# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-A, AS AMENDED

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

1. For the fiscal year ended
   Dec 31, 2013
2. SEC Identification Number
   167423
3. BIR Tax Identification No.
   000477103
4. Exact name of issuer as specified in its charter
   MEGAWORLD CORPORATION
5. Province, country or other jurisdiction of incorporation or organization
   Metro Manila
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   28/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, Philippines
   Postal Code
   1227

8. Issuer's telephone number, including area code
   6328678826 to 40
9. Former name or former address, and former fiscal year, if changed since last report
   N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| Common | 32,008,645,905 |
| Preferred | 6,000,000,000 |

11. Are any or all of registrant's securities listed on a Stock Exchange?
    (●) Yes ( ) No
    If yes, state the name of such stock exchange and the classes of securities listed therein:
    Philippines Stock Exchange

12. Check whether the issuer:

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

◉ Yes ○ No

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

◉ Yes ○ No

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

Php44,091,602,461.20 based on the closing price of Php4.19 per share as of March 31, 2014.

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

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

○ Yes ◉ No

## DOCUMENTS INCORPORATED BY REFERENCE

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

(a) Any annual report to security holders

N/A

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

N/A

(c) Any prospectus filed pursuant to SRC Rule 8.1

N/A

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party*

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

MEGAWORLD CORPORATION

# Megaworld Corporation
# MEG

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

| | |
|---|---|
| **For the fiscal year ended** | Dec 31, 2013 |
| **Currency (indicate units, if applicable)** | Pesos |

**Balance Sheet**

| | **Year Ending** | **Previous Year Ending** |
|---|---|---|
| | Dec 31, 2013 | Dec 31, 2012 |
| **Current Assets** | 98,458,370,209 | 81,732,409,554 |
| **Total Assets** | 173,882,105,347 | 142,723,397,757 |
| **Current Liabilities** | 25,896,516,608 | 25,762,073,994 |
| **Total Liabilities** | 71,929,083,522 | 61,497,471,151 |
| **Retained Earnings/(Deficit)** | 42,457,420,384 | 34,486,457,893 |
| **Stockholders' Equity** | 101,953,021,825 | 81,225,926,606 |
| **Stockholders' Equity - Parent** | 91,927,391,376 | 71,350,562,627 |
| **Book Value per Share** | 2.91 | 2.52 |

**Income Statement**

| | **Year Ending** | **Previous Year Ending** |
|---|---|---|
| | Dec 31, 2013 | Dec 31, 2012 |
| **Operating Revenue** | 32,332,728,327 | 26,964,855,131 |
| **Other Revenue** | 3,908,836,175 | 3,639,534,746 |
| **Gross Revenue** | 36,241,564,502 | 30,604,389,877 |
| **Operating Expense** | 22,781,790,580 | 19,812,648,846 |

| | | |
|---|---|---|
| **Other Expense** | 1,859,653,882 | 1,127,193,834 |
| **Gross Expense** | 24,641,444,462 | 20,939,842,680 |
| **Net Income/(Loss) Before Tax** | 11,606,435,750 | 9,664,547,197 |
| **Income Tax Expense** | 2,571,452,012 | 2,252,723,421 |
| **Net Income/(Loss) After Tax** | 9,034,983,738 | 7,411,823,776 |
| **Net Income/(Loss) Attributable to Parent Equity Holder** | 8,970,664,010 | 7,298,865,167 |
| **Earnings/(Loss) Per Share (Basic)** | 0.308 | 0.281 |
| **Earnings/(Loss) Per Share (Diluted)** | 0.305 | 0.275 |

**Financial Ratios**

| | **Formula** | **Fiscal Year Ended** | **Previous Fiscal Year** |
|---|---|---|---|
| | | Dec 31, 2013 | Dec 31, 2012 |
| **Liquidity Analysis Ratios:** | | | |
| **Current Ratio or Working Capital Ratio** | **Current Assets / Current Liabilities** | 3.8 | 3.17 |
| **Quick Ratio** | **(Current Assets - Inventory - Prepayments) / Current Liabilities** | 1.99 | 1.64 |
| **Solvency Ratio** | **Total Assets / Total Liabilities** | 2.42 | 2.32 |
| **Financial Leverage Ratios** | | | |
| **Debt Ratio** | **Total Debt/Total Assets** | 0.41 | 0.43 |
| **Debt-to-Equity Ratio** | **Total Debt/Total Stockholders' Equity** | 0.28 | 0.25 |
| **Interest Coverage** | **Earnings Before Interest and Taxes (EBIT) / Interest Charges** | 7.25 | 7.07 |
| **Asset to Equity Ratio** | **Total Assets / Total Stockholders' Equity** | 1.71 | 1.76 |
| **Profitability Ratios** | | | |
| **Gross Profit Margin** | **Sales - Cost of Goods Sold or Cost of Service / Sales** | 43.01 | 40.22 |
| **Net Profit Margin** | **Net Profit / Sales** | 24.93 | 24.22 |
| **Return on Assets** | **Net Income / Total Assets** | 5.2 | 5.19 |
| **Return on Equity** | **Net Income / Total Stockholders' Equity** | 8.86 | 9.12 |
| **Price/Earnings Ratio** | **Price Per Share / Earnings Per Common Share** | 10.52 | 9.86 |

| **Other Relevant Information** |
|---|
| None |

**Filed on behalf by:**

| | |
|---|---|
| **Name** | Rhodora Edangalino |
| **Designation** | Assistant Manager |

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 17-A**
**ANNUAL REPORT PURSUANT TO SECTION 17**
**OF THE SECURITIES REGULATION CODE**
**AND SECTION 141 OF THE CORPORATION CODE**

1. For the fiscal year ended **31 December 2013**

2. SEC Identification Number: **167423** 3. BIR Tax Identification No.: **-000-477-103**

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

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

6. (SEC Use Only)
   Industry Classification Code

7. **28th Floor The World Centre**
   **330 Sen. Gil Puyat Avenue**
   **Makati City, Philippines 1227**
   Address of principal office

8. **(632) 867-8826-40**
   Issuer's telephone number, including area code

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

| Title of Each Class | Number of Shares of Stock Outstanding |
|---|---|
| **Common** | **32,008,645,905** |
| **Preferred** | **6,000,000,000** |
| **Total** | **38,008,645,905**[1] |

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

    **Yes [x]** No [ ]

    **Philippine Stock Exchange** **Common Shares**

11. Check whether the issuer:

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

    **Yes [x]** No [ ]

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

    **Yes [x]** No [ ]

[1] As of March 31, 2014

12. Aggregate Market Value of Voting Common Stock held by Non-Affiliates as of 31 March 2014 is Php44,091,602,461.20 based on the closing price of Php4.19 per share.

## PART I - BUSINESS AND GENERAL INFORMATION

### BUSINESS

#### Business Development

The Company was founded by Andrew Tan and incorporated under Philippine law on August 24, 1989 to engage in the development, leasing and marketing of real estate. The Company initially established a reputation for building high-end residential condominiums and commercial properties located in convenient urban locations with easy access to offices as well as leisure and entertainment amenities in Metro Manila. Beginning in 1996, in response to demand for the lifestyle convenience of having quality residences in close proximity to office and leisure facilities, the Company began to focus on the development of mixed-use communities, primarily for the middle-income market, by commencing the development of its Eastwood City community township. In addition, the Company engages in other property related activities such as project design, construction oversight and property management. In 1999, Eastwood City Cyberpark became the first IT park in the Philippines to be designated a PEZA special economic zone.

Since its incorporation in 1989, the Company and its affiliates have launched approximately 320 residential buildings, office buildings and hotels consisting in aggregate of more than 5.6 million square meters of floor area.

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

Residential

Eastwood Parkview (Quezon City)
Corinthian Hills (Quezon City)
One Central Park (Quezon City)
Manhattan Parkway (Quezon City)
Kentwood Heights (Quezon City)
Eastwood Lafayette Square (Quezon City)
Eastwood Le Grand (Quezon City)
Grand Eastwood Palazzo (Quezon City)
El Jardin del Presidente (Quezon City)
Narra Heights (Quezon City)
Eastwood Excelsior (Quezon City)
One Orchard Road (Quezon City)
City Place (Manila)
Marina Square Suites (Manila)
The Parkside Villas (Pasay City)
The Residential Resort (Pasay City)
Forbeswood Heights (Bonifacio Global City)
The Salcedo Park (Makati City)
One and Two Lafayette Square (Makati City)
Greenbelt Parkplace (Makati City)
Greenbelt Radissons (Makati City)
Paseo Parkview Towers (Makati City)
Greenbelt Madisons (Makati City)
The Manhattan Square (Makati City)
Sherwood Heights (Parañaque)
Brentwood Heights (Parañaque)
8 Wack Wack Road (Mandaluyong City)
Wack-Wack Heights (Mandaluyong City)
The Bellagio (Taguig City)
115 Upper McKinley (Taguig City)
Morgan Suites Executive Residences (Taguig City)
One Beverly Place (San Juan)
Greenhills Heights (San Juan)

Office and Retail

Petron Megaplaza (Makati)
The World Centre (Makati)
Paseo Center (Makati City)
Landbank Plaza (Manila)
Richmonde Plaza (Pasig City)
IBM Plaza (Quezon City)
Citibank Square (Quezon City)
ICITE (Quezon City)
CyberOne (Quezon City)
1800 Eastwood Avenue (Quezon City)

One Campus Place (Taguig City)
8 Park Avenue (Taguig City)
Two World Square (Taguig City)
Three World Square (Taguig City)
Forbes Town Center (Taguig City)
Science Hub (Taguig City)
The Venice Piazza (Taguig City)
Commerce and Industry Plaza (Taguig City)
8 Campus Place (Taguig City)
1880 Eastwood Avenue (Quezon City)
Eastwood City Walk 1&2 (Quezon City)
Cybermall (Quezon City)
Eastwood Mall (Quezon City)
Global One (Quezon City)
Techno Plaza (Quezon City)
Lucky Chinatown Mall (Manila)

**Subsidiaries and Associates**

As of December 31, 2013, the Company holds interests in the following subsidiaries and associates:

| Subsidiaries and Associates | Date of Incorporation | Percentage Ownership |
|---|---|---|
| Subsidiaries | | |
| Megaworld Land, Inc. ..... | May 26, 1994 | 100% |
| Prestige Hotels & Resorts, Inc. ..... | February 16, 1999 | 100% |
| Mactan Oceanview Properties and Holdings, Inc..... | August 16, 1996 | 100% |
| Megaworld Cayman Islands, Inc. ..... | August 14, 1997 | 100% |
| Richmonde Hotel Group International Limited..... | June 24, 2002 | 100% |
| Eastwood Cyber One Corporation ..... | October 21, 1999 | 100% |
| Megaworld Cebu Properties, Inc. (formerly: Forbes Town Properties & Holdings, Inc). | February 6, 2002 | 100% |
| Megaworld Newport Property Holdings, Inc. ..... | October 6, 2003 | 100% |
| Oceantown Properties, Inc…….. | August 15, 2006 | 100% |
| Piedmont Property Ventures, Inc…… | August 28, 1996 | 100% |
| Stonehaven Land, Inc…… | August 21, 1996 | 100% |
| Streamwood Property, Inc……. | August 21, 1996 | 100% |
| Suntrust Properties, Inc…… | November 14,1997 | 100% |
| Woodside Greentown Properties, Inc. (formerly: Union Ajinomoto Realty Corporation) | March 28, 1985 | 100% |
| Lucky Chinatown Cinemas, Inc. | December 21, 2011 | 100% |
| Suntrust Ecotown Developers, Inc. | July 8, 1999 | 100% |
| Luxury Global Hotels and Leisure, Inc. | July 17, 2013 | 100% |
| Empire East Land Holdings, Inc…….. | July 15, 1994 | 81.53% |
| Megaworld Central Properties Inc. ..... | September 15, 2005 | 76.50% |
| Megaworld-Daewoo Corporation ……... | November 29, 1996 | 60% |
| Manila Bayshore Property Holdings, Inc……..… | October 14, 2011 | 55% |
| Eastwood Cinema 2000, Inc…… | March 11, 2003 | 55% |
| Gilmore Property Marketing Associates, Inc…… | September 5, 1996 | 52.04% |
| Megaworld Resort Estates, Inc. …….. | April 30, 2007 | 51% |
| Megaworld-Globus Asia, Inc……. | March 17, 1995 | 50% |
| Philippine International Properties, Inc…… | March 25, 2002 | 50% |
| Townsquare Development, Inc……. | February 14, 2006 | 30.60% |
| Associates | | |
| Megaworld Global-Estate, Inc. …… | March 14, 2011 | 54.82% |
| La Fuerza, Inc…… | January 24, 1958 | 50% |
| Suntrust Home Developers, Inc. ..... | January 18, 1956 | 42.48% |
| Palm Tree Holdings & Development Corporation .... | August 15, 2005 | 40% |
| Twin Lakes Corporation……. | March 2, 2011 | 31.35% |
| Global-Estate Resorts, Inc……. | May 18,1994 | 24.70% |
| Resorts World Bayshore City, Inc…… | April 30, 2013 | 10% |

| | | |
|---|---|---|
| Travellers International Hotel Group, Inc…… | December 17, 2003 | 9% |

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

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

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

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

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

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

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

Eastwood Cyber One Corporation was set up as a special purpose entity to own and develop certain BPO rental properties located in the Eastwood City Cyberpark.

