
| Advances from related parties | 29.6 | **2,385,463,118** | 2,329,974,989 | 1,741,255,704 |
| Retirement benefit obligation | 27.2 | **1,790,019,668** | 1,943,453,287 | 2,604,306,467 |
| Redeemable preferred shares | 19 | **1,712,264,245** | 1,857,022,803 | 2,013,695,292 |
| Deferred tax liabilities - net | 28.1 | **11,077,531,099** | 7,770,165,696 | 5,876,159,921 |
| Other non-current liabilities | 20 | **17,593,574,277** | 14,996,781,241 | 13,855,112,543 |
| Total Non-current Liabilities | | **205,238,393,677** | 164,606,454,995 | 106,410,245,605 |
| Total Liabilities | | **297,678,531,269** | 261,339,069,586 | 213,845,325,488 |
| **EQUITY** | | | | |
| Equity attributable to owners of the parent company | 21 | **172,193,472,060** | 164,158,167,046 | 148,462,475,490 |
| Non-controlling interest | | **118,379,191,399** | 110,114,914,815 | 99,622,830,982 |
| Total Equity | | **290,572,663,459** | 274,273,081,861 | 248,085,306,472 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 588,251,194,728** | P 535,612,151,447 | P 461,930,631,960 |

*See Notes to Consolidated Financial Statements.*

ALLIANCE GLOBAL GROUP, INC.

# Consolidated Statements of Comprehensive Income

## For the years ended December 31, 2018, 2017 and 2016

*(Amounts in Philippine Pesos)*

| | Notes | 2018 | 2017 (As Restated - see Note 2) | 2016 (As Restated - see Note 2) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sale of goods | 23 | P 85,275,243,031 | P 77,352,038,077 | P 71,985,850,475 |
| Rendering of services - net | 23 | 66,176,980,409 | 58,292,210,272 | 57,951,903,894 |
| Share in net profits of associates and joint ventures - net | 12 | 291,178,124 | 272,698,340 | 355,605,317 |
| Finance and other income | 26 | 5,041,904,379 | 2,871,675,283 | 2,601,016,939 |
| | | 156,785,305,943 | 138,788,621,972 | 132,894,376,625 |
| **COSTS AND EXPENSES** | | | | |
| Cost of goods sold | 24 | 51,609,200,621 | 46,044,014,062 | 42,760,360,987 |
| Cost of services | 24 | 34,962,283,633 | 30,022,075,157 | 29,055,993,363 |
| Other operating expenses | 25 | 31,577,455,027 | 26,996,069,880 | 24,961,252,575 |
| Finance costs and other charges | 26 | 6,852,983,736 | 6,883,871,865 | 7,281,866,632 |
| | | 125,001,923,017 | 109,946,030,964 | 104,059,473,557 |
| **PROFIT BEFORE TAX** | | 31,783,382,926 | 28,842,591,008 | 28,834,903,068 |
| **TAX EXPENSE** | 28 | 8,107,504,537 | 6,566,622,421 | 5,888,362,869 |
| **NET PROFIT** | | 23,675,878,389 | 22,275,968,587 | 22,946,540,199 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | |
| Actuarial gains (loss) on remeasurement of retirement benefit obligation | 27.2 | 190,629,650 | 950,503,573 | ( 807,696,890 ) |
| Net unrealized fair value gains on financial assets at fair value through other comprehensive income | 11 | 26,515,019 | - | - |
| Share in other comprehensive income (loss) of associates | 12 | 13,452,063 | 33,916,495 | ( 27,975,475 ) |
| Deferred tax income (expense) relating to components of other comprehensive income | 28.1 | ( 73,057,872 ) | ( 189,305,616 ) | 130,194,376 |
| | | 157,538,860 | 795,114,452 | ( 705,477,989 ) |
| **Items that will be reclassified subsequently to profit or loss** | | | | |
| Translation adjustments | 2.19 | ( 329,180,697 ) | 729,350,325 | ( 2,602,327,527 ) |
| Net unrealized fair value gain (loss) on cash flow hedge | 20 | 230,806,189 | ( 45,942,879 ) | - |
| Net unrealized fair value gains (loss) on available-for-sale financial assets | 11 | - | 26,875,114 | ( 10,848,693 ) |
| Realized fair value loss (gain) on disposal of available-for-sale financial assets | 11 | - | ( 28,356,713 ) | 11,942,807 |
| Deferred tax expense relating to components of other comprehensive income | 28.1 | ( 716,975 ) | ( 409,175 ) | ( 13,068,552 ) |
| | | ( 99,091,483 ) | 681,516,672 | ( 2,614,301,965 ) |
| **TOTAL COMPREHENSIVE INCOME** | | P 23,734,325,766 | P 23,752,599,711 | P 19,626,760,245 |
| **Net profit attributable to:** | | | | |
| Owners of the parent company | | P 15,121,537,752 | P 15,192,000,737 | P 14,916,844,215 |
| Non-controlling interest | | 8,554,340,637 | 7,083,967,850 | 8,029,695,984 |
| | | P 23,675,878,389 | P 22,275,968,587 | P 22,946,540,199 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent company | | P 14,884,205,202 | P 16,266,944,233 | P 13,355,266,398 |
| Non-controlling interest | | 8,850,120,564 | 7,485,655,478 | 6,271,493,847 |
| | | P 23,734,325,766 | P 23,752,599,711 | P 19,626,760,245 |
| **Earnings Per Share for the Net Profit Attributable to Owners of the Parent Company:** | 22 | | | |
| **Basic** | | P 1.5252 | P 1.5031 | P 1.4701 |
| **Diluted** | | P 1.5231 | P 1.4998 | P 1.4663 |

*See Notes to Consolidated Financial Statements.*

ALLIANCE GLOBAL GROUP, INC.

# Consolidated Statements of Changes in Equity
## For the years ended December 31, 2018, 2017 and 2016
*(Amounts in Philippine Pesos)*

| | | Attributable to Owners | | | | | |
|---|---|---|---|---|---|---|---|
| | Notes | Capital Stock | Additional Paid-in Capital | Treasury Shares – at cost | Net Actuarial Losses on Retirement Benefit Plan | Net Fair Value Gains (Losses) on Financial Assets at FVOCI | Accumulated Translation Adjustments |
| Balance at January 1, 2018 | | | | | | | |
| As previously reported | | P 10,269,827,979 | P 34,395,380,979 | (P 1,566,146,040) | (P 36,537,800) | P 199,947,413 | (P 3,761,144,930) |
| Effect of restatements | 2 | | | | | | |
| PFRS 9 Adoption | | - | - | - | - | 59,154,340 | - |
| PFRS 15 and PIC Q&A 2018-12 Adoption | | - | - | - | - | - | - |
| Other restatement | | - | - | - | - | - | - |
| As restated | | 10,269,827,979 | 34,395,380,979 | (1,566,146,040) | (36,537,800) | 259,101,753 | (3,761,144,930) |
| Transactions with owners: | | | | | | | |
| Acquisition of treasury shares | | - | - | (2,564,518,469) | - | - | - |
| Share-based compensation | 21, 27 | - | - | - | - | - | - |
| Acquisition and incorporation of new subsidiaries | | - | - | - | - | - | - |
| Change in percentage ownership | | - | - | - | - | - | - |
| Dividend from investee | | - | - | - | - | - | - |
| Issuance of perpetual capital securities | | - | - | - | - | - | - |
| Retirement of preferred shares | | - | - | - | - | - | - |
| Cash dividends declared | | - | - | - | - | - | - |
| | | - | - | (2,564,518,469) | - | - | - |
| Reclassification adjustment | | - | - | - | - | - | - |
| Additional legal reserves during the year | | - | - | - | - | - | - |
| Appropriation of retained earnings | | - | - | - | - | - | - |
| Reversal of appropriation | | - | - | - | - | - | - |
| Total comprehensive income | | - | - | - | (549,281) | 32,936,572 | (424,937,003) |
| Balance at December 31, 2018 | | **P 10,269,827,979** | **P 34,395,380,979** | **(P 4,130,664,509)** | **(P 37,087,081)** | **P 292,038,325** | **(P 4,186,081,933)** |
| Balance at January 1, 2017 | | | | | | | |
| As previously reported | | P 10,269,827,979 | P 34,395,380,979 | (P 936,157,074) | (P 585,429,112) | P 477,744,138 | (P 4,595,890,425) |
| Effect of restatements: | | | | | | | |
| PFRS 15 and PIC Q&A 2018-12 Adoption | | - | - | - | - | - | - |
| Other restatement | | - | - | - | - | - | - |
| As restated | | 10,269,827,979 | 34,395,380,979 | (936,157,074) | (585,429,112) | 477,744,138 | (4,595,890,425) |
| Transactions with owners: | | | | | | | |
| Acquisition of treasury shares | | - | - | (629,988,966) | - | - | - |
| Share-based compensation | 21, 27 | - | - | - | - | - | - |
| Change in percentage ownership | | - | - | - | - | - | - |
| Acquisition and incorporation of new subsidiaries | | - | - | - | - | - | - |
| Dividend from investee | | - | - | - | - | - | - |
| Recognition of conversion options | | - | - | - | - | - | - |
| Retirement of preferred shares | | - | - | - | - | - | - |
| | | - | - | (629,988,966) | - | - | - |
| Appropriation of retained earnings | 21 | - | - | - | - | - | - |
| Reversal of appropriation | 21 | - | - | - | - | - | - |
| Total comprehensive income | | - | - | - | 548,891,312 | (277,796,725) | 834,745,495 |
| Balance at December 31, 2017 | | P 10,269,827,979 | P 34,395,380,979 | (P 1,566,146,040) | (P 36,537,800) | P 199,947,413 | (P 3,761,144,930) |
| Balance at January 1, 2016 | | | | | | | |
| As previously reported | | P 10,269,827,979 | P 34,395,380,979 | (P 936,157,074) | (P 71,269,938) | (P 690,503,745) | (P 2,370,232,891) |
| Effect of restatements: | | | | | | | |
| PFRS 15 Adoption and PIC Q&A 2018-12 | | - | - | - | - | - | - |
| Other restatement | | - | - | - | - | - | - |
| As restated | | 10,269,827,979 | 34,395,380,979 | (936,157,074) | (71,269,938) | (690,503,745) | (2,370,232,891) |
| Transactions with owners: | | | | | | | |
| Share-based compensation | 21, 27 | - | - | - | - | - | - |
| Reclassification adjustment | | - | - | - | (11,091,008) | 1,100,000 | - |
| Change in percentage ownership | | - | | - | - | - | - |
| Acquisition and incorporation of new subsidiaries | | - | - | - | - | - | - |
| Dividend from investee | | - | - | - | - | - | - |
| Cash dividends declared | 21 | - | - | - | - | - | - |
| | | - | - | - | (11,091,008) | 1,100,000 | - |
| Appropriation of retained earnings | 21 | - | - | - | - | - | - |
| Reversal of appropriation | 21 | - | - | - | - | - | - |
| Total comprehensive income | | - | - | - | (503,068,166) | 1,167,147,883 | (2,225,657,534) |
| Balance at December 31, 2016 | | P 10,269,827,979 | P 34,395,380,979 | (P 936,157,074) | (P 585,429,112) | P 477,744,138 | (P 4,595,890,425) |

***See Notes to Consolidated***

of the Parent Company

| Revaluation Reserves on Cash Flow Hedge | Share Options | Other Reserves | Retained Earnings: Appropriated | Retained Earnings: Unappropriated | Total | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| (P 30,896,586) | P 744,676,052 | P 20,039,138,973 | P 2,748,722,000 | P 99,572,006,321 | P 162,574,974,361 | P 109,267,073,430 | P 271,842,047,791 |
| - | - | - | - | (196,371,204) | (137,216,864) | (150,271,735) | (287,488,599) |
| - | - | - | - | 1,567,318,854 | 1,567,318,854 | 828,549,441 | 2,395,868,295 |
| - | - | - | - | 15,873,831 | 15,873,831 | 19,291,944 | 35,165,775 |
| (30,896,586) | 744,676,052 | 20,039,138,973 | 2,748,722,000 | 100,958,827,802 | 164,020,950,182 | 109,964,643,080 | 273,985,593,262 |
| - | - | - | - | - | (2,564,518,469) | - | (2,564,518,469) |
| - | - | - | - | - | - | 53,457,042 | 53,457,042 |
| - | - | (2,865,746,187) | - | - | (2,865,746,187) | 833,779,117 | (2,031,967,070) |
| - | - | - | - | - | - | (2,478,648,942) | (2,478,648,942) |
| - | - | - | - | - | - | (1,346,498,244) | (1,346,498,244) |
| - | - | - | - | - | - | 2,505,213,782 | 2,505,213,782 |
| - | - | - | - | - | - | (2,875,000) | (2,875,000) |
| - | - | - | - | (1,281,782,338) | (1,281,782,338) | - | (1,281,782,338) |
| - | - | (2,865,746,187) | - | (1,281,782,338) | (6,712,046,994) | (435,572,245) | (7,147,619,239) |
| - | - | 9,689,175 | - | (9,689,175) | - | - | - |
| - | - | 6,103,024 | - | (5,739,354) | 363,670 | - | 363,670 |
| - | - | - | 3,034,080,000 | (3,034,080,000) | - | - | - |
| - | - | - | (2,262,722,000) | 2,262,722,000 | - | - | - |
| 155,217,162 | - | - | - | 15,121,537,752 | 14,884,205,202 | 8,850,120,564 | 23,734,325,766 |
| **P 124,320,576** | **P 744,676,052** | **P 17,189,184,985** | **P 3,520,080,000** | **P 114,011,796,687** | **P 172,193,472,060** | **P 118,379,191,399** | **P 290,572,663,459** |
| P - | P 744,676,052 | P 19,980,402,684 | P 2,532,837,400 | P 84,856,758,645 | P 147,140,151,266 | P 98,963,520,182 | P 246,103,671,448 |
| - | - | - | - | 1,316,208,519 | 1,316,208,519 | 651,878,200 | 1,968,086,719 |
| - | - | - | - | 6,115,705 | 6,115,705 | 7,432,600 | 13,548,305 |
| - | 744,676,052 | 19,980,402,684 | 2,532,837,400 | 86,179,082,869 | 148,462,475,490 | 99,622,830,982 | 248,085,306,472 |
| - | - | - | - | - | (629,988,966) | - | (629,988,966) |
| - | - | - | - | - | - | 49,457,009 | 49,457,009 |
| - | - | 58,736,289 | - | - | 58,736,289 | 40,140,199 | 98,876,488 |
| - | - | - | - | - | - | 4,503,257,026 | 4,503,257,026 |
| - | - | - | - | - | - | (1,719,702,265) | (1,719,702,265) |
| - | - | - | - | - | - | 136,151,386 | 136,151,386 |
| - | - | - | - | - | - | (2,875,000) | (2,875,000) |
| - | - | 58,736,289 | - | - | (571,252,677) | 3,006,428,355 | 2,435,175,678 |
| - | - | - | 2,748,722,000 | (2,748,722,000) | - | - | - |
| - | - | - | (2,532,837,400) | 2,532,837,400 | - | - | - |
| (30,896,586) | - | - | - | 15,192,000,737 | 16,266,944,233 | 7,485,655,478 | 23,752,599,711 |
| (P 30,896,586) | P 744,676,052 | P 20,039,138,973 | P 2,748,722,000 | P 101,155,199,006 | P 164,158,167,046 | P 110,114,914,815 | P 274,273,081,861 |
| P - | P 727,492,290 | P 19,980,402,684 | P 1,990,590,660 | P 73,760,966,190 | P 137,056,497,134 | P 94,131,696,857 | P 231,188,193,991 |
| - | - | - | - | 1,207,653,958 | 1,207,653,958 | 648,723,385 | 1,856,377,343 |
| - | - | - | - | (1,164,410) | (1,164,410) | (1,415,143) | (2,579,553) |
| - | 727,492,290 | 19,980,402,684 | 1,990,590,660 | 74,967,455,738 | 138,262,986,682 | 94,779,005,099 | 233,041,991,781 |
| - | 88,261,583 | - | - | - | 88,261,583 | 48,020,050 | 136,281,633 |
| - | (71,077,821) | - | - | (113,265,968) | (194,334,797) | 194,334,797 | - |
| - | - | - | - | 95,823,396 | 95,823,396 | (112,820,053) | (16,996,657) |
| - | - | - | - | - | - | 143,598,107 | 143,598,107 |
| - | - | - | - | - | - | (1,700,800,865) | (1,700,800,865) |
| - | - | - | - | (3,145,527,772) | (3,145,527,772) | - | (3,145,527,772) |
| - | 17,183,762 | - | - | (3,162,970,344) | (3,155,777,590) | (1,427,667,964) | (4,583,445,554) |
| - | - | - | 2,084,587,400 | (2,084,587,400) | - | - | - |
| - | - | - | (1,542,340,660) | 1,542,340,660 | - | - | - |
| - | - | - | - | 14,916,844,215 | 13,355,266,398 | 6,271,493,847 | 19,626,760,245 |
| P - | P 744,676,052 | P 19,980,402,684 | P 2,532,837,400 | P 86,179,082,869 | P 148,462,475,490 | P 99,622,830,982 | P 248,085,306,472 |

*Financial Statements.*

# Consolidated Statements of Cash Flows

## For the years ended December 31, 2018, 2017 and 2016

*(Amounts in Philippine Pesos)*

| | Notes | 2018 | 2017 (As Restated - see Note 2) | 2016 (As Restated - see Note 2) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | P 31,783,382,926 | P 28,842,591,008 | P 28,834,903,068 |
| Adjustments for: | | | | |
| Depreciation and amortization | 24, 25 | 6,883,015,196 | 5,839,552,780 | 5,100,711,730 |
| Interest expense | 26 | 4,084,166,535 | 5,554,066,867 | 4,856,184,716 |
| Interest income | 26 | ( 2,833,780,599 ) | ( 2,307,789,718 ) | ( 2,078,421,813 ) |
| Unrealized foreign currency losses - net | | 344,806,464 | 285,082,501 | 1,833,760,579 |
| Share in net profits of associates and joint ventures | 12 | ( 291,178,124 ) | ( 272,698,340 ) | ( 355,605,317 ) |
| Reversal of pre-acquisition loss (income) | 26 | 166,615,784 | ( 2,715,950 ) | 3,314,788 |
| Dividend income | 26 | ( 63,767,349 ) | ( 12,423,602 ) | ( 6,312,863 ) |
| Loss (gain) on disposal of property, plant and equipment and investment property | 26 | ( 53,917,450 ) | ( 115,773,777 ) | 35,820,601 |
| Stock option benefit expense | 27 | 53,457,042 | 49,457,009 | 136,281,633 |
| Income from acquisition and deconsolidation of subsidiaries | 26 | ( 30,254,467 ) | - | ( 53,333,758 ) |
| Gain on reversal of impairment losses | 13, 26 | ( 19,258,000 ) | ( 60,504,846 ) | - |
| Losses from property damages | 13, 30.9 | - | 652,604,324 | - |
| Gain on sale of investments in an associate | 26 | - | ( 113,069,227 ) | ( 82,459,513 ) |
| Unrealized loss on interest rate swap | 26 | - | 27,235,637 | 31,769,386 |
| Gain on sale of investment in available-for-sale financial assets | 26 | - | ( 22,230,010 ) | ( 11,942,807 ) |
| Impairment loss on property, plant and equipment | 26 | - | - | 166,497,656 |
| Operating profit before working capital changes | | 40,023,287,958 | 38,343,384,656 | 38,411,168,086 |
| Increase in trade and other receivables | | ( 4,439,346,489 ) | ( 22,117,246,689 ) | ( 11,496,706,235 ) |
| Decrease (increase) in contract assets | | ( 5,871,792,742 ) | 2,430,699,999 | ( 4,585,130,246 ) |
| Decrease (increase) in financial assets at fair value through profit or loss | | 563,823,597 | ( 3,051,207,407 ) | 1,222,113,403 |
| Increase in inventories | | ( 11,419,083,682 ) | ( 5,278,127,959 ) | ( 8,619,945,222 ) |
| Increase in other current assets | | ( 2,565,470,447 ) | ( 2,073,464,411 ) | ( 2,283,938,147 ) |
| Increase (decrease) in trade and other payables | | 5,480,227,434 | 6,807,728,994 | ( 4,254,858,730 ) |
| Increase in contract liabilities | | 396,021,988 | 1,333,221,951 | 864,667,922 |
| Increase (decrease) in retirement benefit obligation | | ( 103,543,358 ) | ( 60,038,783 ) | 34,207,167 |
| Increase in other current liabilities | | 2,307,720,946 | 1,926,136,902 | 1,524,966,188 |
| Increase in other non-current liabilities | | 2,587,463,084 | 1,141,668,698 | 382,996,681 |
| Cash generated from operations | | 26,959,308,289 | 19,402,755,951 | 11,199,540,867 |
| Cash paid for taxes | | ( 4,073,223,082 ) | ( 5,138,190,000 ) | ( 4,455,061,359 ) |
| Net Cash From Operating Activities | | 22,886,085,207 | 14,264,565,951 | 6,744,479,508 |
| *Balance carried forward* | | P 22,886,085,207 | P 14,264,565,951 | P 6,744,479,508 |

| | Notes | 2018 | 2017 (As Restated - See Note 2) | 2016 (As Restated - See Note 2) |
|---|---|---|---|---|
| *Balance brought forward* | | **P 22,886,085,207** | P 14,264,565,951 | P 6,744,479,508 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisitions of: | | | | |
| Property, plant and equipment | 13 | **( 17,451,001,408 )** | ( 19,349,174,305 ) | ( 15,258,990,246 ) |
| Investment property | 14 | **( 14,280,652,677 )** | ( 14,555,907,612 ) | ( 12,979,191,612 ) |
| Subsidiaries, associates and business units | 12 | **( 1,996,674,899 )** | ( 2,283,198,971 ) | ( 12,208,064,237 ) |
| Intangible assets | 15 | **( 60,060,427 )** | ( 3,012,832,940 ) | - |
| Available-for-sale financial assets | 11 | **-** | ( 15,857,795 ) | ( 161,284,871 ) |
| Proceeds from: | | | | |
| Disposal of property, plant and equipment and intangible asset | 13, 15 | **397,966,277** | 1,519,523,083 | 76,795,977 |
| Collections of advances from associates and other related parties | 12 | **255,426,945** | 285,081,063 | 386,790,457 |
| Disposal of subsidiary | 1 | **10,837,209** | - | - |
| Disposal of investment property | 14 | **2,464,208** | 169,869,223 | 766,776 |
| Withdrawal of investment in a joint venture | | **-** | 858,354,900 | - |
| Sale of available-for-sale financial assets | 11 | **-** | 306,432,916 | 1,689,935,683 |
| Sale of investment in associates | 12 | **-** | 297,454,675 | 343,867,951 |
| Interest received | | **1,092,919,788** | 1,796,894,279 | 1,578,065,218 |
| Advances to landowners, joint ventures and other related parties - net | | **( 921,285,309 )** | ( 255,044,624 ) | ( 265,563,720 ) |
| Decrease (increase) in other non-current assets | | **( 616,837,264 )** | ( 150,905,407 ) | 4,052,100,127 |
| Additional advances granted to associates | | **( 500,136,212 )** | ( 308,966,472 ) | ( 35,162,769 ) |
| Cash dividends received | | **157,081,637** | 73,375,843 | 99,704,157 |
| Net Cash Used in Investing Activities | | **( 33,909,952,132 )** | ( 34,624,902,144 ) | ( 32,680,231,109 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from interest-bearing loans and bonds | 17, 18, 35 | **59,942,342,396** | 98,231,009,865 | 46,474,698,987 |
| Proceeds from issuance of perpetual bonds | 18, 35 | **2,505,213,782** | - | - |
| Payment of interest-bearing loans and bonds | 17, 18, 35 | **( 46,436,104,182 )** | ( 62,327,686,223 ) | ( 27,657,660,328 ) |
| Interest paid | | **( 6,295,430,056 )** | ( 8,278,141,867 ) | ( 6,504,307,008 ) |
| Dividends paid | 21 | **( 2,628,280,582 )** | ( 1,719,702,265 ) | ( 4,846,328,637 ) |
| Acquisition of treasury shares | 21 | **( 2,564,518,469 )** | ( 629,988,966 ) | - |
| Buyback of shares from non-controlling interest by a subsidiary | 21 | **( 1,528,633,170 )** | ( 321,134,930 ) | - |
| Advances granted and paid to related parties | 29 | **( 925,735,618 )** | ( 338,467,614 ) | ( 1,405,950,723 ) |
| Advances collected and received from related parties | 29 | **675,467,194** | 1,333,718,613 | 1,330,728,915 |
| Redemption of preferred shares | 19 | **( 2,875,000 )** | ( 2,875,000 ) | - |
| Proceeds from issuance of shares of subsidiaries | | **-** | 847,882,450 | - |
| Payments of derivative liabilities | | **-** | ( 360,478,688 ) | ( 339,463,500 ) |
| Net Cash From Financing Activities | | **2,741,446,295** | 26,434,135,375 | 7,051,717,706 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **( 8,282,420,630 )** | 6,073,799,182 | ( 18,884,033,895 ) |
| **CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARY** | | **277,032,001** | 976,599,736 | 1,902,094 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | | **52,784,400,162** | 45,734,001,244 | 64,616,133,045 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | | **P 44,779,011,533** | P 52,784,400,162 | P 45,734,001,244 |

**Supplemental Information on Non-cash Investing and Financing Activities:**

1. In the normal course of business, the Group enters into non-cash activities which are not reflected in the cash flows, including the following: (a) exchanges or purchases or sale on account of real estate and other assets that remain unpaid at end of period; (b) reclassifications or transfers of property between Inventories, Property and Equipment and Investment Properties; (c) borrowing costs under capitalized Inventories or Construction in Progress; (d) prior period's deposits applied during the period.

2. In 2017, the Group wrote-off certain properties and equipment amounting to P652.6 million which were damaged due to the incident at Resorts World Manila (see Notes 13 and 30.9).

3. In 2017, a subsidiary issued 122.4 million common shares in consideration of the accrued interest amounting to P832.3 million.

***See Notes to Consolidated Financial Statements.***

(Amounts in Philippine Pesos)

## 1. CORPORATE INFORMATION

### *1.1 General Information*

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

| Subsidiaries/Associates/ Joint Ventures | Short Name | Notes | Percentage of Effective Ownership of AGI 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Megaworld and subsidiaries** | | | | | |
| **Megaworld Corporation** | Megaworld | (a) | **67%** | 67% | 67% |
| Megaworld Resort Estates, Inc. | | (b) | **83%** | 83% | 83% |
| Townsquare Development, Inc. | TDI | | **50%** | 50% | 50% |
| Golden Panda-ATI Realty Corporation | | | **50%** | 50% | 50% |
| Arcovia Properties, Inc. | | | **67%** | 67% | 67% |
| Belmont Newport Luxury Hotels, Inc. | | | **67%** | 67% | 67% |
| Davao Park District Holdings Inc. | | | **67%** | 67% | 67% |
| Eastwood Cyber One Corporation | ECOC | | **67%** | 67% | 67% |
| Global One Hotel Group, Inc. | | | **67%** | 67% | 67% |
| Global One Integrated Business Services, Inc. | | | **67%** | 67% | 67% |
| Hotel Lucky Chinatown, Inc. | | (c) | **67%** | - | - |
| Landmark Seaside Properties, Inc. | | | **67%** | 67% | 67% |
| Luxury Global Hotels and Leisures, Inc. | | | **67%** | 67% | 67% |
| Luxury Global Malls, Inc. | | | **67%** | 67% | 67% |
| Mactan Oceanview Properties and Holdings, Inc. | | | **67%** | 67% | 67% |
| Megaworld Cayman Islands, Inc. | | (d) | **67%** | 67% | 67% |
| Megaworld Cebu Properties, Inc. | | | **67%** | 67% | 67% |
| Megaworld Land, Inc. | | | **67%** | 67% | 67% |
| Citywalk Building Administration, Inc. | | | **67%** | 67% | 67% |
| Forbestown Commercial Center Administration, Inc. | | | **67%** | 67% | 67% |
| Ilo-ilo Center Mall Administration, Inc. | | | **67%** | 67% | 67% |
| Newtown Commercial Center Administration, Inc. | | | **67%** | 67% | 67% |
| Paseo Center Building Administration, Inc. | | | **67%** | 67% | 67% |
| San Lorenzo Place Commercial Center Administration, Inc. | SLPCCAI | (e) | **67%** | 67% | - |
| Southwoods Lifestyle Mall Management, Inc. | | (c) | **67%** | - | - |
| Uptown Commercial Center Administration, Inc. | | | **67%** | 67% | 67% |
| Valley Peaks Property Management, Inc. | | | **67%** | 67% | 67% |
| Megaworld Newport Property Holdings, Inc. | | | **67%** | 67% | 67% |
| Oceantown Properties, Inc. | | | **67%** | 67% | 67% |
| Piedmont Property Ventures, Inc. | | | **67%** | 67% | 67% |
| Prestige Hotels and Resorts, Inc. | | | **67%** | 67% | 67% |

| Subsidiaries/Associates/ Joint Ventures | Short Name | Notes | Percentage of Effective Ownership of AGI | | |
|---|---|---|---|---|---|
| | | | **2018** | 2017 | 2016 |
| ***Subsidiaries*** | | | | | |
| **Megaworld and subsidiaries** | | | | | |
| Richmonde Hotel Group International Ltd. | RHGI | (f) | **67%** | 67% | 67% |
| San Vicente Coast, Inc. | | | **67%** | 67% | 67% |
| Savoy Hotel Manila, Inc. | | (c) | **67%** | - | - |
| Stonehaven Land, Inc. | | | **67%** | 67% | 67% |
| Streamwood Property, Inc. | | | **67%** | 67% | 67% |
| Megaworld Bacolod Properties, Inc. | MBPI | | **62%** | 62% | 62% |
| Manila Bayshore Property Holdings, Inc. | MBPHI | (g) | **60%** | 57% | 57% |
| Megaworld Capital Town, Inc. | MCTI | (e) | **51%** | 51% | - |
| Megaworld Central Properties, Inc. | | | **51%** | 51% | 51% |
| Soho Cafe and Restaurant Group, Inc. | | | **50%** | 50% | 50% |
| La Fuerza, Inc. | LFI | | **45%** | 45% | 45% |
| Megaworld-Daewoo Corporation | MDC | | **40%** | 40% | 40% |
| Northwin Properties, Inc. | NWPI | (e) | **40%** | 40% | - |
| Gilmore Property Marketing Associates Inc. | | | **35%** | 35% | 35% |
| Integrated Town Management Corporation | | | **34%** | 34% | 34% |
| Maple Grove Land, Inc. | | | **34%** | 34% | 34% |
| Megaworld Globus Asia, Inc. | | | **34%** | 34% | 34% |
| **Suntrust Properties, Inc.** | SPI | | **67%** | 67% | 67% |
| Governor's Hills Science School, Inc. | | | **67%** | 67% | 67% |
| Sunrays Properties Management, Inc. | | | **67%** | 67% | 67% |
| Suntrust Ecotown Developers, Inc. | SEDI | | **67%** | 67% | 67% |
| Suntrust One Shanata, Inc. | | | **67%** | 67% | 67% |
| Suntrust Two Shanata, Inc. | | | **67%** | 67% | 67% |
| Stateland, Inc. | STLI | (h, i) | **65%** | - | - |
| **Global-Estate Resorts, Inc.** | GERI | (j) | **55%** | 55% | 55% |
| Southwoods Mall Inc. | SMI | | **61%** | 61% | 61% |
| Twin Lakes Corp. | TLC | (k) | **61%** | 56% | 56% |
| Twin Lakes Hotel, Inc. | TLHI | (h, l) | **61%** | - | - |
| Megaworld Global-Estate, Inc. | | (m) | **60%** | 60% | 60% |
| Fil-Estate Golf and Development, Inc | | | **55%** | 55% | 55% |
| Golforce, Inc. | | | **55%** | 55% | 55% |
| Southwoods Ecocentrum Corp. | SWEC | | **33%** | 33% | 33% |
| Philippine Aquatic Leisure Corp. | | | **33%** | 33% | 33% |
| Fil-Estate Properties, Inc. | FEPI | | **55%** | 55% | 55% |
| Aklan Holdings Inc. | | | **55%** | 55% | 55% |
| Blu Sky Airways, Inc. | | | **55%** | 55% | 55% |
| Fil-Estate Subic Development Corp. | | | **55%** | 55% | 55% |
| Fil-Power Concrete Blocks Corp. | | | **55%** | 55% | 55% |
| Fil-Power Construction Equipment Leasing Corp. | | | **55%** | 55% | 55% |
| Golden Sun Airways, Inc. | | | **55%** | 55% | 55% |
| La Compaña De Sta. Barbara, Inc. | | | **55%** | 55% | 55% |
| MCX Corporation | | | **55%** | 55% | 55% |
| Pioneer L-5 Realty Corp. | | | **55%** | 55% | 55% |
| Prime Airways, Inc. | | | **55%** | 55% | 55% |
| Sto. Domingo Place Development Corp. | | | **55%** | 55% | 55% |
| Fil-Estate Industrial Park, Inc. | | | **44%** | 44% | 44% |
| Sherwood Hills Development Inc. | | | **30%** | 30% | 30% |
| Fil-Estate Urban Development Corp. | | | **55%** | 55% | 55% |
| Global Homes and Communities, Inc. | | | **55%** | 55% | 55% |
| Novo Sierra Holdings Corp. | | | **55%** | 55% | 55% |
| Elite Communities Property Services, Inc. | ECPSI | (h, l) | **55%** | - | - |
| Oceanfront Properties, Inc. | OFPI | | **28%** | 28% | 28% |
| **Empire East Land Holdings, Inc.** | EELHI | | **55%** | 55% | 55% |
| Sonoma Premiere Land, Inc. | | (n) | **73%** | 73% | 73% |
| Pacific Coast Mega City, Inc. | PCMI | (o) | **71%** | - | - |
| 20th Century Nylon Shirt, Inc. | | | **55%** | 55% | 55% |
| Eastwood Property Holdings, Inc. | | | **55%** | 55% | 55% |
| Empire East Communities, Inc. | | | **55%** | 55% | 55% |
| Sherman Oak Holdings, Inc. | | | **55%** | 55% | 55% |
| Valle Verde Properties, Inc. | | | **55%** | 55% | 55% |
| Laguna Bel-Air School, Inc. | | | **40%** | 40% | 40% |

# Notes to Consolidated Financial Statements
## December 31, 2018, 2017 and 2016
*(Amounts in Philippine Pesos)*

| Subsidiaries/Associates/ Joint Ventures | Short Name | Notes | Percentage of Effective Ownership of AGI 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Emperador and subsidiaries** | | | | | |
| **Emperador Inc.** | EMP or Emperador | (p) | **83%** | 82% | 82% |
| **Emperador Distillers, Inc.** | EDI | | **83%** | 82% | 82% |
| Alcazar de Bana Holdings Company, Inc. | | | **83%** | 82% | 82% |
| ProGreen AgriCorp, Inc. | | | **83%** | 82% | 82% |
| South Point Science Park, Inc. | | | **83%** | 82% | 82% |
| Anglo Watsons Glass, Inc. | AWGI | | **83%** | 82% | 82% |
| Cocos Vodka Distillers Philippines, Inc. | | | **83%** | 82% | 82% |
| The Bar Beverage, Inc. | | | **83%** | 82% | 82% |
| Tradewind Estates, Inc. | TEI | (q) | **83%** | 82% | 82% |
| BoozyLife, Inc. | BLI | (r) | **42%** | - | - |
| Zabana Rum, Inc. | | (s) | **83%** | 82% | - |
| **Emperador International Ltd.** | EIL | (f) | **83%** | 82% | 82% |
| Emperador Asia Pte Ltd. | EA | (t) | **83%** | 82% | 82% |
| Grupo Emperador Spain, S.A.U. | GES | (t) | **83%** | 82% | 82% |
| Bodega San Bruno, S.L. | BSB | (t) | **83%** | 82% | 82% |
| Bodegas Fundador SLU | BFS | (t) | **83%** | 82% | 82% |
| Complejo Bodeguero San Patricio, SLU | CBSP | (t) | **83%** | 82% | 82% |
| Destilados de la Mancha S.L. | DDLM | (t) | **83%** | 82% | 82% |
| Emperador Gestion S.L. | GEG | (t) | **83%** | 82% | 82% |
| Domecq Bodega Las Copas, S.L. | DBLC | (s) | **41%** | 41% | - |
| Bodega Domecq S.A. de C.V. | BDSC | (s) | **41%** | 41% | - |
| Gonzales Byass de Mexico S.A. de C.V. | GBMS | (s) | **41%** | 41% | - |
| Pedro Domecq S.A. de C.V. | PDSC | (s) | **41%** | 41% | - |
| Emperador Europe SARL | EES | (t) | **83%** | 82% | 82% |
| Emperador Holdings (GB) Limited. | EGB | (t) | **83%** | 82% | 82% |
| Emperador UK Limited | EUK | (t) | **83%** | 82% | 82% |
| Whyte and Mackay Group Limited | WMG | (t) | **83%** | 82% | 82% |
| Whyte and Mackay Limited | WML | (t) | **83%** | 82% | 82% |
| Whyte and Mackay Warehousing Ltd. | WMWL | (t) | **83%** | 82% | 82% |
| **GADC and subsidiaries** | | | | | |
| **Golden Arches Development Corporation** | GADC | | **49%** | 49% | 49% |
| Advance Food Concepts Manufacturing, Inc. | | | **49%** | 49% | 49% |
| Red Asian Food Solutions | | | **37%** | 37% | 37% |
| Clark Mac Enterprises, Inc. | | | **49%** | 49% | 49% |
| Golden Laoag Foods Corporation | | | **38%** | 38% | 38% |
| Davao City Food Industries, Inc. | | | **37%** | 37% | 37% |
| First Golden Laoag Ventures | | | **34%** | 34% | 34% |
| McDonald's Anonas City Center | | | **34%** | 34% | 34% |
| McDonald's Puregold Taguig | | | **29%** | 29% | 29% |
| Golden City Food Industries, Inc. | | | **29%** | 29% | 29% |
| McDonald's Bonifacio Global City | | | **27%** | 27% | 27% |
| Molino First Golden Foods, Inc. | | | **26%** | 26% | 26% |
| GY Alliance Concepts, Inc. | | | **19%** | 19% | 19% |
| Golden Arches Realty Corporation | GARC | (u) | **-** | - | - |
| Retiro Golden Foods, Inc. | RGFI | (v) | **-** | 34% | 34% |
| **Travellers and subsidiaries** | | | | | |
| **Travellers International Hotel Group, Inc.** | Travellers | (w) | **47%** | 47% | 47% |
| Agile Fox Amusement and Leisure Corporation | | | **47%** | 47% | 47% |
| APEC Assets Limited | | | **47%** | 47% | 47% |
| Aquamarine Delphinium Leisure and Recreation, Inc. | | | **47%** | 47% | 47% |
| Bright Pelican Leisure and Production, Inc. | | | **47%** | 47% | 47% |
| Bright Leisure Management, Inc. | | | **47%** | 47% | 47% |
| Brilliant Apex Hotels and Leisure Corporation | | | **47%** | 47% | 47% |
| Coral Primrose Leisure and Recreation Corporation | | | **47%** | 47% | 47% |

| Subsidiaries/Associates/ Joint Ventures | Short Name | Notes | Percentage of Effective Ownership of AGI 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Deluxe Hotels and Recreation, Inc. | DHRI | | **47%** | 47% | 47% |
| Entertainment City Integrated Resorts & Leisure, Inc. | | | **47%** | 47% | 47% |
| FHTC Entertainment & Production, Inc. | FHTC | | **47%** | 47% | 47% |
| Golden Peak Leisure and Recreation, Inc. | | | **47%** | 47% | 47% |
| Grand Integrated Hotels and Recreation, Inc. | | | **47%** | 47% | 47% |
| Grandservices, Inc. | | | **47%** | 47% | 47% |
| Grandventure Management Services, Inc. | | | **47%** | 47% | 47% |
| Lucky Star Hotels and Recreation, Inc. | LSHRI | | **47%** | 47% | 47% |
| Lucky Panther Amusement and Leisure Corporation | | | **47%** | 47% | 47% |
| Luminescent Vertex Hotels and Leisure Corporation | | | **47%** | 47% | 47% |
| Magenta Centaurus Amusement and Leisure Corporation | | | **47%** | 47% | 47% |
| Majestic Sunrise Leisure & Recreation, Inc. | | | **47%** | 47% | 47% |
| Netdeals, Inc. | | | **47%** | 47% | 47% |
| Newport Star Lifestyle, Inc. | | | **47%** | 47% | 47% |
| Royal Bayshore Hotels & Amusement, Inc. | | | **47%** | 47% | 47% |
| Sapphire Carnation Leisure and Recreation Corporation | | | **47%** | 47% | 47% |
| Scarlet Milky Way Amusement and Leisure Corporation | | | **47%** | 47% | 47% |
| Sparkling Summit Hotels and Leisure Corporation | | | **47%** | 47% | 47% |
| Valiant Leopard Amusement and Leisure Corporation | | | **47%** | 47% | 47% |
| Vermillion Triangulum Amusement and Leisure Corporation | | | **47%** | 47% | 47% |
| Westside City Resorts World, Inc. | WCRWI | (x) | **47%** | 47% | 47% |
| Purple Flamingos Amusement and Leisure Corporation | | | **47%** | 47% | 47% |
| Red Falcon Amusement and Leisure Corporation | | | **47%** | 47% | 47% |
| Westside Theatre Inc. | | | **47%** | 47% | 47% |
| **Corporate and Others** | | | | | |
| Alliance Global Brands, Inc. | | | **100%** | 100% | 100% |
| McKester Pik-nik International Limited | MPIL | (f) | **100%** | 100% | 100% |
| Great American Foods, Inc. | | (y) | **100%** | 100% | 100% |
| New Town Land Partners, Inc. | NTLPI | | **100%** | 100% | 100% |
| Alliance Global Group Cayman Islands, Inc. | AG Cayman | (d) | **100%** | 100% | 100% |
| Boracay Newcoast Resorts, Inc. | | (c) | **100%** | - | - |
| Dew Dreams International, Inc. | | (s) | **100%** | 100% | - |
| First Centro, Inc. | FCI | | **100%** | 100% | 100% |
| ERA Real Estate Exchange, Inc. | | | **100%** | 100% | 100% |
| Oceanic Realty Group International, Inc. | | | **100%** | 100% | 100% |
| Greenspring Investment Holdings Properties Ltd. | | (f) | **100%** | 100% | 100% |
| Infracorp Development, Inc. | | (z) | **100%** | 100% | - |
| Shiok Success International, Inc. | | (s) | **100%** | 100% | - |
| Travellers Group Ltd. | | (f) | **100%** | 100% | 100% |
| Venezia Universal Ltd. | | (f) | **100%** | 100% | 100% |
| Dew Dreams International, Ltd. | | (f) | **100%** | 100% | 100% |
| Shiok Success International, Ltd. | | (f) | **100%** | 100% | 100% |
| Adams Properties, Inc. | Adams | | **60%** | 60% | 60% |
| ***Associates*** | | | | | |
| First Premiere Arches Restaurant Inc. | FPARI | | **49%** | 49% | 49% |
| Bonifacio West Development Corporation | BWDC | | **31%** | 31% | 31% |
| Suntrust Home Developers, Inc. | SHDI | (aa), 12.2 | **31%** | 31% | 29% |
| Citylink Coach Services, Inc. | | (bb) | **31%** | 31% | 29% |
| First Oceanic Property Management, Inc. | | (bb) | **31%** | 31% | 29% |
| Palm Tree Holdings and Development Corporation | PTHDC | | **27%** | 27% | 27% |

(Amounts in Philippine Pesos)

| Subsidiaries/Associates/ Joint Ventures | Short Name | Notes | Percentage of Effective Ownership of AGI 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| ***Associates*** | | | | | |
| Fil-Estate Network, Inc. | FENI | | **11%** | 11% | 11% |
| Fil-Estate Sales, Inc. | FESI | | **11%** | 11% | 11% |
| Fil-Estate Realty and Sales Associates, Inc. | FERSAI | | **11%** | 11% | 11% |
| Fil-Estate Realty Corp. | FERC | | **11%** | 11% | 11% |
| Boracay Newcoast Hotel Group, Inc. | BNHGI | (cc), 12.3 | **8%** | 8% | 17% |
| Nasugbu Properties, Inc. | NPI | | **8%** | 8% | 8% |
| PCMI | | (o) | **-** | 11% | 11% |
| ***Joint Ventures*** | | | | | |
| Bodega Las Copas, S.L. | BLC | (dd), 12.4 | **41%** | 41% | 41% |
| Front Row Theatre Management, Inc. | FRTMI | (ee) | **24%** | 24% | 24% |

Explanatory notes:

(a) AGI's effective ownership interest is derived from its 44% direct ownership, 3% direct holdings of FCI, 18% direct holdings of NTLPI and 2% holdings of other subsidiaries.
(b) AGI and Megaworld directly owns 49% and 51%, respectively.
(c) Newly incorporated subsidiaries in 2018.
(d) Foreign subsidiaries operating under the laws of the Cayman Islands.
(e) Acquired subsidiaries in 2017.
(f) Foreign subsidiaries operating under the Business Companies Act of the British Virgin Islands (BVI).
(g) A subsidiary through 50/50 ownership of Travellers and Megaworld in 2017 and 2016. In 2018, ownership interest changed to 67% and 33% for Megaworld and Travellers, respectively.
(h) Newly acquired subsidiaries in 2018 accounted for as business acquisitions. See Note 1.2(a)
(i) In June 2018, Megaworld and SPI acquired common shares of STLI from previous stockholders equivalent to 17.40% and 79.74% ownership interest, respectively. See Note 1.2(a)
(j) AGI's effective ownership interest represents its indirect holdings through Megaworld, which owns 82% of GERI as at December 31, 2018 and 2017.
(k) In 2018, Megaworld acquired additional shares of TLC from previous stockholders thereby increasing the Group's effective ownership to 61%.
(l) In 2018, GERI acquired all shares of ECPSI, and TLHI through TLC.
(m) A subsidiary through 60% and 40% direct ownership of GERI and Megaworld, respectively.
(n) A subsidiary through 60% and 40% direct ownership of EELHI and FCI, respectively.
(o) PCMI was considered as an associate of the Group from 2015. In 2018, The Andresons Group, Inc. (TAGI) assigned 60% of its rights over PCMI to AGI. As of December 31, 2018, PCMI is 71% effectively owned by the Group through the 60% direct ownership of AGI and 20% by EELHI. Subsequently in January 2019, EELHI acquired the remaining 20% held by TAGI, thus the Group gained 100% rights over PCMI. The effective ownership of the Group over PCMI after the transaction is 82%. See Note 1.2(a).
(p) In line with the buy-back program which started in 2017, EMP repurchased common shares in 2018 which resulted to the increase in AGI's effective ownership over EMP in 2018.
(q) In March 2016, AGBI sold its 100% ownership over TEI to EDI, a subsidiary of EMP; hence, the Company's effective interest decreased to 82%.
(r) In 2018, TEI acquired 51% ownership in BLI for a total consideration of P45.0 million.
(s) Incorporated subsidiaries in 2017, except for GBMS. These are operating in the Philippines except for DBLC, a subsidiary of GES, which is operating under the laws of Spain and its subsidiaries PDSC, BDSC and GBMS which are operating under the laws of Mexico.
(t) Subsidiaries under EIL. EA is operating under the laws of Singapore while GES and its subsidiaries BSB, BFS, GEG, CBSP and DBLC, are operating under the laws of Spain. EES is operating under the laws of Luxembourg. EGB (the ultimate UK parent) is operating under the laws of England and Wales. EUK, WMG, WML and WMWL are operating under the laws of Scotland. EA, EES and EGB are direct subsidiaries of EIL.
(u) GADC has no ownership interest over GARC, but qualifies as a subsidiary since its operating and corporate policies and decision making are being governed by GADC.
(v) In 2018, GADC sold its full ownership in RFGI which resulted to a gain ot P19.5 million. See Note 1.2(b)
(w) Travellers' common shares are directly owned 15% by AGI, 3% by FCI, 2% by Megaworld, 46% by Adams, 24% by Genting Hongkong Limited (GHL) and 10% by the public.
(x) AGI's effective ownership is through 1% direct ownership, 45% through 95% ownership of Travellers, and 1% through ownership of other subsidiaries within the Group (i.e., FCI, Megaworld and Adams).
(y) Foreign subsidiary of MPIL operating under the laws of United States of America.
(z) In 2017, a major stockholder of AGI transferred its entire rights over Infracorp to AGI. Infracorp is a newly incorporated subsidiary engaged in infrastructure business.
(aa) In 2017, TDI acquired shares of SHDI resulting to an increase in effective ownership over SHDI. The Group did not obtain control over SHDI as a result of the increase.
(bb) Subsidiaries of SHDI, an associate of Megaworld. As a result of additional investment in SHDI in 2017, ownership over these associates increased in proportion to the increase in effective interest over SHDI.

(cc) In 2017 and 2016, FEPI further sold 15% ownership interest each year over BNHGI to third parties. The Group maintained its ability to exercise significant influence over BNHGI despite the decrease in ownership. There was no disposals in 2018.
(dd) A foreign joint venture under GES and operating under the laws of Spain.
(ee) A joint venture through FHTC.

The Company, its subsidiaries, associates and joint ventures are incorporated and operating in the Philippines, except for such foreign subsidiaries and a joint venture as identified in the preceding table (see explanatory notes d, f, s, t, y and dd above).

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

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

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

### 1.2 Business and Asset Acquisitions and Disposals

*(a) 2018 Acquisitions*

In 2018, the Group obtained control over various entities to expand its operations as disclosed in Note 1.1(h). The acquisitions were accounted for as business acquisitions, except for the acquisition of PCMI [see Note 1.1(n)] which is accounted for under the pooling-of-interest method [see Notes 2.2(a) and 2.11]. The details of the recognized amounts of identifiable net assets acquired and total consideration transferred relating to these business acquisitions are as follows:

| | |
|---|---|
| Tangible assets acquired | P 3,279,496,359 |
| Liabilities assumed | ( 1,376,876,569) |
| Net assets acquired | 1,902,619,790 |
| Non-controlling interest | ( 84,000,072) |
| Preacquisition loss | 166,615,784 |
| Net equity acquired | 1,985,235,502 |
| Fair value of cash consideration transferred | 1,974,460,838 |
| Gain on acquisition | P 10,774,664 |

Significant portion of tangible assets acquired pertains to real estate inventories. Tangible assets acquired also include cash, trade and other receivables, contract assets, property and equipment and other current assets.

As of December 31, 2018, the accounting for the acquisition of STLI is not yet complete. The fair value of assets acquired and liabilities assumed from STLI that were included in the aggregate information above include provisionary amounts and will be adjusted upon finalization of the valuation which is expected to be completed within twelve months from the date of acquisition.

(Amounts in Philippine Pesos)

As to PCMI which became a subsidiary in December 2018, the acquisition under the pooling-of-interest method of accounting [see Note 2.11(b)] resulted in additional non-controlling interest of P702.0 million representing the 20% still held by TAGI and 9% through ELI as of December 31, 2018. Significant assets acquired from PCMI pertain to real estate inventories.

The gain on acquisition are shown as part of Gain on acquisitions and deconsolidation of subsidiaries under Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

(b) *2018 Disposals*

In 2018, the Group disposed full ownership interests over RGFI thereby losing control [see Notes 1.1(ee) and 2.2(a)]. The carrying amount of net assets of the entities at the date of disposal and the resulting gain on deconsolidation are as follows:

| | | |
|---|---|---|
| Current assets (excluding cash) | P | 1,502,687 |
| Non-current assets | | 3,819,450 |
| Current liabilities | ( | 12,966,403) |
| Non-current liabilities | ( | 998,328) |
| Total net liabilities | ( | 8,642,594) |
| Total consideration received in cash | | 15,500,000 |
| Cash on hand and in banks | ( | 4,662,791) |
| Net cash received | | 10,837,209 |
| Gain on deconsolidation | P | 19,479,803 |

The gain on deconsolidation are shown as part of Gain on acquisitions and deconsolidation of subsidiaries under Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

(c) *2017 Acquisitions*

On various dates in 2017, the Group obtained control over various entities to expand its operations as disclosed in Note 1.1. The acquisitions were accounted for as business acquisitions [see Notes 2.2(a) and 2.11]. The details of the recognized amounts of identifiable net assets acquired and total consideration transferred are as follows:

| | | |
|---|---|---|
| Tangible assets acquired | P | 5,782,812,627 |
| Liabilities assumed | ( | 55,744,865) |
| Net assets acquired | | 5,727,067,762 |
| Non-controlling interest | ( | 3,655,374,576) |
| Pre-acquisition income | ( | 2,715,950) |
| Net equity acquired | P | 2,068,977,236 |
| Fair value of cash consideration transferred | P | 2,068,977,236 |

Significant portion of tangible assets acquired pertain to real estate inventories. There was no goodwill nor gain recognized on the acquisition as the fair value of consideration transferred is equivalent to the fair value of net assets acquired, net of non-controlling interest and preacquisition loss.

Also, in 2017, the Group completed the asset acquisitions (see Note 2.11) of the Domecq brand portfolio and related assets and the Grupo Garvey brands and certain assets. The total consideration amounting to P6.7 billion was allocated among the tangible and intangible properties acquired based on the relative fair value of each asset, as translated at exchange rate at the date of purchase. The intangible assets acquired pertain to various brands of brandies and wines which were assessed to have indefinite useful lives (see Note 15).

(d) *2016 Acquisitions*

In February 2016, BFS, a subsidiary of GES, acquired the Spanish brandy and sherry business (Business Unit or Bodegas Fundador) of Beam Suntory Spain, S.L. The goodwill recognized from this acquisition reflects the opportunity to strengthen the Group's position in the global drinks market, and the synergies and economies of scale expected from combined operations. [See Notes 2.2(a) and 2.11]

Also on various dates in 2016, Megaworld acquired various business entities primarily to expand its reach in the local market [see Notes 1.1, 2.2(a) and 2.11].

The details of the recognized amounts of identifiable net assets acquired, total consideration transferred, goodwill and gain on acquisition recognized are presented below.

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

(Amounts in Philippine Pesos)

Significant portion of tangible assets acquired includes real estate inventories, dry goods inventories and property, plant and equipment (see Note 13). The total amount of intangible assets acquired pertains to trademarks assessed to have indefinite useful lives (see Note 15).

(e) *2016 Disposals*

In 2016, the Group disposed ownership interests in various entities thereby losing control [see Notes 1.1 and 2.2(a)]. The carrying amount of net assets of the entities at the date of disposal and the resulting gain on deconsolidation are as follows:

| | | |
|---|---|---|
| Current assets (excluding cash) | P | 9,612,358 |
| Non-current assets | | 320,099,653 |
| Current liabilities | ( | 133,614,177) |
| Non-current liabilities | ( | 118,647,500) |
| Total net assets | | 77,450,334 |
| Total consideration received in cash | | 199,900,330 |
| Cash and cash equivalents disposed of | ( | 75,643,883) |
| Net cash received | | 124,256,447 |
| Derecognized non-controlling interest | ( | 4,500,000) |
| Gain on deconsolidation | P | 51,306,113 |

### 1.3 *Approval of the Consolidated Financial Statements*

The Board of Directors (BOD) approved on April 12, 2019 the issuance of the consolidated financial statements of the Group as at and for the year ended December 31, 2018 (including the comparative consolidated financial statements as at December 31, 2017 and for the years ended December 31, 2017 and 2016, and corresponding figures as of January 1, 2017).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 *Basis of Preparation of Consolidated Financial Statements*

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

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

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

*(b)* *Presentation of Consolidated Financial Statements*

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

The Group presented a third consolidated statement of financial position as of January 1, 2017 effecting the retrospective restatements and reclassifications made in the 2017 and 2016 consolidated financial statements, as a result of the Group's retrospective adoption of new standards and interpretations as discussed in Note 2.1(c) below, that have material impact on the consolidated statement of financial position at the beginning of the preceding period, i.e. January 1, 2017. The related notes to the third consolidated statement of financial position are not required to be disclosed.

*(c)* *Prior Period Restatements and Reclassifications of Accounts*

The Group adopted PFRS 15, *Revenue from Contracts with Customers*, and the related Philippine Interpretations Committee (PIC) Question & Answer (Q&A) No., 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry*, which were applied retrospectively to each prior reporting period beginning January 1, 2016 in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* [see Note 2.3(a)(iv)].

The Group also adopted the following PIC Q&A retrospectively in accordance with PAS 8, which resulted in reclassification of certain accounts in its 2017 and 2016 consolidated statements of financial position, and 2017 and 2016 consolidated statements of comprehensive income.

- PIC Q&A No. 2018-11, *Classification of Land by Real Estate Developer*, requires real estate developers to classify land based on management's intention and apply the appropriate accounting treatment as required by relevant standards.

- PIC Q&A No. 2018-15, PAS 1 – *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current*, clarifies how the advances to contractors should be classified in the statement of financial position.

Moreover, the Group reclassified certain accounts in its 2017 and 2016 consolidated statements of financial position, and 2017 and 2016 consolidated statements of comprehensive income to conform to the current year presentation and classification, and correct the error in the presentation and account classification of such assets, liabilities, and expenses in the previous years including, among others, the following:

1) Short-term placements amounting to P3.1 billion as of December 31, 2017 and January 1, 2017 previously reported as part of Cash and Cash Equivalents account were reclassified to Restricted short-term placements under Other Current Asset account (see Note 9);

2) Other receivables amounting to P44.5 million as of December 31, 2017 arising from certain employees' availment of the Group's employee housing program were reclassified from current to non-current classification under Trade and Other Receivables – net account (see Note 6);

3) Accumulated jackpot seed money amounting to P169.3 million and P170.7 million as of December 31, 2017 and January 1, 2017, respectively, were reclassified from Other Non-current Assets account to Cash and Cash Equivalents account as this account is not restricted. The Group previously set aside a fund to settle the provision for slot jackpot liability (see Note 5);

4) Retention payables amounting to P3.0 billion and P1.8 billion as of December 31, 2017 and January 1, 2017, respectively, relating to construction and development of certain property and equipment were reclassified from current liability to non-current liability classification as the expected payment of these remaining payables, net of recoupment by the contractors, is for more than 12 months from the completion date of the construction and development (see Note 20);

5) Certain expenses amounting to P321.0 million and P283.4 million in 2017 and 2016, respectively, were reclassified from Cost of Goods Sold account to Other Operating Expenses account in the 2017 and 2016 consolidated statement of comprehensive income, to conform to the current year presentation (see Notes 24 and 25); and,

6) Promotional allowances were increased by P666.0 million in 2017 and P1,911.1 million in 2016 relating to the net effects of the casino rebates program and the provision for gaming points that should have reduced the gaming revenues in accordance with the fair value measurement of such derivatives, and the casino-related prizes and promotions that should have been reported as operating expenses. Adjusted Promotional allowances totaling P2,540.1 million in 2017 and P4,307.4 million in 2016 were reclassified from Cost of Services account to Revenues-Rendering of Services under Revenues account to conform to the current year presentation (see Note 23).

The effects of the restatements on the assets, liabilities and equity accounts as of December 31, 2017 and January 1, 2017 are presented in the succeeding pages.

| | As of December 31, 2017 | | | |
|---|---|---|---|---|
| | | Effects of adoption | | |
| | As Previously Reported | PFRS 15 and PIC Q&A 2018-12 | Restatement/ Reclassification | As Restated |
| *Changes in Current Assets* | | | | |
| Cash and cash equivalents | P 55,672,960,546 | P - | (P 2,888,560,384) | P 52,784,400,162 |
| Trade and other receivables - net | 73,812,169,152 | ( 16,995,631,070) | ( 8,329,155,073) | 48,487,383,009 |
| Contract assets | - | 5,898,824,630 | - | 5,898,824,630 |
| Inventories - net | 91,579,134,140 | ( 383,985,865) | 24,351,621,605 | 115,546,769,880 |
| Property development costs | 23,111,103,124 | - | ( 23,111,103,124) | - |
| Other current assets | 10,213,596,675 | 537,781,266 | 3,057,860,384 | 13,809,238,325 |
| *Changes in Non-current Assets* | | | | |
| Trade and other receivables - net | 34,775,424,756 | ( 25,583,831,102) | 8,174,024,092 | 17,365,617,746 |
| Contract assets | - | 10,010,996,355 | - | 10,010,996,355 |
| Land held for future development | 25,469,878,369 | - | ( 25,469,878,369) | - |
| Investment properties - net | 72,999,467,061 | - | 24,229,359,888 | 97,228,826,949 |
| Deferred tax assets – net | 800,928,952 | - | 455,050 | 801,384,002 |
| Other non-current assets | 5,120,358,496 | 305,749,301 | ( 14,169,019) | 5,411,938,778 |
| *Changes in Current Liabilities* | | | | |
| Trade and other payables | ( 45,648,707,657) | 4,615,076,490 | 1,914,740,363 | ( 39,118,890,804) |
| Contract liabilities | - | ( 1,744,637,866) | - | ( 1,744,637,866) |
| Other current liabilities | ( 22,178,277,568) | 10,196,595,100 | - | ( 11,981,682,468) |
| *Changes in Non-current Liabilities* | | | | |
| Contract liabilities | - | ( 3,047,255,773) | - | ( 3,047,255,773) |
| Deferred tax liabilities | ( 12,116,387,446) | 4,346,676,800 | ( 455,050) | ( 7,770,165,696) |
| Other non-current liabilities | ( 27,356,716,682) | 14,239,510,029 | ( 1,879,574,588) | ( 14,996,781,241) |
| Net increase in equity | | P 2,395,868,295 | P 35,165,775 | |
| *Changes in Equity* | | | | |
| Attributable to Company's Shareholders | (P162,574,974,361) | (P 1,567,318,854) | (P 15,873,831) | (P164,158,167,046) |
| Non-controlling interest | ( 109,267,073,430) | ( 828,549,441) | ( 19,291,944) | ( 110,114,914,815) |
| Net increase in equity | | P 2,395,868,295 | P 35,165,775 | |

(Amounts in Philippine Pesos)

| | As of January 1, 2017 | | | |
|---|---|---|---|---|
| | | Effects of adoption | | |
| | As Previously Reported | PFRS 15 and PIC Q&A 2018-12 | Restatement/ Reclassification | As Restated |
| *Changes in Current Assets* | | | | |
| Cash and cash equivalents | P 48,672,938,017 | P - | (P 2,938,936,773) | P 45,734,001,244 |
| Trade and other receivables | 57,600,956,140 | ( 14,792,927,196) | ( 5,210,073,639) | 37,597,955,305 |
| Contract assets | - | 6,332,545,332 | - | 6,332,545,332 |
| Inventories | 84,928,119,642 | ( 3,229,771,645) | 21,430,265,813 | 103,128,613,810 |
| Property development costs | 20,105,196,663 | - | ( 20,105,196,663) | - |
| Other current assets | 8,235,312,421 | 390,847,832 | 3,109,613,661 | 11,735,773,914 |
| *Changes in Non-current Assets* | | | | |
| Trade and other receivables – net | 35,678,314,324 | ( 30,491,178,440) | 5,210,073,639 | 10,397,209,523 |
| Contract assets | - | 12,007,975,652 | - | 12,007,975,652 |
| Land held for future development | 22,079,341,640 | - | ( 22,079,341,640) | - |
| Investment properties - net | 62,306,769,151 | - | 20,754,272,490 | 83,061,041,641 |
| Other non-current assets | 4,969,404,868 | 416,177,510 | ( 170,676,888) | 5,214,905,490 |
| *Changes in Current Liabilities* | | | | |
| Trade and other Payables | ( 38,967,103,207) | 3,177,955,617 | 1,332,521,482 | ( 34,456,626,108) |
| Contract liabilities | - | ( 969,762,687) | - | ( 969,762,687) |
| Other current liabilities | ( 22,151,381,020) | 12,095,835,454 | - | ( 10,055,545,566) |
| *Changes in Non-current Liabilities* | | | | |
| Contract liabilities | - | ( 2,488,909,001) | - | ( 2,488,909,001) |
| Deferred tax liabilities | ( 11,454,686,710) | 5,578,526,789 | - | ( 5,876,159,921) |
| Other non-current liabilities | ( 26,476,910,868) | 13,940,771,502 | ( 1,318,973,177) | ( 13,855,112,543) |
| Net increase in equity | | P 1,968,086,719 | P 13,548,305 | |
| *Changes in Equity* | | | | |
| Attributable to Company's Shareholders | (P147,140,151,266) | (P 1,316,208,519) | (P 6,115,705) | (P148,462,475,490) |
| Non-controlling interest | ( 98,963,520,182) | ( 651,878,200) | ( 7,432,600) | ( 99,622,830,982) |
| Net increase in equity | | P 1,968,086,719 | P 13,548,305 | |

The effects of prior period adjustments on certain line items in the consolidated statements of income for the years ended December 31, 2017 and 2016 are as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | | Effects of adoption | | |
| | As Previously Reported | PFRS 15 and PIC Q&A 2018-12 | Restatement/ Reclassification | As Restated |
| Sale of goods | P 77,859,966,979 | (P 507,928,902) | P - | P 77,352,038,077 |
| Rendering of services | 60,720,616,123 | - | ( 2,428,405,851) | 58,292,210,272 |
| Finance and other income | 2,768,704,769 | 214,662,393 | ( 111,691,879) | 2,871,675,283 |
| Cost of goods sold | ( 47,982,847,802) | 1,617,857,704 | 320,976,036 | ( 46,044,014,062) |
| Cost of services | ( 31,068,609,355) | - | 1,046,534,198 | ( 30,022,075,157) |
| Other operating expenses | ( 28,065,392,787) | ( 124,882,059) | 1,194,204,966 | ( 26,996,069,880) |
| Finance costs and other charges | ( 6,382,794,291) | ( 501,077,574) | - | ( 6,883,871,865) |
| Tax expense | ( 6,295,772,435) | ( 270,849,986) | - | ( 6,566,622,421) |
| Net increase in profit | | P 427,781,576 | P 21,617,470 | |
| Net profit attributable to: | | | | |
| Owners of the parent company | 14,931,132,276 | 251,110,335 | 9,758,126 | 15,192,000,737 |
| Non-controlling interest | 6,895,437,265 | 176,671,241 | 11,859,344 | 7,083,967,850 |
| | | P 427,781,576 | P 21,617,470 | |
| Earnings per share: | | | | |
| Basic | 1.4773 | | | 1.5031 |
| Diluted | 1.4740 | | | 1.4998 |

| | 2016 | | | |
|---|---|---|---|---|
| | | Effects of adoption | | |
| | As Previously Reported | PFRS 15 and PIC Q&A 2018-12 | Restatement/ Reclassification | As Restated |
| Sale of goods | P 74,739,178,749 | (P 2,753,328,274) | P - | P 71,985,850,475 |
| Rendering of services | 62,172,432,145 | - | ( 4,220,528,251) | 57,951,903,894 |
| Finance and other income | 2,473,666,563 | 214,190,728 | ( 86,840,352) | 2,601,016,939 |
| Cost of goods sold | ( 46,019,543,082) | 2,975,775,375 | 283,406,720 | ( 42,760,360,987) |
| Cost of services | ( 30,870,331,895) | - | 1,814,338,532 | ( 29,055,993,363) |
| Other operating expenses | ( 27,218,660,549) | 31,656,765 | 2,225,751,209 | ( 24,961,252,575) |
| Finance costs and other charges | ( 6,932,664,573) | ( 349,202,059) | - | ( 7,281,866,632) |
| Tax expense | ( 5,880,979,710) | ( 7,383,159) | - | ( 5,888,362,869) |
| Net increase in profit | | P 111,709,376 | P 16,127,858 | |
| Net profit attributable to: | | | | |
| Owners of the parent company | 14,801,009,539 | 108,554,561 | 7,280,115 | 14,916,844,215 |
| Non-controlling interest | 8,017,693,426 | 3,154,815 | 8,847,743 | 8,029,695,984 |
| | | P 111,709,376 | P 16,127,858 | |
| Earnings per share: | | | | |
| Basic | 1.4587 | | | 1.4701 |
| Diluted | 1.4437 | | | 1.4663 |

# Notes to Consolidated Financial Statements
## December 31, 2018, 2017 and 2016
*(Amounts in Philippine Pesos)*

The effects of prior period adjustments on certain line items under cash flows from operating and investing activities in the consolidated statements of cash flows for the years ended December 31, 2017 and 2016 are as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | | Effects of adoption | | |
| | As Previously Reported | PFRS 15 and PIC Q&A 2018-12 | Restatement/ Reclassification | As Restated |
| *Cash flows from operating activities* | | | | |
| Profit before tax | P 28,122,341,976 | P 698,631,562 | P 21,617,470 | P 28,842,591,008 |
| Interest income | ( 2,093,123,324) | - | ( 214,666,394) | ( 2,307,789,718) |
| Decrease (increase) in: | | | | |
| Trade and other receivables | ( 14,386,675,194) | ( 7,159,144,587) | ( 571,426,908) | ( 22,117,246,689) |
| Contract assets | - | 2,430,699,999 | - | 2,430,699,999 |
| Inventories | ( 5,971,254,910) | 383,985,865 | 309,141,086 | ( 5,278,127,959) |
| Property development cost | ( 986,067,337) | 986,067,337 | - | - |
| Other current assets | ( 2,350,535,366) | ( 537,781,266) | 814,852,221 | ( 2,073,464,411) |
| Increase (decrease) in: | | | | |
| Other current liabilities | ( 106,480,791) | 2,032,617,693 | - | 1,926,136,902 |
| Other non-current liabilities | 1,309,967,252 | ( 168,298,554) | - | 1,141,668,698 |
| Contract liabilities | - | 1,333,221,951 | - | 1,333,221,951 |
| *Cash flows from investing activities* | | | | |
| Acquisition of | | | | |
| Investment properties | ( 13,842,368,413) | - | ( 713,539,199) | ( 14,555,907,612) |
| Land held for future development | ( 404,398,113) | - | 404,398,113 | - |
| | | - | 50,376,389 | |
| Cash at the beginning of year | 48,672,938,017 | - | ( 2,938,936,773) | 45,734,001,244 |
| Cash at end of year | 55,672,960,546 | - | ( 2,888,560,384) | 52,784,400,162 |
| Net effect of changes on cash flows | | P - | P - | |

| | 2016 | | | |
|---|---|---|---|---|
| | | Effect of adoption | | |
| | As previously Reported | PFRS 15 and PIC Q&A 2018-12 | Restatement/ Reclassification | As Restated |
| *Cash flows from operating activities* | | | | |
| Profit before tax | P 28,699,682,675 | P 119,092,535 | P 16,127,858 | P 28,834,903,068 |
| Interest income | ( 1,818,829,674) | - | ( 259,592,139) | ( 2,078,421,813) |
| Decrease (increase) in: | | | | |
| Trade and other receivables | ( 10,818,767,605) | 1,110,719,002 | ( 1,788,657,632) | ( 11,496,706,235) |
| Contract assets | - | ( 4,585,130,246) | - | ( 4,585,130,246) |
| Inventories | ( 6,646,895,698) | ( 285,841,479) | ( 1,687,208,045) | ( 8,619,945,222) |
| Property development cost | ( 5,200,693,240) | 5,200,693,240 | - | - |
| Other current assets | ( 2,954,106,410) | ( 390,847,834) | 1,061,016,097 | ( 2,283,938,147) |
| Increase (decrease) in: | | | | |
| Trade and other payables | ( 574,864,877) | ( 3,177,955,617) | ( 502,038,236) | ( 4,254,858,730) |
| Other current liabilities | 599,129,197 | 925,836,991 | - | 1,524,966,188 |
| Other non-current liabilities | ( 321,679,183) | 218,765,486 | 485,910,378 | 382,996,681 |
| Contract liabilities | - | 864,667,922 | - | 864,667,922 |
| *Cash flows from investing activities* | | | | |
| Acquisition of Land held for future development | ( 1,687,208,045) | - | 1,687,208,045 | - |
| Decrease in Other non-current assets | 2,025,977,244 | - | 2,026,122,883 | 4,052,100,127 |
| | | - | 1,038,889,209 | |
| Cash at the beginning of year | 68,593,959,027 | - | ( 3,977,825,982) | 64,616,133,045 |
| Cash at end of year | 48,672,938,017 | - | ( 2,938,936,773) | 45,734,001,244 |
| Net effect of changes on cash flows | | P - | P - | |

(d) *Functional and Presentation Currency*

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

Items included in the consolidated financial statements of the Group are measured using the Parent Company's functional currency (see Note 2.19). Functional currency is the currency of the primary economic environment in which the Company operates.

## 2.2 Basis of Consolidation

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as enumerated in Note 1, after the elimination of material intercompany transactions. All material intercompany balances and transactions with subsidiaries, including income, expenses, dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are eliminated in full.

Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

In addition, shares of stock of the Company acquired by any of its subsidiaries are recognized as treasury shares at cost and these are presented as deduction in the consolidated statement of changes in equity (see Note 2.15). Any changes in their market values, as recognized separately by the subsidiaries, are likewise eliminated in full. Gain or loss on the sale of these treasury shares is presented as addition to or deduction from additional paid-in capital (APIC).

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

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

*(a) Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The acquisition method is applied to account for acquired subsidiaries (see Note 2.11).

Subsidiaries are consolidated from the date the Group obtains control until such time that such control ceases. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of the related goodwill (see Note 2.12).

(b) *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint arrangement. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method from the date on which the entity becomes an associate.

Goodwill, which is the excess of the acquisition cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities, is included in the carrying amount of the investment. When the Group's share in the fair value of identifiable assets and liabilities is higher than the acquisition cost, the excess is included as income in the determination of the Group's share in net income of the associate in the period of acquisition.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Share in Net Profits (Losses) of Associates and Joint Ventures account in the consolidated statement of comprehensive income. These changes include subsequent depreciation, amortization and impairment of the fair value adjustments of the associates' assets and liabilities.

Impairment loss is provided when there is objective evidence that the investments in associates will not be recovered (see Note 2.20).

Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity, for example, resulting from the associates' accounting for AFS financial assets, are recognized in other comprehensive income or equity of the Group, as applicable.

Any non-income related equity movements of the associates that arise, for example, from the distribution of dividends or other transactions with the associates' shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeded the accumulated share of losses that has previously not been recognized. Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(Amounts in Philippine Pesos)

(c) *Interests in Joint Arrangements*

For interest in a joint operation, the Group recognizes in its consolidated financial statements its share of the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint operation. No adjustments or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint operation are recognized in the separate financial statements of the operators.

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

(d) *Transactions with Non-Controlling Interest*

The Group's transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interest that result in gains and losses for the Group are also recognized in equity. (See Note 2.15)

The Parent Company holds beneficial interests in various subsidiaries, associates and joint ventures as presented in Notes 1.1 and 12.

### 2.3 Adoption of New and Amended PFRS

(a) *Effective in 2018 that are Relevant to the Group*

The Group adopted for the first time the following new standards, interpretation, amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

| | | |
|---|---|---|
| PAS 40 (Amendments) | : | Investment Property – Reclassification to and from Investment Property |
| PFRS 2 (Amendments) | : | Share-based Payment – Classification and Measurement of Share-based Payment Transactions |
| PFRS 9 | : | Financial Instruments |
| PFRS15 | : | Revenue from Contracts with Customers; Clarifications to PFRS 15 |
| International Financial Reporting Interpretations Committee (IFRIC) 22 | : | Foreign Currency Transactions and Advance Consideration |

Annual Improvements to
PFRS (2014-2016 Cycle)
PAS 28 (Amendments) : Investment in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value

Discussed below and in the succeeding page are the relevant information about these new standards, interpretation, amendments and annual improvements.

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provide a non-exhaustive list of examples constituting change in use. The application of amendments had no impact on the Group's consolidated financial statements.

(ii) PFRS 2 (Amendments), *Share-based Payment* . The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have no significant impact on the Group's consolidated financial statements.

(iii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);

- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The Group's new accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.4 and 2.13 while the related credit risks are presented in Note 31.2.

(Amounts in Philippine Pesos)

The Group adopted PFRS 9 using the transitional relief allowed by the standard which means the Group has to recognize the effect in the opening balance of Retained Earnings in the current year only and does not have to restate its prior period's financial statements.

The application of the ECL methodology based on the stages of impairment assessment for trade and other receivables resulted in the recognition of allowance for credit losses amounting to P332.4 million and deferred tax asset amounting P44.9 million as of January 1, 2018, which were charged against the opening balance of Retained Earnings account. The Group did not recognize deferred tax asset amounting to P54.8 million because it is not certain that this would be realized in the future.

The adoption of PFRS 9 did not affect the measurement of the Group's financial assets as they continue to be measured at cost, FVTPL and FVOCI, except that accumulated FV in OCI cannot be transferred subsequently to profit or loss anymore. Presented below are the classifications of the Group's financial assets under PFRS 9 and their equivalent in PAS 39 as at January 1, 2018 and December 31, 2017, respectively.

| Financial Asset | Notes | Classification before PFRS 9 | Classification under PFRS 9 |
|---|---|---|---|
| **Financial assets at FVTPL** | 7 | At FVTPL | At FVTPL |
| **Financial assets at FVOCI** | 11 | AFS financial assets | At FVOCI |
| **Financial assets at amortized cost:** | | | |
| Cash and cash equivalents | 5 | Loans and receivables | At amortized cost |
| Trade and other receivables | 6 | Loans and receivables | At amortized cost |
| Advances to related parties | 12 | Loans and receivables | At amortized cost |
| Time deposits | 9 | Loans and receivables | At amortized cost |
| Property mortgage receivable | 9 | Loans and receivables | At amortized cost |
| Refundable deposits | 9 | Loans and receivables | At amortized cost |

Further, the adoption of PFRS 9 has no impact on the classification and measurement of financial liabilities on the Group's financial statements. As of December 31, 2018 and 2017, the Group's financial liabilities are classified and measured at amortized cost except for derivative liabilities which are measured at FVTPL.