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

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

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

Piedmont Property Ventures, Inc. was registered with the Securities and Exchange Commission ("SEC") on 28 August 1996 and was acquired by the Company in 2008.

Stonehaven Land, Inc. was registered with the Securities and Exchange Commission ("SEC") on 21 August 1996 and was acquired by the Company in 2008.

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

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

Woodside Greentown Properties, Inc. is engaged primarily in real estate activities which includes leasing out of commercial properties.

Lucky Chinatown Cinemas, Inc. is engaged in cinema operations, movie houses, theatre and other allied businesses.

Suntrust Ecotown Developers, Inc. is engaged in the development of industrial park.

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

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

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

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

Eastwood Cinema 2000, Inc. was organized to engage in cinema operations, theatres, food concession, restaurant and other related businesses.

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

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

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

Philippine International Properties, Inc. is a company that was incorporated to own, use, improve, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.

Townsquare Development, Inc. is a company that was incorporated to provide services to affiliated companies of the Company.

Megaworld Global-Estate, Inc. was registered with the Securities and Exchange Commission on March 14, 2011 and has not yet started commercial operations as of December 31, 2012.

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

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

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

Twin Lakes Corporation was organized to engage in real estate development. It started commercial operations in June 2012.

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

Travellers International Hotel Group, Inc. owns an integrated resort complex in Newport City which consists of, among others, upscale hotels with fine dining restaurants, a performing arts theatre and a shopping mall.

Resorts World Bayshore City, Inc. was formed to engage in hotel operations, inns, apartments, private clubs, leisure parks and other tourist or leisure-oriented business establishments. It has not yet started commercial operations as of December 31, 2013.

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

**Description of Business**

The Company is one of the leading property developers in the Philippines and is primarily engaged in the development in Metro Manila of large-scale mixed-use planned communities, or community townships, that integrate residential, commercial, educational/training, leisure and entertainment components.

The Company's real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office projects and retail space. The Company has three primary business segments: (1) real estate sales of residential and office developments, (2) leasing of office space, primarily to business process outsourcing ("BPO") enterprises, and retail space, and (3) management of hotel operations. The Company's consolidated revenues for the year ended December 31, 2013 were Php36.24 billion compared to Php30.60 billion for the year ended December 31, 2012. Real estate sales of residential developments accounted for 59% of the Company's consolidated revenues both in 2013 and 2012. Rental income from leasing operations accounted for approximately 17% of the Company's consolidated revenues in 2013 and 16% in 2012. The Company's consolidated net profit for the year ended December 31, 2013 was Php9.03 billion compared to Php7.41 billion for the year ended December 31, 2012.

Foreign sales contributed approximately 17.5%, 12.1% and 4.52% to the Company's consolidated sales and revenues for the years 2013, 2012 and 2011. The percentage of sales broken down by major markets is as follows:

| Market | 2013 | 2012 | 2011 |
|---|---|---|---|
| North America | 32% | 39% | 50% |
| Europe | 35% | 21% | 6% |
| Asia | 18% | 28% | 4% |
| Middle East | 15% | 12% | 40% |
| Total | 100% | 100% | 100% |

**Current Property Development Projects**

The Company's current property development projects consist of mixed-use residential and commercial developments located throughout Metro Manila, Cebu, Iloilo and Davao. The objective of each of the mixed-use developments is to provide an integrated community with high quality "live-work-play-learn" amenities within close proximity to each other. Each of the Company's main projects is described below.

**Eastwood City**

Eastwood City is a mixed-use project on approximately 18 hectares of land in Quezon City, Metro Manila that integrates corporate, residential, education/training, leisure and entertainment components. In response to growing demand for office space with infrastructure capable of supporting IT-based operations such as high-speed telecommunications facilities, 24-hour uninterruptible power supply and computer security, the Company launched the Eastwood City Cyberpark, the Philippines' first IT park, within Eastwood City in 1997. The Eastwood City Cyberpark includes the headquarters of IBM Philippines and Citibank's credit card and data center operations as anchor tenants. In connection with the development of the Cyberpark, the Company was instrumental in working with the Philippine Government to obtain the first PEZA-designated special economic zone status for an IT park in 1999. A PEZA special economic zone designation confers certain tax incentives such as an income tax holiday of four to six years and other tax exemptions upon businesses that are located within the zone. The planning of Eastwood City adopts an integrated approach to urban planning, with an emphasis on the development of the Eastwood City Cyberpark to provide offices with the infrastructure such as high-speed telecommunications and 24-hour uninterrupted power supply to support BPO and other technology-driven businesses, and to provide education/training, restaurants, leisure and retail facilities and residences to complement Eastwood City Cyberpark.

Once the entire residential zone of Eastwood City is fully developed, it is expected to consist of at least 20 high-rise towers. Each tower is designed according to a specific theme and style. Typical building amenities include 24-hour security, high-speed elevators, parking, a swimming pool and other recreational facilities.

The office properties at Eastwood City consist of office buildings. Tenants in the Eastwood City Cyberpark include major multinational corporations, largely comprised of software developers, data encoding and conversion centers, call centers, system integrations, IT and computer system support. The tenants, which include Citibank, IBM and Dell, are able to benefit from a variety of business and tax incentives in conjunction with the PEZA special economic zone status conferred upon the Eastwood City Cyberpark.

The leisure and entertainment zone consists of the Eastwood Mall, Eastwood Richmonde Hotel, Eastwood Citywalk I, a dining and entertainment hub, and Eastwood Citywalk II, an amusement center with a state-of-the-art digital complex, a billiard and bowling center, restaurants and specialty shops, which are designed to complement the office and residential buildings in the community township.

**Forbes Town Center**

The Forbes Town Center is located on five hectares of land in Bonifacio Global City, Taguig, Metro Manila adjacent to the Manila Golf Club, the Manila Polo Club and the prestigious Forbes Park residential subdivision. Upon completion, Forbes Town Center is expected to consist of residential, retail and entertainment properties.

Once completed, the residential zone is expected to consist of at 13 towers consisting of the Forbeswood Heights, Bellagio, Forbeswood Parklane, and 8 Forbes Town Road condominium projects. The leisure and entertainment zone is devoted to bars, restaurants and specialty shops, which are designed to complement the residential buildings in this development as well as the surrounding office areas in Bonifacio Global City.

**McKinley Hill**

The McKinley Hill is a community township located on approximately 50 hectares of land in Fort Bonifacio, Taguig, Metro Manila. McKinley Hill consists of office, residential, retail, educational, entertainment and recreational centers.

The residential zone consists of subdivision lots for low-density single-detached homes, clusters of low-rise residential garden villas and residential condominiums.

The office properties will include the McKinley Hill Cyberpark which is a PEZA-designated IT special economic zone. Tenants of the office properties will largely be comprised of software developers, data encoding and conversion centers, call centers, system integrations, IT and computer system support.

The leisure and entertainment zone will consist of bars, restaurants, specialty shops, cinemas and sports complex, which are expected to complement the office and residential areas in the community township.

Three international schools, the Chinese International School, the Korean International School and Enderun College, a hotel management institution affiliated with *Les Roches* of Switzerland, will initially comprise the "learn" component of the township.

McKinley Hill is likewise home to the British Embassy which relocated on a 1.2 hectare property within the development and the Korean Embassy which is located in a 5,822 square meter site within the project.

**Newport City**

Newport City is a community township located on 25 hectares of land at the Villamor Air Base, Pasay City, Metro Manila, across from the NAIA Terminal 3 and adjacent to the Villamor golf course. The Newport City similarly integrates the live-work-play concept of Eastwood City, with the exception that it will be targeted towards tenants and buyers who consider proximity to the NAIA Terminal 3 an advantage.

The residential zone will consist of eight to nine-storey medium-rise buildings. The corporate zone is expected to be comprised of office buildings. The Company expects to establish a PEZA special economic zone cyberpark at Newport City.

The leisure and entertainment zone is expected to consist of bars, restaurants, retail and tourist oriented shops, which are designed to complement the office and residential buildings in the community township. Newport City is home to Resorts World Manila, which is a leisure and entertainment complex comprising gaming facilities, restaurants, hotels and shopping outlets.

Upon full development, the hotel zone shall comprise the Marriott Hotel, Maxims Hotel, Remington Hotel, Belmont Luxury Hotel and Savoy Hotel.

**Manhattan Garden City**

Manhattan Garden City is a residential development project which is expected to consist of 20 residential towers on a 5.7-hectare property at the Araneta Center in Quezon City. The Manhattan Garden City will be the Philippines' first major transit-oriented residential community, having direct links to two light rail transport lines, the MRT-3 and the LRT- 2. The MRT-3 line runs north to south along the EDSA highway in Metro Manila while the LRT-2 line runs east to west along Aurora Boulevard across Metro Manila. All key areas along the transportation lines within Metro Manila will be easily accessible from the development. The amenities of the Araneta Center such as the Gateway Mall will be available to residents of Manhattan Garden City.

**Cityplace**

The Cityplace project is a mixed-use project under development on a 2.5-hectare lot in Binondo, Metro Manila. The development is expected to have over 2,000 residential condominium units and a shopping center called Lucky Chinatown Mall. The development is also expected to include a public car parking facility, new bypass roads and pedestrian overpasses to make the project environment and pedestrian-friendly.

**Uptown Bonifacio**

The Company is developing Uptown Bonifacio, an approximately 15.4-hectare property in Fort Bonifacio in Taguig, Metro Manila. Uptown Bonifacio is comprised of a residential portion in the northern part of Fort Bonifacio, and a portion for mixed-use, comprising office and retail space, on a parcel of land owned by NAPOLCOM. The Company will develop Uptown Bonifacio under joint venture arrangements with BCDA and NAPOLCOM. Condominium developments within Uptown Bonifacio include One Uptown Residence and Uptown Ritz Residences. The Company expects to invest approximately Php65billion in Uptown Bonifacio.

**McKinley West**

The Company is developing McKinley West, an approximately 34.5-hectare portion of the JUSMAG property owned by BCDA and located across from McKinley Hill in Taguig, Metro Manila. The development of McKinley West into a mixed-use project is another joint venture undertaking with BCDA.

**The Mactan Newtown**

The Mactan Newtown is a mixed-use township project being developed on an approximately 28-hectare property near Shangri-La's Mactan Resort and Spa in Mactan, Cebu. The first phase of the project is expected on completion to comprise high-tech BPO offices, a retail center, luxury condominiums, leisure facilities and beach resort frontage. The Mactan Newtown is approximately 10 minutes away from the Mactan-Cebu International Airport, the Philippines' second largest airport.

**Iloilo Business Park**

Iloilo Business Park is a mixed-planned community in a 72-hectare property in Mandurriao, Iloilo. When completed, it will be a mixed-use business, tourism, commercial and residential hub with a residential community, BPO office buildings, hotels, a convention center, retail centers and a lifestyle center, all at the heart of Iloilo, a new growth center in the Visayas. The entire Iloilo Business Park development was registered as a special economic zone with the Government, which allows it to benefit from a tax holiday period as well as other incentives for investors.

**Marketing and Sales**

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

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

In addition, the Company has an international marketing division based in Manila who oversees a global network of sales offices which market the projects of the Company and its affiliates to overseas Filipino

professionals and retirees throughout Asia, Europe, North America, the Middle East and Australia. The Company enters into marketing agreements with various brokers based in the different overseas markets, which will then market the Company projects overseas through their respective marketing networks.

The Company's real estate business is not dependent upon a single customer or a few customers. No customer accounts for twenty percent (20%) or more of sales. The Company primarily sells its residential properties directly to end-users and is not dependent on any single purchaser or group of purchasers.

**Construction**

The Company has its own architectural and engineering teams and engages independent groups to carry out the design of its high profile development projects. The Company has a team of project managers who work closely with outside contractors in supervising the construction phase of each project. The Company has also established relationships with Philippine architectural firms as well as with international architectural firms. The Company's contractors for the Company's construction activities include EEI Corporation, Monolith Construction and Development, Datem Incorporated, SteelAsia Manufacturing Corporation, and Orion Wire and Cable.

**Competition**

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

The Company is the number one residential condominium developer in terms of number of units completed as of 2013 and units to be completed until 2018 based on all projects launched as of third quarter of 2013. This represents about 17% of the market. In terms of total aggregate saleable area of those projects launched and to be completed in the same period, it represents 14% of the market with a total saleable area of about 1.62 million square meters.

The Company attributes its strong residential sales to two main factors – the popularity of its live-work-play-learn communities in Metro Manila and the Company's proven track record of delivering more than 320 buildings to its customers over the last two decades.