(iv) PFRS 15, *Revenue from Contracts with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Relative to the adoption of PFRS 15 in the Philippines, the FRSC also approved the issuance of the following:

- PIC Q&A 2016-04, *Application of PFRS 15*, "*Revenue from Contracts with Customers," on Sale of Residential Properties under Pre-completion Contracts*. This Q&A clarifies that sales of residential properties under pre-completion stage is recognized over time on the basis that the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

- PIC Q&A 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry*. This Q&A provides guidance on the application of PFRS 15 to real estate industry.

- PIC Q&A 2018-14, *PFRS 15 – Accounting for Cancellation of Real Estate Sales*. This Q&A clarifies the appropriate accounting treatment for cancellation of real estate sales.

Relative to the adoption of PFRS 15 and relevant PIC Q&As, the SEC issued the following Memorandum Circulars (MC):

- MC No. 14 series of 2018. This circular allows the deferral of the following concepts from PIC Q&A 2018-12:

  *(a)* accounting for the significant financing component in a contract to sell

  *(b)* treatment of land in the determination of percentage of completion

  *(c)* treatment of uninstalled materials in the determination of percentage of completion

- MC No. 3 series of 2019. This circular allows the deferral of the application of PIC Q&A 2018-12-H, *Accounting for Common Usage Service Area Charges*, and PIC Q&A 2018-14, *Accounting for Cancellation of Real Estate Sales*.

The Group elected to defer the adoption of the accounting for the significant financing component in a contract to sell under PIC P&A 2018-12 in accordance with MC No. 14 series of 2018 and the measurement of repossessed inventory at fair value under PIC P&A 2018-14 in accordance MC No. 3 series of 2019.

Had the Group elected not to defer the above specific provisions, it would have the following impact in the consolidated financial statements:

- The transaction price would have been lower for seller-financed contracts and higher for buyer-financed contracts.

- The carrying amount of all repossessed inventory would have been higher and gain from repossession would have been recognized on most sales cancellation.

The Group's adoption of PFRS 15 has resulted in changes in its accounting policies (see Note 2.16) and adjustments to the amounts recognized in the Group's consolidated financial statements. The Group has applied PFRS 15 retrospectively to all outstanding contracts as of January 1, 2016 in accordance with the standard's transitional provisions. The Group has made the following adjustments and reclassifications to its prior period financial statements:

- reclassified portion of Trade and other receivables – net relating to rights to payment which are conditioned upon the completion of units sold to Contract Assets account

- restated the balances of Property Development Costs, Residential, Condominium Units, Golf and Resort Shares for Sale, Real Estate Sales, and Cost of Goods Sold to reflect policy changes on the determination of percentage of completion

- presented Property Development Costs, and Residential, Condominium Units, Golf and Resort Shares for Sale as a single line item in the consolidated statement of financial position with the account title Inventories

- restated interest income on real estate sales relating to trade receivables recognized upon full satisfaction of the performance obligation

- capitalized commissions directly related to contract acquisitions, previously charged under Other Operating Expenses in the consolidated statement of income, presented partly under Other Current Assets and Other Non-Current Assets in the consolidated statement of financial positionand presented the related amortization under Operating Expenses in the consolidated statement of income

- recognized loss on cancellation as a result of the difference between the carrying amount of the Trade and Other Receivables – net and Contract Asset to be derecognized and the cost of the repossessed property and presented such loss as part of Finance Cost and Other Charges

- recognized Contract Liabilities account for the amount of consideration received from customers in excess of the amount the Group has rights to base on the progress of the development of the property sold

- restated Deferred Tax Expense and Deferred Tax Liabilities – net to account for the temporary differences on the adjustments made

The effects of the retrospective application of PFRS 15 and the various PIC Q&A, as discussed in the foregoing, were summarized in Note 2.1(c). The Group applied the practical expedient under PFRS 15 which allowed the Group not to present the amount of the transaction price allocated to the unsatisfied performance obligations as of the end of the comparative periods presented.

(v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration.* The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this amendment has no impact on the Group's consolidated financial statements.

(vi) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification* is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. The application of this amendment has no impact on the Group's consolidated financial statements.

*(b) Effective in 2018 that are not Relevant to the Group*

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's consolidated financial statements:

| | | |
|---|---|---|
| PFRS 4 (Amendments) | : | Insurance Contracts – Applying PFRS 9, Financial Instruments, with PFRS 4, *Insurance Contracts* |
| Annual Improvements to PFRS (2014-2016 Cycle) | | |
| PFRS 1 (Amendments) | : | First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short Term Exemptions |

*(c) Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective from January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Group's consolidated financial statements.

(v) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires an entity to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, an entity has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

### *2.4 Financial Assets*

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

*(a) Classification and Measurement of Financial Assets in Accordance with PFRS 9*

The classification and measurement of financial assets is driven by the Company's business model for managing the financial assets ("business model test") and the contractual cash flow characteristics of the financial assets ("cash flow characteristics test") to achieve a particular business objective. The business model is determined at a higher level of aggregation (portfolio or group of financial assets managed together) and not on an instrument-by-instrument approach to classification (i.e., not based on intention for each or specific characteristic of individual instrument) in order to achieve the stated objective and, specifically, realize the cash flows.

Beginning January 1, 2018, financial assets, other than those designated and effective as hedging instruments, are initially measured at fair value and then subsequently measured either at amortized cost or FVOCI or FVTPL, depending on the classification determined at initial recognition. The initial measurement includes transaction costs, except for those at FVTPL in which the related transaction costs are recognized in profit or loss. The classification of the Company's financial assets as of December 31, 2017 is presented in Note 2.3(a)(iii).

*(i) Financial Assets at Amortized Cost*

Financial assets are classified at amortized cost if both of the following conditions are met:

- Business model test: the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- Cash flow characteristics test: the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, financial assets that are classified at amortized cost are initially measured at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented as Cash and Cash Equivalents (see Note 5), Trade and Other Receivables (except Advances to contractors and suppliers) (see Note 6), Advances to associates and other related parties [included under Investments in and Advances to Associates and Other Related Parties account (see Note 12)], Restricted short-term placements (see Note 9), Time deposits and Refundable security deposits, and Property mortgage receivable [included under Non-current Other Assets account (see Note 9)].

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statements of income as part of Finance and Other Income.

*(ii) Financial Assets at Fair Value Through Other Comprehensive Income*

Financial assets are classified at FVOCI if both of the following conditions are met:

- Business model test: they are held under a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset ("hold to collect and sell"); and,

- Cash flow characteristics test: SPPI on the principal amount outstanding.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves is transferred to profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statements of income as part of Finance and Other Income.

Equity instruments that are not held for trading may be irrevocably designated at FVOCI at initial recognition on an instrument-by-instrument basis; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as FVTPL or it is a contingent consideration recognized arising from a business combination. Dividends received are recognized in the profit or loss (when the Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of the dividend can be measured reliably), unless they clearly represent a recovery of the part of investment. Fair value changes recognized in OCI are not reclassified to profit or loss in subsequent periods, instead these are transferred directly to retained earnings.

*(iii) Financial Assets at Fair Value Through Profit or Loss*

Financial assets are classified under FVTPL if they do not meet the conditions for measurement at amortized cost or FVOCI, instead these are held within a business model whose objective is to realize changes in fair values through the sale of the assets. These include financial assets that are held for trading, which are acquired for the purpose of selling or repurchasing in the near term; designated upon initial recognition as FVTPL; or mandatorily required to be measured at fair value. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Furthermore, equity instruments are classified as financial assets at FVTPL, unless it is not held for trading and designated at FVOCI at initial recognition. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

The Group's financial assets at FVTPL consist mainly of investments in marketable debt and equity securities and derivative instruments which are held for trading purposes or designated at FVTPL (see Note 7).

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Finance and Other Income account in the consolidated statements of comprehensive income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Finance and Other Income account in the consolidated statements of comprehensive income.

*(b) Reclassification of Financial Assets*

The Group can only reclassify financial assets if the business model for managing those financial assets changes. A change in the business model will take effect only at the beginning of the next reporting period following the change.

- From amortized cost to FVTPL: Fair value is measured at reclassification date, with the difference between the amortized cost and fair value recognized as gain or loss in profit or loss.

- From amortized cost to FVOCI: Fair value is measured at reclassification date, with the difference between the amortized cost and the fair value recognized as gain or loss in other comprehensive income (OCI). The effective interest rate and the measurement of ECL remain the same.

- From FVTPL to amortized cost: Fair value at the reclassification date becomes its new gross carrying amount. The effective interest rate is determined on the basis of the fair value at reclassification date, which is now treated as the date of initial recognition.

- From FVTPL to FVOCI: The financial asset continues to be measured at fair value.

- From FVOCI to amortized cost: Fair value at the reclassification date becomes its new gross carrying amount. The cumulative gain or loss previously recognized in OCI is removed from equity and adjusted against the fair value of the financial asset at reclassification date. As a result, the measurement at reclassification date is as if the financial asset had always been measured at amortized cost. This adjustment affects OCI but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of ECL remain the same.

- From FVOCI to FVTPL: The financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in OCI is reclassified to profit or loss as a reclassification adjustment at reclassification date.

There is no reclassification of financial assets in 2018, as discussed in Note 2.3(a)(iii).



*(c) Classification and Measurement of Financial Assets in Accordance with PAS 39*

Up to December 31, 2017, the Group's financial assets other than those designated and effective as hedging instruments (see Note 2.5) were being classified on initial recognition into four categories, depending on the purpose for which the investments were acquired: financial assets at FVTPL, loans and receivables, held-to-maturity investments and AFS financial assets. The Group did not have held-to-maturity investments as of December 31, 2017.

The initial recognition and subsequent measurement did not change with the adoption of PFRS 9.

Regular purchases and sales of financial assets were recognized on their trade date. All financial assets that were not classified as at FVTPL were initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL were initially recorded at fair value and the related transaction costs were recognized in profit or loss. A more detailed description of the categories of financial assets relevant to the Group as of December 31, 2017 are presented in the succeeding pages.

*(i)* *Financial Assets at FVTPL*

This category did not differ from that covered by PFRS 9. Financial assets at FVTPL were measured at fair value and changes therein are recognized in profit or loss. They were 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.

The Group's financial assets included in this category consist mainly of investments in marketable debt and equity securities and derivative instruments (see Note 7).

*(ii)* *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any [see Notes 2.4(c)(ii) and 3.2(b)]. They are included in current assets, except for maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents (see Note 5), Trade and Other Receivables (except Advances to contractors and suppliers) (see Note 6), Advances to associates and other related parties [included under Investments in and Advances to Associates and Other Related Parties account (see Note 12)], Restricted short-term placements, Time deposits and Refundable security deposits, and Property mortgage receivable [included under Other Assets account (see Note 9)].

*(iii)* *AFS Financial Assets*

This category included non-derivative financial assets that were either designated to this category or did not qualify for inclusion in any of the other categories of financial assets. They were 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 were subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which were measured at cost, less impairment loss, if any [see Notes 2.4(c)(iii) and 2.4(e)(ii)]. Gains and losses from changes in fair value were recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Net Unrealized Gains (Losses) on Available-for-sale Financial Assets (AFS) account in equity (see Note 2.15), except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in Net Unrealized Gains (Losses) on AFS Financial Assets is reclassified from equity to profit or loss and is presented as reclassification adjustment within consolidated other comprehensive income even though the financial asset has not been derecognized.

(d) *Impairment of Financial Assets Under PFRS 9*

Beginning January 1, 2018, the Group assesses impairment using ECL model on a forward-looking basis for financial assets carried at amortized cost and debt instruments measured at FVOCI. The carrying amount of the financial asset at amortized cost would be reduced either directly or through the use of an allowance account. The loss allowance for financial assets at FVOCI, however, is carried in OCI and does not reduce the carrying amount of the financial assets.

Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, and reasonable and supportable forecasts that affect collectibility of the future cash flows of the financial assets. The Group considers all reasonable and supportable information that is available without undue cost or effort, as well as observable market information about the credit risk of the particular financial instrument or similar financial instruments.

The Group applies the simplified approach in measuring ECL, which uses a lifetime ECL allowance for all trade and other receivables and contract assets using provision matrix approach and loss rates approach, as the case may be. The lifetime ECL is estimated based on the expected cash shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. To calculate the ECL, the Group uses its historical experience, external indicators and forward-looking information. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Notes 3.2(b) and 31.2].

For the other financial assets measured at amortized cost, the Company applies the low credit risk simplification and measures the ECL on the financial assets based on the credit losses expected to result from default events that are possible within the next 12 months (12-month ECL) until there is a significant increase in credit risk since origination, at which point, the loss allowance will be based on lifetime ECL. When there has been a significant increase in credit risk on a financial asset since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime ECL).

To calculate the ECL of related parties, the Group determines possible impairment based on the sufficiency of the related parties highly liquid assets in order to repay the Group's receivables if demanded at the reporting date taking into consideration the historical defaults of the related parties.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The key elements used in the calculation of ECL are as follows:

- *Probability of Default* – is an estimate of likelihood of default over a given time horizon.

- *Loss Given Default* – is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral.

- *Exposure at Default* – represents the gross carrying amount of the financial instruments subject to the impairment calculation.

*(e)* *Impairment of Financial Assets Under PAS 39*

As of December 31, 2017, the Group recognized impairment loss at the end of each reporting period when there is objective evidence that a financial asset or a group of financial asset is impaired. The Group recognized impairment loss based on the category of financial assets as presented below.

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate [see Note 2.4(c)(ii)].

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss. [See Note 3.2(b)]

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of reversal is recognized in profit or loss.

*(ii) Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed. [See Note 3.1(f)]

*(iii) Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset [see Note 2.4(c)(iii)] has been recognized in other comprehensive income and there is objective evidence that the asset is impaired [see Note 3.1(b)], the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

*(f) Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment loss, relating to financial assets that are recognized in profit or loss are presented as part of Finance and Other Income and Finance Costs and Other Charges accounts in the consolidated statement of comprehensive income (see Note 26).

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

*(g) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

### *2.5 Derivative Financial Instruments and Hedge Accounting*

The Group occasionally uses derivative financial instruments to manage its risks associated with foreign currency and interest rates. Derivatives are recognized initially and subsequently at fair value. Such derivatives are carried as assets when there is gain in the net fair value and as liabilities when there is loss in net fair value. Any gains or losses arising from changes in fair value of derivative financial instruments which are not designated as accounting hedges are recognized directly in profit or loss [see Note 2.4(a)].

The Group uses hedge accounting when it assigns hedging relationships between a hedging instrument, usually a derivative financial instrument, and a hedged item. The hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness to qualify for hedge accounting. The hedging relationship must be expected to be highly effective over the period for which it is designated as cash flow hedge.

Changes in fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included under Revaluation Reserves in equity to the extent that the hedge is effective. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

If the hedged future cash flows are no longer expected , the amount that has been accumulated in Revaluation Reserves shall be immediately reclassified to profit or loss.

Gaming transactions of the Group with fixed-odds wagers known at the time of bet are considered derivative transactions wherein the Group takes a position against a patron and the resulting unsettled position becomes a derivative instrument under PFRS 9 (previously under PAS 39) that is settled by the Group to or collected from the patron when the outcome of the wager has been determined. See Note 2.16 for the accounting policy regarding gaming transactions covered under PFRS 9 (previously under PAS 39).

The derivative liability arising from outstanding or unwon slot machine jackpot is recognized as Slot jackpot liability included under Trade and Other Payables account in the consolidated statement of financial position.

### *2.6 Inventories*

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using weighted average method, except for food, paper, and promotional materials and supplies which use the first-in, first-out method. Finished goods and work-in-process include the cost of raw materials, direct labor and a proportion of manufacturing overhead (including an element of depreciation) based on normal operating capacity. The cost of raw materials includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities. (See Note 8)

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. NRV of raw materials, spare parts and other operating supplies is the current replacement cost. [See Note 3.2(c)]

Real estate for sale are carried at the lower of cost and NRV. Cost includes accumulated costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction (see Note 2.17). Accounting policies for real estate development transactions are discussed in more detail in Note 2.7.

### *2.7 Real Estate Transactions*

Cost of inventories includes acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of the property to the Group; related property development costs; and borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Group (see Note 2.17). All costs relating to the real estate property sold are recognized as expense as the work to which they relate is performed.

Costs of inventories are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any impairment loss from a real estate project is charged to operations during the period in which the loss is determined.

Repossessed property arising from sales cancellation is recognized at cost. The difference between the carrying amount of the receivable or contract asset to be derecognized and the cost of the repossessed property is recognized in the consolidated statement of income.

### *2.8 Other Assets*

Other assets presented either under current or non-current assets classification in the consolidated statement of financial position pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. (See Notes 9 and 2.20)

(Amounts in Philippine Pesos)

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

### *2.9 Property, Plant and Equipment*

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. As no finite useful life for land can be determined, the related carrying amount is not depreciated. Land held for use in production or administration is stated at cost less any impairment in value. (See Note 13)

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use, including borrowing costs (see Note 2.17) and asset retirement obligation (ARO) relating to property and equipment installed/constructed on leased properties [see Note 3.2(n)]. GADC is legally required under various lease agreements to dismantle the installations and restore the leased sites at the end of the lease term. It is also a Group's policy to remove permanent improvements or additions which contain designs and configurations inherent to GADC's business signs, trademarks, trade names, patent and other similar intellectual property rights belonging to McDonald's Corporation (McDonald's) upon the termination or expiration of lease contract. The present value of ARO is recognized as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The outstanding ARO as at the end of the reporting period is presented as part of Other Non-Current Liabilities account in the consolidated statement of financial position (see Note 20).

Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows: [see Note 3.2(h)]

| | |
|---|---|
| Buildings and land improvements | 5 to 50 years |
| Condominium units | 10 to 25 years |
| Machinery and equipment | 2 to 12 years |
| Fixtures and other equipment | 3 to 10 years |
| Transportation equipment | 3 to 10 years |

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.17) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

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

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

An item of property, plant and equipment, including the related accumulated depreciation, amortization and impairment losses, is derecognized upon sale or disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

### *2.10 Investment Property*

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property and are carried at cost less accumulated depreciation and any impairment in value, except for land which is not subjected to depreciation [see Notes 2.20, 3.1(g), 3.2(e) and 14)].

Cost capitalization, depreciation, impairment loss and asset derecognition are recorded in the same manner as in Property, Plant and Equipment (see Note 2.9). Depreciation of investment property (excluding land) is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years [see Note 3.2(h)].

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

### *2.11 Business Combinations and Asset Acquisitions*

*(a) Accounting for Business Combination using the Acquisition Method*

A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members and participant. When a unit acquired does not constitute a business, it is accounted for as an asset acquisition. Under the asset purchase accounting, the purchase costs are allocated to identifiable assets and liabilities based on relative fair values of individual items, goodwill or gain on bargain purchase is not recognized, and transaction costs are capitalized.

Business acquisitions [see Note 3.1(k)] are accounted for using the acquisition method of accounting. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Identifiable assets acquired and liabilities, including contingent liabilities, assumed are measured initially at their fair values at the acquisition date [see Note 3.2(p)]. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly either in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any existing equity interest in the acquire over the fair value of the Group's share of the net identifiable assets at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed (see Note 2.20). Negative goodwill, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost, is recognized directly to income [see Note 2.2(a)]. For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

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

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

*(b) Accounting of Business Combination using the Pooling-of-interests Method*

Business combinations arising from transfers of interests in entities that are under the common control of the principal stockholder are accounted for under the pooling-of interests method. Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting; hence, the assets and liabilities are reflected in the consolidated financial statements at carrying values and no adjustments are made to reflect fair values or recognize any new assets or liabilities, at the date of the combination that otherwise would have been done under the acquisition method. No restatements are made to the financial information in the consolidated financial statements for periods prior to the business combination as allowed under PIC Q&A No. 2012-01, PFRS 3.2 – *Application of Pooling of Interest Method for Business Combination of Entities under Common Control in Consolidated Financial Statements*; hence, the profit and loss of the acquiree is included in the consolidated financial statements for the full year, irrespective of when the combination took place. Also, no goodwill is recognized as a result of the business combination and any excess between the net assets of the acquiree and the consideration paid is accounted for as "equity reserves", which will eventually be closed to additional paid-in capital. Also, any pre-acquisition income and expenses of a subsidiary are no longer included in the consolidated financial statements.

### *2.12 Intangible Assets*

Intangible assets include goodwill, trademarks, leasehold rights, computer software and franchise fee. Except goodwill and some specific trademarks, all other intangible assets have finite lives and are carried at cost less accumulated amortization and any impairment in value. Goodwill and trademarks with indefinite useful lives are not amortized, but are reviewed for impairment at least annually (see Notes 2.11, 2.20 and 15).



The cost of trademarks, leasehold rights, computer software and franchise fee includes the acquisition price and other direct costs. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the assets [see Note 3.2(h)] as follows:

| | |
|---|---|
| Trademarks [except those with indefinite useful lives (see Note 15)] | 10 years |
| Computer software | 3 years |
| Franchise fee | 10 years |

Capitalized costs for trademarks with indefinite useful lives are not amortized. In addition, these assets are subject to annual impairment testing as described in Note 2.20. When these assets are retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

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

### *2.13 Financial Liabilities*

Financial liabilities, which include Interest-bearing Loans (see Note 17), Bonds Payable (see Note 18), Trade and Other Payables (except tax-related payables) (see Note 16), Commission payable (see Note 20), Retention payable (see Notes 16 and 20), Advances from Related Parties (see Note 29.6), Redeemable Preferred Shares [see Notes 3.1(m) and 19), and Equity-linked debt securities (ELS) (see Note 20), Derivative Liability and Guaranty deposits [presented as part of Other Non-Current Liabilities (see Note 20)] are recognized when the Group becomes a party to the contractual agreements of the instrument.

All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Finance Costs and Other Charges in the consolidated statement of comprehensive income (see Note 26).

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

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

Redeemable Preferred Shares of GADC and TLC which are mandatorily redeemable at the option of the holder, are recognized at fair value, net of transaction costs, on inception date and presented as a liability in the consolidated statement of financial position; the liability is subsequently measured at amortized cost (see Note 19). The corresponding accretion of the liability and the dividends paid on those shares are charged as part of Interest expense under Finance Costs and Other Charges account (see Note 26) in the consolidated statement of comprehensive income.

Dividend distributions to shareholders are recognized as financial liabilities on the record date set upon declaration by the BOD.

The Group's Derivative liability arising from financial instruments designated as cash flow hedges is recognized and subsequently measured in accordance with its hedge accounting policy (see Note 2.5). All other derivative liabilities are measured at fair value. (See Note 20)

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

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

### *2.14 Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. [See Note 3.1(o)]

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

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



### *2.15 Equity*

Capital stock represents the nominal value of shares that have been issued (see Note 21.1).

APIC includes any premiums received on the issuance or reissuance of capital stock. Any transaction costs associated with such issuances of shares are deducted from APIC, net of any related income tax benefits. Excess of proceeds from sale of treasury shares over acquisition cost of such treasury shares is also added to APIC. (See Note 21.2)

Treasury shares are AGI shares reacquired by the Company but not cancelled or AGI shares held by subsidiaries for investment purposes. These are carried at cost of reacquiring such shares (see Notes 2.2 and 21.3).

Net actuarial gains or losses on post-employment benefit plan pertain to actuarial gains or losses from remeasurement of post-employment benefit obligation and the Group's share in other comprehensive income or loss of associates and joint ventures.

Net unrealized fair value gains or losses on financial assets as FVOCI pertains to cumulative mark-to-market valuations on such securities [see Note 2.4(a)(iii)].

Accumulated translation adjustments represent the translation adjustments resulting from the translation of foreign currency denominated financial statements of certain subsidiaries into the Group's presentation currency [see Note 2.19(b)(iii)].

Revaluation reserves on cash flow hedges pertain to the cumulative effective portion of gains and losses recognized on hedging instruments in a cash flow hedge (see Note 2.5).

Other reserves include legal reserves and reserves from changes in ownership interest in subsidiaries that do not result in a loss of control. Legal reserves represent the statutory requirements in Luxembourg, which comprise of net wealth tax reserve and capital reserve.

Dilution gain or loss arises when an investor or the Group exercises its pre-emptive rights to maintain its ownership interest in an investee. This represents the difference between the book value per share in an investee versus the Group's offer price at the time the rights are exercised. This also includes the Group's share in previous period's profit (loss) as a result of the current increase (decrease) in equity ownership over its subsidiaries. Dilution gain or loss is recognized on investments of which the Group continues to exercise control. (See Note 21.4)

Share options represent the value of share options during vesting period upon recognition of share-based remuneration expense in profit or loss [see Notes 2.21(d) and 21.6].

Retained earnings, the appropriated portion of which is not available for dividend declaration, represent all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income, reduced by the amount of dividends declared (see Note 21.7).

Non-controlling interests represent the portion of the net assets and profit or loss not attributable to the Parent Company's shareholders which are presented separately in the Group's consolidated statement of comprehensive income and within the equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity. [See Notes 2.2(d), 2.11 and 21.8]

### *2.16 Revenue and Expense Recognition*

Revenue arises mainly from sale of consumer goods and real properties, rendering of services which include gaming-related activities and leasing activities, and interest income.

Revenue is recognized in a manner that depicts the pattern of goods and services to customers at an amount to which the Group expects to be entitled in exchange for those goods and services. The focus of revenue recognition is on the transfer of control of goods or services, which could be at a point in time or over time, following this five-step process:

1. Identify the contract with a customer;
2. Identify the performance obligation (distinct goods or services promised);
3. Determine the transaction price(including fixed amounts or variable amounts, or both, financing components, non-cash consideration, consideration payable to customer, if any);
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) performance obligations are satisfied (at a point in time or over time).

For Step 1 to be achieved, the following five gating criteria must be present:

a. the parties to the contract have approved the contract either in writing or in accordance with other customary business practices and committed to perform their respective obligations;
b. each party's rights regarding the goods or services to be transferred or performed can be identified;
c. the payment terms for the goods or services to be transferred or performed can be identified;
d. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
e. collection of the consideration in exchange of the goods and services is probable (i.e., more likely than not to occur).

A contract, for purposes of revenue recognition, does not exist if each party has a unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party.

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,

- the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied. The Group uses the practical expedient in PFRS 15 with respect to non-disclosure of the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting period and the explanation of when such amount will be recognized as revenue.

In addition, the following specific recognition criteria must also be met before revenue is recognized:

*(a)* *Sale of consumer goods* – Revenues from sale of goods are recognized at a point in time, when the customer has acknowledged the receipt of the goods.

*(b)* *Rendering of services* – Revenue is recognized over time (i.e., time-and-materials basis as the services are provided) until the performance of contractually agreed tasks has been substantially rendered.

(c) *Real estate sales* – Revenue from real estate sales is recognized over time proportionate to the progress of the development. The Group measures its progress based on actual costs incurred relative to the total expected costs to be incurred in completing the development. Revenue recognized from real estate sales is presented as part of Sales of Goods account in the consolidated statements of comprehensive income.

The Group develops real properties such as developed land, house and lot, and condominium units. The Group often enters into contracts to sell real properties as they are being developed. The significant judgment used in determining the timing of satisfaction of the Group's performance obligation with respect to its contracts to sell real properties is disclosed in Note 3.1(a). Sales cancellations are accounted for on the year of forfeiture. Any gain or loss on cancellation is charged to profit or loss.

For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from sales is used by MEG, GERI, EELHI, SPI, ECOC, MBPHI, SEDI, LFI, API, MGAI, MCTI and STLI.

(d) *Sale of undeveloped land and golf and resort shares (included under RE Sales)* – Revenues on sale of undeveloped land and golf and resort shares for sale are recognized at point in time when control on the undeveloped land and golf and resort shares have passed to the buyer.

(e) *Food, beverage and others* – Revenues are recognized at point in time upon delivery to and receipt of consumer goods by the customer. Invoice for consumer goods transferred are due upon receipt by the customer.

(f) *Hotel accommodation* – Revenues are recognized over time during the occupancy of hotel guest and ends when the scheduled hotel room accommodation has lapsed (i.e., the related room services have been rendered). As applicable, invoices for hotel accommodations are due upon receipt by the customer. This is presented under Revenue from Rendering of Services (see Note 23).

(g) *Sales from Company-operated quick-service restaurants* – Revenues are recognized at point in time upon delivery to and receipt of consumer goods by the customer, and the Group has no obligation that could affect the customer's acceptance of the goods. Invoice for consumer goods transferred are due upon receipt by the customer.

(h) *Franchise revenues* – Revenues from franchised McDonald's restaurants (including the restaurant operated by a joint venture) include royalty and management fees. These are recognized in the period earned. (See Note 23)

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

As applicable, when the Group is required to refund the related purchase price for returned goods, it recognizes a refund liability for the expected refunds by adjusting the amount of revenues recognized during the period. Also, if applicable, the Group recognizes a right of refund asset on goods to be recovered from customers with a corresponding adjustment to Cost of Goods Sold account. However, there were no contracts that contain significant right of return arrangements that remain outstanding as of the end of the reporting periods.

Contract assets pertain to rights to consideration in exchange for goods or services that the Group has transferred to a customer that is conditioned on something other than passage of time. Under its contracts with customers, the Group will receive an unconditional right to payment for the total consideration upon the completion of the development of the property sold. Any rights to consideration recognized by the Group as it develops the property are presented as Contract Assets in the consolidated statement of financial position. Contract assets are subsequently tested for impairment in the same manner as the Group assesses impairment of its financial assets [see Note 2.5(c)].

Any consideration received by the Group in excess of the amount for which the Group is entitled is presented as Contract Liabilities in the consolidated statement of financial position. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

If a transaction does not yet qualify as contract revenue under PFRS 15, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of revenue on real estate sale, consideration received from buyers are presented as customers' deposits under Other Liabilities account the consolidated statement of financial position.

The Group provides a membership card for its gaming patrons (i.e., of Travellers). Members earn points on gaming activity and such points are redeemable for complimentary goods and services such as room accommodations, food, beverages and others. Members may also earn special coupons or awards as determined during marketing promotions. The Group records revenue for the original transaction and a provision (and a corresponding recognition of promotional allowances in profit or loss) 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 (see Notes 24 and 25). Incremental costs of obtaining a contract to sell a real estate property to a customer are recognized as an asset and are subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized. Incremental costs in obtaining other customer contracts are expensed as incurred since amortization period of these costs, if capitalized, would be less than one year (a practical expedient in PFRS 15).

All finance costs are reported in profit or loss on an accrual basis (see Note 26), except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.17).

Gaming revenue is recognized from net wins (losses) from gaming activities which represent the difference between coins and currencies deposited into the gaming machines or operations and the payments to customers, and for other games, the difference between gaming wins and losses, less sales incentives and other adjustments (i.e., promotional allowances) (see Note 23). The payout for wagers placed on gaming activities typically is known at the time the wager is placed (i.e., fixed odds wagering). These gaming transactions are accounted for as derivative transactions in accordance with PFRS 9 (previously PAS 39) (see Note 2.4). Gaming revenues from these transactions are recognized at fair value, which represents the price that would be received to sell a wager position or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Promotional allowances include rebates under the casino rebates program and the provision for the value of the gaming points earned by members, i.e. in using a membership card provided by the Group, by reference to the relative fair values of the complimentary goods or services. Promotional allowances are presented as a reduction of gaming revenues.

The Group also administers games in which the Group receives a fee rather than the Group being at risk to win or lose based on the outcome of the game, i.e. tournaments including card games and bingo operations. Revenues from these gaming-related activities, which are accounted in accordance with PFRS 15, are recognized over time as the services for administering the games are rendered, at an amount equivalent to the fee collected.

### *2.17 Borrowing Costs*

Borrowing costs are recognized as expenses in the period in which they are incurred (see Note 26), except to the extent that they are capitalized (see Notes 2.6, 2.7 and 2.9). Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset.

The capitalization of borrowing costs commences when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

### *2.18 Leases*

The Group accounts for its leases as follows:

*(a) Group as Lessee*

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

Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

*(b) Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

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

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

### *2.19 Foreign Currency Transactions and Translation*

*(a) Transactions and Balances*

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

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

*(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, British pound sterling, European Union euro and Mexican peso, their functional currencies, are translated to Philippine pesos, the Parent Company's functional currency as follows:

*(i)* Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

*(ii)* Income and expenses for each profit or loss account are translated at the average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

*(iii)* All resulting exchange differences are recognized in other comprehensive income and in a separate component of equity under Accumulated Translation Adjustments account.

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

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

### *2.20 Impairment of Non-Financial Assets*

The Group's Investments in associates and joint ventures [see Notes 2.2(b), 2.2(c) and 12], Intangible Assets (see Notes 2.12 and 15), Investment Property (see Notes 2.10 and 14), Property, Plant and Equipment (see Notes 2.9 and 13) and other non-financial assets (see Notes 2.8 and 9) are subject to impairment testing [see Note 3.2(i)]. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level. Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss. This reversal does not apply to intangible assets with indefinite useful lives and those assets not yet available for use.

### *2.21 Employee Benefits*

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan, and other employee benefits which are recognized as follows: (See Note 27)

*(a) Post-employment Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment defined benefit pension plans cover all regular full-time employees. The respective pension plans are tax-qualified, noncontributory and administered by respective trustees of three significant subsidiaries.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds, 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. The interest rates are based from the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), in 2018; and by Philippine Dealing and Exchange Corp. (PDEX) in 2017. BVAL and PDEX provide evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in consolidated other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance and Other Income or Finance Costs and Other Charges account in the consolidated statement of comprehensive income.

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

*(b)* *Post-employment Contribution Plan*

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

*(c)* *Termination Benefits*

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

*(d) Share-based Employee Remuneration*

The Group grants share options to key executive officers and employees eligible under each share option plan of the Parent Company, Megaworld, GERI, EMP and Travellers. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in profit or loss and the corresponding share option is recorded in the equity section of the consolidated statement of financial position.

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

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

*(e) Bonus Plans*

The Group recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the Group's profits after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

*(f) Compensated Absences*

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

### ***2.22 Income Taxes***

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any (see Note 28).

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow form the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

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

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

### *2.23 Earnings per Share*

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period (see Note 22).

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

### *2.24 Segment Reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Strategic Steering Committee (SSC), its chief operating decision-maker. The SSC is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally considers the Group's major subsidiaries, as disclosed in Note 4, which represent the main products and services provided by the Group and the line of business in which the Group operates.

Each of these operating segments, which represents the major subsidiaries within the Group, is managed separately by each respective officers and management. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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

***2.25 Related Party Transactions and Relationships***

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged (see Note 29).

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

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

***2.26 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements. There are no post-year-end events that occurred up to date of issuance of the financial statements that would require disclosure or adjustment.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*(a) Evaluating the Timing of Satisfaction of Performance Obligations*

*(i) Real Estate Sales*

The Group exercises critical judgment in determining whether each performance obligation to develop properties promised in its contracts with customers is satisfied over time or at a point in time. In making this judgment, the Group considers the following:

- any asset created or enhanced as the Group performs;
- the ability of the customer to control such asset as it is being created or enhanced;
- the timing of receipt and consumption of benefits by the customer; and,
- the Group's enforceable right for payment for performance completed to date.

The Group determined that its performance obligation is satisfied over time since it does not have an alternative use of the specific property sold as it is precluded by its contract from redirecting the use of the property for a different purpose. Further, the Group has rights over payment for development completed to date as the Group can choose to complete the development and enforce its rights to full payment under its contracts even if the customer defaults on amortization payments.

*(ii) Sales of consumer goods*

The Group determines that revenue is recognized at a point in time when the control of the goods has passed to the customer, i.e. generally when the customer acknowledged delivery of goods.

*(iii) Hotel Accommodations*

The Group determines that its revenue from hotel accommodations shall be recognized over time. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided by the Group to the customers. The Group provides the services without the need of reperformance of other entities. This demonstrates that the customers simultaneously receive and consume the benefits of the Group's rendering of hotel services as it performs.

(iv) *Food and Beverages, and Others*

In determining the appropriate method to use in recognizing the Group's revenues from food, beverage and other consumer goods, the Group determines that revenue is recognized at a point in time when the control of the goods has passed to the customer, i.e. generally when the customer acknowledged delivery of goods. The service component of the restaurant operations is deemed as an insignificant cause on the timing of satisfaction of performance obligation since it is only passage of time until the customer receives and consumes all the benefits after delivery of the food and beverage items.

(b) *Recognizing Revenue for Real Estate Activities*

The Group uses judgment in evaluating the probability of collection of contract price on real estate sales as a criterion for revenue recognition. The Group uses historical payment pattern of customers in establishing a percentage of collection threshold over which the Group determines that collection of total contract price is reasonably assured. In 2018, the Group reassessed the historical behavior of its customers and determined a new percentage of collection threshold in recognizing revenue, which resulted in an increase of P13.2 billion in revenues and corresponding cost of real property sold of P6.6 billion in 2018.

(c) *Determining the Accounting Treatment of Gaming Revenues under PFRS 9 (or PAS 39) and PFRS 15 (or PAS 18)*

The Group exercises judgment in determining whether its gaming transactions and gaming-related activities are within the scope of PFRS 9 (or PAS 39) or PFRS 15 (or PAS 18). In making this judgment, management considers whether both the Group and the patrons have the chance to win or lose money or other items of economic value based on the outcome of the game; or, only the patron has the chance to win or lose money or other items of economic value, with the Group only receiving a fee for administering the game, rather than the Group being at risk to win or lose based on the outcome of the game. When the Group takes a position against a patron, the resulting unsettled wager or position is a financial instrument that would likely meet the definition of derivative financial instrument and is accounted for under PFRS 9 (PAS 39).

Relative to this, the management has determined that its gaming revenues from table games and slot machines are within the scope of PFRS 9 (PAS 39) while gaming-related revenues from administering bingo and tournament games are within the scope of PFRS 15 (PAS 18).

(d) *Evaluating the Business Model and Cash Flow Characteristics of Financial Assets*

Upon adoption of PFRS 9 beginning January 1, 2018, the Group applies the business model test and cash flow characteristics test at a portfolio of financial assets (i.e., group of financial instruments that are managed together to achieve a particular objective) and not on an instrument-by-instrument approach (i.e., not based on intention for each or specific characteristic of individual instrument) as these relate to the Group's investment and trading strategies.

The business model assessment is performed on the basis of reasonably expected scenarios (and not on reasonably expected not to occur, such as the so-called 'worst case' or 'stress case', scenarios). A business model for managing financial assets is typically observable through the activities that the Group undertakes to achieve the objective of the business model.

The Group uses judgment when it assesses its business model for managing financial assets and that assessment is not determined by a single factor or activity. Instead, the Group considers all relevant evidence that is available at the date of assessment which includes, but not limited to:

- How the performance of the business model and the financial assets held within the business model are evaluated and reported to key management personnel;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and,

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

(e) *Determining the ECL on Trade and Other Receivables and Advances to Related Parties*

Beginning January 1, 2018, the Group applies the ECL methodology which requires certain judgments in selecting the appropriate method of determination. In measuring ECL, the Group considers a broad range of information which include past events, current conditions, and reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets. The Group uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating). The provision matrix is based on historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables are disclosed in Notes 2.4(d) and 31.2.