With respect to community township developments, the Company considers Ayala Land Inc. ("ALI") to potentially be its only significant competitor. ALI is present in Fort Bonifacio, which is where the Company's Forbestown Center, McKinley Hill, McKinley West and Uptown Bonifacio projects are located.

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

Total Assets of Megaworld and subsidiaries for the period ended December 31, 2013 is P173.9B while their Net Profit for the same period is P9.0B.

With respect to high-end and middle income land and condominium sales, ALI claims to compete for buyers primarily on the basis of reputation, reliability, price, quality and location. With respect to its office rental properties, ALI claims to compete for tenants primarily based on the quality and location of the relevant building, reputation of the building's owner, quality of support services provided by the property

manager, and rental and other charges. Total Assets of ALI and subsidiaries for the period ended December 31, 2013 is Php325.4B while their Net Income for the same period is P14.30B[2]

RLC believes that its strength is in its mixed-use, retail, commercial and residential developments. For its commercial center business, RLC claims to compete on the basis of its flexibility in developing malls with different sizes. For its residential business, RLC claims to compete in terms of industry-specific technological know-how, capital, reputation and sales and distribution network. Total Assets of RLC and subsidiaries as of the period ended September 30, 2013 is P74.8B while their Net Income for the same period is P4.46B.[3]

SMPHI believes that it has certain significant competitive advantages which include the very good location of its malls, proven successful tenant mix and selection criteria and the presence of SM stores as anchor tenants. Total Assets of SMPHI and subsidiaries as of the period ended December 31, 2013 is P335.5B while their Net Income for the same period is P18.1B.[4]

The Company generates its revenues from a wide base of customers. The Company is not dependent upon a single or a few customers. No customer accounts for 20% or more of its revenues.

**Sources and Availability of Raw Materials**

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

**Transactions with and/or dependence on related parties**

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

Transactions with related parties include investments in and advances granted to or obtained from subsidiaries, associates and other related parties. Other related parties include joint venture partners (See Note 9 to the Audited Financial Statements, Advances to Landowners and Joint Ventures) and investees which investments are accounted for at cost and other entities which are owned and managed by investors/owners of the Company (See Note 10 to the Audited Financial Statements, Investments in and Advances to Associates and Other Related Parties). Advances granted to joint venture partners are in the nature of cash advances made to landowners under agreements covering the development of parcels of land, which are to be used for pre-development expenses such as relocation of existing occupants. Repayment of these advances shall be made upon completion of the project development either in the form of the developed lots corresponding to the landowner's share in saleable lots or in the form of cash to be derived from sales of the landowner's share in the saleable lots and residential and condominium units. The commitment for cash advances under the agreements has been fully granted by the Company.

Advances granted to and obtained from subsidiaries, associates and other related parties are for purposes of working capital requirements. For more information, see Note 23 to the Audited Financial Statements.

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

[2] 2014 Definitive Information Statement of ALI.
[3] 2014 Definitive Information Statement of RLC.
[4] 2014 Definitive Information Statement of SMPHI.

The Company avails of marketing services of Eastwood Property and Holdings, Inc. (EPHI), a wholly-owned subsidiary of Empire East Land Holdings, Inc. (EELHI), Megaworld Newport Property Holdings, Inc. and Megaworld Land, Inc. (MLI), which acts as a manager and leasing agent for the commercial properties of the Company. (See Note 23 to the Audited Financial Statements, Related Party Transactions). As consideration for said marketing services, the Company pays commission based on contracted terms. Commission expenses charged by EPHI and MLI are based on prevailing market rates.

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

**Intellectual Property**

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

The Company owns the registered trademark over its name and logo which expires in 2015 and is renewable for 10-years periods thereafter. However, although the brand is important, the Company does not believe that its operations or its subsidiaries' operations depend on its trademarks or any patent, license franchise, concession or royalty agreement. The Company also has applied to register trademarks over the names of its development projects and some approvals are pending.

**Regulatory and Environmental Matters**

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

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

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

Developers who sell lots or units in a subdivision or a condominium project are required to register the project with and obtain a license to sell from the HLURB. Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, by itself or upon a verified complaint from an interested party, for reasons such as involvement in fraudulent transactions, misrepresentation about the subdivision project or condominium project in any literature which has been distributed to prospective buyers. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the

developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

Real estate dealers, brokers and salesmen are also required to register with the HLURB before they can sell lots or units in a registered subdivision or condominium project. On June 29, 2009, Republic Act No. 9646 or the Real Estate Service Act of the Philippines ("RA 9646") was signed into law. RA 9646 strictly regulates the practice of real estate brokers by requiring licensure examinations and attendance in continuing professional education programs.

The Company routinely applies for regulatory approvals for its projects and some approvals are pending.

No existing legislation or governmental regulation, and the Company is not aware of any pending legislation or governmental regulation that is expected to materially affect its business.

**Environmental Laws**

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate ("ECC") prior to commencement. The DENR through its regional offices or through the Environmental Management Bureau ("EMB"), determines whether a project is environmentally critical or located in an environmentally critical area. The ECC is a government certification indicating that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the Environmental Impact Statement or, if an Initial Environmental Examination was required, that it shall comply with the mitigation measures provided therein.

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

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

**Research and Development**

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

**Employees**

As of 31 December 2013, the Company had 1,771 employees. The Company intends to hire additional employees if the present workforce becomes inadequate to handle the Company's operations. The Company anticipates that it will be hiring at least 361 employees within the ensuing 12 months.

The table below shows the breakdown of employees as of 31 December 2013:

| Type | Number |
|---|---|
| Executive | 24 |
| Managers | 229 |
| Supervisors | 224 |

| | |
|---|---|
| Rank and File | 1,294 |
| **Total** | **1,771** |

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

Risks Associated with the Company's Business

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

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

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

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

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

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

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

BPO-based tenants, it may not be able to lease its office space or as a consequence, its retail space, in a timely manner or otherwise at satisfactory rents.

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

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

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

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

Risks Management and Business Strategy

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

*Maximize earnings through integrated community township developments.* The Company intends to maximize earnings by developing alternative, integrated residential, business and retail property communities. This allows the Company to capitalize on the live-work-play-learn concept, which has become popular in the Philippines. The Company's position as a leader in crafting and delivering community township developments has strengthened over the years and continues to be its key strategy in bringing new projects to the market and in entering into new joint venture developments. In 2007, the Company acquired properties in Iloilo and Cebu to expand its BPO office developments and townships in the Visayas. In 2009 and 2010, the Company increased its property portfolio through the acquisition of rights to develop the Bonifacio Uptown and McKinley West properties. The Company continuously seeks opportunities to develop land in prime locations to further enhance its real estate portfolio.

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

*Continue to evaluate projects for synergies.* The Company intends to continue to evaluate potential projects, particularly with respect to opportunities among the Company itself and its various subsidiaries

and affiliates, in order to maximize cost efficiencies, resources and other opportunities to derive synergies across the Megaworld group and the larger AGI group of companies.

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

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

*Capitalize on growing opportunities in tourism development*. The Company has further developed and diversified its real estate business to include integrated tourism development projects through its acquisition of a minority ownership interest in Travellers. Due to growth in the number of tourist visits to the Philippines and the Company's real estate development expertise, the Company believes it is well-positioned to capitalize on opportunities in this growing sector. For example, the Company is exploring the possibility of developing hotels in The Mactan Newtown and Iloilo Business Park in the Visayas. The Company is also actively exploring and evaluating possible joint venture opportunities with an affiliate which focuses on tourism-related property developments.

## Awards and Recognition

The Company has garnered various awards and recognition, which include the following:

- 2012 Finance Asia's Best Managed Philippine Company
  - Best in Investor Relations
  - Best Mid-Cap Company

- 2012 Corporate Governance Asia's 2nd Asian Excellence Awards – Best Investor Relations
- 2012 Corporate Governance Asia's 8th Corporate Governance Asia Recognition Awards
- 2012 Alpha Southeast Asia 2nd Annual Southeast Asia's Institutional Investor Corporate Poll
  - Most Organized Investor Relations
  - Strong Adherence to Corporate Governance
- 2013 Corporate Governance Asia's 3rd Asian Excellence Awards – Asia's Best CEO
- 2013 Corporate Governance Asia's 3rd Asian Excellence Awards – Best Investor Relations
- 2013 Corporate Governance Asia's 3rd Asian Excellence Awards – Best CSR
- 2013 Corporate Governance Asia'a 9th Corporate Governance Asia Recognition Awards
  - Asia's Icon on Corporate Governance
- 2013 Alpha Southeast Asia 3rd Annual Southeast Asia's Institutional Investor Corporate Poll
  - Most Organized Investor Relations
  - Best Senior Management IR Support
  - Strong Adherence to Corporate Governance

- 2013 The Asset Excellence in Management and Corporate Governance Awards – Gold award for Investor Relations, Corporation Governance and Financial Performance
- 2014 IAIR Best Company for Leadership – Property Development – Philippines
- 2014 Corporate Governance Asia's 4th Asian Excellence Awards – Asia's Best CEO
- 2014 Corporate Governance Asia's 4th Asian Excellence Awards – Best Investor Relations

Pre-Sales and Customer Financing

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

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

**PROPERTIES**

**Description of Principal Properties**

The principal properties of the Company as of December 31, 2013 consist of projects under development, condominium units in completed projects, and land for future development, rental properties and hotels, including the following:

| Type | Location | Limitations on Ownership |
|---|---|---|
| **A. Condominium Units and Subdivision Lots Under Development** | | |
| Eastwood Legrand 3 | Eastwood, Quezon City | Owned |
| One Eastwood Avenue 1 | Eastwood, Quezon City | Owned |
| One Eastwood Avenue 2 | Eastwood, Quezon City | Owned |
| Greenbelt Hamilton 1 | Makati City | Owned |
| Paseo Heights | Makati City | Owned |
| One Central | Valero St., Makati City | Owned |
| Two Central | Valero St. Makati City | Owned |
| Three Central | Valero St. Makati City | Owned |
| Salcedo SkySuites | Gil Puyat Ave., Makati City | Owned |
| 81 Newport Boulevard | Newport, Pasay City | Joint Venture |
| 101 Newport Boulevard | Newport, Pasay City | Joint Venture |
| 150 Newport Boulevard | Newport, Pasay City | Joint Venture |

| | | |
|---|---|---|
| Palm Tree Villas | Newport, Pasay City | Joint Venture |
| Belmont Luxury Hotel | Newport, Pasay City | Joint Venture |
| Savoy Hotel | Newport, Pasay City | Joint Venture |
| Manhattan Parkview | Manhattan Garden City, Quezon City | Joint Venture |
| Manhattan Heights | Manhattan Garden City, Quezon City | Joint Venture |
| Manhattan Plaza | Manhattan Garden City, Quezon City | Joint Venture |
| Noble Place | Binondo, Manila | Joint Venture |
| Golf Hill Gardens | Quezon City | Owned |
| 8 Forbestown Road | Forbestown Center, Fort Bonifacio, Taguig City | Joint Venture |
| The Venice Luxury Residences | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| Viceroy | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| The Florence | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| One Uptown Residence | Uptown Bonifacio, Fort Bonifacio, Taguig City | Joint Venture |
| Uptown Parksuites Residence | Uptown Bonifacio, Fort Bonifacio, Taguig City | Joint Venture |
| Uptown Ritz Residences | Uptown Bonifacio, Fort Bonifacio, Taguig City | Joint Venture |
| Iloilo Business Park | Iloilo City | Owned |
| One Madison Place | Iloilo City | Owned |
| Lafayette Park Square | Iloilo City | Owned |
| 8 Newtown Boulevard | Mactan Newtown, Cebu | Owned |
| One Pacific Residence | Mactan Newtown, Cebu | Owned |
| One Manchester Place | Mactan Newtown, Cebu | Owned |
| Savoy Hotel Mactan | Mactan Newtown, Cebu | Owned |