For advances to related parties, the management determined that the use of liquidity analysis model is applicable in the ECL assessment. In the case of these receivables from related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related parties' highly liquid assets in order to repay the Company's receivables if demanded at the reporting date taking into consideration the historical defaults of the related parties.

Details about the ECL on the Company's financial asset at amortized cost are disclosed in Note 31.2.

(f) *Assessing Impairment of AFS Financial Assets (2017)*

The determination when an investment is other-than-temporarily impaired required significant judgment. In making this judgment, the Group evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. [See Notes 2.4(e)(iii)]

Based on evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets were not impaired in 2017 and 2016.

(g) *Distinguishing Investment Properties, Owner-Occupied Properties and Real Estate Inventories*

The Group determines whether a property qualifies as an investment property (see Note 2.10) or owner-occupied properties or inventories. The Group applies judgment upon initial recognition of the asset based on the intention and also when there is a change in use. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Investment property comprise of properties held to earn rental or for capital appreciation. Owner-occupied properties (see Note 2.9) generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process while Inventories (see Note 2.7) are properties that are held for sale in the ordinary course of business. 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.

(h) *Distinguishing Investments in Financial Instruments and Golf and Resort Shares Inventories*

In determining whether golf and resort shares shall be accounted for as either inventories or financial instruments, the Group considers its role in the development of the club and its intent for holding these shares. The Group classifies such shares as inventories when the Group acts as the developer and it intends to sell a developed property together with the club share.

(i) *Classifying Perpetual Debt Securities*

The Group exercises judgment in classifying its perpetual debt securities as financial liabilities or equity instruments. In making its judgment, the Group considers the terms of the securities including any restrictions on the Group's ability to defer interest payments. Based on management's assessment, the perpetual debt securities are classified as equity securities and presented as part of NCI, as the Group has the ability to defer payments of principal and interest indefinitely (see Note 28.7).

(j) *Determining Control, Joint Control or Significant Influence*

Judgment is exercised in determining whether the Group has control, joint control or significant influence over an entity. In assessing each interest over an entity, the Group considers voting rights, representation on the board of directors or equivalent governing body of the investee, interlocking directors, participation in policy-making process and all other facts and circumstances, including terms of any contractual arrangement.

(k) *Distinguishing Asset Acquisition and Business Combinations*

At the time of acquisition, the Group determines whether the acquisition represents the acquisition of a business or of assets (see Notes 1.2 and 2.11). The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., for Megaworld, maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40, *Investment Property*, on ancillary services.

In 2018 and 2017, the Group gained control over various entities and a business unit as described in Note 1.2 which, based on management's assessment, are accounted for as business combinations. Also in 2016, the Group acquired brands and assets as described in Note 1.2(d) which, based on management's assessment, are accounted for as asset acquisitions since it does not include an integrated set of activities that are capable of being managed.

(l) *Distinguishing Operating and Finance Leases*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on the Group's assessment, the Group's lease agreements are classified as operating leases.

*(m) Classifying Preferred Shares as Financial Liability*

The Group determines the classification of preferred shares based on the substance of the contractual agreement and the characteristics of a financial liability or an equity instrument. Based on the management's assessment, the preferred shares are considered as financial liabilities, as they are redeemable at the option of the holder and the Group does not have the ability to defer payments of the principal and interest (see Notes 2.13 and 19).

*(n) Recognizing the Recoverability of Insurance Claims*

The Group recognized insurance recoveries related to business interruption in 2018; and, actual losses incurred for damaged capital assets and other casualty losses in 2017 arising from the arson and robbery incident in June 2017 (see Note 30.9). Critical judgment was exercised by management to evaluate the recoverability of said claims as highly probable and virtually certain, on a per insurance coverage basis. As of December 31, 2017, the whole amount of recoverable claims including the portion received in 2018 was not accrued in full pending its finalization with the insurance company. The amount recovered for business interruption in 2018 is presented as part of Finance and Other Income account in the 2018 consolidated statement of comprehensive income, while the amount accrued as insurance claims receivable as of December 31, 2017 is presented as part of Trade and Other Receivables account in the 2017 consolidated statement of financial position, which was collected in 2018 (see Notes 6 and 26).

*(o) Recognizing Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.14 and disclosures on relevant provisions and contingencies are presented in Note 30.

### *3.2 Key Sources of Estimation Uncertainty*

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

*(a) Revenue Recognition for Performance Obligation Satisfied Over Time*

In determining the amount of revenue from real estate sales to be recognized for performance obligations satisfied over time, the Group measures progress on the basis of actual costs incurred relative to the total expected costs to complete such performance obligation. Specifically, the Company estimates the total development costs with reference to the project development plan and any agreement with customers. Management regularly monitors its estimates and apply changes as necessary. A significant change in estimated total development costs would result in a significant change in the amount of revenue recognized in the year of change.

*(b) Impairment of Financial Assets at Amortized Cost*

In measuring allowance for ECL, the Group added significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses), as further detailed in Note 2.4(d). In 2017 and 2016, the Group evaluated impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, the counterparties' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

*(c) Valuation of Inventories*

In determining the net realizable values of inventories (see Notes 2.6 and 2.7), management takes into account the most reliable evidence available at the dates the estimates are made. Net realizable value is one of the key variables used in analyzing 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 produce the inventories and make a sale as well as market trends. Changes in the sources of estimation may cause significant adjustments to the Group's inventories and real estate properties within the next financial reporting period.

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

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

*(d) Fair Value Measurement of Financial Assets*

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 would affect profit and loss and other comprehensive income.

Management estimates the fair value of financial instruments where active market quotes are not available based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date. (See Note 2.4)

The carrying amounts of financial assets at FVTPL and at FVOCI are disclosed in Notes 7 and 11, respectively. [See Notes 2.4(a)(ii)(iii) and 2.4(c)(i)(iii)]

*(e)* *Fair Value Measurement of Investment Properties*

Investment properties are measured using the cost model (see Note 2.10). The fair value disclosed in Note 14 to the consolidated financial statements was estimated either by: (i) using the fair value of similar properties in the same location and condition; or, (ii) using the discounted cash flows valuation technique since the information on current or recent prices of certain investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

The Group determines the fair value of idle properties through appraisals by independent valuation specialists using market – based valuation approach where prices of comparable properties are adequate for specific market factors such as location and condition of the property.

A significant change in these elements may affect prices and the value of the assets. As of December 31, 2018 and 2017, the Group determined that there were no significant circumstances that may affect the fair value measurement of these properties. The fair value of the investment properties is disclosed in Notes 14 and 33.4.

*(f)* *Fair Value Estimation of Share Options*

The fair value of the Options recognized as part of Salaries and employee benefits is shown under Other Operating Expenses account in the consolidated statement of comprehensive income (see Note 25). A corresponding credit to Share Options Outstanding for options related to the Group is presented in the equity portion of the consolidated statement of financial position (see Note 21.6).

The Group estimates the fair value of the Executive Share Option (the Options) by applying an option valuation model, considering the terms and conditions on which the Options 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 Parent Company, Megaworld, GERI, TRAV and EMP) and fair value of the specific common shares. Changes in these factors can affect the fair value of share options at grant date.

*(g)* *Fair Value Measurement of Derivative Financial Instruments*

Fair value measurement for gaming revenues under PFRS 9 (previously under PAS 39) represents the price that would be received to sell a wager position or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date, less any promotional allowances and other similar adjustments.

For other derivative financial instrument, management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. The determination of the fair value of derivatives is dependent on the selection of certain assumptions used by third party experts in calculating such amounts. Those assumptions include, among others, expected movements in the index cumulative performance as defined in the swap agreement. Changes in assumptions could affect reported fair value of financial instruments. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

*(h)* *Estimation of Useful Lives of Property, Plant and Equipment, Investment Property and Intangible Assets*

The Group estimates the useful lives of property, plant and equipment (see Note 2.9), investment property (see Note 2.10) and intangible assets (see Note 2.12) with finite lives based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Specific trademarks mentioned in Note 15 were assessed to have indefinite useful lives considering that there is no foreseeable limit to the period over which such trademarks are expected to generate cash inflows for the Group (i.e., trademarks for The Dalmore and Jura have been in existence for more than 100 years). Moreover, there are no legal or similar limits imposed on the period over which the Group has control or can use the said trademarks.

The carrying amounts of property, plant and equipment, investment property and intangible assets are presented 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 2018 and 2017.

*(i)* *Impairment of Non-Financial Assets*

Goodwill and specific intangible assets with indefinite life are reviewed annually for impairment. An impairment review on all other non-financial assets is performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.20. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment loss recognized on Property, Plant and Equipment is discussed in Note 13. There is no impairment loss recognized on the Group's investment properties, goodwill, trademarks and other intangible assets and other non-financial assets based on management's evaluation for the years ended December 31, 2018, 2017 and 2016.

*(j) Determining Realizable Amount of Deferred Tax Assets*

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

*(k) Valuation of Post-Employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 27.2.

*(l) Measurement of Gaming Points and Estimation of Liability for Unredeemed Gaming Points*

The Group provides gaming points to its patrons based on gaming activity. Gaming points are redeemable in a wide selection of redemption categories. The Group recognizes the fair values of gaming points, based on redemption terms, historical redemption pattern of patrons and the fair value of promotional activities per source (i.e., hotel, food and beverage, and others). The Group reassesses the measurement basis used for calculating the fair value of gaming points on a regular basis. The carrying value of the gaming points accrued by the Group is presented as Unredeemed gaming points under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

*(m) Recognition of Financial Liability and Equity Components of Compound Financial instruments*

The ELS instrument (see Note 20) contains both a financial liability, which is the Group's contractual obligation to pay cash, and an equity component, which is the holder's option to convert it into an equity instrument of the issuer. The equity component is assigned the residual value after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as own credit risk, volatilities and correlations require management to make estimates. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

Initially, the Group determined the carrying amount of the financial liability component by measuring the present value of the contractual stream of future cash flows, using the interest rate of similar liabilities that do not have an associated equity component. When the fair value of the financial liability is compared with the fair value of the compound financial instrument as a whole, which is equivalent to the issue price, there was no residual amount such that no value was assigned to the equity component; hence, no equity component was recognized in the consolidated financial statements at that time. Subsequently, the financial liability was measured at amortized cost. The total carrying amount of the ELS was presented as part of Other Non-current Liabilities account in the 2016 consolidated statement of financial position.

In 2017, as a result of the amendments on the ELS, management reassessed the compound instrument and recomputed the fair values of the components at the time of amendment, which resulted in a revalued financial liability component and an equity component with value. Accordingly, the Group presented the components separately as Equity-linked debt securities under Other Non-current Liabilities account (see Note 20) and as part of Non-controlling Interest accounts under Equity section, respectively, in the 2018 and 2017 consolidated statement of financial position.

*(n) Provision for Restoration of Leased Property*

Property, plant and equipment includes the estimated cost of dismantling and restoring leased properties (building and leasehold improvements) to their original condition for which the Group is liable (see Note 2.9). The estimated cost was initially based on a recent cost to dismantle facilities. This was adjusted to consider estimated incremental annual cost up to the end of the lease term. The estimated dismantling cost was discounted using the prevailing market rate at the inception of the lease for an instrument with maturity similar to the term of the lease.

The carrying amount of ARO and provision for dilapidation are presented as part of Other Non-Current Liabilities account in the consolidated statement of financial position (see Note 20).

*(o) Provision for Onerous Lease*

The Group determines the provision for leasehold properties which are no longer used in the business for which the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease using discounted cash flows and assumptions relating to future sublet income expectations. A significant change in the credit-adjusted risk-free rate used in discounting the estimated cost and sublease assumptions would result in a significant change in the amount of provision recognized with a corresponding effect on profit or loss.

The carrying amount of provision for onerous lease is presented as part of Other Non-Current Liabilities account in the consolidated statement of financial position (see Note 20).

*(p)* *Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in consolidated profit or loss in the subsequent period. (See Note 2.11)

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

The Group is organized into major business segments, which are the major subsidiaries of the Group. These represent the main products and services provided by the Group and the line of business in which the Group operates (see Note 2.24). Presented below is the basis of the Group in reporting its primary segment information.

*(a)* The *Megaworld* segment consists of development of real estate, integrated resorts, leasing of properties and hotel operations business which is primarily undertaken by Megaworld Corporation and subsidiaries, the Group's forerunner in the real estate industry.

*(b)* The *Emperador* segment refers to the manufacture and distribution of distilled spirits, including the production of glass containers, which is undertaken by Emperador Inc. and subsidiaries.

*(c)* The *Travellers* segment relates to tourism-oriented business that integrates entertainment, hospitality and leisure, including gaming, as that of Resorts World Manila, which is operated by Travellers International Hotel Group, Inc. and subsidiaries.

*(d)* The *GADC* segment refers to operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement between GADC and McDonald's Corporation, USA.

The Group disaggregates revenues recognized from contracts with customers into these segments that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This same disaggregation is used in earnings releases, annual reports and investor presentations.

### *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, contract assets, inventories, property, plant and equipment, intangible assets and investment properties. Segment liabilities include all operating liabilities and consist principally of trade and other payables, contract liability, interest-bearing loans and bonds payable.

### *4.3 Intersegment Transactions*

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

## *4.4 Analysis of Segment Information*

Segment information can be analyzed as follows for the years ended December 31, 2018, 2017 and 2016:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | Total |
| **REVENUES** | | | | | |
| Sales to external customers | P 54,881,328,733 | P 20,532,703,973 | P 28,415,529,909 | P 46,358,326,003 | P 150,187,888,618 |
| Intersegment sales | 532,091,812 | 109,819,621 | - | - | 641,911,433 |
| Finance and other income | 2,024,564,835 | 1,879,662,536 | 204,209,303 | 679,322,390 | 4,787,759,064 |
| Segment revenues | 57,437,985,380 | 22,522,186,130 | 28,619,739,212 | 47,037,648,393 | 155,617,559,115 |
| Cost of sales and expenses excluding depreciation and amortization | ( 30,130,763,120 ) | ( 18,213,082,209 ) | ( 24,823,471,642 ) | ( 36,671,149,630 ) | ( 109,838,466,601 ) |
| | 27,307,222,260 | 4,309,103,921 | 3,796,267,570 | 10,366,498,763 | 45,779,092,514 |
| Depreciation and amortization | ( 2,268,838,880 ) | ( 2,289,286,602 ) | ( 1,191,150,982 ) | ( 1,076,907,317 ) | ( 6,826,183,781 ) |
| Finance cost and other charges | ( 3,261,109,497 ) | ( 404,826,256 ) | ( 109,105,809 ) | ( 818,680,240 ) | ( 4,593,721,802 ) |
| Profit before tax | 21,777,273,883 | 1,614,991,063 | 2,496,010,779 | 8,470,911,206 | 34,359,186,931 |
| Tax expense | ( 5,544,362,408 ) | ( 144,909,807 ) | ( 758,056,178 ) | ( 1,607,414,678 ) | ( 8,054,743,071 ) |
| **SEGMENT PROFIT** | **P 16,232,911,475** | **P 1,470,081,256** | **P 1,737,954,601** | **P 6,863,496,528** | **P 26,304,443,860** |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | |
| Segment assets | **P 322,191,472,006** | **P 104,709,932,153** | **P 19,580,530,142** | **P 114,542,338,652** | **P 561,024,272,953** |
| Segment liabilities | **123,368,102,367** | **58,410,773,061** | **11,656,147,656** | **54,404,692,853** | **247,839,715,937** |
| **OTHER SEGMENT INFORMATION** | | | | | |
| Share in net profit (loss) of associates and joint ventures | **92,307,592** | **( 39,263 )** | **-** | **198,909,795** | **291,178,124** |

| | 2017 [As Restated – see Note 2.1(c)] | | | | |
|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | Total |
| REVENUES | | | | | |
| Sales to external customers | P 48,125,351,966 | P 18,578,784,045 | P 25,651,627,320 | P 42,257,796,854 | P 134,613,560,185 |
| Intersegment sales | 173,133,657 | 50,277,686 | - | - | 223,411,343 |
| Finance and other income | 1,815,055,331 | 172,363,323 | 255,129,148 | 411,549,414 | 2,654,097,216 |
| Segment revenues | 50,113,540,954 | 18,801,425,054 | 25,906,756,468 | 42,669,346,268 | 137,491,068,744 |
| Cost of sales and expenses excluding depreciation and amortization | ( 26,696,161,016 ) | ( 15,076,261,599 ) | ( 22,079,908,123 ) | ( 32,526,530,752 ) | ( 96,378,861,490 ) |
| | 23,417,379,938 | 3,725,163,455 | 3,826,848,345 | 10,142,815,516 | 41,112,207,254 |
| Depreciation and amortization | ( 1,830,763,458 ) | ( 1,931,946,081 ) | ( 1,160,186,016 ) | ( 802,101,313 ) | ( 5,724,996,868 ) |
| Finance cost and other charges | ( 2,234,699,822 ) | ( 1,274,812,002 ) | ( 172,099,662 ) | ( 1,453,905,412 ) | ( 5,135,516,898 ) |
| Profit before tax | 19,351,916,658 | 518,405,372 | 2,494,562,667 | 7,886,808,791 | 30,251,693,488 |
| Tax expense | ( 4,063,450,162 ) | ( 218,395,439 ) | ( 754,517,341 ) | ( 1,503,052,461 ) | ( 6,539,415,403 ) |
| SEGMENT PROFIT | P 15,288,466,496 | P 300,009,933 | P 1,740,045,326 | P 6,383,756,330 | P 23,712,278,085 |
| SEGMENT ASSETS AND LIABILITIES | | | | | |
| Segment assets | P 287,672,861,780 | P 84,365,114,201 | P 17,013,884,251 | P 110,654,016,965 | P 499,705,877,197 |
| Segment liabilities | 113,688,842,332 | 42,151,627,670 | 10,242,056,765 | 51,114,592,291 | 217,197,119,058 |
| OTHER SEGMENT INFORMATION | | | | | |
| Share in net profit (loss) of associates and joint ventures | 118,829,303 | ( 232,813 ) | - | 154,101,850 | 272,698,340 |

| | 2016 [As Restated – see Note 2.1(c)] | | | | |
|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | Total |
| REVENUES | | | | | |
| Sales to external customers | P 42,405,881,471 | P 23,183,549,360 | P 22,716,009,343 | P 40,470,950,595 | P 128,776,390,769 |
| Intersegment sales | 129,197,283 | 58,136,406 | - | 22,485,362 | 209,819,051 |
| Finance and other income | 1,743,328,172 | 85,896,223 | 95,417,789 | 444,501,068 | 2,369,143,252 |
| Segment revenues | 44,278,406,926 | 23,327,581,989 | 22,811,427,132 | 40,937,937,025 | 131,355,353,072 |
| Cost of sales and expenses excluding depreciation and amortization | ( 24,253,398,032 ) | ( 16,712,937,562 ) | ( 19,714,018,727 ) | ( 30,053,548,917 ) | ( 90,733,903,238 ) |
| | 20,025,008,894 | 6,614,644,427 | 3,097,408,405 | 10,884,388,108 | 40,621,449,834 |
| Depreciation and amortization | ( 1,486,971,728 ) | ( 1,643,106,203 ) | ( 1,102,983,228 ) | ( 708,238,131 ) | ( 4,941,299,290 ) |
| Finance cost and other charges | ( 3,216,929,009 ) | ( 1,458,618,238 ) | ( 231,718,113 ) | ( 713,874,962 ) | ( 5,621,140,322 ) |
| Profit before tax | 15,321,108,157 | 3,512,919,986 | 1,762,707,064 | 9,462,275,015 | 30,059,010,222 |
| Tax expense | ( 3,496,722,179 ) | ( 64,314,408 ) | ( 529,208,455 ) | ( 1,742,331,316 ) | ( 5,832,576,358 ) |
| SEGMENT PROFIT | P 11,824,385,978 | P 3,448,605,578 | P 1,233,498,609 | P 7,719,943,699 | P 24,226,433,864 |
| SEGMENT ASSETS AND LIABILITIES | | | | | |
| Segment assets | P 253,466,443,711 | P 73,934,705,268 | P 15,617,095,043 | P 93,657,270,308 | P 436,675,514,330 |
| Segment liabilities | 93,789,741,231 | 31,670,179,894 | 10,220,260,865 | 40,626,020,465 | 176,306,202,455 |
| OTHER SEGMENT INFORMATION | | | | | |
| Share in net profit (loss) of associates and joint ventures | 136,866,743 | ( 538,345 ) | - | 219,276,919 | 355,605,317 |

(Amounts in Philippine Pesos)

### *4.5 Reconciliations*

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

| | 2018 | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| **Revenues** | | | |
| Total segment revenues | **P 155,617,559,115** | P 137,491,068,744 | P 131,355,353,072 |
| Unallocated corporate revenue | **1,809,658,261** | 1,520,964,571 | 1,748,842,604 |
| Elimination of intersegment revenues | **( 641,911,433 )** | ( 223,411,343 ) | ( 209,819,051 ) |
| Revenues as reported in consolidated profit or loss | **P 156,785,305,943** | P 138,788,621,972 | P 132,894,376,625 |
| **Profit or loss** | | | |
| Segment operating profit | **P 26,304,443,860** | P 23,712,278,085 | P 24,226,433,864 |
| Unallocated corporate loss | **( 1,986,654,038 )** | ( 1,212,898,155 ) | ( 1,070,074,614 ) |
| Elimination of intersegment revenues | **( 641,911,433 )** | ( 223,411,343 ) | ( 209,819,051 ) |
| Profit as reported in consolidated profit or loss | **P 23,675,878,389** | P 22,275,968,587 | P 22,946,540,199 |
| **Assets** | | | |
| Segment assets | **P 561,024,272,953** | P 499,705,877,197 | P 436,675,514,330 |
| Unallocated corporate assets | **27,226,921,775** | 35,906,274,250 | 25,255,117,630 |
| Total assets reported in the consolidated statements of financial position | **P 588,251,194,728** | P 535,612,151,447 | P 461,930,631,960 |
| **Liabilities** | | | |
| Segment liabilities | **P 247,839,715,937** | P 217,197,119,058 | P 176,306,202,455 |
| Unallocated corporate liabilities | **49,838,815,332** | 44,141,950,528 | 37,539,123,033 |
| Total liabilities reported in the consolidated statements of financial position | **P 297,678,531,269** | P 261,339,069,586 | P 213,845,325,488 |

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:

| | 2018 | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|
| Cash on hand and in banks | **P 24,302,215,975** | P 22,493,526,840 |
| Short-term placements | **20,476,795,558** | 30,290,873,322 |
| | **P 44,779,011,533** | P 52,784,400,162 |

Cash in banks generally earn interest at rates based on daily bank deposit rates [see Notes 26 and 31.1(b)].

Short-term placements are made for varying periods up to 90 days and earn effective interest per annum ranging from 1.0% to 7.0% in 2018, 0.5% to 3.5% in 2017, and 0.6% to 2.5% in 2016.

The Group has Restricted short-term placements and Time deposits, which are shown under Other Current Assets account in the consolidated statements of financial position (see Note 9).

Interest income from Cash and Cash Equivalents for the years ended December 31, 2018, 2017 and 2016 is presented under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

## 6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| Current: | | | |
| Trade receivables | 17(n,v), 23.2 29.2 | **P 45,798,321,365** | P 36,721,560,615 |
| Advances to contractors and suppliers | 2.4 | **12,205,310,741** | 9,479,405,564 |
| Note receivable | 2.4 | **216,692,321** | - |
| Due from related parties | 29.5 | **337,616,458** | 249,464,102 |
| Accrued interest receivable | | **147,717,381** | 55,284,785 |
| Claims receivables | 3.1(n), 30.9 | **-** | 762,551,480 |
| Others | 30.4 | **3,193,129,542** | 2,103,822,009 |
| | | **61,898,787,808** | 49,372,088,555 |
| Allowance for impairment | 3.2(e), 25 29.5 | **( 1,380,069,435)** | ( 884,705,546) |
| | | **60,518,718,373** | 48,487,383,009 |
| Non-current: | | | |
| Trade receivables | 23.2, 29.2 | **4,349,378,898** | 8,976,202,656 |
| Advances to contractors and suppliers | 2.4 | **8,445,805,031** | 8,129,485,572 |
| Loans receivable | | **110,869,565** | 145,289,857 |
| Note receivable | | **54,173,080** | - |
| Receivable from employees | | **36,664,154** | 44,538,520 |
| Others | | **-** | 82,326,077 |
| | | **12,996,890,728** | 17,377,842,682 |
| Allowance for impairment | 3.2(e), 25 | **( 12,224,936)** | ( 12,224,936) |
| | | **12,984,665,792** | 17,365,617,746 |
| | | **P 73,503,384,165** | P 65,853,000,755 |

Trade receivables are non-interest bearing. Most trade receivables, particularly those relating to real estate sales, are covered by post-dated checks. As at December 31, 2018 and 2017, the Group has outstanding receivables assigned to local banks amounting to P889.3 million and P1,044.8 million, respectively [see Note 17(n and v)].

The installment period of real estate sales contracts averages from one to five years. Non-interest bearing trade receivables with maturity of more than one year after the end of the reporting period are remeasured at amortized cost using the effective interest rate of similar financial instruments. Interest income recognized amounted to P1.0 billion, P1.4 billion and P1.3 billion in 2018, 2017 and 2016, respectively. These amounts are presented as Interest income under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

Advances to contractors and suppliers pertain to noninterest-bearing and unsecured advances or downpayments 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. The current portion pertains to inventories while the non-current advances pertain to the construction of property, plant and equipment and investment property.

Note receivable pertains to a two-year unsecured interest-bearing advances granted by the Group in December 2018 to a certain third party. The note bears 5% interest starting January 1, 2019.

Claims receivables pertain to expected minimum insurance and recoveries from losses arising from property damages and other casualty losses [see Notes 3.1(n) and 30.9]. This has been fully collected in 2018.

Receivable from employees and due from related parties pertain to noninterest-bearing, unsecured and immediately demandable advances, settlement of which is generally made in cash, or through deduction from employees' salary or employees' liquidation of business related expenses (see Note 29.5).

Other current receivables include receivable from sale of land and loan receivable.

All of the Group's trade and other receivables have been assessed for indications of impairment using the ECL model required under PFRS 9 [see Note 2.4(d)]. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized. Certain past due accounts from real estate sales 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, hence there is no loss given default in case of non-payment (see Note 31.2).

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

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Balance at beginning of year | | **P 896,930,482** | P 762,954,888 |
| Effect of adoption of PFRS 9 | 2.3(a)(iii) | **332,421,578** | - |
| As restated | | **1,229,352,060** | 762,954,888 |
| Impairment losses during the year | 25, 29.5 | **169,501,339** | 145,518,483 |
| Reversal of impairment previously recognized | 26 | **( 6,559,028)** | ( 7,553,903) |
| Write-off of trade receivables previously provided with allowance | | **-** | ( 3,988,986) |
| Balance at end of year | | **P 1,392,294,371** | P 896,930,482 |

Impairment losses are presented under Other Operating Expenses account (see Note 25), while the gain on reversal is presented as part of Miscellaneous under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

All trade receivables are subject to credit risk exposure (see Note 31.2). However, the Group does not identify specific concentrations of credit risk with regard to trade and other receivables as the amounts recognized consist of a large number of receivables from various customers.

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS



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

| | 2018 | 2017 |
|---|---|---|
| Marketable debt securities | **P 9,994,421,546** | P 11,864,245,566 |
| Quoted equity securities | **3,196,517,663** | 1,632,656,186 |
| Derivative financial assets | **426,485,938** | 19,572,259 |
| | **P 13,617,425,147** | P 13,516,474,011 |

Marketable debt securities, which bear interest ranging from 4.3% to 7.7%, 4.3% to 8.3% and 2.8% to 8.4% per annum as at December 31, 2018, 2017 and 2016, respectively, are measured at their fair values determined directly by reference to published prices quoted in an active market. The net changes in fair values of these financial assets are presented either as part of Fair value gains under Finance and Other Income account or Fair value losses under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest income amounting to P40.8 million, P80.6 million and P285.5 million for 2018, 2017 and 2016, respectively, is shown as part of Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

A portion of marketable debt securities placed with certain foreign banks is covered by a set-off provision. The loans set-off against marketable debt securities amounted to U.S.$45.1 million (P2,248.8 million) as at December 31, 2016. The loans were settled in 2017. No instruments were set-off as at December 31, 2017 and 2018.

(Amounts in Philippine Pesos)

Derivative financial assets arise from foreign exchange margins trading spot and forward contracts entered into by the Group. As of December 31, 2018, the hedging instrument has a positive fair value of P426.5 million. The term of these forward contracts is usually one month to one year. Changes in foreign currency value arising from such investments are taken up in profit or loss and are recorded either as part of Fair value gains under Finance and Other Income account or Fair value losses under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

## 8. INVENTORIES

The details of inventories are shown below [see Notes 2.6, 3.1(d) and 3.2(c)].

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| At cost – | | | |
| Real estate for sale | | **P 82,060,440,050** | P 72,647,397,956 |
| Property development costs | | **8,157,949,491** | 6,381,569,472 |
| Raw land inventory | | **8,459,347,672** | 6,913,892,233 |
| Golf and resort shares for sale | | **2,243,707,288** | 2,816,204,114 |
| | 17(n) | **100,921,444,501** | 88,759,063,775 |
| At net realizable value: | | | |
| Work-in-process goods | | **19,310,965,391** | 17,786,098,444 |
| Finished goods | | **4,996,540,420** | 3,608,924,741 |
| Raw materials | | **3,261,111,478** | 3,249,324,608 |
| Food, supplies and other consumables | | **3,138,423,500** | 2,318,195,098 |
| | | **30,707,040,789** | 26,962,542,891 |
| Allowance for inventory write-down | 2.6 | **( 234,473,864)** | ( 174,836,786) |
| | 17(ee) | **30,472,566,925** | 26,787,706,105 |
| | | **P 131,394,011,426** | P 115,546,769,880 |

Real estate for sale pertains to the accumulated costs incurred in developing residential houses, lots and condominium units for sale which refer to the Group's horizontal and condominium projects and certain integrated tourism projects. Total cost includes capitalized borrowing costs amounting to P2,305.3 million, P1,804.7 million and P1,540.4 million in 2018, 2017, and 2016, respectively (see Note 17). The amount capitalized was determined using a capitalization rate of 4.55%, 4.55% and 4.32% in 2018, 2017 and 2016, respectively. Certain real estate for sale are subject to negative pledge on certain loans obtained by the Group [see Note 17(n)].

Property development costs pertain to accumulated costs incurred for properties undergoing development. The relative cost of a unit sold under development is charged to cost of sales in the same manner as revenue is recognized. The relative costs of units completed prior to sale are reclassified to Real estate for sale.

Raw land inventory pertains to properties which the Group intends to develop into residential properties to be held for sale.

Work-in-process pertains mainly to substantial inventory of aged whisky stocks in Scotland which mature over periods of up to 60 years. These maturing whisky stock inventory amounted to P15,415.2 million and P13,501.2 million as of December 31, 2018 and 2017, respectively, which included capitalized depreciation costs (see Note 13).

Golf and resort shares for sale comprise of proprietary or membership shares (landowner resort shares and founders shares) that are of various types and costs. The cost of the landowner resort shares is based on the acquisition and development costs of the land and the project. The cost of the founders shares is based on the par value of the resort shares which is P100 per share.

Food, supplies and other consumables include paper and packaging, promotional materials, membership program items, operating supplies, spare parts, fuel and lubricants.

A reconciliation of the allowance for inventory write-down at the beginning and end of the reporting periods is shown below.

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| Balance at beginning of year | | **P 174,836,786** | P 169,987,543 |
| Additional losses during the year | 24, 25 | **59,637,078** | 19,104,221 |
| Reversals of write-down | 26 | **-** | ( 14,254,978) |
| Balance at end of year | | **P 234,473,864** | P 174,836,786 |

The additional losses on inventories were recognized to reduce the carrying values of cased stocks, dry goods and supplies in 2018 and 2017. The additional losses on cased stocks and dry goods are shown as part of Other direct and overhead under Cost of Goods Sold account in the consolidated statements of comprehensive income (see Note 24). Further, additional losses on supplies are shown as Write-down of inventories under Other Operating Expenses accounts in the consolidated statements of comprehensive income (see Note 25). The reversals of write-down are shown as part of Miscellaneous under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

(Amounts in Philippine Pesos)

## 9. OTHER ASSETS

The composition of this account is shown below.

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| Current: | 2.8 | | |
| Input VAT | | **P 7,800,311,920** | P 6,616,129,225 |
| Restricted short-term placements | 5 | **3,151,747,018** | 3,057,860,384 |
| Prepayments | | **2,776,862,790** | 1,793,267,124 |
| Creditable withholding taxes | | **921,178,241** | 679,983,433 |
| Deferred commission | 23.3 | **841,421,867** | 537,781,266 |
| Refundable deposits | | **192,940,895** | 448,470,573 |
| Time deposits | 5 | **118,551,065** | 117,126,031 |
| Office supplies | | **88,126,757** | 85,326,709 |
| Others | | **394,199,932** | 473,293,580 |
| | | **16,285,340,485** | 13,809,238,325 |
| Non-current: | 2.8 | | |
| Advances for future investment | 30.3(a) | **2,144,665,176** | 1,556,429,882 |
| Refundable deposits | | **1,753,002,493** | 1,610,637,649 |
| Property mortgage receivable | | **650,178,519** | 654,595,116 |
| Deferred commission | 23.3 | **301,179,774** | 305,749,301 |
| Deferred input VAT | | **166,540,481** | 192,499,656 |
| Claims for tax refund | | **112,282,175** | 112,282,175 |
| Advance payments for assets acquisition | | **359,199,665** | 385,962,965 |
| Others | | **539,637,520** | 593,782,034 |
| | | **6,026,685,803** | 5,411,938,778 |
| | | **P 22,312,026,288** | P 19,221,177,103 |

Restricted short-term placements [see Note 30.3(a)] are made for varying periods ranging from 30 to 90 days in 2018 and 2017, and earn effective interests ranging from 4.0% to 4.1% per annum in 2018, 1.3% to 2.8% per annum in 2017 and 1.3% to 2.3% per annum in 2016 (see Note 26).

Time deposits pertain to placements with maturity of 360 days, which earn an effective interest of 1.5% in 2018 and 2017 and 1.4% in 2016.

Prepayments include prepaid taxes, insurance, rentals and advertising, which are expected to be realized in the next reporting period.

Advances for future investment pertain to the advances made by the Group to Philippine Amusement and Gaming Corporation (PAGCOR) starting 2014 in connection with the development of Site A [see Note 30.3(a)]. In 2018 and 2017, the Group made additional payments to PAGCOR amounting to P0.6 billion in each year to fulfill the future investment.

In 2016, the Group purchased from one of its property lessors an outstanding mortgage debt on one of the Group's leased properties. The purchased mortgage asset entitles the Group to full security over the leased property and to monthly interest payments from the property lessor. However, the Group remains as lessee over the property; hence, it is still required to make monthly lease payments to the property lessor until 2036.

In 2016, the Group made a deposit for a certain acquisition amounting to P449.3 million presented as part of Advance payments for asset acquisition which remains outstanding as of December 31, 2016. The said deposit was applied in full against the total considerations paid in 2017 (see Note 1.2). Remaining portion as of December 31, 2018 pertain to advance payment for the purchase of machinery and equipment.

Current others include payroll funds and food and beverage inventories while non-current others include prepaid rentals and non-financial deposits.

## 10. ADVANCES TO/FROM LANDOWNERS AND JOINT VENTURES

### *10.1 Advances to Landowners and Joint Ventures*

The Group enters into numerous joint operation agreements for the joint development of various real estate projects. The joint operation agreements stipulate that the Group's joint operator shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of residential and condominium units to be constructed on the properties. Costs incurred for these projects are recorded under the Real estate for sale under Inventories account in the consolidated statements of financial position (see Note 2.7).

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint operators under the joint operation agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the joint operation agreements, the Group, in addition to providing specified portion of total project development costs, also commits to advance mutually agreed-upon amounts to the landowners to be used for pre-development expenses such as the relocation of existing occupants.

As at December 31, 2018 and 2017, the Group's management has assessed that the advances to joint ventures are fully recoverable. Accordingly, no impairment loss was recognized in those years.

As at December 31, 2018 and 2017, there has been no outstanding commitment for cash advances under the joint arrangements. The net commitment for construction expenditures amounts to:

| | **2018** | 2017 |
|---|---|---|
| Total commitment for construction expenditures | **P 31,949,011,190** | P 25,920,193,838 |
| Total expenditures incurred | **( 22,122,879,520)** | ( 18,730,950,238) |
| Net commitment | **P 9,826,131,670** | P 7,189,243,600 |

The Group's interests in joint operations and projects, ranging from 57% to 95% in 2018 and 2017, are as follows:

Megaworld:
- McKinley Hill
- McKinley West
- Newport City
- Manhattan Garden City
- Noble Place
- Uptown Bonifacio
- Northill Gateway
- The Maple Grove
- Vion Tower

GERI:
- Alabang West
- Caliraya Spring
- Forest Hills
- Kingsborough
- Monte Cielo de Peñafrancia
- Mountain Meadows
- Pahara at Southwoods
- Sta. Barbara Heights Phase 2 & 3
- Holland Park
- Sta. Barbara Heights Shophouse District

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

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

The aggregate amounts of the current assets, long-term assets, current liabilities and long-term liabilities as at December 31, 2018 and 2017, and income and expenses for each of the three years in the period ended December 31, 2018 related to the Group's interests in these joint arrangements, are not presented or disclosed in the consolidated financial statements as these are only joint operations in which the Group is an operator [see Note 2.2(c)].

As at December 31, 2018 and 2017, the Group has assessed that the probability of loss that may arise from contingent liabilities is remote and there are no other contingent liabilities with regard to these joint operations.

***10.2 Advances from Joint Ventures***

This account represents the share of joint venture partners in the proceeds from the sale of certain projects in accordance with various joint venture agreements entered into by the Group. The total outstanding balance is presented as part of Advances from Related Parties account in the consolidated statements of financial position (see Note 29.6).

## 11. FINANCIAL ASSETS AT FVOCI (AFS Financial Assets – 2017 )

As of December 31, 2018, financial assets at FVOCI [see Notes 2.4(a)(ii)] is comprised of the following:

| | Note | | |
|---|---|---|---|
| Equity securities: | | | |
| Quoted | 33.2 | P | 138,241,610 |
| Unquoted | | | 321,733,274 |
| | | **P** | **459,974,884** |

As of December 31, 2017, AFS financial assets [see Notes 2.4(c)(iii)] is comprised of the following:

| | Note | | |
|---|---|---|---|
| Equity securities: | | | |
| Quoted | 33.2 | P | 136,872,015 |
| Unquoted | | | 298,031,214 |
| Allowance for impairment | | ( | 3,257,940 ) |
| | | | 294,773,274 |
| | | P | 431,645,289 |

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

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Balance at beginning of year | **P** | **431,645,289** | P | 673,115,286 |
| Additions | | **1,980,263** | | 15,857,795 |
| Foreign currency losses | **(** | **165,687)** | | - |
| Fair value gains | | **26,515,019** | | 26,875,114 |
| Disposals | | **-** | ( | 284,202,906) |
| Balance at end of year | **P** | **459,974,884** | P | 431,645,289 |

Equity securities consist of local shares of stock and various proprietary club shares which are denominated in Philippine pesos. Golf club shares are proprietary membership shares of Travellers from certain golf clubs.