**B. Condominium Units in Completed Projects**

| | | |
|---|---|---|
| 8 Wack Wack Road | Wack Wack Road, Mandaluyong City | Owned |
| Wack Wack Heights | Lee St., Mandaluyong City | Owned |
| Cityplace Binondo A & B | Binondo, Manila | Owned |
| Eastwood Le Grand 1 & 2 | Eastwood, Quezon City | Owned |
| Eastwood Parkview 1 & 2 | Eastwood, Quezon City | Owned |
| Grand Eastwood Palazzo | Eastwood, Quezon City | Owned |
| One Central Park | Eastwood, Quezon City | Owned |
| One Orchard Road | Eastwood, Quezon City | Owned |
| The Eastwood Excelsior | Eastwood, Quezon City | Owned |
| The Eastwood Lafayette 1-3 | Eastwood, Quezon City | Owned |
| One Lafayette Square | Eastwood, Quezon City | Owned |
| Two Lafayette Square | Eastwood, Quezon City | Owned |
| The Bellagio 3 | Forbestown Center, Fort Bonifacio, Taguig City | Joint Venture |
| The Bellagio 2 | Forbestown Center, Fort Bonifacio, Taguig City | Joint Venture |
| The Bellagio 1 | Forbestown Center, Fort Bonifacio, Taguig City | Joint Venture |
| Forbeswood Heights | Forbestown Center, Fort Bonifacio, Taguig City | Joint Venture |
| Forbeswood Parklane | Forbestown Center, Fort Bonifacio, Taguig City | Joint Venture |
| Marina Square Suites | Pedro Gil, Manila | Owned |
| Greenbelt Madisons | Legaspi Village, Makati City | Owned |
| Greenbelt Chancellor | Rada St. Legaspi Village, Makati City | Owned |
| Greenbelt Parkplace | Palanca St. Legaspi Village, Makati City | Owned |
| Greenbelt Radisson | Aguirre St. Legaspi Village, Makati City | Owned |
| Greenbelt Excelsior | Palanca St. Legaspi Village, Makati City | Owned |
| Paseo Parkview Suites 1&2 | Valero St. Salcedo Village, Makati City | Owned |
| 115 Upper McKinley | McKinley Hill, Fort Bonifacio, Taguig City | Joint Venture |
| McKinley Garden Villas | McKinley Hill, Fort Bonifacio, Taguig City | Joint Venture |
| The Woodridge 1 | McKinley Hill, Fort Bonifacio, Taguig City | Joint Venture |
| The Woodridge 2 | McKinley Hill, Fort Bonifacio, Taguig City | Joint Venture |
| Tuscany Private Estate | McKinley Hill, Fort Bonifacio, Taguig City | Joint Venture |
| Morgan Suites Executive Residences | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| Stamford Executive Residences | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| The Parkside Villas | Newport, Pasay City | Joint Venture |
| The Residential Resort at Newport | Newport, Pasay City | Joint Venture |
| Greenhills Heights | Pinaglabanan San Juan | Joint Venture |
| One Beverly Place | Greenhills, San Juan | Joint Venture |
| El Jardin Del Presidente 1 & 2 | Sgt. Esguerra Ave., Quezon City | Owned |
| Manhattan Parkway | Manhattan Garden City, Quezon City | Joint Venture |

**C. Rental Properties**

| | | |
|---|---|---|
| City Place Retail Mall | Binondo, Manila | Owned |
| Lucky Chinatown Mall | Binondo, Manila | Owned |
| Global One | Eastwood, Quezon City | Owned |
| Techno Plaza 1 | Eastwood, Quezon City | Owned |
| Techno Plaza 2 Units | Eastwood, Quezon City | Owned |
| 1880 Eastwood Avenue | Eastwood, Quezon City | Owned |
| 1800 Eastwood Avenue | Eastwood, Quezon City | Owned |
| Cyber One Units | Eastwood, Quezon City | Owned |
| ICITE | Eastwood, Quezon City | Owned |
| Eastwood Citywalk | Eastwood, Quezon City | Owned |

| | | |
|---|---|---|
| Eastwood Mall | Eastwood, Quezon City | Owned |
| Cyber Mall | Eastwood, Quezon City | Owned |
| Eastwood Lafayette 3 Parking | Eastwood, Quezon City | Owned |
| E-Commerce Plaza | Eastwood, Quezon City | Owned |
| IBM Plaza | Eastwood, Quezon City | Owned |
| Burgos Circle | Forbestown Center, Fort Bonifacio, Taguig City | Joint Venture |
| Parklane Strip | Forbestown Center, Fort Bonifacio, Taguig City | Joint Venture |
| Commerce and Industry Plaza | McKinley Hill, Fort Bonifacio, Taguig City | Ground Lease |
| One Campus Place | McKinley Hill, Fort Bonifacio, Taguig City | Ground Lease |
| 8 Campus Place | McKinley Hill, Fort Bonifacio, Taguig City | Ground Lease |
| Science Hub | McKinley Hill, Fort Bonifacio, Taguig City | Ground Lease |
| McKinley Hill (Phase 3) Lots | McKinley Hill, Fort Bonifacio, Taguig City | Ground Lease |
| The Venice Piazza | McKinley Hill, Fort Bonifacio, Taguig City | Ground Lease |
| Woodridge Residences | McKinley Hill, Fort Bonifacio, Taguig City | Joint Venture |
| Tuscany Retail | McKinley Hill, Fort Bonifacio, Taguig City | Joint Venture |
| 8 Park Avenue | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| 8 Upper McKinley Road | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| Three World Square | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| Two World Square | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| One World Square | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| McKinley Parking Building | McKinley Hill, Fort Bonifacio, Taguig City | Owned |
| California Garden Square Retail | Libertad cor Clbayog, Mandaluyong City | Owned |
| The World Center | Gil Puyat Ave., makati City | Owned |
| Greenbelt Parkplace Retail | Legaspi Village, Makati City | Owned |
| Greenbelt Radissons Retail | Legaspi Village, Makati City | Owned |
| Paseo Center | Paseo Center, Makati City | Owned |
| Eastwood Richmonde Hotel | Eastwood, Quezon City | Owned |
| Corinthian Hills Retail | Temple Drive, Quezon City | Owned |
| Richmonde Hotel | Ortigas, Mandaluyong City | Owned |
| One Beverly Place Retail | Greenhills, San Juan | Owned |
| One World Center | Mactan Newtown, Cebu | Owned |

*Notes:*

*(1) Lease terms and rental rates vary depending on the property and the lessee.*
*(2) Eastwood Richmonde Hotel and The Richmonde Hotel are operated by a subsidiary of the Company.*
*(3) The land comprising McKinley Hill (Phase 3) consisting of approximately 16 hectares is being leased from the City Government of Taguig*

The Company's principal corporate headquarters are located on the 20th and 28th floors of The World Centre at Sen. Gil Puyat Avenue, Makati City. The Company owns both of the floors that it occupies.

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

**LEGAL PROCEEDINGS**

**No Material Pending Legal Proceedings**

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

## SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of 2014 to a vote of security holders.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

## MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### Market Price Information

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

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

| Year | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|---|
| 2012 | High | 2.10 | 2.26 | 2.34 | 2.91 |
| | Low | 1.58 | 1.88 | 2.09 | 2.22 |
| 2013 | High | 4.05 | 4.31 | 3.57 | 3.92 |
| | Low | 2.78 | 2.75 | 2.85 | 3.12 |
| 2014 | High | 4.23 | | | |
| | Low | 4.14 | | | |
| 3/31/14 | Close | 4.19 | | | |

### Holders

As of 31 March 2014, the Company had 2,677 shareholders of record worldwide. The following table sets forth the twenty largest shareholders of the Company as of 31 March 2014.

| Rank | Name of Stockholder | Number of Common Shares | Number of Voting Preferred Shares | Percentage of Ownership |
|---|---|---|---|---|
| 1. | Alliance Global Group, Inc. | 14,090,219,058 | | 37.0711% |
| | | | 6,000,000,000 | 15.7859% |
| 2. | PCD Nominee Corporation (Non-Filipino) | 5,750,837,234 | | 15.1303% |
| 3. | New Town Land Partners, Inc. | 5,668,530,324 | | 14.9138% |
| 4. | PCD Nominee Corporation (Filipino) | 4,682,782,097 | | 12.3203% |
| 5. | First Centro, Inc. | 873,012,500 | | 2.2969% |
| 6. | Richmonde Hotel Group International Limited | 420,000,000 | | 1.1050% |
| 7. | Forbes Town Properties Holdings, Inc. | 143,000,000 | | 0.3762% |
| 8. | Andrew L. Tan | 95,000,000 | | 0.2499% |
| 9. | The Andresons Group, Inc. | 89,760,000 | | 0.2362% |
| 10. | Wealth Securities, Inc. | 14,076,160 | | 0.0370% |
| 11. | Alfonso U. Lim &/or Alfie Thomas C. Lim | 10,000,000 | | 0.0263% |

| | | | | |
|---|---|---|---|---|
| | &/or Donabel C. Lim | | | |
| 12. | Simon Lee Sui Hee | 8,845,200 | | 0.0233% |
| 13. | OCBC Securities Phils., Inc. (FAO: Santiago J. Tanchan, Jr.) | 7,371,000 | | 0.0194% |
| 14. | Luisa Co Li | 5,525,697 | | 0.0145% |
| 15. | Evageline Abdullah | 5,400,000 | | 0.0142% |
| 16. | Jasper Karl Tanchan Ong | 5,370,300 | | 0.0141% |
| 17. | Winston Co | 5,180,760 | | 0.0136% |
| 18. | Luis Ang and/or Teresa W. Ang | 4,000,000 | | 0.0105% |
| 19. | Luis Ang &/or Lisa Ang | 3,785,532 | | 0.0100% |
| 20. | Evergreen Stock Brok. & Sec., Inc. | 3,780,000 | | 0.0099% |

**Dividend Policy**

The payment of dividends, either in the form of cash or stock, will depend upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends only out of its unrestricted retained earnings. These represent the net accumulated earnings of the Company with its capital unimpaired, which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in cash are subject to the approval by the Board of Directors. Dividends paid in the form of additional shares are subject to approval by both the Board of Directors and at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose. Cash dividends amounting to Php1.03 billion, Php838.59 million and Php598.67 million were declared on the Company's common shares in 2013, 2012 and 2011, respectively. The dividends were paid in August 2013, July 2012 and July 2011, respectively. Cash dividends were declared on the Company's Series "A" Preferred Shares in 2013, 2012 and 2011 in the amount of Php600,000 for each year. The dividends were paid in August 2013, July 2012 and July 2011.

The Corporation Code prohibits stock corporations from retaining surplus profits in excess of 100% of their paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the Board of Directors, or when the corporation is prohibited under any loan agreement with any financial institution or creditor from declaring dividends without its consent, and such consent has not yet been secured, or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation.

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

**Recent Sales of Unregistered or Exempt Securities**

In 2011, the Company issued US$200,000,000 worth of corporate notes due in 2018 with a coupon of 6.75% and a yield of 6.875%. UBS acted as sole global coordinator and bookrunner for the issue. The corporate notes are listed in the Singapore Exchange Securities Trading Limited.

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

Management's Discussion and Analysis of Results of Operations and Financial Condition

**Results of Operations**

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

Review of December 31, 2013 versus December 31, 2012

The Group's consolidated net income for the year ended December 31, 2013 posted an amount of Php9.03 billion (which includes Php763.83 million non-recurring gain on acquisition of subsidiary), or 21.90% higher than the previous year's net income of Php7.41 billion. Consolidated total revenues composed of real estate sales, rental income, hotel income and other revenues posted an increase of 18.42% from Php30.60 billion to Php36.24 billion.

***Development.*** Among product portfolios, the bulk of generated consolidated revenues came from the sale of condominium units amounting to Php21.25 billion in 2013 compared to Php18.17 billion in 2012, an increase of 16.94%. The Group's registered sales mostly came from the following projects: One Uptown Residences; Noble Place Binondo; Belmont Hotel; Savoy Hotel; Uptown Ritz Residences; Greenbelt Hamilton; Three Central; Viceroy Tower 1, 2 & 3; One Eastwood Avenue Tower 1; One Pacific Residence; The Venice Luxury Residence Domenico & Carusso; Eight Newtown; 101 Newport Boulevard; Eight Forbes Town Road and One Madison Place Iloilo.

***Leasing***. Rental income contributed 16.66% to the consolidated revenue and amounted to Php6.04 billion compared to Php4.99 billion reflected last year, a 20.88% increase. Contributing to the growth are the escalation and completion of additional leasing properties and increase in demand for office space from BPO Companies.

***Hotel Operations***. The Group's hotel operations posted an amount of Php451.04 million in 2013, slightly declined by 2.44%, from Php462.31 million in 2012.

In general, the increase in costs and expenses from Php23.19 billion in 2012 to Php27.21 billion in 2013, or increase by 17.33% was mainly due to the increase in real estate sales, additional interest on new dollar bonds issued and increase in other administrative and corporate overhead expenses. Income tax expense in 2013 amounting to Php2.57 billion resulted to a 14.15% increase from 2012 reported amount of Php2.25 billion due to higher taxable income.

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

**Financial Condition**

The Group maintains a prudent financial policy as it engages to a more competitive and challenging environment. The Group's Statement of Financial Position reflects stable financial growth. Total resources as of December 31, 2013 amounted to Php173.88 billion posted an increase of 21.83% compared to Php142.72 billion as of December 31, 2012.

The Group shows liquid position as of December 31, 2013 by having its current assets amounted to Php98.46 billion as against its current obligations of Php25.90 billion. Current assets posted an increase of 20.46% from December 31, 2012 balance of Php81.73 billion. Current obligations reflected a increase of 0.52% from December 31, 2012 balance of Php25.76 billion.

Cash and cash equivalents increased by 18.36% from Php26.83 billion in 2012 to Php31.75 billion in 2013. The increase is due to the proceeds from the issuance of dollar bonds, share subscription by the Parent

Company from the increase in authorized capital, exercise of stock warrants and proceeds from sale of an associate. A 9.51% increase from its current and non-current trade and other receivables – Php43.00 billion as of December 31, 2013 compared to Php39.26 billion as of December 31, 2012, was due to higher sales for the period. An increase by 21.53% from Php28.89 billion in 2012 to Php35.11 billion in 2013 in residential and condominium units for sale pertains to additional construction cost attributable to on-going projects. Property development cost increased by 12.64% from last year-end's amount of Php8.62 billion to Php9.71 billion in 2013. The Group's investment in available-for-sale securities increased by 20.63%, from Php3.26 billion in 2012 to Php3.93 billion in 2013 was due to changes in market value of investments. Investment property increased by 49.99%, amounting to Php24.95 billion in 2013 as compared with 2012 balance of Php16.63 billion due to additional property for lease and contribution by newly acquired subsidiary.

Trade and other payables amounted to Php7.20 billion and Php7.90 billion as of December 31, 2013 and 2012, respectively. The decrease of 8.88% was due to payments made to the Group's suppliers and contractors in relation to its real estate developments. Total customers' deposits as of December 31, 2013 amounted to P5.12 billion compared to Php5.94 billion as of December 31, 2012 with a 13.82% decrease. The combined effect of current and non-current deferred income on real estate sales increased by 16.01% which amounted to Php7.47 billion as of December 31, 2013 compared to Php6.44 billion as of December 31, 2012 due to increase in unearned revenue.

Total Interest-bearing loans and borrowings current and non-current amounted to Php3.80 billion resulted in a 41.52% decrease from previous year Php6.50 billion mainly due to principal payments of loans and early redemption of notes during the period. Bonds payable increased by 83.13%, amounting to Php24.83 billion in 2013 from Php13.56 billion in 2012 due to issuance of dollar bonds during the year. Total other liabilities amounted to Php3.59 billion from Php3.77 billion as of December 31, 2013 and December 31, 2012, respectively translating to a 4.83% decrease.

Total equity (including non-controlling interest) increased by 25.52% from Php81.23 billion as of December 31, 2012 to Php101.95 billion as of December 31, 2013 due to the Group's continuous profitability, issuance of shares amounting to Php2.5 billion to Parent Company and additional issuance of common shares from exercised stock warrants amounting to Php721.81 million in 2013.

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

| | Year 2013 | Year 2012 (As restated) |
|---|---|---|
| Current Ratio *1 | 3.80:1 | 3.17:1 |
| Quick Ratio *2 | 1.23:1 | 1.04:1 |
| Debt to Equity Ratio *3 | 0.28:1 | 0.25:1 |
| Return on Assets *4 | 5.71% | 5.46% |
| Return on Equity *5 | 9.76% | 10.23% |

**1 – Current Assets / Current Liabilities*
**2 – Cash and Cash Equivalents / Current Liabilities*
**3 – Interest Bearing Loans and Borrowings and Bonds payable / Stockholders' Equity*
**4 – Net Income / Average total assets*
**5 – Net Income / Equity (Computed using figures attributable only to company's shareholders)*

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

**Material Changes in the Year 2013 Financial Statements**
***(Increase/decrease of 5% or more versus December 31, 2012)***

**Statement of Financial Position**

18.36% increase on Cash and cash equivalents
Mainly due to proceeds from issuance of new common stocks; dollar bonds; exercise of stock warrants and sale of an associate

9.51% increase in Trade and other receivables – current and non-current-net
Primarily due to higher sales generated during the year

53.94% increase in Financial assets at fair value through profit or loss
Brought by changes in market value of financial assets

21.53% increase in Residential and condominium units for sale
Pertains to additional construction cost attributable to on-going projects

12.64% increase in Property development costs
Mainly due to the costs attributable to the development of various projects

16.76% increase in Land for future development
Mainly due to acquisition of additional parcels of land for future development of subsidiaries

20.63% increase in Investment in available-for-sale securities
Due to changes in market value of investments

64.15% increase in Investments in and advances to associates and other related parties – net
Due to additional investments in new and existing associates, share in net earnings of associates for the period, and additional advances to other related parties

49.99% increase in Investment property - net
Due to additional properties for lease and contributed by newly acquired subsidiary

17.54% increase in Property and equipment - net
Due to additional acquisition of property and equipment

5.22% increase in Deferred tax assets
Pertains to tax effects of taxable and deductible temporary differences

41.52% decrease in Interest-bearing loans and borrowings – current and non-current
Mainly due to payments of principal amount of loans and early redemption of notes during the period

8.88% decrease in Trade and other payables
Due to payments made to the Group's suppliers and contractors in relation to real estate developments

13.82% decrease in Customers deposit
Due to reclassification of account resulting from recognition of sales from customers deposits

18.78% increase in Reserve for property development - current and non-current
Represents increase in estimated cost to complete the development of various projects

16.01% increase in Deferred income on real estate sales - current and non-current
Represents increase in unearned revenue

429.14% increase in Income tax payable
Mainly due to higher taxable income

83.13% increase in Bonds payable
Mainly due to issuance of dollar bonds during the year

17.23% increase in Deferred tax liabilities - net
Pertains to tax effects of taxable and deductible temporary differences

82.60% decrease in Advances from associates and other related parties
Represents reclassification of account resulting from consolidation of former associate

19.53% increase in Retirement benefit obligation
Primarily due to impact of revised PAS 19- Employee Benefits

***(Increase/decrease of 5% or more versus December 31, 2012)***

**Income Statements**

16.94% increase in Real estate sales
Primarily due to higher sales recognized during the year

15.79% increase in Interest income on real estate sales
Recognition of interest income from prior years' sales

52.25% increase in Realized gross profit on prior years' sales
Represents portion of gross profit from real estate sales made in prior years realized in the current year

20.88% increase in Rental income
Due to escalation and the completion of additional leasing property and increase in demand for office space from BPO Companies

60.76% decrease in Equity share in net earnings of associates
Mainly due to decrease in net income of associates

26.43% increase in Interest and other income – net
There was a non-recurring gain on acquisition of a subsidiary

10.04% increase in Cost of real estate sales
Due to increase in real estate sales

15.65% increase in Operating expenses
Due to increase in other administrative and corporate overhead expenses

32.96% increase in Deferred gross profit
Pertains to the portion of gross profit from current real estate sales to be realized in future periods

64.98% increase in Interest and other charges – net
Due to interest expense recognized and cost incurred related to dollar bond issuance

14.15% increase in Income tax expense
Due to higher taxable income and tax effects of deductible temporary differences

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

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Group's liquidity in any material way. The Group does not anticipate having any cash flow or liquidity problems. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

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

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

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

There were no known material events subsequent to the end of the year that have not been reflected in the Group's Financial Statements for the year ended December 31, 2013.

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

There was no contingent liability reflected in the most recent annual financial statement, the same in the current year consolidated financial statements as of December 31, 2013. There are commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying annual 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 annual consolidated financial statements.

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

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

**Results of Operations**

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

Review of December 31, 2012 versus December 31, 2011

The Group posted an increase in its revenues as of December 31, 2012 by 15.71% year on year excluding the 2011 non-recurring gain on sale of investment. The consolidated net income as of December 31, 2012 amounted to Php7.41 billion while for the same period of 2011, consolidated net income amounted to Php5.98 net of the Php2.18 billion non-recurring gain from sale of investment. Consolidated total revenues is composed of real estate sales, rental income, hotel income and other revenues.

***Development.*** Among product portfolios, the bulk of generated consolidated revenues came from the sale of condominium units amounting to Php18.17 billion in 2012 compared to Php15.89 billion in 2011, an increase of 14.39%. The Group's registered sales mostly came from the following projects: Eight Newtown Residences; One Uptown Residences; 8 Forbestown Road; One Central; Two Central; One Eastwood Avenue; Eastwood Le Grand in Eastwood City; Morgan Suites; The Venice Luxury Residences in McKinley; Manhattan Heights in Quezon City; 81 Newport Boulevard and Newport City in Pasay.

***Leasing***. Rental income contributed 16.32% to the consolidated revenue and amounted to Php4.99 billion compared to Php3.83 billion reflected last year, a 30.54% increase. Contributing to the growth are the escalation and completion of additional leasing properties and increase in demand for office space from BPO Companies.

***Hotel Operations***. The Group's hotel operations posted an amount of Php462.31 million in 2012, an increase of 17.89%, from Php392.17 million in 2011. The increase is primarily due to the increase in hotel occupancy rates.

In general, the increase in cost and expenses by 13.40% from Php20.45 billion in 2011 to Php23.19 billion in 2012 was due mainly to the increase in recognized real estate sales, as well as marketing and selling expenses resulting from aggressive marketing activities and increase in other administrative and corporate overhead expenses. Income tax expense in 2012 amounting to Php2.25 billion resulted to a 12.89% increase from 2011 reported amount of Php2.00 billion due to higher taxable income.

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

**Financial Condition**

The Group maintains a prudent financial policy as it engages to a more competitive and challenging environment. The Group's Statement of Financial Position reflects stable financial growth. Total resources as of December 31, 2012 amounted to Php142.72 billion posted an increase of 10.64% compared to Php129.00 billion as of December 31, 2011.

The Group shows liquid position as of December 31, 2012 by having its current assets amounted to Php81.73 billion as against its current obligations of Php25.76 billion. Current assets posted an increase of 5.24% from December 31, 2011 balance of Php77.66 billion. Current obligations reflected an increase of 11.25% from December 31, 2011 balance of Php23.16 billion.

Cash and cash equivalents decreased by 11.53% from Php30.32 billion in 2011 to Php26.83 billion in 2012 due to capital expenditure and operating activities for business expansion. A 5.01% increase from its current and non-current trade and other receivables – Php39.26 billion as of December 31, 2012 compared to Php37.39 billion as of December 31, 2011, was due to higher sales for the period. An increase by 48.17% from Php19.50 billion in 2011 to Php28.89 billion in 2012 in residential and condominium units for sale pertains to additional construction cost attributable to on-going projects. Property development cost decreased by 1.54% from last year-end's amount of Php8.75 billion to Php8.62 billion in 2012. The Group's investment in available-for-sale securities increased by 25.66%, from Php2.59 billion in 2011 to Php3.26 billion in 2012 was due to changes in market value of investments.

Trade and other payables amounted to Php7.90 billion and Php7.30 billion as of December 31, 2012 and 2011, respectively. The rise of 8.26% was due to increase in amounts payable to the Group's suppliers and contractors in relation to its real estate developments. Total customers' deposits as of December 31, 2012 amounted to P5.94 billion compared to Php4.07 billion as of December 31, 2011 with a 45.96% increase due to aggressive marketing and pre-sales of various projects. The combined effect of current and non-current deferred income on real estate sales increased by 22.48% which amounted to Php6.44 billion as of December 31, 2012 compared to Php5.26 billion as of December 31, 2011 due to increase in unearned revenue.

Total Interest-bearing loans and borrowings amounted to Php6.50 billion representing a 9.34% decrease from previous year-end's Php7.17 billion mainly due to principal payments. Total other liabilities as of December 31, 2012 amounted to P3.77 billion representing a 14.81% decrease from P4.43 in 2011.

Total equity (including minority interest) increased by 11.62% from Php72.77 billion as of December 31, 2011 to Php81.23 billion as of December 31, 2012 due to the Group's continuous profitability and issuance of common shares from exercised stock warrants amounting to Php3.1 billion in 2012.