The fair values of the quoted financial assets have been determined by reference to published prices in an active market. The changes in the fair value amounted to P26.5 million gain in 2018, P26.9 million gain in 2017 and P10.8 million loss in 2016 and are presented as part of Net Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI (AFS Financial Assets – 2017) in the consolidated statements of comprehensive income.

(Amounts in Philippine Pesos)

Prior to 2018, upon disposal of various AFS financial assets, the Group realized gains amounting to P22.2 million in 2017 and P11.9 million in 2016, these are included under Finance Costs and Other Charges or Finance and Other Income account, respectively, in the consolidated statements of comprehensive income (see Note 26). As a result of the disposal, the fair value gains and losses accumulated in OCI pertaining to the AFS Financial assets sold were recycled to profit or loss and are included in the amount of realized gain from disposal of AFS Financial assets.

There were no disposal of financial assets at FVOCI in 2018.

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

### *12.1 Breakdown of Carrying Values*

The details of investments in and advances to associates and other related parties and interest in joint ventures, which are carried at equity method, are presented below and in the succeeding pages.

| | Notes | 2018 | 2017 |
|---|---|---|---|
| **Investments of Megaworld in Associates:** | | | |
| Acquisition costs: | | | |
| SHDI | 12.2 | **P 1,089,666,735** | P 1,089,666,735 |
| NPI | | **734,396,528** | 734,396,528 |
| BWDC | | **199,212,026** | 199,212,026 |
| BNHGI | 12.3 | **109,216,973** | 109,216,973 |
| PTHDC | | **64,665,000** | 64,665,000 |
| PCMCI | | **-** | 877,776,746 |
| FERC | | **-** | 28,000,000 |
| FENI | | **-** | 10,000,003 |
| FESI | | **-** | 7,808,360 |
| FERSAI | | **-** | 4,000,000 |
| | | **2,197,157,262** | 3,124,742,371 |
| Accumulated share in net losses: | | | |
| Balance at beginning of year | | **( 305,826,514)** | ( 424,655,817) |
| Share in net profits for the year | | **92,307,592** | 118,829,303 |
| Write–off | | **( 44,899,245)** | - |
| Balance at end of year | | **( 258,418,167)** | ( 305,826,514) |
| Accumulated equity in other comprehensive income: | | | |
| Balance at beginning of year | | **44,685,164** | 10,768,669 |
| Share in other comprehensive income of associate | | **13,452,063** | 33,916,495 |
| Balance at end of year | | **58,137,227** | 44,685,164 |
| *Balance carried forward* | | **P 1,996,876,322** | P 2,863,601,021 |

| | Notes | 2018 | 2017 |
|---|---|---|---|
| *Balance brought forward* | | P 1,996,876,322 | P 2,863,601,021 |
| **Investment of EMP in BLC,** | | | |
| a joint venture – acquisition cost | 12.4 | 3,703,721,965 | 3,703,721,965 |
| Withdrawal | | ( 858,354,900) | ( 858,354,900) |
| Accumulated share in net profits: | | | |
| Balance at beginning of year | | 388,577,700 | 295,428,091 |
| Share in net profits for the year | | 198,909,795 | 154,101,850 |
| Dividend received during the year | | ( 155,247,168) | ( 60,952,241) |
| Balance at end of year | | 432,240,327 | 388,577,700 |
| | | 3,277,607,392 | 3,233,944,765 |
| **Investment of Travellers in FRTMI,** | | | |
| a joint venture – acquisition cost | | 10,000,000 | 10,000,000 |
| Accumulated share in net losses: | | | |
| Balance at beginning of year | | ( 771,158) | ( 538,345) |
| Share in net losses for the year | | ( 39,263) | ( 232,813) |
| Balance at end of year | | ( 810,421) | ( 771,158) |
| | | 9,189,579 | 9,228,842 |
| **Investment of FCI in FPARI,** | | | |
| an associate – acquisition cost | | 14,700,000 | 14,700,000 |
| | | 5,298,373,293 | 6,121,474,628 |
| **Advances to Associates and Other Related Parties** | 29.4 | 2,644,503,318 | 2,544,141,192 |
| | | P 7,942,876,611 | P 8,665,615,820 |

The total share in net profits amounts to P291.2 million, P272.7 million and P355.6 million for the years ended December 31, 2018, 2017 and 2016 respectively. These amounts are shown as Share in Net Profits of Associates and Joint Ventures – Net account in the consolidated statements of comprehensive income.

The carrying costs of Investments in Associates are lower than the book values of such investments in the investees' books; hence, management has assessed that recognition of impairment losses in 2018, 2017 and 2016 is not necessary.

### *12.2 SHDI*

The shares of stock of SHDI are listed in the PSE. In 2017, TDI acquired 235.0 million SHDI shares amounting to P235.0 million representing 10.44% ownership interest. Megaworld's effective ownership over SHDI increased to 45.67% as a result of TDI's acquisition of shares.

### *12.3 BNHGI*

In 2017 and 2016, FEPI sold portions of its ownership interest each year, reducing the Group's effective ownership over BNHGI to 8% and 17%, respectively. The Group recognized gain on these sales, which is the difference between the proceeds over the carrying amount of the Group's investment in this associate, amounting to P113.1 million and P82.5 million in 2017 and 2016, respectively, and presented under Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

The group maintained its ability to exercise significant influence over BNHGI despite the decrease in ownership.

### *12.4 BLC*

In 2017, the Group partially withdrew its investment in BLC. The amount withdrawn was used by the Group for its investment, representing 50% of the capital stock of DBLC (see Note 1.1).

### *12.5 Summarized Financial Information*

The aggregated amounts of assets, liabilities, revenues and net profit (loss) of the associates and joint ventures are as follows as at and for the years ended December 31, 2018 and 2017 (in thousands):

| | 2018 | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Revenues | Net Profit (Loss) |
| NPI | P 5,672,245 | P 1,317,006 | P 10 | (P 1,165) |
| BLC | 5,205,938 | 1,267,988 | 6,239,422 | 397,835 |
| BWDC | 2,405,653 | 919,092 | 241,488 | 150,106 |
| BNHGI | 1,800,339 | 196,755 | - | ( 136) |
| PTHDC | 1,135,955 | 1,009,473 | - | ( 763) |
| SHDI | 711,590 | 313,903 | 525,595 | 54,525 |
| FRTMI | 3,485 | 129 | 4 | ( 79) |
| | **P 16,935,205** | **P 5,204,346** | **P 7,006,519** | **P 600,323** |

| | 2017 | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Revenues | Net Profit (Loss) |
| NPI | P 5,673,410 | P 1,317,006 | P 10 | (P 97) |
| BLC | 4,460,318 | 1,253,479 | 2,686,510 | 308,204 |
| BWDC | 2,614,723 | 1,283,079 | 299,821 | 209,926 |
| PCMCI | 2,442,354 | 8,522 | 3 | ( 9,589) |
| BNHGI | 1,800,333 | 196,478 | - | ( 136) |
| PTHDC | 1,136,407 | 1,009,162 | 5 | ( 1,589) |
| SHDI | 707,312 | 364,150 | 535,512 | 61,730 |
| FERC | 277,875 | 209,509 | - | - |
| FERSAI | 157,909 | 173,014 | - | - |
| FENI | 98,511 | 93,113 | - | - |
| FESI | 61,571 | 16,234 | - | - |
| FRTMI | 3,459 | 638 | 17 | ( 466) |
| | P 19,434,182 | P 5,924,384 | P 3,521,878 | P 567,983 |

## 13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of property, plant and equipment at the beginning and end of the reporting periods are shown below.
[See Notes 2.9, 3.1(g) and 3.2(h)]

| | Land and Land Improvements | Buildings and Leasehold Improvements | Machinery and Equipment | Transportation Equipment | Condominium Units, Fixtures and Other Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2018** | | | | | | | |
| Cost | P 13,827,100,187 | P 61,147,681,571 | P 28,643,555,824 | P 1,503,903,069 | P 14,430,580,074 | P 31,509,507,398 | P 151,062,328,123 |
| Accumulated depreciation, amortization and impairment | ( 243,771,951 ) | ( 12,526,574,394 ) | ( 13,635,832,315 ) | ( 821,069,323 ) | ( 6,333,436,904 ) | - | ( 33,560,684,887 ) |
| Net carrying amount | **P 13,583,328,236** | **P 48,621,107,177** | **P 15,007,723,509** | **P 682,833,746** | **P 8,097,143,170** | **P 31,509,507,398** | **P 117,501,643,236** |
| December 31, 2017 | | | | | | | |
| Cost | P 13,258,156,917 | P 48,777,083,571 | P 23,173,692,253 | P 1,255,342,539 | P 11,721,288,150 | P 28,345,712,887 | P 126,531,276,317 |
| Accumulated depreciation, amortization and impairment | ( 210,347,851 ) | ( 10,172,440,363 ) | ( 11,938,706,307 ) | ( 696,565,906 ) | ( 5,486,731,263 ) | - | ( 28,504,791,690 ) |
| Net carrying amount | P 13,047,809,066 | P 38,604,643,208 | P 11,234,985,946 | P 558,776,633 | P 6,234,556,887 | P 28,345,712,887 | P 98,026,484,627 |
| January 1, 2017 | | | | | | | |
| Cost | P 12,582,510,927 | P 44,152,563,556 | P 19,843,643,000 | P 1,015,546,308 | P 9,554,335,481 | P 20,668,602,178 | P 107,817,201,450 |
| Accumulated depreciation, amortization and impairment | ( 183,255,383 ) | ( 8,479,481,389 ) | ( 10,645,276,674 ) | ( 594,039,740 ) | ( 4,921,477,189 ) | - | ( 24,823,530,375 ) |
| Net carrying amount | P 12,399,255,544 | P 35,673,082,167 | P 9,198,366,326 | P 421,506,568 | P 4,632,858,292 | P 20,668,602,178 | P 82,993,671,075 |

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, 2018, net of accumulated depreciation amortization and impairment | P 13,047,809,066 | P 38,604,643,208 | P 11,234,985,946 | P 558,776,633 | P 6,234,556,887 | P 28,345,712,887 | P 98,026,484,627 |
| Transfer from investment property | 188,327,685 | 3,995,657,527 | - | - | 779,754,000 | - | 4,963,739,212 |
| Additions | 400,611,838 | 1,736,357,067 | 3,567,034,502 | 305,532,305 | 1,921,481,657 | 12,054,594,344 | 19,985,611,713 |
| Disposals – net | - | ( 106,041,493 ) | ( 195,259,103 ) | ( 12,995,619 ) | ( 5,066,502 ) | ( 26,842,756 ) | ( 346,205,473 ) |
| Reclassifications – net | ( 19,996,253 ) | 6,476,513,167 | 2,372,336,312 | 18,588,239 | 70,991,204 | ( 8,863,957,077 ) | 54,475,592 |
| Reversal of impairment loss | - | 19,258,000 | - | - | - | - | 19,258,000 |
| Depreciation and amortization charges for the year | ( 33,424,100 ) | ( 2,105,280,299 ) | ( 1,971,374,148) | ( 187,067,812 ) | ( 904,574,076 ) | - | ( 5,201,720,435) |
| Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment | **P 13,583,328,236** | **P 48,621,107,177** | **P 15,007,723,509** | **P 682,833,746** | **P 8,097,143,170** | **P 31,509,507,398** | **P 117,501,643,236** |
| Balance at January 1, 2017, net of accumulated depreciation amortization and impairment | P 12,399,255,544 | P 35,673,082,167 | P 9,198,366,326 | P 421,506,568 | P 4,632,858,292 | P 20,668,602,178 | P 82,993,671,075 |
| Transfer from investment property | - | - | - | - | 1,619,168,429 | - | 1,619,168,429 |
| Transfer to investment property | - | - | - | - | ( 85,581,344 ) | - | ( 85,581,344 ) |
| Additions | 1,084,373,837 | 3,773,769,094 | 3,737,159,737 | 300,417,618 | 856,448,913 | 10,694,765,474 | 20,446,934,673 |
| Additions due to acquired subsidiaries | - | - | - | - | 5,255,192 | - | 5,255,192 |
| Disposals – net | ( 408,727,847 ) | ( 63,982,758 ) | ( 76,905,182 ) | ( 10,806,243 ) | ( 11,451,516 ) | ( 1,297,223,420 ) | ( 1,869,096,966 ) |
| Write-off of damaged assets | - | ( 377,467,784 ) | ( 260,327,124 ) | - | ( 14,809,416 ) | - | ( 652,604,324 ) |
| Reclassifications – net | - | 1,473,839,585 | 240,855,237 | | 5,736,523 | ( 1,720,431,345 ) | - |
| Reversal of impairment loss | - | 60,504,846 | - | - | - | - | 60,504,846 |
| Depreciation and amortization charges for the year | ( 27,092,468 ) | ( 1,935,101,942 ) | ( 1,604,163,048 ) | ( 152,341,310 ) | ( 773,068,186 ) | - | ( 4,491,766,954 ) |
| Balance at December 31, 2017, net of accumulated depreciation, amortization and impairment | P 13,047,809,066 | P 38,604,643,208 | P 11,234,985,946 | P 558,776,633 | P 6,234,556,887 | P 28,345,712,887 | P 98,026,484,627 |

Construction in progress includes accumulated costs incurred on the casino and hotel sites being constructed as part of Travellers' investment commitment in accordance with its Provisional License Agreement with PAGCOR [see Note 30.3(a)]. In 2018, Travellers has completed the construction of Hilton Manila. In 2017, the construction of RunWay Manila, a pedestrian link bridge that connects Ninoy Aquino International Airport Terminal (NAIA) 3 and Newport City, was completed (see Note 30.9). Accordingly, the respective accumulated costs incurred for these facilities were reclassified from Construction in progress to Buildings and leasehold improvements in 2018 and 2017.

Moreover, construction in progress also includes the accumulated costs incurred in the construction of new stores under GADC and distillery plant in Batangas. In 2018 and 2017, the corresponding costs of completed projects were transferred to specific property, plant and equipment accounts.

In 2018 and 2017, GADC's annual impairment testing of its stores resulted in recognition of gain on reversal of impairment losses amounting to P19.3 million and P60.5 million, respectively. In 2016, GADC recognized impairment losses of P166.5 million to write down to recoverable amount certain stores' property and equipment. Impairment losses are presented as Impairment of property, plant and equipment under Other Operating Expenses account in the 2016 consolidated statement of comprehensive income (see Note 25), while the gain on reversal of impairment losses are presented as part of Miscellaneous – Net under Finance and Other Income account in the 2018 and 2017 consolidated statements of comprehensive income (see Note 26). The value in use was computed using GADC's weighted average cost of capital of 12.2% in 2018 and 2017 and 15.5% in 2016.

The Group recognized net gains on disposal of various property, plant and equipment totaling P53.9 million and P115.1 million in 2018 and 2017, respectively, which are presented as part of Gain on disposal of PPE, investment properties and intangible assets – net under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26). In 2016, the Group recognized net losses on disposal of various property, plant and equipment amounting to P35.8 million, which is presented as Loss on disposal of PPE – net under Finance Costs and Other Charges account in the 2016 consolidated statement of comprehensive income (see Note 26).

In 2017, the Group wrote off certain property and equipment with carrying value of P652.6 million (see Note 30.9). This is presented as part of Losses from casualty, net of insurance claims under Finance Costs and Other Charges account in the 2017 consolidated statement of comprehensive income (see Note 26). There was no similar write-off in 2018.

The amount of depreciation is presented as part of Depreciation and amortization which is presented under Cost of Goods Sold, Cost of Services and Other Operating Expenses accounts (see Notes 24 and 25). In 2018, 2017 and 2016, depreciation expense amounting to P303.8 million, P272.9 million and P218.7 million, respectively, was capitalized to form part of the work-in-process inventory. Such capitalized amount represents depreciation expense on barrels and warehouse buildings wherein the maturing bulk stocks of whisky are held (see Note 8).

As of December 31, 2018, certain land and building with carrying values of P112.1 million and P9.5 million, respectively, are held as collateral by a local bank for a loan obtained by GADC in 2011[see Note 17(kk)].

## 14. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land, buildings and improvements which are held for investment purposes only, either to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of the reporting periods are shown below. [See Notes 2.10, 3.1(g) and 3.2(e)(h)]

| | Land and Land Improvements | Buildings and Improvements | Total |
|---|---|---|---|
| **December 31, 2018** | | | |
| Cost | P 26,682,755,078 | P 88,807,163,753 | P 115,489,918,831 |
| Accumulated depreciation | - | ( 10,854,385,090) | ( 10,854,385,090) |
| Net carrying amount | **P 26,682,755,078** | **P 77,952,778,663** | **P 104,635,533,741** |
| December 31, 2017 [As restated – see Note 2.1(c)] | | | |
| Cost | P 26,312,251,257 | P 79,886,816,349 | P 106,199,067,606 |
| Accumulated depreciation | - | ( 8,970,240,657) | ( 8,970,240,657) |
| Net carrying amount | P 26,312,251,257 | P 70,916,575,692 | P 97,228,826,949 |
| January 1, 2017 [As restated – see Note 2.1(c)] | | | |
| Cost | P 23,095,160,162 | P 67,390,063,158 | P 90,485,223,320 |
| Accumulated depreciation | - | ( 7,424,181,679) | ( 7,424,181,679) |
| Net carrying amount | P 23,095,160,162 | P 59,965,881,479 | P 83,061,041,641 |

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

| | Land and Land Improvements | Buildings and Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2018, net of accumulated depreciation as previously reported | P 9,946,455,829 | P 63,053,011,232 | P 72,999,467,061 |
| Effect of prior period reclassification | 16,365,795,428 | 7,863,564,460 | 24,229,359,888 |
| As restated | 26,312,251,257 | 70,916,575,692 | 97,228,826,949 |
| Transfer to property and equipment | ( 187,391,998) | ( 4,776,347,214) | ( 4,963,739,212) |
| Additions | 557,895,819 | 13,722,756,858 | 14,280,652,677 |
| Disposals | - | ( 2,464,208) | ( 2,464,208) |
| Depreciation charges for the year | - | ( 1,907,742,465) | ( 1,907,742,465) |
| Balance at December 31, 2018, net of accumulated depreciation | **P 26,682,755,078** | **P 77,952,778,663** | **P 104,635,533,741** |

(Amounts in Philippine Pesos)

| | Land and Land Improvements | Buildings and Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2017, net of accumulated depreciation as previously reported | P 10,044,499,117 | P 52,262,270,034 | P 62,306,769,151 |
| Effect of prior period reclassification | 13,050,661,045 | 7,703,611,445 | 20,754,272,490 |
| As restated | 23,095,160,162 | 59,965,881,479 | 83,061,041,641 |
| Transfer to property and equipment | - | ( 1,619,168,429) | ( 1,619,168,429) |
| Transfer from property, plant and equipment | - | 85,581,344 | 85,581,344 |
| Additions due to acquired subsidiaries | 2,860,769,322 | - | 2,860,769,322 |
| Additions | 525,567,336 | 14,030,340,276 | 14,555,907,612 |
| Disposals | ( 169,245,563) | - | ( 169,245,563) |
| Depreciation charges for the year | - | ( 1,546,058,978) | ( 1,546,058,978) |
| Balance at December 31, 2017, net of accumulated depreciation | P 26,312,251,257 | P 70,916,575,692 | P 97,228,826,949 |

Rental income earned from the investment property amounted to P14.8 billion, P12.4 billion and P10.5 billion for the years ended December 31, 2018, 2017 and 2016, respectively, and shown as Rental income under Rendering of Services account in the consolidated statements of comprehensive income (see Note 23). The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property that generates income amounted to P661.0 million, P568.0 million and P563.0 million in 2018, 2017 and 2016, respectively, are presented as part of Cost of Services account in the consolidated statements of comprehensive income (see Note 24). The direct operating costs, which mostly pertain to real property taxes, of investment properties that did not generate rental income in 2018, 2017 and 2016 amounted to P35.5 million, P23.3 million, and P25.1 million, respectively. The operating lease commitments of the Group as a lessor are fully disclosed in Note 30.1.

In 2018 and 2017, the Group changed its intention on the use of certain properties from being held for lease to being used for administrative purpose. The Group occupied the properties in those years and the carrying amounts of P5.0 billion and P1.6 billion, respectively, were reclassified from Investment Properties account to Property, Plant and Equipment account.

In 2017, GADC sold parcels of land to a related party with a total carrying amount of P148.7 million for P149.4 million (see Note 29). Gain from sale of land amounted to P0.7 million and is presented as part of Gain on disposal of PPE, investment properties and intangible assets – net under Finance and Other Income account in the 2017 consolidated statement of comprehensive income (see Note 26).

In 2016, certain projects under Property Development Costs were reclassified to investment properties due to change in management's intention. At the date of reclassification, the properties were fully constructed and started earning rental income.

Depreciation charges are presented as part of Depreciation and amortization under Cost of Services account in the consolidated statements of comprehensive income (see Note 24).

As at December 31, 2018 and 2017, none of the Group's investment properties are held as collateral.

The fair market values of these properties amounted to P352.5 billion and P310.1 billion as at December 31, 2018 and 2017, respectively. These are estimated either by reference to current prices for similar properties or by calculation of the present values of the estimated cash inflows anticipated until the end of the life of the investment property using discount rates that reflect the risks and uncertainty in cash flows (see Note 33.4).

## 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 Notes 2.12 and 2.20).

| | Goodwill | Trademarks | Leasehold Rights | Computer Software | Franchise Fee | Total |
|---|---|---|---|---|---|---|
| December 31, 2018 | | | | | | |
| Cost | P 20,090,166,886 | P21,536,106,941 | P 1,193,783,886 | P 46,980,007 | P 115,710,107 | P42,982,747,827 |
| Translation adjustment | 111,415,506 | 226,808,712 | - | - | - | 338,224,218 |
| Accumulated amortization | - | ( 1,021,726,652) | ( 293,327,766) | ( 35,996,522) | ( 11,340,504) | ( 1,362,391,444) |
| Net carrying amount | **P 20,201,582,392** | **P20,741,189,001** | **P 900,456,120** | **P 10,983,485** | **P 104,369,603** | **P41,958,580,601** |
| December 31, 2017 | | | | | | |
| Cost | P 19,848,347,372 | P20,889,925,571 | P 1,193,783,886 | P 48,075,687 | P 55,649,677 | P42,035,782,193 |
| Translation adjustment | 241,819,514 | 646,181,370 | - | - | - | 888,000,884 |
| Accumulated amortization | - | ( 1,019,486,261) | ( 234,990,795) | ( 29,564,926) | ( 2,081,824) | ( 1,286,123,806) |
| Net carrying amount | P 20,090,166,886 | P20,516,620,680 | P 958,793,091 | P 18,510,761 | P 53,567,853 | P41,637,659,271 |
| January 1, 2017 | | | | | | |
| Cost | P 19,848,347,372 | P17,663,845,521 | P 1,194,058,929 | P 29,758,358 | P - | P38,736,010,180 |
| Accumulated amortization | - | ( 1,008,286,323) | ( 176,008,250) | ( 27,501,378) | - | ( 1,211,795,951) |
| Net carrying amount | P 19,848,347,372 | P16,655,559,198 | P 1,018,050,679 | P 2,256,980 | P - | P37,524,214,229 |

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

| | Goodwill | Trademarks | Leasehold Rights | Computer Software | Franchise Fee | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2018, net of accumulated amortization | P 20,090,166,886 | P20,516,620,680 | P 958,793,091 | P 18,150,761 | P 53,567,853 | P41,637,659,271 |
| Additions | - | - | - | - | 60,060,430 | 60,060,430 |
| Disposals | - | - | - | ( 25,000) | - | ( 25,000) |
| Translation adjustment | 111,415,506 | 226,808,712 | - | - | - | 338,224,218 |
| Amortization for the year | - | ( 2,240,391) | ( 58,336,971) | ( 7,502,276) | ( 9,258,680) | ( 77,338,318) |
| Balance at December 31, 2018, net of accumulated amortization | **P 20,201,582,392** | **P 20,741,189,001** | **P 900,456,120** | **P 10,983,485** | **P 104,369,603** | **P41,958,580,601** |
| Balance at January 1, 2017, net of accumulated amortization | P 19,848,347,372 | P16,655,559,198 | P 1,018,050,679 | P 2,256,980 | P - | P37,524,214,229 |
| Additions | - | 3,226,080,050 | - | 18,317,329 | 55,649,677 | 3,300,047,056 |
| Translation adjustment | 241,819,514 | 646,181,370 | - | - | - | 888,000,884 |
| Amortization for the year | - | ( 11,199,938) | ( 59,257,588) | ( 2,063,548) | ( 2,081,824) | ( 74,602,898) |
| Balance at December 31, 2017, net of accumulated amortization | P 20,090,166,886 | P 20,516,620,680 | P 958,793,091 | P 18,510,761 | P 53,567,853 | P41,637,659,271 |

Goodwill primarily relates to growth expectations arising from operational efficiencies and synergies that will be achieved by combining the resources, skills and expertise of the individual components of the Group and by improving the Group's market reach and industry visibility both in the local and global market.

Trademarks pertain to acquired and new trademarks registered under the Group for the manufacture and sale of distilled spirits, which include brand names "Emperador Brandy", "Generoso Brandy", "The BaR" and "Emperador Deluxe."

In 2014, from the Group's acquisition of WMG Group, the trademarks "Jura" and "The Dalmore" were recorded for a total of P9.6 billion. In 2016, the Group's acquisition of Bodegas Fundador in Jerez resulted in the recognition of four trademarks amounting to P6.7 billion, namely "Fundador Brandy", "Terry Centenario Brandy", "Tres Cepas Brandy", and "Harveys" sherry wine [see Note 1.2(d)]. In 2017, the Group acquired various trademarks amounting to P3.2 billion which included "Domecq" brands of Mexican and Spanish brandies including "Presidente", "Azteca de Oro" and "Don Pedro"; "Garvey Brandy"; "Fino San Patricio"; and other well-known sherries and liquors brands [see Note 1.2(c)]. These trademarks have indefinite useful lives; hence, no amortization was recognized for these brands for the periods presented.

The Group monitors goodwill and trademarks with indefinite useful lives on the cash generating units to which these assets were allocated [see Notes 2.20 and 3.2(i)]. An analysis of the value-in-use and the amount of intangible assets allocated to such groups of cash generating units is presented as follows (amounts in billions of pesos):

| | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Allocated Intangible Assets** | **Value - in - Use** | **Terminal Growth Rate** | **Discount Rate** | Allocated Intangible Assets | Value - in - Use | Terminal Growth Rate | Discount Rate |
| **Goodwill:** | | | | | | | | |
| Megaworld | **P 9.05** | **P 247.66** | **1.00%** | **9,56%** | P 9.05 | P 220.35 | 1.00% | 9.87% |
| GADC | **1.25** | **19.58** | **1.00%** | **9.45%** | 1.25 | 19.12 | 1.00% | 9.41% |
| WMG[2] | **7.79** | **12.78** | **1.90%** | **9.75%** | 7.70 | 12.24 | 3.00% | 12.30% |
| GES[2] | **1.70** | **10.95** | **1.60%** | **7.51%** | 1.68 | 4.46 | 1.60% | 7.51% |
| **Trademarks with indefinite lives:** | | | | | | | | |
| WMG brands[2] | **9.63** | **44.27** | **1.90%** | **9.75%** | 9.64 | 22.50 | 3.00% | 12.30% |
| Fundador and other brands[2] | **7.73** | **17.97** | **1.60%** | **8.14%** | 7.64 | 17.76 | 1.60% | 8.14% |
| Domecq brands[1,2] | **3.00** | **-** | **-** | **-** | 2.85 | - | - | - |
| Grupo Garvey brands[1,2] | **0.38** | **-** | **-** | **-** | 0.37 | - | - | - |

1 *Management believes that the carrying values of Domecq and Grupo Garvey brands as of December 31, 2018 and 2017 and approximate their value-in-use as of that date since these were only acquired in 2017 and 2016, respectively.*

2 *Amounts are translated at closing rate as of the end of the reporting periods in accordance with PAS 21, The Effects of Changes in Foreign Exchange Rates.*

The value-in-use of each group of cash generating unit was determined using cash flow projections ranging from 3 to 5 years and extrapolating cash flows beyond the projection period using a steady terminal growth rate. The discount rates and growth rates are the key assumptions used by management in determining the value-in-use of the cash generating units. Based on management's analysis, no impairment is required to be recognized on goodwill and trademarks with indefinite useful lives. Management has also determined that a reasonably possible change in the key assumptions used would not cause the carrying value of the cash generating units to exceed their respective value-in-use.

The amortization of trademarks with finite useful lives amounted to P2.2 million in 2018, P11.2 million in 2017 and P102.9 million in 2016, and are shown as part of Depreciation and amortization under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

The remaining useful lives, as at December 31, of the trademarks with finite useful lives are as follows: [See Note 3.2(h)]

| | 2018 | 2017 |
|---|---|---|
| Emperador Deluxe | **4.5 years** | 5.5 years |
| The BaR | - | 6 months |

In 2014, WCRWI entered into a lease agreement with Nayong Pilipino Foundation (NPF) covering certain parcels of land located at the Manila Bay Reclamation Area in Parañaque City for a period of 25 years, renewable for another 25 years under the terms mutually acceptable to the parties. Upon effectivity of the lease agreement, WCRWI has paid NPF P1.0 billion (presented under Leasehold rights) covering the first 20 years of the lease. The amount of amortization charges amounted to P50.0 million in 2018, 2017 and 2016, which is presented as part of Depreciation and amortization under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

Based on the Group's assessment, no impairment loss is required to be recognized on the carrying value of the Group's trademarks as the products that carry such brands are fast moving consumer products. Further, no impairment loss is required to be recognized on the carrying value of the other intangible assets (goodwill, leasehold rights, computer software and franchise fee) in 2018, 2017 and 2016 (see Note 2.20).

As at December 31, 2018 and 2017, the Group has no contractual commitments for the acquisition of any additional trademarks, leasehold rights, computer software and franchise fee.



## 16. TRADE AND OTHER PAYABLES

The breakdown of this account follows: (See Note 2.13)

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| Trade payables | 29.1, 29.2 | **P 29,022,052,368** | P 21,581,628,867 |
| Accrued expenses | 29.3, 30.5(e) | **10,714,233,965** | 9,232,780,171 |
| Retention payable | | **2,959,988,922** | 2,837,734,011 |
| Accrued interest | 17, 18 | **1,109,545,945** | 1,061,463,577 |
| Due to related parties | 29.5 | **412,878,940** | 487,878,940 |
| Gaming license fees payable | 28.3 | **458,077,948** | 331,622,805 |
| Slot jackpot liability | | **341,415,495** | 221,202,836 |
| Unredeemed gaming points | 3.2(l) | **258,517,777** | 239,463,085 |
| Output VAT payable | | **257,093,560** | 616,174,653 |
| Withholding tax payable | | **238,845,386** | 301,688,160 |
| Others | 29.7 | **3,409,231,651** | 2,207,253,699 |
| | | **P 49,181,881,957** | P 39,118,890,804 |

*(Amounts in Philippine Pesos)*

Trade payables significantly comprise of obligations to subcontractors and suppliers of construction materials for the Group's projects and suppliers of raw materials. These also include unredeemed gaming chips determined as the difference between total gaming chips placed in service and the actual inventory of gaming chips under control or in custody, casino deposit certificates from patrons and other gaming-related liabilities.

Accrued expenses include accruals for salaries and other benefits, utilities, local and overseas travel, training and recruitment, dues and subscriptions, advertising, rentals, marketing and other operating expenses of the Group.

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

The unredeemed gaming points liability represents the estimated costs of unredeemed casino gaming points issued, which are redeemable for complimentary goods or services of the Group [see Notes 2.16 and 3.2(l)].

Others include unearned rental, payables to government and other regulatory agencies, and various unreleased checks which are reverted to liability.

## 17. INTEREST-BEARING LOANS

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

| | **2018** | 2017 |
|---|---|---|
| Current: | | |
| Local | **P 19,751,608,030** | P 29,039,149,317 |
| Foreign | **4,778,408,668** | 3,661,326,840 |
| | **24,530,016,698** | 32,700,476,157 |
| Non-current: | | |
| Local | **79,364,909,054** | 46,168,893,532 |
| Foreign | **63,507,027,552** | 62,104,193,498 |
| | **142,871,936,606** | 108,273,087,030 |
| | **P 167,401,953,304** | P 140,973,563,187 |

The summarized terms and conditions of each availed loan as at December 31, 2018 and 2017 as follows:

| Outstanding Principal Balance 2018 | Outstanding Principal Balance 2017 | Explanatory Notes | Interest Rate | Security | Maturity date |
|---|---|---|---|---|---|
| ***Megaworld*** | | | | | |
| **P 5,416,666,667** | P 7,083,333,333 | (a) | Fixed at 5.6286% | Unsecured | 2022 |
| **5,212,972,118** | 4,936,029,267 | (b) | Floating rate on a 3-month LIBOR plus a certain spread | Unsecured | 2022 |
| **4,967,438,738** | - | (c) | 5-day average reference plus a certain spread | Unsecured | 2021 |
| **4,963,196,715** | - | (d) | Fixed at 7.8488% | Unsecured | 2023 |
| **4,963,177,050** | - | (e) | Floating rate plus a certain spread | Unsecured | 2021 |
| **3,750,000,000** | 5,000,000,000 | (f) | Fixed at 6.4274% | Unsecured | 2021 |
| **3,076,923,077** | 3,846,153,846 | (g) | Fixed at 5.25% | Unsecured | 2022 |
| **2,500,000,000** | 3,750,000,000 | (h) | Fixed at 5.035% | Unsecured | 2020 |
| **2,307,692,307** | 3,076,923,077 | (i) | Fixed at 5.3812% | Unsecured | 2021 |
| **1,833,333,333** | 2,000,000,000 | (j) | Fixed at 5.2632% | Unsecured | 2021 |
| **P 38,991,400,005** | P 29,692,439,523 | | | | |
| ***EELHI*** | | | | | |
| **P 1,250,000,000** | P 1,583,333,333 | (k) | Floating from 3.2% to 3.5%, and fixed 5.4% | Unsecured | 2022-2023 |
| **800,000,000** | - | (l) | Floating rate of 4.5% | Unsecured | 2021 |
| **-** | 400,000,000 | (m) | Floating rate of 4.5% subject to repricing | Unsecured | 2018 |
| **7,616,392** | 18,079,643 | (n) | Fixed at range of 7.0% and 9.0% | Secured | Upon collection of assigned receivables |
| **P 2,057,616,392** | P 2,001,412,976 | | | | |
| ***LFI*** | | | | | |
| **P 250,000,000** | P 375,000,000 | (o) | Fixed at 5.0% subject to repricing | Unsecured | 2020 |
| ***SPI*** | | | | | |
| **P 2,200,000,000** | P - | (p) | Floating rate of 4.5% subject to repricing every 30 to 180 days | Unsecured | 2023 |
| **900,000,000** | 900,000,000 | (q) | 3.50% subject to repricing | Unsecured | 2021-2022 |
| **875,000,000** | 1,375,000,000 | (r) | 3.15% to 5.15% subject to repricing | Unsecured | 2020 |
| **300,000,000** | - | (s) | Floating rate of 4.5% subject to repricing every 30 to 180 days | Unsecured | 2021 |
| **-** | 169,230,769 | (t) | 5.25% subject to repricing | Unsecured | 2020 |
| **25,312,500** | 33,750,000 | (u) | Fixed at range of 5.50% to 5.75% | Unsecured | 2019 |
| **100,000,000** | - | (u) | Floating | Unsecured | 2019 |
| **880,510,493** | 934,037,523 | (v) | Variable prevailing market rate 5.5% to 15.0% | Secured | Upon collection of related assigned receivables |
| **P 5,280,822,993** | P 3,412,018,292 | | | | |

(Amounts in Philippine Pesos)

| Outstanding Principal Balance 2018 | 2017 | Explanatory Notes | Interest Rate | Security | Maturity date |
|---|---|---|---|---|---|
| ***GERI*** | | | | | |
| **P 2,000,000,000** | P 2,000,000,000 | (w) | Floating rate plus a spread of 2.5% | Unsecured | 2022 |
| **1,250,000,000** | 1,750,000,000 | (x) | Fixed based on 5-year PDST-R2 plus 1.3% spread at 3% floor | Unsecured | 2021 |
| **692,307,693** | 1,153,846,154 | (y) | Fixed based on 5-year PDST-R2 fixed based on plus 1.3% spread at 5% floor | Unsecured | 2020 |
| **P 3,942,307,693** | P 4,903,846,154 | | | | |
| ***OFPI*** | | | | | |
| **P 68,464,667** | P 152,083,333 | (z) | Fixed at 5.035% | Unsecured | 2020 |
| ***SWEC*** | | | | | |
| **P 50,000,000** | P - | (aa) | Fixed at 4.2% | Unsecured | 2019 |
| ***EIL*** | | | | | |
| **P 22,310,991,675** | P 22,055,700,000 | (bb) | 1.55% plus EURIBOR | Unsecured | 2021 |
| ***EDI*** | | | | | |
| **P 562,500,000** | P 750,000,000 | (cc) | Fixed at 5.245% | Unsecured | 2021 |
| **562,500,000** | 750,000,000 | (cc) | Fixed at 5.113% | Unsecured | 2021 |
| **500,000,000** | - | (dd) | Fixed at 5.9641% | Unsecured | 2021 |
| **375,000,000** | 500,000,000 | (cc) | Fixed at 5% | Unsecured | 2021 |
| **350,000,000** | - | (dd) | Fixed at 6.1277% | Unsecured | 2021 |
| **P 2,350,000,000** | P 2,000,000,000 | | | | |
| ***WMG*** | | | | | |
| **P 4,051,446,785** | P 3,580,796,290 | (ee) | 0.75% over LIBOR | Secured | 2019 |
| ***DBLC*** | | | | | |
| **P 2,970,252,180** | P 2,980,500,000 | (ff) | Fixed at 1.6% | Unsecured | 2022 |
| ***GES*** | | | | | |
| **P 2,332,109,588** | P 2,305,424,600 | (gg) | Fixed at 1.55% | Unsecured | 2027 |
| ***GADC*** | | | | | |
| **P 434,761,905** | P 592,857,144 | (hh) | Fixed at 4.18% and 5.17% | Unsecured | 2021 |
| **190,476,190** | 380,952,380 | (ii) | 3.85% to 5.15% | Unsecured | 2019 |
| **136,190,476** | 185,714,287 | (jj) | Fixed at 4.71% | Unsecured | 2021 |
| **51,428,573** | 68,571,428 | (kk) | Fixed at 5% | Secured | 2021 |
| **45,000,000** | - | (ll) | 6.50% and 6.70% | Unsecured | 2019 |
| **P 857,857,144** | P 1,228,095,239 | | | | |

| Outstanding Principal Balance 2018 | 2017 | Explanatory Notes | Interest Rate | Security | Maturity date |
|---|---|---|---|---|---|
| ***Travellers*** | | | | | |
| **P 14,905,307,686** | P - | (mm) | Fixed at 7.0% | Unsecured | 2025 |
| **8,432,216,857** | - | (mm) | Fixed at 8.6% for two years and at 9% in the next five years | Unsecured | 2025 |
| **6,976,376,422** | 6,967,063,347 | (nn) | Floating rate in 2017; fixed at 6.6% in 2018 | Unsecured | 2024 |
| **4,981,775,548** | 4,976,083,985 | (oo) | Floating rate subject to repricing in 2017; in 2018, fixed at 7.3%, subject to 5.3% floor both plus 1.15% spread | Unsecured | 2024 |
| **3,972,371,677** | - | (pp) | Floating rate subject to repricing plus a spread of 1.0% | Unsecured | 2023 |
| **1,500,000,000** | - | (oo) | Fixed at 5.0% | Unsecured | 2019 |
| **1,000,000,000** | - | (oo) | Fixed at 4.5% | Unsecured | 2019 |
| **1,000,000,000** | - | (qq) | Fixed at 4.8% | Unsecured | 2019 |
| **1,000,000,000** | - | (oo) | Fixed at 6.5% | Unsecured | 2019 |
| **1,000,000,000** | - | (oo) | Fixed at 6.5% | Unsecured | 2019 |
| **500,000,000** | - | (oo) | Fixed at 4.9% | Unsecured | 2019 |
| **-** | 13,000,000,000 | (mm) | Fixed at 4.0% | Unsecured | 2018 |
| **-** | 2,000,000,000 | (qq) | Fixed at 3.8% | Unsecured | 2018 |
| **-** | 1,500,000,000 | (oo) | Fixed at 4.0% | Unsecured | 2018 |
| **-** | 1,000,000,000 | (qq) | Fixed at 4.0% | Unsecured | 2018 |
| **-** | 1,000,000,000 | (oo) | Fixed at 4.0% | Unsecured | 2018 |
| **-** | 1,000,000,000 | (pp) | Fixed at 3.9% | Unsecured | 2018 |
| **P 45,268,048,190** | P 31,443,147,332 | | | | |
| ***AG Cayman*** | | | | | |
| **P 26,163,260,088** | P 24,894,147,905 | (rr) | Fixed at 4.1456% | Unsecured | 2022 |
| **5,232,456,073** | 4,978,836,085 | (rr) | Fixed at 3.9% | Unsecured | 2022 |
| **5,224,919,831** | 4,970,115,458 | (rr) | Fixed at 3.8330% | Unsecured | 2022 |
| **P 36,620,635,992** | P 34,843,099,448 | | | | |
| **P 167,401,953,304** | P 140,973,563,187 | | | | |

Explanatory Notes:

(a) Seven-year loan obtained by Megaworld from a local bank in two tranches in March and June 2015 to fund various real estate projects and retire currently maturing obligations. Quarterly principal repayment on this seven-year loan commenced in June 2016 and interest is paid quarterly.