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

| | Year 2012 | Year 2011 |
|---|---|---|
| Current Ratio *1 | 3.17:1 | 3.35:1 |
| Quick Ratio *2 | 1.04:1 | 1.31:1 |
| Debt to Equity Ratio *3 | 0.25:1 | 0.30:1 |
| Return on Assets *4 | 5.46% | 7.22% |
| Return on Equity *5 | 10.23% | 13.18% |

**1 – Current Assets / Current Liabilities*
**2 – Cash and Cash Equivalents / Current Liabilities*
**3 – Interest Bearing Loans and Borrowings and Bonds payable / Stockholders' Equity*
**4 – Net Income / Average total assets*
**5 – Net Income / Equity (Computed using figures attributable only to parent company shareholders)*

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

**Material Changes in the Year 2012 Financial Statements**
***(Increase/decrease of 5% or more versus December 31, 2011)***

**Statement of Financial Position**

11.53% decrease on Cash and cash equivalents
Mainly due to capital expenditure, loan repayments and operating activities for business expansion

5.01% increase in Trade and other receivables – current and non-current
Primarily due to higher sales booking

53.48% increase in Financial assets at fair value through profit or loss
Brought by changes in market value of financial assets

48.17% increase in Residential and condominium units for sale
Pertains to additional construction cost attributable to on-going projects

25.66% increase in Investment in available-for-sale securities
Due to changes in market value of investments

15.36% increase in Investments in and advances to associates and other related parties – net
Mainly due to additional investment in associate

34.43% increase in Investment property - net
Due to increase in real properties for lease

10.37% increase in Property and equipment - net
Due to additional acquisition of property and equipment

465.21% increase in Deferred tax assets
Pertains to tax effects of taxable and deductible temporary differences

8.03% increase in other non-current assets
Due to increase in guarantee deposits

9.34% decrease in Interest-bearing loans and borrowings – current and non-current
Mainly due to principal payments of loans and notes payable

8.26% increase in Trade and other payables
Due to increase in amounts payable to the Group's suppliers and contractors in relation to its real estate developments

45.96% increase in Customers' deposit – current and non-current
Due to aggressive marketing and pre-selling of various projects

16.98% increase in Reserve for property development - current and non-current
Pertains to estimated cost to complete the development of various projects

22.48% increase in Deferred income on real estate sales - current and non-current
Represents increase in unearned revenue

12.33% increase in Deferred tax liabilities - net
Pertains to tax effects of taxable and deductible temporary differences

229.43% increase in Advances from other related parties
Due to the effect of deconsolidation of subsidiary

119.37% increase in Retirement benefit obligation
Additional accrual of retirement plan of employees

***(Increase/decrease of 5% or more versus December 31, 2011)***

**Income Statements**

14.39% increase in Real estate sales
Principally due to aggressive marketing and additional sales from new projects

8.92% increase in Interest income on real estate sales
Due to realization of interest income from prior years' sales

30.54% increase in Rental income
Due to escalation and the completion of additional leasing property and increase in demand for office space from BPO Companies

17.89% increase in Hotel operations
Due to increase in hotel occupancy rates

32.87% increase in Equity share in net earnings of associates
Mainly due to increase in net income of associates

39.88% decrease in Interest and other income – net
There was a non-recurring gain on sale of investment in 2011

13.13% increase in Cost of real estate sales
Due to increase in real estate sales

5.23% increase in Hotel operations expenses
Due to increase in hotel bookings

18.99% increase in Operating expenses
Due to aggressive marketing activities and increase in other administrative and corporate overhead expenses

24.75% increase in Interest and other charges – net
Due to increase in interest expense of subsidiaries

12.89% increase in Income tax expense
Due to higher taxable income and tax effects of deductible temporary differences

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

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Group's liquidity in any material way. The Group does not anticipate having any cash flow or liquidity problems. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

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

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

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

There were no material events subsequent to the end of the year that have not been reflected in the Group's Financial Statement for the year ended December 31, 2012.

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

There was no contingent liability reflected in the most recent annual financial statement, the same in the current year consolidated financial statement as of December 31, 2012. There are commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying annual 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 annual consolidated financial statements.

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

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

**External Audit Fees and Services**

The external auditors of the Company and its subsidiaries billed the amounts of Php9,147,000 in 2013, Php7,214,600 in 2012 and Php8,457,142 in 2011 in fees for professional services rendered for the audit of the Company and its subsidiaries' annual financial statements and services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2013, 2012 and 2011. Except as disclosed above, no other services were rendered or fees billed by the external auditors of the Company for the years 2013, 2012 and 2011.

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

**FINANCIAL STATEMENTS**

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

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

In compliance with SEC Memorandum Circular No. 8, Series of 2003, which was subsequently incorporated in SRC Rule 68, paragraph 3(b)(iv), and the Company's Manual of Corporate Governance, which require that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier, Mr. Nelson J. Dinio of Punongbayan and Araullo was designated as handling partner for the audit of the financial statements of the Company starting the year ending 31 December 2011. Punongbayan & Araullo was also the auditor of the Company for 2012, 2011 and 2010.

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

## PART III – CONTROL AND COMPENSATION INFORMATION

### BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The overall management and supervision of the Company is undertaken by the Board of Directors ("Board"). Currently, the Board consists of seven members, of which three are independent directors. All of the directors were elected at the Company's annual stockholders meeting on July 18, 2013 and will hold office until their successors have been duly elected and qualified.

The table sets forth each member of the Company's Board as of 31 March 2014.

| Name | Age | Citizenship | Position |
|---|---|---|---|
| Andrew L. Tan | 64 | Filipino | Director, Chairman and President |
| Katherine L. Tan | 62 | Filipino | Director |
| Kingson U. Sian | 52 | Filipino | Director and Executive Director |
| Enrique Santos L. Sy | 64 | Filipino | Director |
| Miguel B. Varela | 74 | Filipino | Independent Director |
| Gerardo C. Garcia | 72 | Filipino | Independent Director |
| Roberto S. Guevara | 62 | Filipino | Independent Director |

The table below sets forth Megaworld's executive officers in addition to its executive directors listed above as of 31 March 2014.

| Name | Age | Citizenship | Position |
|---|---|---|---|
| Lourdes T. Gutierrez | 50 | Filipino | Chief Operating Officer |
| Francisco C. Canuto | 56 | Filipino | Senior Vice President, Treasurer Compliance Officer and Corporate Information Officer |
| Philipps C. Cando | 55 | Filipino | Senior Vice President for Operations |
| Monica T. Salomon | 45 | Filipino | First Vice President for Corporate Management |
| Garry V. de Guzman | 46 | Filipino | First Vice President for Legal Affairs |
| Maria Victoria M. Acosta | 52 | Filipino | Managing Director for International Sales |
| Kimberly Hazel A. Sta. Maria | 33 | Filipino | Assistant Vice President for Corporate Communications and Advertising |
| Edwin B. Maquinto | 52 | Filipino | Corporate Secretary |
| Rolando D. Siatela | 53 | Filipino | Assistant Corporate Secretary |

**Andrew L. Tan**
**Chairman of the Board/President**

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

deserving students, and supports causes that promote poverty alleviation, people empowerment, social justice, good governance and environmental conservation. He is a director of Travellers International Hotel Group, Inc., a publicly listed company, which owns Resorts World Manila, and the food and beverage companies, Emperador Distillers, Inc. Alliance Global Brands, Inc. and Golden Arches Development Corporation. Mr. Tan is a Director and President and CEO of Twin Lakes Corporation.

**Katherine L. Tan**
**Director**

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

**Kingson U. Sian**
**Director and Executive Director**

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

**Enrique Santos L. Sy**
**Director**

Mr. Sy has served as Director of the Company since July 2009. He was Vice President for the Corporate Communications & Advertising Division of the Company until his retirement in March 2011. He is concurrently a Director of Empire East Land Holdings, Inc. and First Oceanic Property Management Inc. He is Director and the Corporate Secretary of Asia Finest Cuisine, Inc. and Corporate Secretary of Empire East Communities, Inc. Mr. Sy previously worked as Advertising Manager of Consolidated Distillers of the Far East, Inc., Creative Director of AdCentrum Advertising, Inc., Copy Chief of Admakers, Inc. and Peace Advertising Corporation, and Creative Associate of Adformatix, Inc. Mr. Sy graduated with honors from the Ateneo de Manila University with the degree of Bachelor of Arts in Communication Arts.

**Miguel B. Varela**
**Independent Director/Vice Chairman**

A man who wears many hats, Miguel B. Varela holds significant positions in various public and private institutions.

Mr. Varela has been a member of the Company's Board of Directors since June 2006. He is presently the Chairman of the Philippine Chamber of Commerce and Industry (PCCI), was formerly President and now presently Director of Manila Bulletin Publishing Corporation, Director of Ausphil Tollways Corporation, Director, NPC Alliance Corporation, Vice Chairman Richmonde Hotel, among others. Chairman of the Employers Confederation of the Philippines (ECOP), Board of Trustee of Philippines Trade Foundation, Inc. Chairman of Pribadong Institusyon Laban sa Kahirapan (PILAK). Chairman of the Philippine Association of Voluntary Arbitration Foundation (PAVAF), and Vice Chairman of Philippine Dispute Resolution Center, Inc. (PDRCI). Also the Vice President of the International Labor Organization, Inc., and Vice Chairman and

Trustee, Foundation for Crime Prevention. He is an accredited international arbitrator of the Paris-based International Court of Arbitration. A member of the Philippine Bar he pursued his Bachelor of Laws in the Ateneo de Manila Law School and his Associate in Liberal Arts from the San Beda College. He attended a Top Management and Productivity Program from the Asian Institute of Management (AIM) as well as special courses sponsored by ILO, Geneva, Switzerland, Asian Productivity Organization (APO), and the Nikkeren, Japan, covering areas of Managerial Management and Organizational Development, Productivity, Legal Management, Labor and Industrial Relations, Development of SME's among others. He is a member of the Philippine Bar Association, a Commissioner of the Consultative Commission on Constitutional Reform and a Lifetime Member of the Philippine Constitution Association (PHILCONSA). He is the recipient of various awards and citations such as San Beda College's Outstanding Alumni Award for Business Leadership, and San Beda Hall of Fame Awardee, Presidential Medal of Merit for Outstanding Service to the Republic of the Philippines, Tamaraw Leadership Award, Katipunan Leadership Award and Leadership Award from ECOP, PCCI and ASEAN Productivity Organization and Confederation of Asia-Pacific Chamber of Commerce and Industry (CACCI) Medallion for Distinguished Service Award. . He was also conferred by the Central Luzon State University with the degree of Doctor of Humanities (honoris causa), and by the Eulogio "Amang" Rodriguez University of Science and Technology with a Doctorate in Business Technology (*honoris causa*).

**Gerardo C. Garcia**
**Independent Director**

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

**Roberto S. Guevara**
**Independent Director**

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

**Lourdes T. Gutierrez**
**Chief Operating Officer**

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

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

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

**Philipps C. Cando**
**Senior Vice President for Operations**

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

**Monica T. Salomon**
**First Vice President for Corporate Management**

Ms. Salomon heads the Corporate Management Department of the Company and is a member of the Company's Management Executive Committee. She joined the Company's Legal and Corporate Management Division in January 1997 and has served as corporate counsel to the Company and its subsidiaries since 1997. She is concurrently a director of Megaworld Cebu Properties, Inc., Twin Lakes Corporation, Megaworld Land, Inc., Asia's Finest Hotels & Resort, Inc., Bonifacio West Development Corporation, Megaworld-Global Estate, Inc., Prestige Hotels & Resorts, Inc., Megaworld Central Properties, Inc., Townsquare Development Inc. and Eastwood Property Holdings, Inc. She is the Corporate Secretary of Oceantown Properties, Inc. and Director and Corporate Secretary of Megaworld Resort Estates, Inc. She is a trustee of Megaworld Foundation, Inc. Before joining Megaworld, she worked as an Associate at the ACCRA Law Offices and was Legislative Staff Assistant to then Congressman Raul S. Roco at the House of Representatives. Ms. Salomon pursued her law studies at the University of the Philippines where she graduated in April 1994 with honors.

**Garry V. de Guzman**
**First Vice President for Legal Affairs**

Mr. De Guzman heads the Legal Affairs Department of the Company. He joined the Company in April 1997 as a Senior Manager of its Legal and Corporate Management Division in April 1997. Mr. De Guzman has been in continuous litigation practice for more than thirteen (13) years and is in charge of the Company's litigation, licensing, registration and titling activities. Before joining Megaworld, he was an Associate at the ACCRA Law Offices and Tax Assistant in Punongbayan and Araullo, CPAs. He obtained his Bachelor of

Laws in 1994 from San Beda College where he graduated Class Salutatorian and was admitted to the Integrated Bar of the Philippines in 1995. In 1989, he obtained his bachelor's degree in Commerce major in Accounting from the same institution graduating Magna Cum Laude and Class Valedictorian. Mr. De Guzman serves as Director and Treasurer of Global-Estate Resorts, Inc. and Director of Megaworld Resort Estates, Inc. and Twin Lakes Corporation. He is also Director and Corporate Secretary of Megaworld Global-Estate, Inc. Mr. De Guzman is a member of the Commercial Law Affiliates, AsiaLaw, Philippine Institute of Certified Accountants and is Past President of the Rotary Club, Parañaque City Chapter.

**Maria Victoria M. Acosta**
**Managing Director for International Sales**

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

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

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

**Edwin B. Maquinto**
**Corporate Secretary**

Mr. Maquinto is the Corporate Secretary of the Company and has held this position since 1997. He is currently Corporate Counsel of Emperador Distillers, Inc., Anglo-Watson Glass, Inc., The Andresons Group, Inc., Consolidated Distillers of the Far East, Inc., Raffles & Company, Inc. and Andresons Global, Inc. He graduated from the University of the Philippines, with degrees in law and economics. He served as Special Assistant to the Legal and Corporate Manager of the Philippine Coconut Authority, Chief Legal Counsel of the FORZA group of companies, Legal Officer of the Office of Legal Affairs and Hearing Officer of the Garments and Textiles Export Board, both of the Department of Trade and Industry.

**Rolando D. Siatela**
**Assistant Corporate Secretary**

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

**Significant Employees**

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

**Family Relationships**

Chairman and President Andrew L. Tan is married to Director Katherine L. Tan, who is also Director and Treasurer of Emperador Inc. and Alliance Global Group, Inc. Their sons, Kevin Andrew L. Tan and Kendrick Andrew L. Tan, are currently serving as directors of Anglo Watsons Glass, Inc., New Town Land Partners, Inc. and Yorkshire Holdings, Inc. Kevin Andrew L. Tan is also a director and Corporate Secretary of Alliance Global Brands, Inc. and a director of Emperador Distillers, Inc. and Alliance Global Group, Inc., while Kendrick Andrew L. Tan is a Director of Emperador Inc. and Corporate Secretary of Emperador Distillers, Inc.

**Involvement in Certain Legal Proceedings**

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

1. Any bankruptcy petition filed by or against any business of a director, nominee for election as director, or executive officer who was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2. Any director, nominee for election as director, or executive officer being convicted by final judgment in a criminal proceeding, domestic or foreign, or being subject in his personal capacity to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

3. Any director, nominee for election as director, or executive officer being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

4. Any director, nominee for election as director, or executive officer being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

## EXECUTIVE COMPENSATION

Summary Compensation Table

The following table identifies the Company's Chief Executive Officer and the four most highly compensated executive officers and summarize their aggregate compensation in 2012 and 2013 and the estimated aggregate compensation for 2014:

| Name and Principal Position | Year | Salary | Bonus | Other Annual Compensation | Total Annual Compensation |
|---|---|---|---|---|---|
| Andrew L Tan, President | | | | | |
| Lourdes T. Gutierrez, Chief Operating Officer | | | | | |
| Philipps C. Cando, SVP for Operations | | | | | |
| Kingson U. Sian, SVP Executive Director | | | | | |
| Francisco C. Canuto, SVP, Treasurer | | | | | |
| President and 4 Most Highly Compensated Officers | 2012 | 26,312,800 | 6,132,900 | 6,066,980 | 38,512,680 |
| | 2013 | 36,146,175 | 10,618,475 | 6,758,198 | 53,522,848 |
| | 2014 | 43,375,410 | 12,529,801 | 7,771,928 | 63,677,139 |
| All Other Officers and Directors as a Group | 2012 | 47,042,936 | 3,893,023 | 6,297,140 | 57,233,099 |
| | 2013 | 60,982,332 | 12,090,328 | 7,508,352 | 80,581,012 |
| | 2014 | 71,349,328 | 14,508,394 | 8,634,605 | 94,492,327 |

**Compensation of Directors**

The members of the Board receive a standard per diem for attendance in Board meetings. In 2013 and 2012, the Company paid a total of Php700,000 for each year, for directors' per diem. For 2014, the Company has allocated Php800,000 for directors' per diem. Other than payment of the per diem, there are no arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the year ended December 31, 2013 and the ensuing year, for any service provided as a director.

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

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

**Outstanding Warrants and Options**

There are directors of the Company who are holders of warrants issued pursuant to a 1:4 stock rights offering in 2009. There are executive officers of the Company who were granted options to subscribe to

common shares of the Company pursuant to the Company's Employee Stock Option Plan approved by the Board and stockholders of the Company in 2012.

**Security Ownership of Record and Beneficial Owners of more than 5% of the Company's Shares as of March 31, 2014**

| Title of Class | Name, address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent of Class |
|---|---|---|---|---|---|
| Common<br><br>Preferred | Alliance Global Group, Inc. (AGI)[1] 7/F 1880 Eastwood Avenue, Eastwood City, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City | Alliance Global Group, Inc.[2] | Filipino | 14,090,219,058<br><br>6,000,000,000 | 37.0711%<br><br>15.7859% |
| Total | | | | 20,090,219,058 | 52.8570% |
| Common | PCD Nominee Corporation (Non-Filipino), G/F MKSE Bldg., 6767 Ayala Ave., Makati | Participants of the PCD composed of custodian banks and brokers. | Non-Filipino | 5,750,837,234[3] | 15.1303% |
| Common | New Town Land Partners, Inc. (NTLPI)[4], 6/F The World Centre, Sen. Gil Puyat, Ave., Makati | New Town Land Partners, Inc. | Filipino | 5,668,530,324 | 14.9138% |
| Common | PCD Nominee Corporation (Filipino) G/F MKSE Bldg., 6767 Ayala Ave., Makati | Participants of the PCD composed of custodian banks and brokers.[5] | Filipino | 4,682,798,097 | 12.3203% |
| Common | PCD Nominee Corporation (Non-Filipino), G/F MKSE Bldg., 6767 Ayala Ave., Makati | The Hongkong and Shanghai Banking Corp. Ltd. – Clients (HSBC)[6] | Non-Filipino | 2,934,388,064 | 7.7203% |

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

**Security Ownership of Management as of 31 March 2014**

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

[2] The Board of Directors of AGI has voting and investment power over AGI's shares of stock in the Company. AGI normally authorizes its Chairman, or in his absence, the Chairman of the Meeting, to vote AGI's shares of stock in the Company.

[3] This includes HSBC's 2,934,388,064 shares.

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

[5]Among the PCD participants, HSBC owns 2,934,388,064 shares, representing 7.7203% of the Company's outstanding capital stock.

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

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Directors/Nominees | | | | |
| Common | Andrew L. Tan | 95,000,000 (direct) | Filipino | .24994% |
| | | 1,891,632[1] (indirect) | Filipino | .00498% |
| | | 20,090,219,058[2] (indirect) | Filipino | 52.8569% |
| | | 5,668,530,324[3](indirect) | Filipino | 14.9138% |
| | | 102,000,000[4] (indirect) | Filipino | 0.2684% |
| Common | Gerardo C. Garcia | 136,136[5] (direct) | Filipino | .00036% |
| Common | Kingson U. Sian | 612,501[6] (direct) | Filipino | .00161% |
| Common | Katherine L. Tan | 1,891,632 (direct) | Filipino | .00498% |
| | | 95,000,000[7] (indirect) | Filipino | .24994% |
| Common | Miguel B. Varela | 4,422 (direct) | Filipino | .00001% |
| Common | Roberto S. Guevara | 1 (direct) | Filipino | .00000% |
| Common | Enrique Santos L. Sy | 80,553 (direct) | Filipino | .00021% |
| **CEO and Four Most Highly Compensated Officers** | | | | |
| Common | Andrew L. Tan | Same as above | | |
| Common | Kingson U. Sian | Same as above | | |
| Common | Lourdes T. Gutierrez | 974,244 (direct) | Filipino | .00256% |
| Common | Francisco C. Canuto | 369,054 (direct) | Filipino | .00097% |
| Common | Philipps C. Cando | 0 | Filipino | n/a |
| **Other Executive Officers** | | | | |
| Common | Maria Victoria M. Acosta | 0 | Filipino | n/a |
| Common | Monica T. Salomon | 0 | Filipino | n/a |
| Common | Garry V. de Guzman | 0 | Filipino | n/a |
| Common | Kimberly Hazel A. Sta. Maria | 0 | Filipino | n/a |
| Common | Edwin B. Maquinto | 0 | Filipino | n/a |
| Common | Rolando D. Siatela | 0 | Filipino | n/a |
| Common | All directors and executive officers as a group | 99,068,543 (direct) | | 0.26064738% |

**Voting Trust Holders of 5% or More**

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

**Changes in Control**

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

[1] The shares are beneficially owned by Katherine L. Tan, spouse of Andrew L. Tan.
[2] The shares are held by Alliance Global Group, Inc. which normally authorizes Andrew L. Tan, in his capacity as Chairman of the Board, or in his absence the Chairman of the Meeting, to vote AGI's common shares in the Company.
[3] The shares are held by NTLPI which normally authorizes the Chairman of the Board of the Company, or in his absence the Chairman of the Meeting to vote NTLPI's shares of stock in the Company.
[4] The shares are held by Emperador Inc. which normally authorizes Andrew L. Tan, in his capacity as Chairman of the Board, or in his absence the Chairman of the Meeting, to vote EMP's common shares in the Company.
[5]Gerardo C. Garcia is the holder of 21,647 warrants which entitle him to subscribe to an equivalent number of common shares at One Peso (Php1.00) per share.
[6]Kingson U. Sian is the holder of 98,000 warrants which entitle him to subscribe to an equivalent number of common shares at One Peso (Php1.00) per share.
[7] The shares are beneficially owned by Andrew L. Tan, spouse of Katherine L. Tan.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Please refer to the discussion under Transactions with and/or dependence on related parties on pages 10 and 11.

The Group's policy on related party transactions is disclosed in Note 2.22, Page 30 of the Audited Financial Statements.

In Note 1, Pages 1 to 4 of the Audited Financial Statements, the interest of the Company on its subsidiaries and associates as well as other explanatory notes are disclosed. Moreover, Notes 23 to 23.4, Pages 67 to 70, cite the conditions, purpose and types of transactions (i.e., collection from sales of land and rendering services to related parties, obtaining services from related parties, advances provided to associates and other related parties, advances from associates and other related parties and other accounts). Further, in accordance with PAS 24.18, the Group disclosed the amount of the transactions with its related parties, including the amount of outstanding balances of the reporting dates. With regard to determination of transaction prices, these are determined based on the agreement of the parties involved and are usually based on prevailing market sales.

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

# PART V – EXHIBITS AND SCHEDULES

## EXHIBITS AND REPORTS ON SEC FORM 17-C

**Exhibits**

| Exhibit No. | Description of Exhibit |
|---|---|
| 1 | Audited Consolidated Financial Statements as of December 31, 2013, 2012 and 2011. |

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

| Date | Disclosures |
|---|---|
| 03 July 2013 | Declaration of Cash Dividend |
| 09 July 2013 | Exercise of Warrants |
| 11 July 2013 | Cash Dividend Update |
| 18 July 2013 | Results of Annual Meeting of Stockholders |
| 18 July 2013 | Results of Organizational Meeting of the Board of Directors |
| 18 July 2013 | Press Release: "Property Sector will continue to grow – Andrew Tan" |
| 05 August 2013 | Notice of Investor Briefing Teleconference |
| 06 August 2013 | Exercise of Warrants |
| 07 August 2013 | Exercise of Warrants |
| 12 August 2013 | Press Release: "Megaworld 1H 2013 profits rise 15% to Php4.25 billion" |
| 13 August 2013 | Exercise of Warrants |
| 15 August 2013 | Press Release: "Megaworld to build P1.5B Courtyard by Marriott Hotel in Iloilo Business Park" |
| 05 September 2013 | Press Release: "Megaworld ramps up Iloilo Business Park investment to P35B" |
| 05 September 2013 | Exercise of Warrants |
| 07 October 2013 | Exercise of Warrants |
| 07 November 2013 | Notice of Investor Briefing Teleconference |
| 13 November 2013 | Exercise of Warrants |

| | |
|---|---|
| 13 November 2013 | Press Release: “Megaworld 9-month 2013 profits rise 15 percent to P6.55B” |
| 22 November 2013 | SEC Approval of Increase in Authorized Capital Stock |
| 29 November 2013 | Issuance of 2.5 billion common shares to Alliance Global Group, Inc. |
| 06 December 2013 | Exercise of Warrants |
| 10 December 2013 | Exercise of Warrants |

## SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on APR 1 1 2014 issuer by the undersigned, thereunto duly authorized, in the City of Makati, on _____.

**MEGAWORLD CORPORATION**
Company

By:

**ANDREW L. TAN**
President
(Principal Executive Officer)

**FRANCISCO C. CANUTO**
Treasurer
(Principal Financial Officer)

**LOURDES T. GUTIERREZ**
Chief Operating Officer
(Principal Operating Officer)

**LOURDES O. RAMILO**
(Principal Accounting Officer
and Comptroller)

**EDWIN B. MAQUINTO**
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 1 1 2014, affiants exhibiting to me their Community Tax Certificates, as follows:

| NAME | TIN NO. | CTC NO. | DATE OF ISSUE | PLACE OF ISSUE |
|---|---|---|---|---|
| Andrew L. Tan | 125-960-003 | 07668465 | 1/06/2014 | Quezon City |
| Francisco C. Canuto | 102-956-483 | 10857427 | 1/10/2014 | Makati City |
| Lourdes T. Gutierrez | 106-893-930 | 10857426 | 1/10/2014 | Makati City |
| Lourdes O. Ramilo | 111-600-504 | 03586006 | 3/21/2014 | MANILA |
| Edwin B. Maquinto | 121-424-847 | 09317938 | 1/24/2014 | Quezon City |

Doc. No. 97;
Page No. 21;
Book No. 77;
Series of 2014.

**ATTY. HOBERT N. LLUZ**
NOTARY PUBLIC
Until December 31, 2015
Appt. No. M-44, Makati City
IBP #942830, Nov. 12, 2013-RSM
PTR #4225542, Jan. 02, 2014-Makati
S.C. Roll No. 59597
MCLE Compliance No. IV-0011330
Unit 6E Cityland Herrera Tower
#98 Rufino St. cor. Valero St.
Salcedo Village, Makati City

MEGAWORLD CORPORATION

28/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City 1200, Philippines
Tels: (632) 867-8826 to 40
*www.megaworldcorp.com • E-mail: infodesk@megaworldcorp.com*

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Megaworld Corporation and Subsidiaries,** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

a. Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68
b. Reconciliation of Retained Earnings Available for Dividend Declaration
c. Schedule of PFRS Effective as of December 31, 2013
d. Schedule of Financial Indicators for December 31, 2013 and 2012
e. Map Showing the Relationship Between and Among the Company and its Related Entities

Management's responsibility on the consolidated financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements, and the additional supplementary information, and submits the same to the stockholders.