(b) Five-year foreign-currency denominated loan obtained by Megaworld from a local bank in December 2017 amounting to U.S. $98.87 million payable quarterly with a grace period of one year upon availment. The principal repayment shall commence in March 2019 and a floating interest is paid quarterly. Megaworld entered into a cross-currency swap transaction to hedge the U.S. dollar exposure of the loans (see Note 20).

(c) Five-year loan obtained by Megaworld from a local bank in December 2018. The principal repayment is quarterly after two years from availment. Interest is payable quarterly.

(d) Three-year loan obtained by Megaworld from a local bank in December 2018. The principal repayments shall commence on September 2019 and interest is paid quarterly.

(e) Three-year loan obtained by Megaworld from a local bank in July 2018. The principal is payable upon maturity while interest is payable quarterly and commenced in October 2018.

(f) Five-year loan obtained by Megaworld from a local bank in November 2016. The principal repayments commenced in February 2018 and interest is paid quarterly.

(g) Seven-year loan obtained by Megaworld from a local bank in November 2015. The principal repayments commenced in November 2016 and interest is payable semi-annually.

(h) Five-year loan obtained by Megaworld from a local bank in December 2015. The principal repayments commenced in March 2017 and interest is paid quarterly.

(i) Seven-year loan obtained by Megaworld from a local bank in 2014. The principal repayments commenced in August 2015 while interest is paid semi-annually.

(j) Five-year loan obtained by Megaworld in August 2016 from a local bank with a grace period of two years from availment. The principal repayment commenced in November 2018 and interest is paid quarterly.

(k) Seven-year loan obtained by EELHI in 2015 from a local bank released in three tranches from 2015-2016. Proceeds were used to fund development of various real estate projects.

(l) Three-year loan obtained by EELHI from a local bank in February 2018 where the proceeds of the loan were used to fund various real estate projects. The principal is payable upon maturity and interest is payable monthly in arrears.

(m) Loan obtained by EELHI in December 2017 from a local bank used to fund the development of various real estate projects. Principal is payable upon maturity and interest is payable monthly in arrears. Both principal and interest were fully settled in 2018.

(n) Loans obtained by EELHI from local banks by assigning trade receivables on a with recourse basis (see Note 6). The loans are secured by certain residential and condominium units for sale with carrying value of P117.7 million and P110.7 million as of December 31, 2018 and 2017, respectively (see Note 8).

(o) Five-year loan obtained by LFI from a local bank in December 2015. Quarterly installments began in March 2017, plus interest.

(p) Five-year loan obtained by SPI from a local bank in 2018 to fund the acquisition of STLI. Principal repayments is payable on a monthly basis after a grace period of three years from the date of availment.

(q) Five-year loan obtained by SPI from a local bank in 2017 and 2016, payable on a monthly basis after a grace period of two years from the date of availment. The loan bears floating interest which is subject to repricing every 30-180 days.

(r) Five-year loan obtained by SPI from a local bank in 2015, payable in monthly installments after two years from drawdown.

(s) Three-year loan obtained by SPI from a local bank in 2018. The principal repayment is payable on a monthly basis after a grace period of two years from date of availment.

(t) Five-year loan obtained by SPI from a local bank in 2015. Quarterly repayment of the loan began in 2017. In 2018, SPI pre-terminated the loan.

(u) Outstanding balance of short-term loans availed by SPI from local banks in 2017 and 2016. In 2018, SPI obtained another short-term loan from a local bank payable in six months from date of availment.

(v) Loans obtained by SPI from a local bank in 2015 through assignment of trade receivables (see Note 6). The loans are being paid as the receivables are collected.

(w) Five-year loan availed by GERI in 2017 from a local bank payable quarterly commencing on the beginning of the fifth quarter from the initial drawdown date.

(x) Five-year loan obtained by GERI in 2016 from a local bank, with a grace period of two years on principal installment. The loan is payable in quarterly installments of P125.0 million commencing on the 9th quarter from the date of initial drawdown and balloon payment at the end of five years.

(y) Five-year loan obtained by GERI in 2015 from a local bank payable quarterly commencing on the 9th quarter from the date of initial drawdown.

(z) Five-year loan obtained by OFPI from a local bank in 2015.

(aa) In 2018, SWEC renewed its credit line facility with a local bank amounting to P150.0 million, for working capital purposes. In December 2018, SWEC's initial loan drawdown amounted to P50.0 million, payable within 180 days.

(bb) Five-year foreign-currency denominated loan obtained by EIL in 2016 from international financial institutions to refinance its maturing loan.

(cc) Five-year loan obtained by EDI in three tranches totaling P2.0 billion in 2016 from a local bank. Principal repayment is in 12 equal quarterly payments starting on the ninth quarter after the initial drawdown.

(dd) In 2018, EDI obtained additional unsecured, interest-bearing loans at a total amount of P850.0 million from a local bank for working capital purposes. The loans shall be payable in 12 equal quarterly amortizations commencing on the beginning of the ninth quarter from the initial drawdown. The principal repayments are expected to commence on April 10, 2019.

(ee) Foreign-currency denominated loan obtained by WMG from a foreign bank. The loan is secured by way of floating charge against WMG's inventories (see Note 8).

(ff) Foreign-currency-denominated loans of DBLC totaling P3.0 billion used in relation to asset acquisition in 2017.

(gg) Five-year foreign-currency denominated loan obtained by GES in 2017 from certain financial institution for asset acquisition. The loan has two-year grace period with principal repayment starting on the 24th month after the date of the loan.

(hh) Loans obtained by GADC from local banks in 2014 payable in 21 quarterly principal payments commencing in September 2016.

(ii) Loans drawn by GADC from a P1.0 billion local bank credit facility in 2012 and 2013. Principal is payable in 21 quarterly instalments starting December 2014 up to September 2019.

(jj) Loan obtained by GADC from a local bank in June 2015 in relation to the P500.0 million loan facility. Principal repayments began in June 2016 for 21 quarters.

(kk) Ten-year loan granted to GADC in December 2011 by a local bank for the purchase of land and building from the latter, payable monthly starting on the third year of the loan until December 2021. The acquired land and building served as collateral on the loan (see Note 13).

(ll) Short-term loans obtained by GADC from a local bank in 2018 payable in 6 equal monthly installments.

(mm) Loans drawn by Travellers from approved credit lines with a local bank of up to P10.0 billion and P21.0 billion in 2018 and 2017, respectively. Travellers made drawdowns amounting to P8.5 billion in 2018 and P13.0 billion in 2017 from such credit lines. In 2018, the P13.0 billion short-term loan was converted to a long-term loan on its maturity date and was increased to P15.0 billion. The long-term loans are payable in seven years.

(nn) Seven-year loans obtained by Travellers in 2017 from the credit line agreements with certain local banks for the support of its expansion projects. Principal payments shall be made in lump sum upon maturity and interest is payable quarterly.

(oo) In 2017, Travellers entered into various credit line agreements with a total maximum loanable amount of P11.5 billion from a local bank. As of December 31, 2017, drawdowns totaling to P8.0 billion were made related to these facilities. In 2018 and 2017, Travellers settled portions of these loans. The remaining outstanding balance as of December 31, 2018 and 2017 related to these drawdowns amounted to P5.0 billion.

Also with the same bank, Travellers obtained other various short-term loans in 2018 and 2017. As of December 31, 2018 and 2017, the outstanding omnibus loans from this bank amounted to P5.0 billion and P2.5 billion, respectively.

(pp) In 2018, the Travellers obtained a credit line of P4.0 billion from a local bank. Travellers loaned the maximum amount from such facility during the year and remains outstanding as of December 31, 2018. In 2017, Travellers obtained an omnibus loan from the same bank amounting to P1.0 billion, which was settled in 2018.

(qq) Omnibus loans obtained by Travellers from other local banks in 2018 and 2017, of which, the unpaid balance amounted to P1.0 billion and P3.0 billion as of December 31, 2018 and 2017, respectively.

(rr) Five-year U.S. dollar-denominated loans obtained by AG Cayman in 2017 from a foreign bank totaling to US$700.0 million with interest payable semi-annually in arrears. The loans are unconditionally and irrevocably guaranteed by AGI.

As at December 31, 2018 and 2017, the Group has complied with related loan covenants, including maintaining certain financial ratios, at the reporting dates.

Total interest expense attributable to these loans, including amortization of capitalized transaction costs, amounted to P2,875.8 million, P2,065.1 million and P778.3 million for the years ended December 31, 2018, 2017 and 2016, respectively, and are presented as part of Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2018, 2017 and 2016 are included as part of additions to Construction in progress under Property, Plant and Equipment account (see Note 13), Investment Property (see Note 14) and Real estate for sale under Inventories account (see Note 8). The amounts of outstanding accrued interest as at December 31, 2018 and 2017 are presented as part of Accrued interest under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).



## 18. BONDS PAYABLE

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

| | **2018** | 2017 |
|---|---|---|
| Current – | | |
| Megaworld | **P -** | P 9,976,270,876 |
| Non-current – | | |
| Megaworld | **25,102,042,365** | 24,388,714,176 |
| | **P 25,102,042,365** | P 34,364,985,052 |

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

| Face Amount | Outstanding Principal Balance **2018** | Outstanding Principal Balance 2017 | Explanatory Notes | Interest Rate | Nature | Maturity |
|---|---|---|---|---|---|---|
| $250.0 million | **P 13.1 billion** | P 12.4 billion | (a) | Fixed at 4.25% | Unsecured | 2023 |
| P 12.0 billion | **12.0 billion** | 11.9 billion | (b) | Fixed at 5.3535% | Unsecured | 2024 |
| $200.0 million | **-** | 10.1 billion | (c) | Fixed at 6.75% | Unsecured | 2018 |
| | **P 25.1 billion** | P 34.4 billion | | | | |

*(Amounts in Philippine Pesos)*

(a) On April 17, 2013, Megaworld issued 10-year term bonds with semi-annual interest payments every April 17 and October 17. The proceeds of the bond issuance are being used by Megaworld for general corporate purposes.

(b) On March 28, 2017, Megaworld issued seven-year term bonds totaling P12.0 billion inclusive of P4.0 billion oversubscription. The bond carries a coupon rate of 5.3535% per annum and interest is payable semi-annually in arrears every March 28 and September 28. The bonds shall mature on March 28, 2024.

(c) On April 15, 2011, Megaworld issued seven-year term bonds with accrued interest semi-annually in arrears every April 15 and October 15 each year. The proceeds received from these bonds are being used by Megaworld to finance its capital expenditures for its real estate projects. In April 2018, the bonds were fully settled at maturity date.

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

Total interest attributable to these bonds, including amortization of capitalized transaction costs, amounted to P0.8 billion in 2018, P2.8 billion in 2017 and P3.4 billion in 2016. These amounts are presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2018, 2017 and 2016 are included as part of additions to Construction in progress under Property, Plant and Equipment account (see Note 13) and Investment Property account (see Note 14). The amounts of outstanding accrued interest as at December 31, 2018 and 2017 are presented as part of Accrued interest under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

## 19. REDEEMABLE PREFERRED SHARES

The Group's redeemable preferred shares pertain to preferred shares issued by GADC and TLC as presented below and in the succeeding pages. The preferred shares are considered as financial liabilities. Accordingly, the redeemable preferred shares are recognized at fair value on the date of issuance and are classified in the consolidated statements of financial position as follows:

| | Notes | **2018** | 2017 |
|---|---|---|---|
| Current – | | | |
| TLC | 19.2 | **P 251,597,580** | P 251,597,580 |
| Non-current: | | | |
| GADC | 19.1 | **957,471,505** | 850,632,483 |
| TLC | 19.2 | **754,792,740** | 1,006,390,320 |
| | | **1,712,264,245** | 1,857,022,803 |
| | | **P 1,963,861,825** | P 2,108,620,383 |

### *19.1 GADC's Redeemable Preferred Shares*

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

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

Additional features of the preferred shares are as follows:

(a) Redeemable at the option of the holder after the beginning of the 19th year from the date of issuance (March 2005) for a total redemption price equivalent to the peso value on the date that the shares were issued;
(b) Has preference as to dividends declared by the BOD, but in no event shall the dividends exceed P1 per share; and,
(c) The holder of preferred shares is entitled to be paid a certain amount of peso equivalent for each class of preferred shares, together with any unpaid dividends, in the event of liquidation, dissolution, receivership, bankruptcy or winding up of GADC.

The redeemable preferred shares are recognized at fair values on the date of issuance which were determined as the sum of all future cash payments, discounted using the prevailing market rates of interest as of the transaction date for similar instruments with similar term of 18 years.

The accretion of GADC's redeemable preferred shares in 2018, 2017 and 2016 amounted to P106.8 million, P94.9 million and P84.3 million, respectively, and is presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). As at December 31, 2018 and 2017, the carrying value of the GADC redeemable preferred shares amounted to P957.5 million and P850.6 million, respectively, shown as part of Redeemable Preferred Shares account in the consolidated statements of financial position. As at December 31, 2018 and 2017, the fair value of these shares amounted to P1,085.3 million and P1,232.4 million, respectively, as determined by discounting the sum of all future cash flows using prevailing market rates of interest for instrument with similar maturities at a discount rate of 9.02% and 4.81%, respectively.

### *19.2 TLC's Redeemable Preferred Shares*

These were issued by TLC in September 2012 consisting of 1,258.0 million shares which are nonvoting, earns dividend at a fixed annual rate of 2.50% and subject to the existence of TLC's unrestricted retained earnings. These were issued in exchange for certain parcels of land with total fair value of P1,338.2 million. The issuance through the exchange of land was approved by the SEC on April 17, 2013.

*(Amounts in Philippine Pesos)*

The preferred shares have a maturity of 10 years and shall be redeemed every anniversary date beginning on the sixth anniversary date until expiration of the 10-year period. Only 1/5 of the aggregate face value of preferred shares may be redeemed per year during such redemption period, with all remaining shares to be redeemed on the 10th anniversary date.

The accrued dividends on these preferred shares amounting to P1.9 million and P2.4 million as at December 31, 2018 and 2017, respectively, are presented as part of Other Non-Current Liabilities account in the consolidated statements of financial position (see Note 20). The related interest expense recognized for the years ended December 31, 2018, 2017 and 2016 amounting to P28.4 million, P28.9 million and P29.0 million, respectively, is presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26). As at December 31, 2018 and 2017, the fair values of the redeemable preferred shares on the date of issuance approximate their par values.

## 20. OTHER LIABILITIES

The composition of this account is shown below.

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| Current: | | | |
| Customers' deposits | 2.16 | **P 9,018,567,428** | P 7,864,554,137 |
| Deferred rental income | | **2,579,065,223** | 1,354,266,111 |
| Advances from customers | | **1,162,425,514** | 1,019,082,378 |
| Commission payable | | **1,165,040,058** | 839,455,530 |
| Derivative liability | 2.13 | **51,885,258** | 132,764,451 |
| Others | | **157,286,419** | 771,559,861 |
| | | **14,134,269,900** | 11,981,682,468 |
| Non-current: | | | |
| Equity-linked debt securities | 3.2(m) | **5,258,801,592** | 5,227,114,518 |
| Deferred rental income | | **4,339,191,455** | 4,766,032,890 |
| Retention payable | | **4,063,944,817** | 3,289,556,628 |
| Customers' deposit | 2.16 | **2,513,655,988** | 475,548,222 |
| Guaranty deposits | | **361,953,382** | 311,203,121 |
| Provision for dilapidations | 3.2(n) | **375,407,231** | 295,593,594 |
| Provision for onerous lease | 3.2(o) | **149,567,316** | 147,651,851 |
| Accrued rent | | **116,455,980** | 117,832,141 |
| Asset retirement obligation | 2.9 | **74,621,159** | 70,485,017 |
| Others | 19.2 | **339,975,357** | 295,763,259 |
| | | **17,593,574,277** | 14,996,781,241 |
| | | **P 31,727,844,177** | P 26,978,463,709 |

Deferred rental income refers to the rental payments advanced by the lessee at the inception of the lease which will be applied to the remaining payments at the end of the lease term.

Derivative liability recognized in 2017 includes the P109.9 million loss in fair value of a hedging instrument designated as a cash flow hedge entered into by Megaworld with a local bank (see Note 2.5). Under this cross currency swap agreement, Megaworld will receive a total of $98.87 million to be paid on a quarterly basis beginning March 2019 up to December 2022 plus interest based on 3-month LIBOR plus a certain spread. In exchange, Megaworld shall make fixed quarterly payments in Philippine pesos plus a fixed interest of 4.91%. The Group has designated the cross currency swap as a hedging instrument to hedge the risk in changes in cash flows of its loan denominated in U.S. dollar as an effect of changes in foreign currency exchange rates and interest rates (see Note 17). The Group recognized a total of P230.8 million unrealized gain and P45.9 million unrealized loss on cash flow hedges in 2018 and 2017, respectively presented as part of other comprehensive income in its statements of comprehensive income. There was no amount of fair value changes recognized in profit or loss in both years.

As of December 31, 2018, the Group has assessed that the cross currency swap designated as a cash flow hedge will continue to be highly effective over the term of the agreement as the significant terms of the hedging instrument and the hedged loan (e.g. principal amounts, repricing dates and payment dates) are similar and with offsetting effect; hence, the Group expects to continuously use hedge accounting on the hedging relationship of its cross currency swap and on its interest-bearing loan. There was no similar transaction in 2016.

Equity-linked debt securities (ELS) instrument arises from the subscription agreement between EMP and Arran Investment Private Limited for the issuance of additional common shares of EMP. The ELS may be converted into a fixed number of common shares (conversion shares) of EMP. The ELS bears a fixed annual interest rate (5.0% initially; 0% as amended) and variable interest (equal to the same dividend price declared and payable to common shareholders). On June 15, 2017, the ELS was amended, stipulating among others the change in the fixed number of Conversion Shares (728,275,862 new and fully paid-up) and in the Share Market Price for the mandatory conversion at any time during the period beginning on Redemption Date and ending on the Extended Redemption Date to greater than P7.25 per share.



The ELS was reported wholly as a non-current liability at amortized cost in the 2016 consolidated statement of financial position. Consequent to the amendments in 2017 as mentioned in the preceding paragraph, the ELS instrument was reassessed which resulted in the financial liability component being revalued at P5.1 billion and the equity component being recognized and valued at P136.2 million [see Note 3.2(m)]. The carrying amounts of the components are presented separately in the 2018 and 2017 consolidated statements of financial position while the amortization of the revalued financial liability component is presented as part of Interest expense under Finance Cost and Other Charges account in the 2018 and 2017 consolidated statements of comprehensive income (see Note 26).

Interest expense amounted to P108.4 million, P376.1 million and P364.0 million in 2018, 2017 and 2016, respectively, and is presented as part of Interest expense under Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

*(Amounts in Philippine Pesos)*

Provision for onerous lease pertains to WML's existing non-cancellable lease agreements on leasehold properties located in Glasgow and Edinburgh, Scotland, covering manufacturing plant facilities, buildings and parking spaces, which are vacant or subleased at a discount. The provision takes into account the current market conditions, expected future vacant periods, and expected future sublet benefits and are calculated by discounting expected net cash outflows on a pre-tax basis over the remaining period of the lease, which as of December 31, 2018 and 2017, is between one to 12 years and one to 13 years, respectively.

Provision for dilapidations is recognized for the present value of the costs to be incurred by WML for the restoration of the leased properties to a specified condition at the end of the lease term in 2029 as provided in the tenant repairing clauses of lease agreements.

Others, which are currently due, include liabilities on stocks purchases and due to condo-unit holders arising from condo hotel operations while Others, which are not currently due, include accrued dividends on redeemable preferred shares (see Note 19.2) and security and miscellaneous deposits.

## 21. EQUITY

### *21.1 Capital Stock*

Capital stock consists of:

| | Shares | | | Amount | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| Common shares – P1 par value | | | | | | |
| Authorized | **12,950,000,000** | 12,950,000,000 | 12,950,000,000 | **P12,950,000,000** | P 12,950,000,000 | P12,950,000,000 |
| Issued: | 10,269,827,979 | 10,269,827,979 | 10,269,827,979 | **P10,269,827,979** | P 10,269,827,979 | P10,269,827,979 |
| Treasury stock – at cost | **( 355,364,600)** | ( 162,774,700) | ( 122,964,200) | **( 4,130,664,509)** | ( 1,566,146,040) | ( 936,157,074) |
| Total outstanding | **9,194,463,379** | **10,107,053,279** | 10,146,863,779 | **P 6,139,163,470** | P 8,703,681,939 | P 9,333,670,905 |

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

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

As at December 31, 2018 and 2017, the quoted closing price per share was P11.90 and P16.00, respectively. There are 1,008 holders, which include nominees, of the Company's total issued and outstanding shares as at December 31, 2018. The percentage of the Company's shares of stocks owned by the public is 30.08% and 31.49% as at December 31, 2018 and 2017, respectively.

## 21.2 Additional Paid-in Capital

APIC consists mainly of P21.9 billion from the stock rights offering, share swap transaction and international offering in 2007. In 2014, the Group reissued treasury shares, resulting to an increase in APIC by P783.5 million. There was no similar transaction in 2018, 2017 and 2016.

## 21.3 Treasury Shares

On September 19, 2017, the BOD approved a two-year repurchase program of up to P5.0 billion worth of common shares in the open market, to enhance shareholder value. As at December 31, 2018, the Company has repurchased 232,400,400 shares for P3,194.5 million under this program.

Under the Corporation Code of the Philippines, a stock corporation can purchase or acquire its own shares provided that it has unrestricted retained earnings to cover the shares to be purchased or acquired. Accordingly, the Parent Company's ongoing share repurchase program restricts the Parent Company's retained earnings for distribution as dividends up to the cost of the treasury shares.

There are 122.96 million shares held by subsidiaries at a total cost of P936.16 million that were reported as part of treasury shares in the consolidated statements of changes in equity (see Note 2.15).

## 21.4 Dilution Gain

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

## 21.5 Dividends

On November 26, 2018 and August 19, 2016, the BOD approved the declaration of cash dividends of P0.10 and P0.31 per share in each periods. Total dividends amounting to P1,003.74 million in 2018 and P3,183.65 million in 2016 were payable to stockholders of record as at December 11, 2018 and September 5, 2016, respectively. The said dividends were fully paid on December 21, 2018 and September 19, 2016, respectively. The amounts presented in the consolidated statements of changes in equity are net of dividends paid to subsidiaries. The Parent Company did not declare any dividends in 2017. (See Note 21.3)

## 21.6 Share Options

(a) *Of the Company*

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

(Amounts in Philippine Pesos)

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

On December 19, 2011, pursuant to this ESOP, the Company granted share options to certain key executives to subscribe to 46.5 million common shares of the Company, at an exercise price of P9.175 per share. As at December 31, 2018 and 2017, all of the said options vested but none have been exercised.

On March 14, 2013, the Company granted additional 59.1 million share options to certain key executives at an exercise price of P12.9997. As at December 31, 2018 and 2017, all of the said additional options vested and none have been exercised.

The fair values of the option granted were estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP.

The following principal assumptions were used in the valuation:

| | | March 2013 Grant | | December 2011 Grant |
|---|---|---|---|---|
| Option life | | 7 years | | 7 years |
| Share price at grant date | P | 21.65 | P | 10.28 |
| Exercise price at grant date | P | 12.9997 | P | 9.175 |
| Average fair value at grant date | P | 9.18 | P | 2.70 |
| Average standard deviation of share price returns | | 35.29% | | 37.75% |
| Average dividend yield | | 2.10% | | 1.70% |
| Average risk-free investment rate | | 2.92% | | 2.87% |

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time within the life of the option.

*(b)* *Of Megaworld*

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

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

Pursuant to this ESOP, on November 6, 2012, Megaworld granted share options to certain key executives to subscribe to 235.0 million of its common shares, at an exercise price of P1.77 per share.

In 2013, additional share options were granted to certain key executives to subscribe to 20.0 million common shares of Megaworld at an exercise price of P2.33 per share.

Additional 40.0 million share options were granted in 2014 at an average exercise price of P3.00 per share.

There were no additional share options granted in 2018, 2017 and 2016.

In 2018 and 2017, none and 25.0 million options, respectively, were forfeited due to resignation of key executive officers. A total of 5 million and 20.0 million options have vested in 2018 and 2017, respectively (nil in 2016).

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP.

The following principal assumptions were used in the valuation:

| | |
|---|---|
| Option life | 6.08 to 30.17 years |
| Share price at grant date | P 2.54 to P 4.52 |
| Exercise price at grant date | P 1.7731 to P 3.2299 |
| Fair value at grant date | P 0.98 to P 2.15 |
| Average standard deviation of share price return | 10.98 % |
| Average dividend yield | 0.76 % |
| Average risk-free investment rate | 3.64 % |

The underlying expected volatility was determined by reference to historical date of Megaworld's shares over a period of time consistent with the option life.

*(c)* *Of GERI*

On September 23, 2011, the GERI's BOD approved an ESOP for its key executive officers. This was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the ESOP is to enable the key executives and senior officers of GERI, who are largely responsible for its further growth and development, to obtain an ownership interest and thereby encourage long-term commitment to GERI. The ESOP is being administered by the Executive Compensation Committee of GERI's BOD.

Under the ESOP, GERI shall initially reserve for exercise of share options up to 500.0 million common shares of its outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Share options may be granted within 10 years from the adoption of the ESOP and may be exercised within seven years from date of grant.

The exercise price shall be at a 15% discount from the volume weighted average closing price of GERI's shares for twelve months immediately preceding the date of grant. The options shall vest within three years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three-year period. GERI shall receive cash for the share options.

As of December 31, 2018, pursuant to this ESOP, GERI has granted the options to its key executive officers to subscribe to 400.0 million GERI shares. An option holder may exercise in whole or in part his vested option provided, that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle.

*(Amounts in Philippine Pesos)*

A total of 383.3 million and 350.0 million options have vested as at December 31, 2018 and 2017, respectively, but none of these have been exercised yet by any of the option holders as at the end of both reporting periods.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP.

The following principal assumptions were used in the valuation:

| | |
|---|---|
| Average option life | 7 years |
| Share price at grant date | P1.02 to P2.10 |
| Exercise price at grant date | P1.00 to P1.93 |
| Fair value at grant date | P0.24 to P2.27 |
| Standard deviation of share price return | 12.16% to 57.10% |
| Risk-free investment rate | 2.14% to 2.59% |

The underlying expected volatility was determined by reference to historical date of GERI's shares over a period of time consistent with the option life.

*(d)* *Of EMP*

On November 7, 2014, EMP's BOD approved an ESOP for qualified employees of EMP Group.

The options shall generally vest on the 60th birthday of the option holder and may be exercised until the date of his/her retirement from the Group provided that the employee has continuously served for 11 years after the option offer date. The exercise price shall be at a 15% discount from the volume weighted average closing price of EMP's shares of nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2015, EMP granted share options to certain key executives of EDI to subscribe to 118.0 million common shares of EMP at an exercise price of P7.0 per share.

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

| | | |
|---|---|---|
| Average option life | | 20.23 years |
| Average share price at grant date | P | 8.90 |
| Average exercise price at grant date | P | 7.00 |
| Average fair value at grant date | P | 4.09 |
| Average standard deviation of share price returns | | 10.24% |
| Average dividend yield | | 1.08% |
| Average risk-free investment rate | | 4.89% |

The underlying expected volatility was determined by reference to historical prices of EMP's shares over a period of one year.

*(e) Of Travellers*

Travellers has adopted an ESOP that grants share options to eligible key executive officers.

Travellers' ESOP is exempt from the registration requirements of SEC's Securities Regulation Code with respect to the issuance of the common shares, not to exceed 945,352,491 common shares, or 6% of the outstanding capital stock of Travellers listed with the PSE, to eligible employees pursuant to Travellers' ESOP adopted by the its shareholders and BOD effective June 13, 2014.

The purpose of the ESOP is to (a) strengthen the alignment of interests between key employees and consultants of Travellers and its shareholders through the ownership of Travellers' shares of common stock and thereby increase focus on Travellers' share value; (b) motivate, attract and retain the services of key employees and consultants of Travellers, upon whose judgment, valuable work and special efforts, the day-to-day and long-term success and development of the business and the operations of Travellers are largely dependent; and, (c) encourage long-term commitment of the key employees and consultants of Travellers to contribute to the long-term financial success of Travellers.

The ESOP is being administered by the Remuneration and Compensation Committee of Travellers' BOD. As of December 31, 2018, Travellers has not granted any option to its eligible optionees.

The Group recognized a total of P53.5 million, P49.5 million and P136.3 million Share-option benefit expense in 2018, 2017 and 2016, respectively, as part of Salaries and employee benefits under Other Operating Expenses account in the consolidated statements of comprehensive income and a corresponding credit to equity through Stock Options account for the portion incurred by the Parent Company and through Non-controlling Interest account for the portion incurred by the subsidiaries (see Notes 25 and 27.3).

### *21.7 Appropriated Retained Earnings*

In 2018, GADC's BOD approved the appropriation of P6.2 billion for its continuing business expansion projects which include construction of new stores, renovation of existing stores, development of information technology projects, office renovations and acquisition of land. The construction of new stores and renovation of existing stores are projected to be completed within a period of three to four months and spread throughout 2019. Office renovations are expected to begin in the second quarter of 2019. In 2017, GADC's BOD appropriated P4.6 billion for the continuing business expansion which was fully utilized in 2018 and the appropriation reversed in 2018. In 2016, GADC's BOD appropriated P4.1 billion for the continuing business expansion which was fully utilized in 2017 and the appropriation reversed in 2017.

In 2015, AWGI's BOD approved the appropriation of P550.0 million for the rehabilitation of the glass manufacturing plant, which was approved to be extended until 2017 in 2016. In 2017, the said appropriation was reversed. Also, in 2017, AWGI appropriated portion of its retained earnings amounting to P600.0 million for capital expenditures for the plant.

### *21.8 Subsidiaries with Material Non-controlling Interest*

The subsidiaries with material non-controlling interest (NCI) are shown below and in the succeeding page (in thousands).

| | Proportion of Ownership Interest and Voting Rights Held by NCI | | Subsidiary's Consolidated Profit Allocated to NCI | | Accumulated Equity of NCI | |
|---|---|---|---|---|---|---|
| Name | 2018 | 2017 | 2018 | 2017 | December 31, 2018 | December 31, 2017 |
| Megaworld | **33%** | 33% | **P 5,607,074** | P 4,866,602 | **P 76,154,562** | P 68,525,113 |
| Travellers | **53%** | 53% | **787,686** | 140,187 | **24,445,979** | 23,738,408 |
| GADC | **51%** | 51% | **842,335** | 853,656 | **1,193,204** | 1,366,080 |
| Emperador | **17%** | 18% | **1,315,930** | 1,166,158 | **11,717,287** | 11,536,626 |

Dividends paid to NCI amounted to P1.3 billion in 2018 and P1.7 billion both in 2017 and 2016.

The summarized financial information of the subsidiaries, before intragroup elimination, is shown below and in the succeeding page (in thousands).

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador |
| Non-current assets | P 149,544,763 | P 89,925,501 | P 8,976,372 | P 61,818,351 |
| Current assets | 172,762,514 | 17,370,281 | 11,358,262 | 56,000,020 |
| Total assets | P 322,307,277 | P 107,295,782 | P 20,334,634 | P 117,818,371 |
| Non-current liabilities | P 89,037,357 | P 44,364,606 | P 2,445,815 | P 36,237,036 |
| Current liabilities | 44,518,725 | 17,293,323 | 9,222,775 | 20,217,389 |
| Total liabilities | P 133,566,082 | P 61,657,929 | P 11,668,590 | P 56,454,425 |
| **Revenues** | P 57,437,985 | P 20,566,139 | P 28,333,547 | P 47,050,421 |
| Profit for the year attributable to: | | | | |
| Owners of Parent | P 15,218,913 | P 1,443,770 | P 1,646,373 | P 6,658,236 |
| NCI | 624,914 | ( 4,366) | 2,685 | 170,713 |
| Profit for the year | 15,843,827 | 1,439,404 | 1,649,058 | 6,828,949 |
| Other comprehensive income (loss) attributable to: | | | | |
| Owners of Parent | 607,476 | 54,911 | 34,452 | ( 5,353) |
| NCI | ( 18,364) | - | - | 68,421 |
| Other comprehensive income (loss) for the year | 589,112 | 54,911 | 34,452 | 63,068 |
| **Total comprehensive income for the year** | P 16,432,939 | P 1,494,315 | P 1,683,510 | P 6,892,017 |
| Net cash from (used in) | | | | |
| Operating activities | P 13,690,612 | P 5,703,159 | P 2,949,485 | P 2,843,635 |
| Investing activities | ( 16,088,539) | ( 14,718,884) | ( 1,424,042) | ( 3,167,065) |
| Financing activities | 3,272,002 | 11,434,036 | ( 832,095) | ( 3,610,753) |

| | December 31, 2017 [As Restated – see Note 2.1(c)] | | | |
|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador |
| Non-current assets | P 141,281,190 | P 71,888,097 | P 8,236,030 | P 60,518,746 |
| Current assets | 143,041,519 | 14,584,269 | 9,420,010 | 51,017,036 |
| Total assets | P 284,322,709 | P 86,472,366 | P 17,656,040 | P 111,535,782 |
| Non-current liabilities | P 76,671,265 | P 14,326,651 | P 2,642,356 | P 36,344,852 |
| Current liabilities | 43,951,373 | 27,824,977 | 7,622,781 | 16,837,376 |
| Total liabilities | P 120,622,638 | P 42,151,628 | P 10,265,137 | P 53,182,228 |
| Revenues | P 50,115,043 | P 18,592,919 | P 25,539,935 | P 42,655,528 |
| Profit for the year attributable to: | | | | |
| Owners of Parent | P 13,145,557 | P 289,273 | P 1,627,810 | P 6,321,784 |
| NCI | 561,432 | ( 9,453) | 23,473 | 10,536 |
| Profit for the year | 13,706,989 | 279,820 | 1,651,283 | 6,332,320 |
| Other comprehensive income (loss) attributable to: | | | | |
| Owners of Parent | 2,235,176 | ( 2,867) | 100,908 | 1,510,520 |
| NCI | 77,112 | - | - | ( 226,636) |
| Other comprehensive income (loss) for the year | 2,312,288 | ( 2,867) | 100,908 | 1,283,884 |
| Total comprehensive income for the year | P 16,019,277 | P 276,953 | P 1,752,191 | P 7,616,204 |
| Net cash from (used in) | | | | |
| Operating activities | P 6,153,887 | P 3,357,694 | P 2,545,798 | P 2,404,214 |
| Investing activities | ( 15,360,049) | ( 13,090,002) | 169,758 | ( 8,214,883) |
| Financing activities | 8,264,036 | 6,891,102 | ( 995,240) | 5,799,175 |

## 22. EARNINGS PER SHARE

Earnings per share is computed as follows:

| | **2018** | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| Basic: | | | |
| Net profit attributable to owners of the parent company | **P 15,121,537,752** | P 15,192,000,737 | P 14,916,844,215 |
| Divided by the weighted average number of outstanding common shares | **9,914,463,379** | 10,107,053,279 | 10,146,863,779 |
| | **P 1.5252** | P 1.5031 | P 1.4701 |

(Amounts in Philippine Pesos)

| | 2018 | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| Diluted: | | | |
| Net profit attributable to owners of the parent company | **P 15,121,537,752** | P 15,192,000,737 | P 14,916,844,215 |
| Divided by the weighted average number of outstanding common shares and potentially dilutive shares | **9,928,424,379** | 10,129,398,650 | 10,173,425,382 |
| | **P 1.5231** | P 1.4998 | P 1.4663 |

The actual number of outstanding common shares approximates the weighted average for each year. There are 14.0 million, 22.3 million and 26.6 million potentially dilutive shares as at December 31, 2018, 2017 and 2016, 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 2018, 2017 and 2016 diluted EPS.

## 23. REVENUES

### *23.1 Disaggregation of Revenues*

The Group disaggregates revenues recognized from contracts with customers into the operating business segments presented in Notes 4.1 and 4.4 that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This same disaggregation is used in earnings releases, annual reports and investor presentations.

The breakdown of revenues from sale of goods and rendering of services is presented below:

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|---|
| **Sale of Goods:** | | | | |
| Revenues from RE sales: | | | | |
| RE sales | 2.16(c, d) | **P 37,667,540,752** | P 34,115,066,390 | P 30,377,505,167 |
| Sales of consumer goods | 2.16(a) | **47,607,702,279** | 43,236,971,687 | 41,608,345,308 |
| | | **P 85,275,243,031** | P 77,352,038,077 | P 71,985,850,475 |
| **Rendering of Services:** | | | | |
| Sales by company-operated quick-service restaurants | 2.16(h) | **P 25,605,114,481** | P 23,069,644,779 | P 20,540,105,188 |
| Gaming | 2.16(e) | **15,881,465,964** | 14,575,224,422 | 19,341,385,803 |
| Rental income | 2.16, 14 | **14,741,266,661** | 12,457,699,770 | 10,572,324,693 |
| Hotel operations | 2.16(g) | **5,005,152,260** | 4,186,654,787 | 3,789,710,840 |
| Franchise revenues | 2.16(i), 30.6 | **2,728,432,374** | 2,470,290,662 | 2,089,063,803 |
| Others | | **2,215,548,669** | 1,532,695,852 | 1,619,313,567 |
| | | **P 66,176,980,409** | P 58,292,210,272 | P 57,951,903,894 |

Other revenues include income from commissions, construction, property management operations, cinema operations, parking, bingo, tournaments and production shows.

The disaggregation of revenues for each reportable segment is presented below.

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Megaworld** | **Travellers** | **GADC** | **Emperador** | **Unallocated** | **Total** |
| Sale of goods | P 37,665,233,060 | P - | P - | P46,345,675,149 | P 1,264,334,822 | P 85,275,243,031 |
| Rendering of service | 17,216,095,673 | 20,532,703,973 | 28,415,529,909 | 12,650,854 | - | 66,176,980,409 |
| | **P 54,881,328,733** | **P20,532,703,973** | **P28,415,529,909** | **P46,358,326,003** | **P 1,264,334,822** | **P 151,452,223,440** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | Unallocated | Total |
| Sale of goods | P 34,115,066,390 | P - | P - | P42,206,283,523 | P 1,030,688,164 | P 77,352,038,077 |
| Rendering of service | 14,010,285,576 | 18,578,784,045 | 25,651,627,320 | 51,513,331 | - | 58,292,210,272 |
| | P 48,125,351,966 | P18,578,784,045 | P 25,651,627,320 | P42,257,796,854 | P 1,030,688,164 | P 135,644,248,349 |

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | Unallocated | Total |
| Sale of goods | P 30,377,505,167 | P - | P - | P40,446,981,708 | P 1,161,363,600 | P 71,985,850,475 |
| Rendering of service | 12,028,376,304 | 23,183,549,360 | 22,716,009,343 | 23,968,887 | - | 57,951,903,894 |
| | P 42,405,881,471 | P23,183,549,360 | P22,716,009,343 | P 40,470,950,595 | P 1,161,363,600 | P 129,937,754,369 |

### *23.2 Contract Accounts*

The significant changes in the contract assets and contract liabilities balances as of December 31 are as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Contract Assets** | **Contract Liabilities** | Contract Assets | Contract Liabilities |
| Balance at beginning of year | **P15,909,820,985** | **P4,791,893,639** | P18,340,520,984 | P 3,458,671,688 |
| Transfers from contract assets recognized at the beginning of year to accounts receivables | **( 2,198,476,991)** | **-** | ( 7,884,088,458) | - |
| Increase due to satisfaction of performance obligation over time net of cash collection | **8,070,269,733** | **-** | 5,453,388,459 | - |
| Increase due to acquisition of subsidiaries | **445,665,960** | **180,751,668** | - | - |
| Revenue recognized that was included in contract liability at the beginning of year | **-** | **( 2,991,075,721)** | - | ( 1,488,531,053) |
| Increase due to cash received in excess of performance to date | **-** | **3,387,097,709** | - | 2,821,753,004 |
| Balance at end of year | **P22,227,279,687** | **P 5,368,667,295** | P15,909,820,985 | P 4,791,893,639 |

The outstanding balance of trade receivables arising from contracts with customers amounted to P49.5 billion and P35.2 billion as of December 31, 2018 and 2017, respectively, are presented as part of trade receivables.

(Amounts in Philippine Pesos)

***23.3 Direct Contract Costs***

The Group incurs sales commissions upon execution of contracts to sell real properties to customers. Incremental costs of commission incurred to obtain contracts are capitalized and presented as Deferred commission under Other Current Assets, and Other Non-current Asset accounts in the 2018 consolidated statements of financial position (see Note 9). These are amortized over the expected construction period on the same basis as how the Company measures progress towards complete satisfaction of its performance obligation in its contracts. The total amount of amortization for 2018, 2017 and 2016 is presented as part of Commissions under Other Operating Expenses (see Note 25).

The movement in balances of deferred commission in 2018 and 2017 is presented below.

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **P 843,530,567** | P 866,785,887 |
| Additional capitalized cost | **1,461,880,929** | 923,942,673 |
| Reversal due to back out | **( 25,875,937)** | - |
| Amortization for the period | **( 1,136,933,918)** | ( 947,197,993) |
| Balance at end of year | **P 1,142,601,641** | P 843,530,567 |

***23.4 Transaction Price Allocated to Unsatisfied Performance Obligations***

The aggregate amount of transaction price allocated to partially or wholly unsatisfied contracts as of December 31, 218 is P21.3 billion. As of December 31, 2018, the Company expects to recognize revenue from unsatisfied contracts as follows:

| | |
|---|---|
| Within a year | P 13,929,628,018 |
| More than one year to three years | 6,287,109,681 |
| More than three years to five years | 1,016,292,043 |
| | P 21,233,029,742 |

## 24. COST OF GOODS SOLD AND SERVICES

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

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|---|
| **Cost of Goods Sold:** | 2.16 | | | |
| Cost of consumer goods sold: | | | | |
| Direct materials used | | **P 25,758,007,484** | P 24,850,232,749 | P 21,158,868,946 |
| Salaries and employee benefits | 27.1 | **1,324,506,139** | 1,350,970,088 | 799,011,041 |
| Change in work in process and finished goods | | **1,094,652,102** | ( 690,800,020) | 1,957,971,123 |
| Depreciation and amortization | 13 | **917,072,273** | 707,755,935 | 646,712,276 |
| Utilities | | **347,138,447** | 260,877,214 | 199,365,749 |
| Indirect materials and other consumables | | **321,029,104** | 191,137,844 | 265,936,525 |
| Repairs and maintenance | | **284,322,167** | 227,177,596 | 199,587,113 |
| Outside services | 29.1 | **253,244,690** | 266,253,636 | 224,995,771 |
| Taxes and licenses | | **153,438,507** | 130,643,743 | 82,978,961 |
| Supplies | | **124,640,547** | 103,698,826 | 80,688,274 |
| Other direct and overhead costs | 8 | **695,883,912** | 604,975,991 | 407,503,669 |
| | | **31,273,935,372** | 28,002,923,602 | 26,023,619,448 |
| Cost of RE sales: | | | | |
| Contracted services | | **16,516,692,619** | 15,505,014,182 | 14,436,476,588 |
| Land cost | | **3,253,659,078** | 2,072,833,307 | 1,904,786,990 |
| Borrowing cost | | **473,001,664** | 361,376,502 | 307,298,967 |
| Other costs | | **91,911,888** | 101,866,469 | 88,178,994 |
| | 2.7 | **20,335,265,249** | 18,041,090,460 | 16,736,741,539 |
| | | **P 51,609,200,621** | P 46,044,014,062 | P 42,760,360,987 |
| **Cost of Services:** | 2.16 | | | |
| Food, supplies and other consumables | | **P 11,918,809,205** | P 10,610,845,688 | P 9,492,398,116 |
| Salaries and employee benefits | 27.1 | **7,064,302,241** | 5,887,768,691 | 5,500,010,460 |
| Gaming license fees | 28.3 | **4,380,228,290** | 3,862,964,722 | 5,212,622,104 |
| Rental | | **4,353,601,170** | 3,790,678,826 | 3,441,030,356 |
| Depreciation and amortization | 13, 14 | **2,484,703,912** | 2,303,011,256 | 2,005,475,680 |
| Casino operating expense | | **917,762,234** | 581,391,736 | 557,521,452 |
| Hotel operations | | **820,752,636** | 755,756,983 | 658,379,578 |
| Outside services | | **686,663,019** | 584,135,049 | 523,816,634 |
| Flight operations | | **401,669,099** | 108,444,291 | 338,691,065 |
| Entertainment, amusement and recreation | | **61,803,637** | 36,206,352 | 30,287,816 |
| Other direct and overhead costs | | **1,871,988,190** | 1,500,871,563 | 1,295,760,102 |
| | | **P 34,962,283,633** | P 30,022,075,157 | P 29,055,993,363 |

Other direct and overhead costs include, among others, costs incurred for insurance, waste disposal, and meals.

(Amounts in Philippine Pesos)

## 25. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|---|
| Advertising and promotions | | **P 8,060,090,864** | P 6,254,001,848 | P 6,007,679,583 |
| Salaries and employee benefits | 21.6, 27.1 | **6,590,129,223** | 6,047,247,187 | 5,372,693,962 |
| Depreciation and amortization | 13, 15 | **3,481,239,011** | 2,828,785,589 | 2,448,523,774 |
| Commissions | | **1,727,459,061** | 1,552,807,279 | 1,234,734,196 |
| Utilities | | **1,588,180,506** | 1,156,691,047 | 1,143,779,764 |
| Professional fees and outside services | | **1,372,831,668** | 870,465,583 | 1,214,924,097 |
| Royalty | 29.5, 30.6 | **1,257,196,109** | 1,132,577,168 | 1,059,923,224 |
| Taxes and licenses | | **1,150,742,613** | 1,182,031,021 | 852,537,538 |
| Transportation and travel | | **1,052,218,692** | 798,415,372 | 665,878,858 |
| Rental | | **637,441,531** | 939,718,670 | 967,358,466 |
| Repairs and maintenance | | **571,651,807** | 460,063,891 | 376,106,316 |
| Freight and handling | | **470,887,193** | 417,206,996 | 437,708,284 |
| Management fees | 29.3, 30.5(e) | **314,538,929** | 304,779,371 | 442,592,805 |
| Representation and entertainment | | **252,028,984** | 231,226,865 | 171,311,998 |
| Impairment of receivables | 6 | **169,501,339** | 145,518,483 | 20,291,960 |
| Communication and office expenses | | **66,116,681** | 52,071,893 | 48,782,212 |
| Insurance | | **31,973,829** | 18,303,124 | 7,250,873 |
| Write-down of inventories | 8 | **4,926,653** | - | - |
| Impairment of property, plant, and equipment | 13 | **-** | - | 166,497,656 |
| Miscellaneous | | **2,778,300,334** | 2,604,158,493 | 2,322,677,009 |
| | | **P 31,577,455,027** | P 26,996,069,880 | P 24,961,252,575 |

Miscellaneous expenses include expenses incurred for security services, supplies and other consumables, donations, training and development, dues and subscriptions, and various other expenses.

These other operating expenses are classified by function as follows:

| | 2018 | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| General and administrative expenses | **P 18,048,986,859** | P 17,163,743,802 | P 14,751,697,918 |
| Selling and marketing expenses | **13,528,468,168** | 9,832,326,078 | 10,209,554,657 |
| | **P 31,577,455,027** | P 26,996,069,880 | P 24,961,252,575 |

## 26. OTHER INCOME AND CHARGES

Other income and charges provide details of Finance and Other Income account and Finance Costs and Other Charges account as presented in the consolidated statements of comprehensive income.

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|---|
| **Finance and other income:** | | | | |
| Interest income | 2.16, 5, 7 | **P 2,833,780,599** | P 2,307,789,718 | P 2,078,421,813 |
| Recoveries | 30.9 | **1,710,581,049** | - | - |
| Dividend income | 2.16 | **63,767,349** | 12,423,602 | 6,312,863 |
| Gain on disposal of PPE and investment properties – net | 13, 14 | **53,917,450** | 115,773,777 | - |
| Gain on acquisitions and deconsolidation of subsidiaries | 1.2(a),(b),(d) | **30,254,467** | - | 53,333,758 |
| Gain on sale of financial assets at FVTPL | | **12,101,261** | 4,799,290 | - |
| Gain on sale of investments in an associate | 12.3 | **-** | 113,069,227 | 82,459,513 |
| Gain on sale of investment in AFS financial assets – net | 11 | **-** | 22,230,010 | 11,942,807 |
| Reversal of preacquisition loss | | **-** | 2,715,950 | - |
| Fair value gains – net | 7 | **-** | - | 159,134,466 |
| Miscellaneous – net | 6, 8, 13 | **337,502,204** | 292,873,709 | 209,411,719 |
| | | **P 5,041,904,379** | P 2,871,675,283 | P 2,601,016,939 |
| **Finance costs and other charges:** | | | | |
| Interest expense | 2.16, 17, 18 19, 20, 28 | **P 4,084,166,535** | P 5,554,066,867 | P 4,856,184,716 |
| Foreign currency losses – net | | **1,728,894,002** | 238,147,779 | 1,789,065,678 |
| Reversal of preacquisition income | | **166,615,784** | - | 3,314,788 |
| Fair value losses – net | 7 | **36,629,368** | 9,126,926 | - |
| Losses from casualty, net of insurance claims | 13, 30.9 | **-** | 430,354,462 | - |
| Unrealized loss on interest rate swap | 20 | **-** | 27,235,637 | 31,769,386 |
| Loss on disposal of PPE – net | 13 | **-** | - | 35,820,601 |
| Miscellaneous | | **836,678,047** | 624,940,194 | 565,711,463 |
| | | **P 6,852,983,736** | P 6,883,871,865 | P 7,281,866,632 |

Miscellaneous income includes gain on sale of non-current assets, marketing fees, reversal of impairment losses on receivables and others.

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

(Amounts in Philippine Pesos)

## 27. SALARIES AND EMPLOYEE BENEFITS

### *27.1 Salaries and Employee Benefits*

Expenses recognized for salaries and employee benefits are presented below.

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Short-term employee benefits | | **P 14,415,205,639** | P 12,585,532,010 | P 11,121,876,125 |
| Post-employment defined benefit | 2.21(a), 27.2 | **510,274,924** | 650,996,947 | 413,557,705 |
| Share option benefit expense | 2.21(d), 21.6 27.3, 29.7 | **53,457,040** | 49,457,009 | 136,281,633 |
| | | **P 14,978,937,603** | P 13,285,985,966 | P 11,671,715,463 |

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

| | Notes | 2018 | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|---|
| Cost of goods sold | 24 | **P 1,324,506,139** | P 1,350,970,088 | P 799,011,041 |
| Cost of services | 24 | **7,064,302,241** | 5,887,768,691 | 5,500,010,460 |
| Other operating expenses | 25 | **6,590,129,223** | 6,047,247,187 | 5,372,693,962 |
| | | **P 14,978,937,603** | P 13,285,985,966 | P 11,671,715,463 |

### *27.2 Post-employment Defined Benefit*

(a) *Characteristics of the Defined Benefit Plan*

Megaworld group, EDI, ELI, GADC and WML maintain funded, tax-qualified, noncontributory post-employment benefit plans, except that ELI is partially-funded and GADC allows voluntary employee contribution. Each of the plans is being administered by a trustee bank that is legally separated from the Group. GERI and GADC's subsidiaries have unfunded, noncontributory post-employment benefit plans. In 2017, Travellers established a partially-funded, noncontributory, multi-employer post-employment benefit plan which is being administered by a trustee bank that is legally separated from the Group. All of plans mentioned cover all qualified regular and full-time employees.

The Parent Company and all other subsidiaries have no established corporate retirement plans. AWGI and TEI compute their retirement obligations based on the provisions of Republic Act (R.A.) No. 7641, *The Retirement Pay Law*. Whereas, the Parent Company and the other subsidiaries within the Group have not accrued any post-employment benefit obligation as each entity has less than ten employees. The Group's management believes that non-accrual of the estimated post-employment benefits will not have any material effect on the Group's consolidated financial statements.

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation reports obtained from independent actuaries in 2018 and 2017.

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:

| | 2018 | 2017 |
|---|---|---|
| Present value of the obligation | **P 14,911,962,326** | P 15,565,665,635 |
| Fair value of plan assets | **( 13,121,942,658)** | ( 13,622,212,348) |
| | **P 1,790,019,668** | P 1,943,453,287 |

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

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | **P 15,565,665,635** | P 14,156,797,542 |
| Effects of foreign currency adjustment | **7,310,649** | 1,181,203,320 |
| Current service and interest costs | **807,830,206** | 818,183,504 |
| Past service cost | **63,033,600** | 141,787,489 |
| Remeasurement gains | **( 1,031,402,716)** | ( 139,045,469) |
| Availment of sabbatical leave | **( 4,282,761)** | ( 3,989,427) |
| Benefits paid | **( 496,192,287)** | ( 589,271,324) |
| Balance at end of year | **P 14,911,962,326** | P 15,565,665,635 |

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

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | **P 13,622,212,348** | P 11,552,491,075 |
| Effects of foreign exchange adjustment | **( 3,404,740)** | 1,101,654,000 |
| Actuarial gain (loss) | **( 837,548,125)** | 809,565,124 |
| Contributions paid into the plan | **434,796,364** | 387,692,843 |
| Actual return on plan assets | **396,809,916** | 358,102,307 |
| Remeasurement of plan assets | **( 834,653)** | - |
| Benefits paid | **( 490,088,452)** | ( 587,293,001) |
| Balance at end of year | **P 13,121,942,658** | P 13,622,212,348 |

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

| | 2018 | 2017 |
|---|---|---|
| Investments in: | | |
| Other securities and debt instruments | **66.57%** | 68.15% |
| Long-term equity investments | **24.35%** | 24.41% |
| Unit investment trust fund | **1.71%** | 1.50% |
| Cash and cash equivalents | **2.66%** | 1.60% |
| Property | **4.49%** | 4.26% |
| Loans and receivables | **0.22%** | 0.08% |
| | **100.00%** | 100.00% |

Actual returns in 2018 and 2017 amounted to P396.8 million and P358.1 million, respectively.

(Amounts in Philippine Pesos)

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for loans and receivables and property which are at Level 3 (see Note 33).

The amounts of post-employment benefits expense recognized as part of Salaries and employee benefits in profit or loss (see Note 27.1) and other comprehensive income are as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| *Reported in consolidated profit or loss –* | | | |
| Current service cost | **P 447,241,324** | P 509,209,458 | P 413,557,705 |
| Past service cost | **63,033,600** | 141,787,489 | - |
| | **P 510,274,924** | P 650,996,947 | P 413,557,705 |
| *Reported in consolidated other comprehensive income:* | | | |
| Actuarial gains (losses) arising from changes in: | | | |
| Financial assumptions | **P1,216,963,491** | (P 176,408,792) | (P 2,536,455,322) |
| Demographic assumptions | **95,290,623** | 467,425,221 | 186,326,140 |
| Experience adjustments | **( 284,076,339)** | ( 150,077,980) | 1,539,642,898 |
| Return on plan assets (excluding amounts in net interest expense) | **( 837,548,125)** | 809,565,124 | 2,789,394 |
| | **190,629,650** | 950,503,573 | ( 807,696,890) |
| Tax income (expense) | **( 73,057,872)** | ( 189,305,616) | 130,194,376 |
| | **P 177,571,778** | P 761,197,957 | (P 677,502,514) |

In 2018, 2017 and 2016, post-employment benefits expense amounting to P180.6 million, P158.3 million, and P154.3 million, respectively, were incurred for WML's defined contribution plan, thus will not be included in the current service cost presented under the movement of post-employment benefit obligation.

The amounts of post-employment benefits expense are included as part of Salaries and employee benefits under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

In determining the post-employment benefit obligation, the following actuarial assumptions were used:

| | 2018 | 2017 |
|---|---|---|
| Discount rates | **2.58% - 8.88%** | 2.64% - 5.83% |
| Expected rates of salary increases | **3.00% - 10.00%** | 3.00% - 10.00% |

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

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk, salary risk and inflation risk.

*(i) Investment and Interest Risks*

Discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plans have relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(iii) Inflation Risk*

A significant portion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Group's liability.

(d) *Other Information*

*(i) Sensitivity Analysis*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

| | | Impact on Post-employment Obligation | |
|---|---|---|---|
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| **December 31, 2018** | | | |
| Discount rate | +/-0.25% to +/-1.00% | **(P 1,228,153,365)** | **P 1,329,604,167** |
| Salary increase rate | +/-1.0% | **969,478,821** | **(838,214,343)** |
| December 31, 2017 | | | |
| Discount rate | +/-0.25% to +/-1.00% | (P 807,161,010) | P 921,120,610 |
| Salary increase rate | +/-1.0% | 498,856,843 | (384,636,791) |

(Amounts in Philippine Pesos)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) Asset-liability Matching Strategies*

The Group, through its BOD, envisions that the investment positions shall be managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This aims to match the plan assets to the retirement obligations by investing in equities and maintaining cash and cash equivalents that match the benefit payments as they fall due and in the appropriate currency.

*(iii) Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P1.8 billion based on the Group's latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 22 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan as at December 31 are as follows:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **P 506,286,474** | P 430,050,494 |
| More than one year to five years | **2,155,864,158** | 1,489,477,837 |
| More than five years to ten years | **2,047,918,673** | 1,617,308,541 |
| More than ten years to 15 years | **1,022,251,275** | 784,349,883 |
| More than 15 years to 20 years | **1,835,366,408** | 1,498,198,965 |
| More than 20 years | **10,598,600,164** | 11,860,924,351 |
| | **P 18,166,287,152** | P 17,680,310,071 |

The Group expects to contribute in 2019, P33.0 million and P40.0 million to the retirement plan maintained for Megaworld and GADC, respectively. GERI and EMP have yet to decide the amount of future contributions to their existing retirement plans.

### *27.3 Share Option Benefits*

The Group's share option benefit expense includes the amounts recognized by the Company, Megaworld, GERI and EMP over the vesting period of the options granted by them (Travellers has not yet granted any share options to its eligible optionees) (see Note 21.6). Options for 538.9 million shares and 520.6 million shares have vested as at December 31, 2018 and 2017, respectively. Share option benefits expense, included as part of Salaries and employee benefits amounted to P53.5 million in 2018, P49.5 million in 2017 and P136.3 million in 2016 (see Note 27.1).

## 28. TAXES

### *28.1 Current and Deferred Taxes*

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

| | **2018** | 2017 [As Restated – see Note 2.1(c)] | 2016 [As Restated – see Note 2.1(c)] |
|---|---|---|---|
| *Reported in consolidated profit or loss:* | | | |
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 30%, 25%, 20% and 10% | **P 4,707,781,336** | P4,857,600,237 | P 4,888,671,510 |
| Final tax at 20% and 15% in 2018; and 7.5% in 2017 and 2016 | **128,439,560** | 112,022,487 | 94,301,242 |
| Preferential tax rate at 5% | **57,336,871** | 63,858,452 | 43,955,624 |
| Minimum corporate income tax (MCIT) at 2% | **78,383,637** | 54,410,799 | 30,142,769 |
| Others | **27,904,342** | 15,630,199 | 52,836,625 |
| | **4,999,845,746** | 5,103,522,174 | 5,109,907,770 |
| Deferred tax expense relating to origination and reversal of temporary differences | **3,107,658,791** | 1,463,100,247 | 778,455,099 |
| | **P 8,107,504,537** | P6,566,622,421 | P 5,888,362,869 |
| *Reported in consolidated other comprehensive income –* | | | |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | **P 73,774,847** | P 189,714,791 | (P 117,125,824) |

The Company and its Philippine subsidiaries are subject to the higher of RCIT at 30% of net taxable income or MCIT which is at 2% of gross income, as defined under the Philippine tax regulations. The foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries or jurisdictions where they operate

ECOC, SEDI and Travellers are Philippine Economic Zone Authority – registered entities which are entitled to 5% preferential tax rate on gross income from registered activities in lieu of all local and national taxes and to other tax privileges.

In May 2014, the Board of Investments approved SPI's application for registration on a certain project. SPI is entitled to income tax holiday for four years from May 2014 or actual start of commercial operations/selling, whichever is earlier but in no case earlier than the date of registration, with certain terms.

(Amounts in Philippine Pesos)

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

| | 2018 | 2017 (As Restated – see Note 2.1(c)) | 2016 (As Restated – see Note 2.1(c)) |
|---|---|---|---|
| Tax on consolidated pretax income at 30% | **P 9,535,014,878** | P 8,652,777,302 | P 8,650,470,920 |
| Adjustment for income subjected to different tax rates | **( 345,795,938)** | ( 578,379,091) | ( 348,542,968) |
| Tax effects of: | | | |
| Income not subject to RCIT | **( 8,201,593,447)** | ( 7,865,868,054) | ( 8,637,611,499) |
| Nondeductible expenses | **7,464,431,878** | 5,856,657,553 | 6,223,226,155 |
| Tax benefit arising from unrecognized deferred tax asset | **239,154,803** | 617,264,763 | 494,620,447 |
| Adjustment to current tax from prior years | **27,793,181** | ( 27,237,835) | 27,256,320 |
| Additional deduction with the use of Optional Standard Deduction (OSD) | **( 10,889,592)** | ( 94,299,139) | ( 405,692,407) |
| Changes in tax rates | **-** | - | ( 100,089,472) |
| Others | **( 600,611,226)** | 5,706,922 | ( 15,274,627) |
| Tax expense reported in consolidated profit or loss | **P 8,107,504,537** | P 6,566,622,421 | P 5,888,362,869 |

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

| | 2018 | 2017 (As Restated – see Note 2.1(c)) | 2016 (As Restated – see Note 2.1(c)) |
|---|---|---|---|
| Deferred tax assets: | | | |
| Retirement benefit obligation | **P 711,922,438** | P 583,929,095 | P 567,259,624 |
| Allowance for impairment losses | **168,828,516** | 161,011,108 | 112,376,019 |
| Allowance for property development costs | **9,227,732** | - | - |
| Allowance for inventory write-down | **8,638,235** | 7,126,361 | 11,396,504 |
| MCIT | **5,723,082** | 4,423,918 | 150,326,920 |
| Net operating loss carry-over (NOLCO) | **5,399,215** | 9,463,930 | 20,849,612 |
| Unrealized foreign currency loss | **3,988,361** | - | - |
| Accrued rent | **-** | - | 28,662,399 |
| Unrealized income – net | **-** | - | 3,078,688 |
| Others | **95,541,928** | 35,429,590 | 86,806,482 |
| | **P 1,009,269,507** | P 801,384,002 | P 980,756,248 |
| Deferred tax liabilities – net: | | | |
| Uncollected gross profit | **P 5,655,708,165** | P 4,528,857,432 | P 3,973,359,862 |
| Capitalized interest | **2,991,427,467** | 2,249,073,078 | 1,803,280,040 |
| Brand valuation | **1,832,968,656** | 1,639,406,000 | 1,489,925,000 |
| Difference between the tax reporting base and financial reporting base of property, plant and equipment | **1,387,749,156** | 296,665,745 | 287,572,150 |
| Unrealized foreign currency loss – net | **( 852,134,494)** | ( 1,037,291,789 ) | ( 1,220,035,435) |
| Retirement benefit obligation | **( 268,304,250)** | ( 112,382,943 ) | ( 295,187,069) |
| Uncollected rental income | **90,717,074** | 31,094,119 | 52,328,557 |
| Fair value adjustment | **78,796,405** | 120,883,120 | 101,765,080 |
| Others | **160,602,920** | 53,860,934 | ( 316,848,264) |
| | **P 11,077,531,099** | P 7,770,165,696 | P 5,876,159,921 |

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

| | Consolidated Profit or Loss | | | Consolidated Other Comprehensive Income | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| Deferred tax expense (income): | | | | | | |
| Uncollected gross profit | **P 1,218,405,616** | P 242,109,769 | P1,679,877,371 | **P -** | P - | P - |
| Difference between the tax reporting base and financial reporting base of property, plant and equipment | **1,091,083,411** | ( 304,991,125 ) | 28,781,481 | - | - | - |
| Capitalized interest | **742,354,389** | 521,712,906 | 371,781,902 | - | - | - |
| Retirement benefit obligation | **( 349,351,745)** | 216,716,315 | ( 210,775,818) | **73,057,872** | 189,305,616 | ( 130,194,376 ) |
| Brand valuation | **193,562,656** | 149,481,000 | ( 307,484,000) | - | - | - |
| Unrealized foreign currency loss (gains) - net | **179,728,927** | 183,905,853 | ( 556,157,823) | - | - | - |
| Uncollected rental income | **50,549,422** | 1,210,328 | 44,446,380 | - | - | - |
| Fair value adjustments on AFS | **( 42,086,715)** | ( 396,834,640 ) | ( 261,789,420) | - | - | - |
| Allowance for impairment losses | **29,116,331** | 12,432,142 | 10,710,914 | - | - | - |
| NOLCO | **4,064,715** | 11,385,882 | ( 4,568,539) | - | - | - |
| MCIT | **( 1,299,164)** | 143,325,455 | 1,144,098 | - | - | - |
| Accrued rent | **-** | 7,394,970 | - | - | - | - |
| Translation adjustments | **-** | - | - | **716,975** | 409,175 | 13,068,552 |
| Others | **( 8,469,052)** | 675,251,392 | ( 17,511,447) | - | - | - |
| Deferred tax expense (income) | **P3,107,658,791** | P 1,463,100,247 | P 778,445,099 | **P 73,774,847** | P189,714,791 | (P 117,125,824) |

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

| Year | Original Amount | Applied | Expired Balance | Remaining Balance | Valid Until |
|---|---|---|---|---|---|
| 2018 | P 504,061,812 | P - | P - | P 504,061,812 | 2021 |
| 2017 | 1,736,298,245 | ( 711,524,510) | - | 1,024,773,735 | 2020 |
| 2016 | 795,017,654 | ( 774,915,232) | - | 20,102,422 | 2019 |
| 2015 | 747,208,084 | ( 704,049,655) | ( 43,158,429 ) | - | |
| | **P 3,782,585,795** | **(P2,190,489,397)** | **(P 43,158,429)** | **P 1,548,937,969** | |

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

| Year | Original Amount | Applied | Expired Balance | Remaining Balance | Valid Until |
|---|---|---|---|---|---|
| 2018 | P 63,452,475 | P - | P - | P 63,452,475 | 2021 |
| 2017 | 36,286,775 | ( 66,299) | - | 36,220,476 | 2020 |
| 2016 | 31,624,246 | ( 1,357,695) | - | 30,266,551 | 2019 |
| 2015 | 21,551,668 | ( 45,256) | ( 21,506,412 ) | - | |
| | **P 152,915,164** | **(P 1,469,250)** | **(P 21,506,412)** | **P 129,939,502** | |

*(Amounts in Philippine Pesos)*

The following summarizes the amount of NOLCO and other deductible temporary differences as at the end of 2018, 2017 and 2016 for which the related deferred tax assets– net have not been recognized by certain subsidiaries within the Group based on their assessments that the related tax benefits may not be realized within the prescriptive period:

| | **2018** | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | **Amount** | **Tax Effect** | Amount | Tax Effect | Amount | Tax Effect |
| NOLCO | **P 1,530,940,587** | **P 459,282,176** | P 3,152,232,880 | P 945,669,864 | P 3,020,075,070 | P 906,022,521 |
| Allowance for impairment | **283,085,427** | **84,925,628** | 177,213,977 | 53,164,193 | 28,167 | 8,450 |
| Share-based compensation | **647,239,210** | **194,171,763** | 647,239,210 | 194,171,763 | 175,780,739 | 52,734,222 |
| Retirement benefit obligation | **194,235,387** | **58,270,616** | 201,818,650 | 60,545,595 | 73,391,230 | 22,017,369 |
| MCIT | **124,154,674** | **124,154,674** | 84,173,420 | 84,173,420 | 55,435,303 | 55,435,303 |
| Unrealized foreign currency losses – net | **( 1,811,460)** | **( 543,438)** | ( 18,684,900 ) | ( 5,605,470) | 547,769,984 | 164,330,995 |
| Allowance for inventory write-down | **-** | **-** | 112,927 | 33,878 | 496,529 | 148,959 |
| Unrealized loss on interest rate swap | **-** | **-** | - | - | 561,969,185 | 168,590,756 |
| ARO | **-** | **-** | 1,123,830 | 337,149 | 300,867 | 90,260 |
| | **P 2,777,843,825** | **P 920,261,419** | P 4,245,229,994 | P 1,332,490,392 | P 4,435,247,074 | P 1,369,378,835 |

The total amount of NOLCO and MCIT for which no deferred tax assets have been recognized as of December 31, 2018 and 2017, would expire in full at the end of 2021 and 2020, respectively. All other unrecognized deferred tax assets do not expire.

### *28.2 Optional Standard Deduction*

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

In 2018, 2017 and 2016, the Philippine companies within the Group opted to continue claiming itemized deductions in computing for its income tax due, except for EDI, AWGI and MDC, which opted to claim OSD during the same taxable years.

### *28.3 Taxation of Casino Operations*

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

In April 2013, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) 33-2013 declaring that PAGCOR and its contractees and its licensees are no longer exempt from corporate income tax under the National Internal Revenue Code of 1997, as amended [see Note 30.3(c)]. Effective April 1, 2014, PAGCOR issued Guidelines for a 10% Income Tax Allocation (ITA) measure whereby, effective April 1, 2014, the 25% and 15% license fees were effectively reduced to 15% and 5%, respectively, inasmuch as 10% of the license fees was allocated for income tax on gaming, subject to quarterly and annual true-up mechanisms obliging the licensees to remit to PAGCOR any savings from the excess ITA over the actual tax paid on the gaming revenues. In 2016, the ITA ceased to be effective as a result of the Philippine Supreme Court (SC) Decision.

In August 2016, the SC, in *Bloomberry Resorts and Hotels, Inc. vs. BIR*, (the SC Decision) confirmed that "all contractees and licensees of PAGCOR, upon payment of the 5% franchise tax, shall be exempted from all other taxes, including income tax realized from the operation of casinos." The SC Decision has been affirmed with finality by SC in a resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the BIR.

Total license fees recognized amounted to P4.4 billion, P3.9 billion and P5.2 billion in 2018, 2017 and 2016, respectively, and are presented as Gaming license fees as part of Cost of Services account in the consolidated statements of comprehensive income (see Note 24). The outstanding liabilities are presented as Gaming license fees payable under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

## 29. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, associates, jointly controlled entities, the Group's key management personnel and retirement fund, and others (see Note 2.25). The summary of the Group's transactions and balances with its related parties as of and for the years ended December 31, 2018, 2017 and 2016 are as follows:

| Related Party Category | Notes | Amount of Transaction 2018 | Amount of Transaction 2017 | Amount of Transaction 2016 | Outstanding Balance Receivable (Payable) 2018 | Outstanding Balance Receivable (Payable) 2017 |
|---|---|---|---|---|---|---|
| **Parent Company and subsidiaries' stockholders:** | | | | | | |
| Casino transactions | 29.2 | P 222,106,178 | P 278,977,739 | P 343,690,659 | (P 1,346,880) | P 6,441,882 |
| Management fees | 29.3 | 200,375,091 | 201,402,916 | 379,568,801 | (17,173,497) | (12,806,175) |
| Accounts payable | 29.5 | - | (33,000,002) | 2,500,000 | (347,670,510) | (347,670,510) |
| Acquisition of investment | 29.7 | 3,714,285,146 | - | - | (1,046,400,000) | - |
| **Related party under common ownership:** | | | | | | |
| Purchase of raw materials | 29.1 | 3,348,852,355 | 2,659,080,044 | 3,368,144,240 | (941,949,372) | (388,836,242) |
| Advances granted | 29.4 | 238,678,133 | (119,707,370) | (1,297,135,789) | 1,512,954,344 | 1,274,276,211 |
| Purchase of imported goods | 29.1 | 23,643,366 | 11,318,183 | 10,684,018 | (459,844) | (205,786) |
| Management services | 29.1 | 60,000,000 | 45,000,000 | 51,000,000 | (76,500,000) | (33,000,000) |
| **Associates –** | | | | | | |
| Advances granted | 29.4 | (138,316,007) | 143,592,779 | (154,505,925) | 1,131,548,974 | 1,269,864,981 |
| **Others:** | | | | | | |
| Advances from joint venture partners and others | 29.6 | 55,488,129 | 588,719,285 | 250,094,875 | (2,385,463,118) | (2,329,974,989) |
| Accounts receivable | 29.5 | 78,811,540 | (562,586,208) | 538,920,305 | 328,275,642 | 249,464,102 |
| Sales of investment property | 14 | - | 565,490,000 | - | 418,391,250 | 463,391,250 |
| Accounts payable | 29.5 | (75,000,000) | (123,054,492) | 211,103,622 | (65,208,430) | (140,208,430) |
| Donations | 30.3(b) | 156,673,203 | 133,250,752 | 208,587,823 | (16,717,694) | (13,511,915) |

Unless otherwise stated, the outstanding balance of the Group's transactions with its related parties are unsecured, noninterest-bearing and payable or collectible on demand.

### *29.1 Purchase of Goods and Management Agreement*

Emperador imports raw materials such as alcohol, flavorings and other items, and finished goods through Andresons Global, Inc. and Consolidated Distillers of the Far East, inc. (Condis), related parties under common ownership. These transactions are payable within 30 days. Emperador also imports raw materials from Alcoholera dela Mancha Vinicola, S.A.U., a wholly owned subsidiary of BLC.

Moreover, Emperador also entered into a management agreement with Condis for the consultancy and advisory services in relation to the operation, management, development and maintenance of its distillery plant. . The total management fees incurred are presented as part of Outside services under the Costs of Goods Sold account in the consolidated statements of comprehensive income.

The outstanding liability related to these purchases is presented as part of Trade payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

### *29.2 Casino Transactions with Genting Hongkong, Ltd. (GHL)*

Travellers recognized outstanding accounts to and from GHL representing show money received by Travellers (GHL) from foreign patrons which the counterparty will later remit to the other. The outstanding balances, which are unsecured, noninterest-bearing and payable in cash upon demand, are presented as part of Trade payables under Trade and Other Payables account (see Note 16), and Trade receivables under Trade and Other Receivables account (see Note 6) in the 2018 and 2017 consolidated statements of financial position, respectively.

### *29.3 Operations and Management Agreement with GHL*

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

### *29.4 Advances to Associates and Other Related Parties*

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

| | **2018** | 2017 |
|---|---|---|
| Associates | **P 1,131,548,974** | P 1,269,864,981 |
| Other related parties | **1,512,954,344** | 1,274,276,211 |
| | **P 2,644,503,318** | P 2,544,141,192 |

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

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **P 2,544,141,192** | P 2,520,255,783 |
| Cash advances granted | **355,789,071** | 308,966,472 |
| Collections | **( 255,426,945)** | ( 285,081,063) |
| Balance at end of year | **P 2,644,503,318** | P 2,544,141,192 |

As at December 31, 2018 and 2017, 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.

### *29.5 Due from/to Related Parties*

Transactions with related parties include the following: financing of opening of letters of credit and payment of progress billing, royalty fees, rentals, interest and certain expenses in behalf of the entities within Group or other related parties. The amounts due from and to related parties are unsecured, noninterest-bearing and due and demandable any time. Settlement is generally made in cash or through offsetting arrangements.

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

| | **2018** | 2017 |
|---|---|---|
| ***Due from Related Parties*** | | |
| Officers and employees | **P 273,599,434** | P 194,393,129 |
| Other related parties | **54,676,208** | 55,070,973 |
| | **P 328,275,642** | P 249,464,102 |

(Amounts in Philippine Pesos)

| | 2018 | 2017 |
|---|---|---|
| ***Due to Related Parties*** | | |
| Stockholder | **P 347,670,510** | P 347,670,510 |
| Other related parties | **65,208,430** | 140,208,430 |
| | **P 412,878,940** | P 487,878,940 |

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

| | Note | 2018 | 2017 |
|---|---|---|---|
| ***Due from Related Parties*** | | | |
| Balance at beginning of year | | **P 249,464,102** | P 812,050,310 |
| Additions | | **200,099,920** | 74,687,948 |
| Collections | | **( 111,947,564)** | ( 637,274,156) |
| | 6 | **337,616,458** | 249,464,102 |
| Impairment loss | | **( 9,340,816)** | - |
| Balance at end of year | | **P 328,275,642** | P 249,464,102 |
| ***Due to Related Parties*** | | | |
| Balance at beginning of year | | **P 487,878,940** | P 643,933,434 |
| Additions | | **150,000,000** | 107,725,172 |
| Repayments | | **( 225,000,000)** | ( 263,779,666) |
| Balance at end of year | | **P 412,878,940** | P 487,878,940 |

With respect to its due from related parties, the Group recognized an impairment loss under the ECL model amounting to P9.3 million in 2018 and presented as part of Other Operating Expenses account in the 2018 consolidated statement of comprehensive income (see Note 25).

As at December 31, 2018 and 2017, based on management's assessment, the outstanding balances of Due from officers and employees and related parties are not impaired; hence, no impairment losses were recognized.

### *29.6 Non-current Advances from Related Parties*

Certain expenses of entities within the Group are paid for by other related parties. The advances are unsecured, noninterest-bearing, with no repayment terms, and generally payable in cash or through offsetting arrangements.

Advances from JV partners pertain to advances from golf share partners and lot owners which amounted to P395.4 million and P396.4 million in 2018 and 2017, respectively, net of deferred interest expense amounting to nil and P11.3 million, respectively (see Note 10.2).

The amortization of deferred interest amounting to P11.3 million in 2018, 2017 and 2016 is presented as part of Interest expense under the Finance Costs and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

Details of Advances from Related Parties and JV Partners are presented as follows:

| | 2018 | 2017 |
|---|---|---|
| Advances from related parties | **P1,990,038,475** | P1,933,600,038 |
| Advances from JV partners | **395,424,643** | 396,374,951 |
| | **P2,385,463,118** | P2,329,974,989 |

### *29.7 Acquisition of Investments*

In 2018, AGI acquired 2,250.0 million shares of PCMI for P3,714.3 million from TAGI, by way of assignment of subscription rights. The acquisition represents 60% ownership in PCMI. As at December 31, 2018, there is an outstanding liability from this transaction amounting to P1,046.4 million which is shown as part of Others under Trade and Other Payables account in the 2018 statement of financial position [see Notes 1.2(a) and 16].

Effective ownership over PCMI is 71% and 11% at December 31, 2018 and 2017, respectively, derived from AGI's 60% and EELHI's 20% holdings. AGI exercises its control over PCMI through EELHI. Further, in January 2019, EELHI acquired additional shares of PCMI representing additional 20% direct ownership.

### *29.8 Key Management Personnel Compensation*

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Short-term employee benefits | **P 1,051,064,363** | P 855,629,967 | P 730,699,750 |
| Share-option benefit expense | **124,009,692** | 17,507,035 | 94,630,786 |
| Retirement benefit expense | **26,498,871** | 87,428,665 | 74,849,437 |
| | **P 1,201,572,926** | P 960,565,667 | P 900,179,973 |

### *29.9 Transactions with the Retirement Plans*

The Group has a formal retirement plan established separately for each significant subsidiary, particularly Megaworld, GERI, ELI, Travellers, GADC, EDI and WML. These plans are defined benefit post-employment plan maintained for qualified employees, administered and managed by trustee banks (except for GERI which is still an unfunded plan) that are legally separated from the Group. The retirement funds do not provide any guarantee or surety for any obligation of the Group and their investments are not covered by any restrictions or liens. The fair value, carrying amount and the composition of the plan assets as at December 31, 2018 and 2017 are shown in Note 27.2.

(Amounts in Philippine Pesos)

## 30. COMMITMENTS AND CONTINGENCIES

### *30.1 Operating Lease Commitments – Group as Lessor*

The Group is a lessor under non-cancellable operating lease agreements covering certain office and commercial spaces. The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rate of 5% to 10%.

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Within one-year | **P 14,113,088,623** | P 11,550,444,399 | P10,862,959,288 |
| After one year but not more than five years | **73,431,883,672** | 62,792,070,703 | 56,270,960,545 |
| More than five years | **22,263,027,667** | 19,363,948,200 | 18,267,699,701 |
| | **P109,807,999,962** | P 93,706,463,302 | P 85,401,619,534 |

### *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:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Within one year | **P 246,150,887** | P 299,466,940 | P 374,066,033 |
| After one year but not more than five years | **617,733,101** | 676,697,887 | 685,514,740 |
| More than five years | **936,736,508** | 815,218,784 | 591,096,671 |
| | **P 1,800,620,496** | P 1,791,383,611 | P 1,650,677,444 |

### *30.3 Provisional License Agreement of Travellers with PAGCOR*

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

(a) *Investment Commitments*

Under the terms of the License, Travellers and WCRWI are required to complete its U.S.$1.3 billion (about P68.5 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 P58.0 billion) and U.S.$216.0 million (about P11.4 billion), respectively (collectively, the Project).

Travellers and WCRWI are required to fully invest and utilize in the development of the Project at least 40% of the respective phases of the investment commitment for Site A and Site B within two years from Site Delivery.

As a requirement in developing the aforementioned Project, Travellers transferred U.S.$100.0 million (about P5.3 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 P2.6 billion) (see Note 9). For failure to comply with such maintaining balance requirement after a 15-day grace period, Travellers shall be charged by PAGCOR an amount equal to P2.5 million for every 15 calendar days until the noncompliance is corrected. All funds for the development of the Project shall pass through the escrow deposit and all drawdown therefrom must be applied to the Project, unless Travellers is allowed to use other funds.

As at December 31, 2018, Travellers has spent P87.2 billion for its casino projects pursuant to its investment commitment under the License. It has short-term placements amounting to U.S.$ 59.8 million (about P3.2 billion) and U.S.$ 62.1 million (about P3.1 billion) as at December 31, 2018 and 2017, respectively, to meet its requirements with PAGCOR in relation to these investment commitments (see Note 9).

*(b) Requirement to Establish a Foundation*

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

The Foundation shall be funded by Travellers by setting aside funds on a monthly basis. The funds set aside shall be remitted to the Foundation on or before the $10^{th}$ day of the succeeding month. Travellers recognized accrual based on 2% of total gross gaming revenues from non-junket tables. PAGCOR sets the guidelines for the utilization of funds as it approves, monitors the implementation, and conducts a post-audit of the projects the Foundation undertakes.

Pursuant to PAGCOR's guidelines, the Foundation is tasked to undertake projects in line with the following disciplines: (i) restoration of cultural heritage; (ii) education infrastructure; and, (iii) environment and health. As of December 31, 2018, the following are the completed and on-going projects of the Foundation:

- Construction of school buildings in partnership with the Philippine Department of Education (DepEd) whereby five school buildings in various public schools in Metro Manila and Luzon were completed and turned over to DepEd and the collegiate universities, while one more school building is currently being constructed;

- Computerization project with DepEd through providing a computer laboratory to various public schools in various parts of the country whereby all phases of the said project covering 27 schools have been completed;

- Funding of the construction of a cadet barracks at the Philippine Military Academy (PMA) in Baguio City in a joint effort with another PAGCOR licensee's foundation, which was completed and turned over to PMA;

- Agreements with various universities to provide scholarship opportunities to poor but deserving students enrolled in the field of performing arts whereby the related funds have been granted for the scholars in each school;

- Construction of treatment and rehabilitation centers in coordination with the Department of Health in Davao City and Taguig City; and,

- Donation of funds for medicines, medical supplies and equipment for Philippine National Police Camp Crame General Hospital and Paranaque City.

*(c) Tax Contingencies of Casino Operations*

Under the Travellers' License with the PAGCOR, Travellers is subject to the 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues. In April 2013, however, the BIR issued RMC 33-2013 declaring that PAGCOR, its contractees and its licensees are no longer exempt from corporate income tax under the National Internal Revenue Code of 1997, as amended (see Note 28.3).

In August 2016, the SC confirmed that "all contractees and licensees of PAGCOR, upon payment of the 5% franchise tax, shall be exempted from all other taxes, including income tax realized from the operation of casinos." The SC Decision has been affirmed with finality by the SC in a Resolution dated November 28, 2016, when it denied the Motion for Reconsideration filed by the BIR. Consistent with the decision of SC, on June 13, 2018, the Office of the Solicitor General issued a legal opinion stating that the tax exemption and imposition of 5% franchise tax in lieu of all other taxes and fees for gaming operations that was granted to PAGCOR extended to all PAGCOR contractees and licensees.

***30.4 Participation in the Incorporation of Entertainment City Estate Management, Inc. (ECEMI)***

As a PAGCOR licensee, Travellers committed itself to take part in the incorporation of ECEMI in 2012, a non-stock, non-profit entity that shall be responsible for the general welfare, property, services and reputation of the Bagong Nayong Pilipino Entertainment City Manila. As at December 31, 2018 and 2017, contributions made to ECEMI booked in favor of Travellers amounted to P1.3 million and is presented as part of Others under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

### *30.5 Various Hotel Agreements Entered by Travellers*

*(a) Marriott Group (Marriott and Courtyard Iloilo)*

Travellers has various service, license and royalty agreements with Marriott International B.V., Marriott International Design and Construction Services Inc., and International Hotel Licensing Company S.A.R.L., and Marriott International Licensing Company B.V. (collectively hereafter referred to as Marriott Group) for the license, supervision, direction, control and management of operations of the Travellers' Marriott, including the monitoring of its compliance with Marriott Group's standards.

The service agreements also include certain services in support of Marriott outside the Philippines. Such services are generally made available to hotels in the Marriott System and shall include the international advertising, promotion and sales programs, core training programs and other training programs for the benefit of the Marriott employees, special services and programs for the benefit of the Marriott System, and the reservations system, property management system and other systems.

Further, the license and royalty agreement with Marriott Group grants Travellers a non-exclusive and non-transferable right and license within Metro Manila and Iloilo to use the Marriott Trademarks for hotel services and other related goods and services offered only in connection with Travellers' Marriott.

*(b) Holiday Inn*

In 2017, Travellers also entered into a Hotel Management Agreement (HMA) with Holiday Inns (Philippines), Inc. for the license, supervision, direction, control and management of operations of Holiday Inn Express (formerly Remington Hotel), including the monitoring of its compliance with the hotel group standards.
The HMA includes security arrangements, refurbishment of the existing structure, rebranding, advertising, promotion and sales programs, core training programs and other training programs for the benefit of the employees, special services, the reservations system, property management system and other systems.

The parties also entered into a Franchise Agreement for the non-exclusive use and non-transferable license to use the brand marks for the hotel services and other related goods offered in connection with Travellers' Holiday Inn Express, which started operating in January 2018.

As of December 31, 2018, there were no payments yet for the agreements with Holiday Inn.

*(c) Hotel Okura Manila*

Also in 2017, Travellers and Hotel Okura Co., Ltd (Okura) signed another HMA for the license, supervision, direction, control and management of operations of the Hotel Okura Manila, which includes advertising, promotion and sales programs, core training programs and other training programs for the benefit of the employees, special services, the reservations system, property management system and other systems.

The HMA with Okura grants Travellers a non-exclusive and non-transferable right to use the Okura trademarks for hotel services and other related goods and services offered only in connection with the Hotel Okura Manila, which is expected to open in 2019.

*(d)* *Sheraton Manila Hotel*

In 2017, an Operating Services Agreement (OSA) was executed between LSHRI and Starwood Asia Pacific Hotels & Recreation PTE. LTD (Starwood), a fully-owned company of Marriott Group, for the license, supervision, direction, control and management of operations of the Sheraton Manila Hotel, including the monitoring of its compliance with Marriott Group's standards.

The OSA also includes certain services similar to those covered by the existing agreement with the Marriott Group. Likewise, the license and royalty agreement with Starwood grants LSHRI similar rights provided by Marriott Group to Travellers. Sheraton Manila Hotel is expected to start its operations in 2019.

*(e)* *Hilton Manila*

Also in 2017, a Management Agreement (MA) was executed between DHRI and Hilton International Manage LLC (Hilton) for the license, supervision, direction, control and management of operations of Hilton Manila , including the monitoring of its compliance with Hilton's standards.

The MA includes design and decoration of the Hilton Manila, advertising, promotion and sales programs, core training programs and other training programs for the benefit of the Hilton employees, special services and programs, and the reservations system, property management system and other systems.

The MA grants DHRI a nonexclusive and nontransferable right to use the Hilton Trademarks for hotel services and other related goods and services offered only in connection with the Hilton Manila. The Hilton Manila started operations in October 2018.

Payments to be made by Travellers for operating these foregoing hotel brand shall be computed based on the provisions of the above agreements. Total amounts recognized from these transactions in 2018, 2017 and 2016 totaled P117.1 million, P103.0 million and P62.8 million, respectively, and are presented as part of Management fees under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding liabilities, which are unsecured, noninterest-bearing and payable in cash upon demand, as at December 31, 2018 and 2017 amounted to P104.5 million and P7.5 million, respectively, and are presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

### *30.6 License Agreements with MRO*

MRO granted GADC the nonexclusive right to adopt and use the McDonald's System in its restaurant operations in the Philippines. In March 2005, the license agreement was renewed for another 20 years, and provides for a royalty fee based on certain percentage of gross sales from the operations of GADC's restaurants, including those operated by the franchisees. GADC recognized royalty expenses amounting to P1,257.2 million, P1,132.6 million and P1,059.9 million for 2018, 2017 and 2016, respectively, which are presented under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding payable to MRO relating to royalty expenses amounted to P227.8 million and P204.1 million as at December 31, 2018 and 2017, respectively, and presented as part of Accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

Individual sublicense arrangements granted to franchisees and joint venturers generally include a lease and a license to use the McDonald's system in the Philippines and, in certain cases, the use of restaurant facility, generally for a period of 10 years provided, however, that should GADC's license rights from McDonald's be terminated at an earlier date or not renewed for any reason whatsoever, these sublicense agreements shall thereupon also be terminated. Revenues recognized from sublicense agreements are presented as Franchise revenues in the consolidated statement of comprehensive income (see Note 23.1).

### *30.7 Consortium Agreement for Ninoy Aquino International Airport (NAIA)*

On February 12, 2018, AGI as a member of a consortium of seven (7) conglomerates, submitted a P102-billion unsolicited proposal to the Department of Transportation (DOTr) for the improvement, upgrade, enhancement, expansion, operation and maintenance, and management of the NAIA. On September 10, 2018, the DOTr and Manila International Airport Authority granted an Original Proponent Status (OPS) to the consortium.

### *30.8 Skytrain Project*

On October 10, 2017, the Group submitted a P3-billion unsolicited proposal to the government to build a 1.87-kilometer Skytrain monorail project and transfer its ownership title to the government. The Group was granted an OPS by the DOTr on May 17, 2018. The following day, DOTr formally endorsed the project to the National Economic and Development Authority – Investment Coordination Committee and is now undergoing review and evaluation

### *30.9 Others*

As at December 31, 2018 and 2017, the Group has unused lines of credit from banks and financial institutions totaling P27.5 billion and P23.7 billion respectively.

In 2016, Travellers was granted a right by the Philippine Government to construct RunWay Manila, a pedestrian link bridge that connects NAIA Terminal 3 and Newport City, and which is accessible to the public, free of charge. RunWay Manila is fully financed by Travellers and was completed in April 2017.

On June 2, 2017, a certain individual entered Travellers' premises, fired his assault rifle, and set ablaze gaming furniture and equipment in the casino which resulted to physical damages on a portion of the properties [see Notes 3.1(n) and 13]. The individual forcibly entered the casino area with a clear motive to rob and he started fires as a diversionary tactic. The smoke from the fires caused the death of several employees and guests, as well as physical injuries to a number of people.

As opined by Travellers' external counsel, based on the reports from the insurer's adjusters, and taking into consideration the reports of the pertinent government agencies, there is strong legal ground to believe that the insurance claims related to the June 2 incident will not be disallowed. Consequently, property damages and losses were recognized and presented as Losses from casualty, net of insurance claims under Finance and Other Charges account in the 2017 consolidated statement of comprehensive income (see Note 26). The related receivable representing the reimbursement from expected minimum insurance claims and recoveries from the third party insurance company is presented as Claims receivables under Trade and Other Receivables account in the 2017 consolidated statement of financial position (see Note 6).

In 2018, the Group fully collected the claims accrued as of December 31, 2017 and received additional recoveries for business interruption. The Group presented the income from these recoveries under Finance and Other Income account in the 2018 consolidated statement of comprehensive income (see Note 26).

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, financial assets at FVOCI, AFS financial assets, interest-bearing loans, bonds payable, trade receivables and payables and derivative liabilities which arise directly from the Group's business operations. The financial debts were issued to raise funds for the Group's capital expenditures.

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

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

### *31.1 Market Risk*

*(a) Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in Philippine pesos, Euros, U.K. pounds and US dollars, which are the functional currencies of the individual subsidiaries making the transactions. The currency exchange risk arises from transactions carried out in currencies other than the functional currency of the subsidiaries at each entity level.

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **U.S. Dollars** | **HK Dollars** | U.S. Dollars | HK Dollars |
| Financial assets | **P 5,046,723,090** | **P 4,393,877,128** | P 5,735,896,982 | P 1,654,695,454 |
| Financial liabilities | **( 20,699,495,919 )** | **( 1,128,098,097)** | ( 28,240,870,131) | ( 508,438,210) |
| | **(P 15,652,772,829 )** | **P 3,265,779,031** | (P 22,504,973,149) | P 1,146,257,244 |

The sensitivity of the consolidated income before tax for the period with regard to the Group's financial assets and the U.S. dollar – Philippine peso exchange rate assumes +/- 7.43% and +/- 8.65% changes in exchange rate for the years ended December 31, 2018 and 2017, respectively. The HK dollar – Philippine peso exchange rate assumes +/- 7.57% and +/- 8.99% changes for the year ended December 31, 2018 and 2017. These percentages have been determined based on the average market volatility in exchange rates in the previous year and 12 months, respectively, estimated at 95% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting periods.

If the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, consolidated profit before tax would have increased by P1.2 billion for the year ended December 31, 2018 and increased by P1.9 billion for the year ended December 31, 2017. If in 2018 and 2017, the Philippine peso had strengthened against the HK dollar, with all other variables held constant, consolidated profit before tax would have decreased by P0.2 billion for the year ended December 31, 2018 and P0.1 billion for the year ended December 31, 2017.

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

The Group has no significant exposure to changes in foreign currency exchange rates for Euros and U.K. pounds since these currencies are not significant to the Group's consolidated financial statements.

The Group periodically reviews the trend of the foreign exchange rates and monitors its non-functional currency cash flows.

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

*(b) Interest Rate Sensitivity*

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

The sensitivity of the consolidated profit before tax for the period to a reasonably possible change in interest rates of +/- 2.91% for Philippine peso and +/- 1.99% for U.S. dollar in 2018 and +/- 0.97% for Philippine peso and +/- 1.14% for U.S. dollar in 2017 with effect from the beginning of the period. These percentages have been determined based on the average market volatility in interest rates, using standard deviation, in the previous year and 12 months, respectively, estimated at 95% level of confidence.

The sensitivity analysis is based on the Group's financial instruments held as at December 31, 2018 and 2017, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P3.3 billion and P1.0 billion for the years ended December 31, 2018 and 2017, 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***

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, which include granting loans and receivables to customers and other counterparties, and placing deposits.

The Group 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 reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Generally, the Group's credit risk is attributable to trade and other receivable arising mainly from transactions with approved franchisees, installment receivables, rental receivables and other financial assets. The carrying values of these financial assets subject to credit risk are disclosed in Note 32.

The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Franchisees are subject to stringent financial, credit and legal verification process. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant portion of sales, advance payments are received to mitigate credit risk.

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

Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 per depositor per banking institution.

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

| | 2018 | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|
| Not more than 30 days | **P 6,168,427,517** | P 3,281,824,814 |
| 31 to 60 days | **2,118,222,699** | 1,625,373,515 |
| Over 60 days | **1,774,318,897** | 880,970,361 |
| | **P 10,060,969,113** | P 5,788,168,690 |

### *31.3 Liquidity Risk*

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

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

As at December 31, 2018, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | | Non-current | |
|---|---|---|---|---|
| | **Within 6 Months** | **6 to 12 Months** | **1 to 5 Years** | **Later than 5 Years** |
| Trade and other payables | P 39,230,499,206 | P 6,800,895,953 | P - | P - |
| Interest-bearing loans | 13,494,324,190 | 12,449,456,918 | 143,683,341,001 | 3,307,547,673 |
| Bonds payable | - | 1,202,612,500 | 30,032,563,750 | - |
| ELS | - | - | 5,402,665,931 | - |
| Advances from related parties | - | - | 2,385,463,118 | - |
| Redeemable preferred shares | - | 268,957,813 | 772,152,973 | 1,574,159,348 |
| Guaranty deposits | - | - | 153,529,825 | 208,423,557 |
| Derivative liabilities | 393,300,753 | - | - | - |
| Other liabilities | - | 1,171,355,329 | 4,305,304,967 | 101,279,537 |
| | **P 53,118,124,149** | **P 21,893,278,513** | **P186,735,021,565** | **P 5,191,410,115** |

*(Amounts in Philippine Pesos)*

As at December 31, 2017, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | | Non-current | |
|---|---|---|---|---|
| | Within 6 Months | 6 to 12 Months | 1 to 5 Years | Later than 5 Years |
| Trade and other payables | P 31,258,910,773 | P 5,435,756,792 | P - | P - |
| Interest-bearing loans | 24,704,119,789 | 10,276,295,553 | 112,904,905,599 | 2,484,095,007 |
| Bonds payable | 10,533,444,945 | 548,844,946 | 4,691,407,500 | 25,709,595,938 |
| ELS | - | - | 5,525,331,862 | - |
| Advances from related parties | - | - | 2,329,974,989 | - |
| Redeemable preferred shares | - | 251,597,580 | 1,006,390,320 | 1,574,159,348 |
| Guaranty deposits | - | - | 129,185,721 | 256,772,125 |
| Derivative liabilities | 353,967,287 | | - | - |
| Other liabilities | - | 844,830,196 | 3,480,775,781 | 102,476,359 |
| | P 66,850,442,794 | P 17,357,325,067 | P130,067,971,772 | P 30,127,098,777 |

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 financial assets at FVOCI in 2018 and AFS financial assets in 2017). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Group's investments held at fair value and their impact on the equity as at December 31, 2018 and 2017 are summarized as follows:

| | Observed Volatility Rates | | Impact on Equity | |
|---|---|---|---|---|
| | **Increase** | **Decrease** | **Increase** | **Decrease** |
| 2018 - Investment in equity securities | **+35.39%** | **-35.39%** | **P 48,923,706** | **(P 48,923,706)** |
| 2017 - Investment in equity securities | +23.39% | -23.39% | P 32,014,364 | (P 32,014,364) |

The maximum additional estimated loss in 2018 and 2017 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.

The Group is also exposed to other price risk in respect of its financial instruments at FVTPL which pertain to marketable debt securities, quoted equity securities and derivative financial assets and liabilities arising from foreign exchange margins trading spot and forward. These financial instruments will continue to be measured at fair value based on quoted prices for marketable debt and equity securities, and index reference provided by certain foreign financial institution for derivative financial assets.

## 32. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

| | Notes | 2018 Carrying Values | 2018 Fair Values | 2017 Carrying Values | 2017 Fair Values |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| Financial assets at amortized cost: | | | | | |
| Cash and cash equivalents | 5 | **P 44,779,011,533** | **P 44,779,011,533** | P 52,784,400,162 | P 52,784,400,162 |
| Trade and other receivables | 6 | **52,852,435,257** | **52,829,566,514** | 48,389,999,883 | 48,387,974,595 |
| Other financial assets | 9 | **8,365,705,660** | **8,460,215,641** | 7,995,540,593 | 7,917,273,805 |
| | | **P 105,997,152,450** | **P 106,068,793,688** | P109,169,940,638 | P 109,089,648,562 |
| Financial assets at FVTPL: | | | | | |
| Marketable debt and equity securities | 7 | **P 13,190,939,209** | **13,190,939,209** | P 13,496,901,752 | P 13,496,901,752 |
| Derivative assets | 7 | **426,485,938** | **426,485,938** | 19,572,259 | 19,572,259 |
| | | **P 13,617,425,147** | **P 13,617,425,147** | P 13,516,474,011 | P 13,516,474,011 |
| Financial assets at FVOCI – Equity securities | 11 | **P 459,974,884** | **P 459,974,884** | P - | P - |
| AFS financial assets – Equity securities | 11 | **P -** | **P -** | P 431,645,289 | P 431,645,289 |
| ***Financial liabilities*** | | | | | |
| Financial liabilities at FVTPL – Derivative liabilities | 20 | **P 393,300,753** | **P 393,300,753** | P 353,967,287 | P 353,967,287 |
| Financial liabilities at amortized cost: | | | | | |
| Current: | | | | | |
| Trade and other payables | 16 | **P 46,031,395,159** | **P 46,031,395,159** | P 36,694,667,565 | P 36,694,667,565 |
| Interest-bearing loans | 17 | **24,530,016,698** | **24,137,908,859** | 32,700,476,157 | 31,231,836,633 |
| Bonds payable | 18 | **-** | **-** | 9,976,270,876 | 9,041,946,581 |
| Redeemable preferred shares | 19 | **251,597,580** | **251,597,580** | 251,597,580 | 251,597,580 |
| Commission payable | | **1,165,040,058** | **1,165,040,058** | 839,455,530 | 839,455,530 |
| | | **P 71,978,049,495** | **P 71,585,941,656** | P 80,462,467,708 | P 78,059,503,889 |
| Non-current: | | | | | |
| Bonds payable | 18 | **P 25,102,042,365** | **P 23,366,702,221** | P 24,388,714,176 | P 22,104,597,349 |
| Interest-bearing loans | 17 | **142,871,936,606** | **136,250,437,900** | 108,273,087,030 | 106,474,669,684 |
| ELS | 20 | **5,258,801,592** | **5,258,801,592** | 5,227,114,518 | 5,227,114,518 |
| Redeemable preferred shares | 19 | **1,712,264,245** | **1,840,140,016** | 1,857,022,803 | 2,238,796,221 |
| Due to related parties | 29 | **2,385,463,118** | **2,385,463,118** | 2,329,974,989 | 2,329,974,989 |
| Retention payable | | **4,063,944,817** | **3,945,330,030** | 3,289,556,628 | 3,167,584,654 |
| Security deposits | 20 | **578,726,149** | **502,057,696** | 479,521,165 | 424,639,796 |
| Accrued rent | | **116,455,980** | **122,771,251** | 117,832,141 | 100,586,242 |
| | | **P 182,089,634,872** | **P 173,671,703,824** | P145,962,823,450 | P142,067,963,453 |

See Notes 2.4 and 2.13 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 31.

## 33. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *33.1 Fair Value Hierarchy*

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

*(Amounts in Philippine Pesos)*

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

For purposes of determining the market value of Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *33.2 Financial Instruments Measurements at Fair Value*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as at December 31, 2018 and 2017.

| | 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets:*** | | | | |
| Financial assets at FVTPL – Debt and equity securities | P 13,190,939,209 | P - | P - | P 13,190,939,209 |
| Derivative asset | - | 426,485,938 | - | 426,485,938 |
| Financial assets at FVOCI – Equity securities | 138,241,610 | 103,200,000 | 218,533,274 | 459,974,884 |
| | **P 13,329,180,819** | **P 529,685,938** | **P 218,533,274** | **P 14,077,400,031** |
| ***Financial liabilities:*** | | | | |
| Financial liability at FVTPL – Derivative liabilities | **P -** | **P 393,300,753** | **P -** | **P 393,300,753** |

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| *Financial assets:* | | | | |
| Financial assets at FVTPL – Debt and equity securities | P 13,496,901,752 | P - | P - | P 13,496,901,752 |
| Derivative asset | - | 19,572,259 | - | 19,572,259 |
| AFS financial assets – Equity securities | 136,872,015 | 78,200,000 | 216,573,274 | 431,645,289 |
| | P 13,633,773,767 | P 97,772,259 | P 216,573,274 | P 13,948,119,300 |
| *Financial liabilities:* | | | | |
| Financial liability at FVTPL – Derivative liabilities | P - | P 353,967,287 | P - | P 353,967,287 |

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

Described below are the information about how the fair values of the Company's classes of financial assets are determined.

(a) *Equity Securities*

As at December 31, 2018 and 2017, instruments included in Level 1 comprise equity securities classified as financial assets at FVTPL or AFS financial assets. These securities were valued based on their market prices quoted in various stock exchanges at the end of each reporting period.

Golf club shares classified as financial assets at FVOCI in 2018 and AFS financial assets in 2017 are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, equity security held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management to consider the differences in corporate profile and historical performance of the entity.

(b) *Debt Securities*

The fair value of the Group's debt securities which consist of corporate bonds is estimated by reference to quoted bid price in active market (i.e., Stock Exchange) at the end of the reporting period and is categorized within Level 1.

(c) *Derivative Financial Instruments*

The fair value of derivative financial instruments is measured at inputs other than quoted prices that are indirectly observable for the financial instruments and are categorized within Level 2. The fair value is derived from prices set in the derivative contracts.



### 33.3 *Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed*

The table below and in the succeeding page shows the fair value hierarchy of the Company's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as at December 31, 2018 and 2017.

| | 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets:*** | | | | |
| Cash and cash equivalents | P 44,779,011,533 | P - | P - | P 44,779,011,533 |
| Trade and other receivables | - | 130,921,360 | 52,698,645,154 | 52,829,566,514 |
| Other financial assets | 3,270,298,083 | 755,805,022 | 4,434,112,536 | 8,460,215,641 |
| | **P48,049,309,616** | **P 886,726,382** | **P 57,132,757,690** | **P 106,068,793,688** |

*(Amounts in Philippine Pesos)*

| | 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial liabilities:*** | | | | |
| Current: | | | | |
| Trade and other payables | P - | P - | P 46,031,395,159 | P 46,031,395,159 |
| Interest-bearing loans | - | 392,840,499 | 23,745,068,360 | 24,137,908,859 |
| Bonds payable | - | - | - | - |
| Redeemable preferred shares | - | - | 251,597,580 | 251,597,580 |
| Commission payable | - | - | 1,165,040,058 | 1,165,040,058 |
| Non-current: | | | | |
| Bonds payable | 23,366,702,221 | - | - | 23,366,702,221 |
| Interest-bearing loans | - | 339,391,430 | 135,911,046,470 | 136,250,437,900 |
| ELS | - | - | 5,258,801,592 | 5,258,801,592 |
| Redeemable preferred shares | - | 1,085,347,276 | 754,792,740 | 1,840,140,016 |
| Due to related parties | - | - | 2,385,463,118 | 2,385,463,118 |
| Retention payable | - | - | 3,945,330,030 | 3,945,330,030 |
| Security deposits | - | 313,467,160 | 188,590,536 | 502,057,696 |
| Accrued rent | - | 122,771,251 | - | 122,771,251 |
| | **P 23,366,702,221** | **P 2,253,817,616** | **P219,637,125,643** | **P 245,257,645,480** |

| | 2017 [As Restated – see Note 2.1(c)] | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| *Financial assets:* | | | | |
| Cash and cash equivalents | P 52,784,400,162 | P - | P - | P 52,784,400,162 |
| Trade and other receivables | - | 169,231,906 | 48,218,742,689 | 48,387,974,595 |
| Other financial assets | 3,174,995,415 | 507,220,833 | 4,235,057,557 | 7,917,273,805 |
| | P 55,959,395,577 | P 676,452,739 | P 52,453,800,246 | P 109,089,648,562 |
| *Financial liabilities:* | | | | |
| Current: | | | | |
| Trade and other payables | P - | P - | P 36,694,667,565 | P 36,694,667,525 |
| Interest-bearing loans | - | 387,203,538 | 30,844,633,095 | 31,231,836,633 |
| Bonds payable | 9,041,946,581 | - | - | 9,041,946,581 |
| Redeemable preferred shares | - | - | 251,597,580 | 251,597,580 |
| Other current liabilities | - | - | 839,455,530 | 839,455,530 |
| Non-current: | | | | |
| Bonds payable | 22,104,597,349 | - | - | 22,104,597,349 |
| Interest-bearing loans | - | 757,977,570 | 105,716,692,114 | 106,474,669,684 |
| ELS | - | - | 5,227,114,518 | 5,227,114,518 |
| Redeemable preferred shares | - | 1,232,405,901 | 1,006,390,320 | 2,238,796,221 |
| Due to related parties | - | - | 2,329,974,989 | 2,329,974,989 |
| Retention payable | - | - | 3,167,584,654 | 3,167,584,654 |
| Security deposits | - | 267,734,123 | 156,905,673 | 424,639,796 |
| Accrued rent | - | 100,586,242 | - | 100,586,242 |
| | P 31,146,543,930 | P 2,745,907,374 | P186,235,016,038 | P 220,127,467,342 |

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### *33.4 Investment Property Measured at Cost for which Fair Value is Disclosed*

The fair value of the Group's investment properties earning rental income was determined through discounted cash flows valuation technique. 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.

The Group determines the fair value of idle properties through appraisals by independent valuation specialists using market-based valuation approach where prices of comparable properties are adjusted for specific market factors such as location and condition of the property.

As at December 31, 2018 and 2017, the fair value of the Group's investment property amounted to P352.5 billion and P310.1 billion, respectively (see Note 14) and is classified within Level 3 of the fair value hierarchy. The Level 3 fair value of the investment property was determined using the income approach which is performed with values derived using a discounted cash flow model. The income approach uses future free cash flow projections and discounts them to arrive at a present value. The discount rate is based on the level of risk of the business opportunity and costs of capital. The most significant inputs into this valuation approach are the estimated annual cash inflow and outgoing expenses, anticipated increase in market rental, discount rate and terminal capitalization rate.

Also, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.



## 34. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

| | **2018** | 2017 [As Restated – see Note 2.1(c)] |
|---|---|---|
| Total liabilities | **P 297,678,531,269** | P 261,339,069,586 |
| Total equity | **290,572,663,459** | 274,273,081,861 |
| Debt-to-equity ratio | **1.02:1** | 0.95:1 |

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

*(Amounts in Philippine Pesos)*

## 35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The reconciliation of liabilities arising from financing activities in 2018 and 2017 is presented below and in the succeeding page. The details of net cash flows are presented in the consolidated statements of cash flows.

| | Interest-bearing Loans and Borrowings | Bonds Payable | Derivative Liabilities | ELS | Redeemable Preferred Shares | Total |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2018 | P 140,973,563,187 | P 34,364,985,052 | P 109,913,612 | P 5,227,114,518 | P 2,108,620,383 | P 182,784,196,752 |
| Cash flows from financing activities: | | | | | | |
| Borrowings availed | 59,942,342,396 | - | - | - | - | 59,942,342,396 |
| Payment of borrowings | ( 36,010,504,182) | ( 10,425,600,000) | - | - | - | ( 46,436,104,182) |
| Redemption of preferred shares | - | - | - | - | ( 251,597,580) | ( 251,597,580) |
| Non-cash activities: | | | | | | |
| Foreign currency adjustment | 2,421,252,088 | 1,139,294,915 | - | - | - | 3,560,547,003 |
| Additions due to consolidation of new subsidiaries | 575,802 | - | - | - | - | 575,802 |
| Amortization of direct cost | 74,724,013 | 23,362,398 | - | 31,687,074 | - | 129,773,485 |
| Reversal of unrealized loss on cash flow hedges | - | - | ( 109,913,612) | - | - | ( 109,913,612) |
| Accretion of redeemable preferred shares | - | - | - | - | 106,839,022 | 106,839,022 |
| Balance at December 31, 2018 | **P 167,401,953,304** | **P 25,102,042,365** | **P -** | **P 5,258,801,592** | **P 1,963,861,825** | **P 199,726,659,086** |

| | Interest-bearing Loans and Borrowings | Bonds Payable | Derivative Liabilities | ELS | Redeemable Preferred Shares | Total |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2017 | P 76,595,874,025 | P 62,065,580,277 | P 327,939,175 | P 5,262,906,379 | P 2,013,695,292 | P 146,265,995,148 |
| Cash flows from financing activities: | | | | | | |
| Borrowings availed | 86,287,218,583 | 11,943,791,282 | - | - | - | 98,231,009,865 |
| Payment of borrowings | ( 21,732,549,674) | ( 40,595,136,549) | ( 361,328,019) | - | - | ( 62,689,014,242) |
| Non-cash activities: | | | | | | |
| Foreign currency adjustment | ( 253,138,621) | 806,309,336 | 70,123,940 | - | - | 623,294,655 |
| Amortization of direct cost | 76,158,874 | 144,440,706 | - | 100,359,525 | | 320,959,105 |
| Recognition of conversion option | - | - | - | ( 136,151,386) | - | ( 136,151,386) |
| Unrealized loss on swaps | - | - | 27,235,637 | - | - | 27,235,637 |
| Unrealized loss on cash flow hedges | - | - | 45,942,879 | - | - | 45,942,879 |
| Accretion of redeemable preferred shares | - | - | - | - | 94,925,091 | 94,925,091 |
| Balance at December 31, 2017 | P 140,973,563,187 | P 34,364,985,052 | P 109,913,612 | P 5,227,114,518 | P 2,108,620,383 | P 182,784,196,752 |

## 36. SUBSEQUENT EVENTS

On February 20, 2019, Republic Act No. 11232, *Revised Corporation Code of the Philippines* (Code), was signed into law. Among the amendments, the removal of the 50-year limitation to corporate term for stock corporations is deemed to be the most relevant to the Group. The management deemed further that other amendments and new provisions contained in the revised Code are not material to the Group.

# Corporate Information

## ALLIANCE GLOBAL GROUP, INC.

**DATE OF INCORPORATION**
October 12, 1993

**DATE OF PUBLIC LISTING**
April 19, 1999

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