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

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

**ANDREW L. TAN**
Chief Executive Officer

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

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 08 2014
RECEIVED
VERONICA EDEN C. PALENCIA

Signed this 10th day of March 2014

CERTIFICATION INTERNATIONAL
ISO 9001
2008 SERIES
CERTIFIED
CP/2002/98/11/108

APR 0 8 2014 MAKATI CITY

**SUBSCRIBED AND SWORN** to before me on this ____ day of _____ at _____, Philippines affiants exhibiting to me their Community Tax Certificate Nos. as follows:

| | | | |
|---|---|---|---|
| Andrew L. Tan | 07668465 | January 6, 2014 | Quezon City |
| Francisco C. Canuto | 10857427 | January 10, 2014 | Makati City |

Doc. No. 311;
Page No. 64;
Book No. 76;
Series of 2014

ATTY. HOBERT N. LLUZ
NOTARY PUBLIC
Until December 31, 2015
Appt. No. M-44, Makati City
IBP #942830, Nov. 12, 2013-RSM
PTR #4225542, Jan. 02, 2014-Makati
S.C. Roll No. 59597
MCLE Compliance No. IV-0011330
Unit 6E Cityland Herrera Tower
#98 Rufino St. cor. Valero St.
Salcedo Village, Makati City

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 08 2014
RECEIVED
VERONICA EDEN C. PALENCIA

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288
F +63 2 886 5506
www.punongbayan-araullo.com

**The Board of Directors and Stockholders**
**Megaworld Corporation and Subsidiaries**
***(A Subsidiary of Alliance Global Group, Inc.)***
28th Floor, The World Centre Building
Sen. Gil Puyat Avenue, Makati City

We have audited the accompanying consolidated financial statements of Megaworld Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 08 2014
RECEIVED
VERONICA EDEN C. PALENCIA

*Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 08 2014
RECEIVED
VERONICA EDELIO-PALENCIA

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Megaworld Corporation and Subsidiaries as at December 31, 2013 and 2012, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

**PUNONGBAYAN & ARAULLO**

By: **Nelson J. Dinio**
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 4225008, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 1036-AR-1 (until Aug. 21, 2016)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-32-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

March 10, 2014

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 08 2014
RECEIVED
VERONICA EDEN C. PALENCIA

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
***( A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2013 and 2012**
***(With Corresponding Figures as of January 1, 2012)***
***(Amounts in Philippine Pesos)***

| | Notes | December 31, 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|---|---|---|---|
| **A S S E T S** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 5 | **P 31,751,905,645** | P 26,826,715,439 | P 30,324,479,180 |
| Trade and other receivables - net | 6 | **19,557,352,589** | 15,345,700,853 | 17,178,451,090 |
| Financial assets at fair value through profit or loss | 7 | **258,000,000** | 167,600,000 | 109,203,260 |
| Residential and condominium units for sale | 3 | **35,109,686,003** | 28,889,616,581 | 19,497,662,902 |
| Property development costs | 3 | **9,707,715,117** | 8,618,320,424 | 8,753,452,084 |
| Prepayments and other current assets - net | 2 | **2,073,710,855** | 1,884,456,257 | 1,801,123,705 |
| Total Current Assets | | **98,458,370,209** | 81,732,409,554 | 77,664,372,221 |
| **NON-CURRENT ASSETS** | | | | |
| Trade and other receivables | 6 | **23,439,510,637** | 23,916,156,834 | 20,209,042,452 |
| Advances to landowners and joint ventures | 9 | **3,737,052,253** | 3,782,781,280 | 3,888,345,313 |
| Land for future development | 3 | **5,049,384,978** | 4,324,634,536 | 4,366,523,063 |
| Investments in available-for-sale securities | 8 | **3,928,755,091** | 3,256,786,619 | 2,591,747,678 |
| Investments in and advances to associates and other related parties | 10 | **12,774,499,537** | 7,782,205,062 | 6,745,964,129 |
| Investment property - net | 11 | **24,946,939,119** | 16,632,035,663 | 12,372,290,665 |
| Property and equipment - net | 12 | **701,673,742** | 596,965,678 | 540,859,730 |
| Deferred tax assets - net | 22 | **43,615,338** | 41,449,933 | 6,554,348 |
| Other non-current assets | 13 | **802,304,443** | 657,972,598 | 609,047,834 |
| Total Non-current Assets | | **75,423,735,138** | 60,990,988,203 | 51,330,375,212 |
| **TOTAL ASSETS** | | **P 173,882,105,347** | P 142,723,397,757 | P 128,994,747,433 |

| | Notes | December 31, 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Interest-bearing loans and borrowings | 14 | **P 1,564,723,318** | P 1,587,594,400 | P 1,950,115,400 |
| Trade and other payables | 16 | **7,198,373,106** | 7,900,017,312 | 7,296,966,494 |
| Customers' deposits | 2 | **4,112,696,679** | 4,193,247,506 | 3,610,212,295 |
| Reserve for property development | 2 | **6,879,581,659** | 6,231,192,522 | 5,107,725,787 |
| Deferred income on real estate sales | 2 | **4,118,886,956** | 4,126,291,119 | 3,446,835,596 |
| Income tax payable | | **66,465,589** | 12,560,956 | 36,897,538 |
| Other current liabilities | 17 | **1,955,789,301** | 1,711,170,179 | 1,706,049,300 |
| Total Current Liabilities | | **25,896,516,608** | 25,762,073,994 | 23,154,802,410 |
| **NON-CURRENT LIABILITIES** | | | | |
| Interest-bearing loans and borrowings | 14 | **2,235,181,916** | 4,910,569,450 | 5,991,475,388 |
| Bonds payable | 15 | **24,826,702,190** | 13,556,628,075 | 13,538,914,490 |
| Customers' deposits | 2 | **1,002,304,707** | 1,741,951,677 | 456,003,854 |
| Reserve for property development | 2 | **5,385,667,481** | 4,094,681,043 | 3,719,081,747 |
| Deferred income on real estate sales | 2 | **3,349,019,264** | 2,311,173,838 | 1,809,305,117 |
| Deferred tax liabilities - net | 22 | **6,733,095,381** | 5,743,360,060 | 5,052,234,527 |
| Advances from associates and other related parties | 23 | **120,487,829** | 692,604,550 | 210,242,443 |
| Retirement benefit obligation | 21 | **748,398,533** | 626,120,913 | 485,537,679 |
| Other non-current liabilities | 17 | **1,631,709,613** | 2,058,307,551 | 1,943,654,006 |
| Total Non-current Liabilities | | **46,032,566,914** | 35,735,397,157 | 33,206,449,251 |
| Total Liabilities | | **71,929,083,522** | 61,497,471,151 | 56,361,251,661 |
| **EQUITY** | 24 | | | |
| Total equity attributable to the company's shareholders | | **91,927,391,376** | 71,350,562,627 | 60,826,837,982 |
| Non-controlling interests | | **10,025,630,449** | 9,875,363,979 | 11,806,657,790 |
| Total Equity | | **101,953,021,825** | 81,225,926,606 | 72,633,495,772 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 173,882,105,347** | P 142,723,397,757 | P 128,994,747,433 |

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

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
***( A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| **REVENUES AND INCOME** | | | | |
| Real estate sales | 2 | **P 21,250,984,220** | P 18,173,071,093 | P 15,887,590,800 |
| Interest income on real estate sales | 6 | **1,537,113,091** | 1,327,541,711 | 1,218,788,823 |
| Realized gross profit on prior years' sales | 2 | **3,055,810,351** | 2,007,159,684 | 1,970,174,052 |
| Rental income | 11 | **6,037,779,873** | 4,994,769,197 | 3,826,341,215 |
| Hotel operations | 2 | **451,040,792** | 462,313,446 | 392,171,105 |
| Equity in net earnings of associates | 10 | **311,681,755** | 794,347,508 | 597,834,536 |
| Interest and other income - net | 19 | **3,597,154,420** | 2,845,187,238 | 4,740,048,841 |
| | | **36,241,564,502** | 30,604,389,877 | 28,632,949,372 |
| **COSTS AND EXPENSES** | | | | |
| Real estate sales | 2 | **12,644,982,372** | 11,491,174,383 | 10,157,277,262 |
| Deferred gross profit | 2 | **4,239,120,916** | 3,188,317,305 | 3,055,851,217 |
| Hotel operations | 2 | **233,322,382** | 235,441,633 | 223,731,697 |
| Operating expenses | 18 | **5,664,364,910** | 4,897,715,525 | 4,093,648,687 |
| Interest and other charges - net | 20 | **1,859,653,882** | 1,127,193,834 | 931,868,458 |
| Tax expense | 22 | **2,571,452,012** | 2,252,723,421 | 1,995,607,541 |
| | | **27,212,896,474** | 23,192,566,101 | 20,457,984,862 |
| **PROFIT FOR THE YEAR BEFORE PREACQUISITION INCOME** | | **9,028,668,028** | 7,411,823,776 | 8,174,964,510 |
| **PREACQUISITION LOSS (INCOME) OF SUBSIDIARIES** | 1 | **6,315,710** | - | ( 17,326,952 ) |
| **NET PROFIT FOR THE YEAR** | | **P 9,034,983,738** | P 7,411,823,776 | P 8,157,637,558 |
| **Net profit attributable to:** | | | | |
| Company's shareholders | | **P 8,970,664,010** | P 7,298,865,167 | P 8,033,925,719 |
| Non-controlling interests | | **64,319,728** | 112,958,609 | 123,711,839 |
| | | **P 9,034,983,738** | P 7,411,823,776 | P 8,157,637,558 |
| **Earnings per Share:** | 25 | | | |
| Basic | | **P 0.308** | P 0.281 | P 0.319 |
| Diluted | | **P 0.305** | P 0.275 | P 0.319 |

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

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
***( A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **P 9,034,983,738** | P 7,411,823,776 | P 8,157,637,558 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | 2 | | | |
| **Items that will not be reclassified subsequently to profit or loss -** | | | | |
| Actuarial gains (losses) on retirement benefit obligations | 21 | **26,996,797** | ( 42,439,951 ) | ( 159,469,293 ) |
| Tax income (expense) | 21, 22 | **( 8,099,039 )** | 12,731,985 | 47,840,788 |
| | | **18,897,758** | ( 29,707,966 ) | ( 111,628,505 ) |
| **Items that will be reclassified subsequently to profit or loss:** | | | | |
| Fair valuation of available-for-sale securities: | | | | |
| Fair value gains (losses) during the year | 8 | **1,202,548,494** | 592,528,177 | ( 1,445,735,858 ) |
| Fair value gains on disposal reclassified to profit or loss | 19 | **( 115,258,400 )** | - | ( 2,242,526,309 ) |
| | | **1,087,290,094** | 592,528,177 | ( 3,688,262,167 ) |
| Share in other comprehensive income (loss) of associates | 10 | **4,714,128** | 1,092,535 | ( 147,365 ) |
| Exchange difference on translating foreign operations | 2 | **50,906,173** | ( 235,983,560 ) | ( 12,808,786 ) |
| Tax expense (income) | 22 | **( 15,271,852 )** | 70,795,068 | 3,842,636 |
| | | **35,634,321** | ( 165,188,492 ) | ( 8,966,150 ) |
| | | **1,127,638,543** | 428,432,220 | ( 3,697,375,682 ) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **P 10,181,520,039** | P 7,810,548,030 | P 4,348,633,371 |
| **Total comprehensive income attributable to:** | | | | |
| Company's shareholders | | **P 10,129,718,148** | P 7,698,143,935 | P 4,233,577,575 |
| Non-controlling interests | | **51,801,891** | 112,404,095 | 115,055,796 |
| | | **P 10,181,520,039** | P 7,810,548,030 | P 4,348,633,371 |

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

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
***( A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| **CAPITAL STOCK** | 24 | | | |
| Balance at beginning of year | | **P 28,938,862,985** | P 25,829,203,626 | P 25,829,203,626 |
| Additional issuances during the year | | **3,221,812,120** | 3,109,659,359 | - |
| Balance at end of year | | **32,160,675,105** | 28,938,862,985 | 25,829,203,626 |
| **ADDITIONAL PAID-IN CAPITAL** | 24 | | | |
| Balance at beginning of year | | **8,432,990,413** | 8,432,990,413 | 8,432,990,413 |
| Additional issuances during the year | | **8,225,000,000** | - | - |
| Balance at end of year | | **16,657,990,413** | 8,432,990,413 | 8,432,990,413 |
| **TREASURY SHARES** - At Cost | 24 | | | |
| Balance at beginning of year | | **( 633,721,630 )** | ( 1,188,836,744 ) | ( 633,721,630 ) |
| Reduction representing the shares held by a deconsolidated subsidiary | | **-** | 555,115,114 | - |
| Additions during the year | | **-** | - | ( 555,115,114 ) |
| Balance at end of year | | **( 633,721,630 )** | ( 633,721,630 ) | ( 1,188,836,744 ) |
| **NET ACTUARIAL GAINS (LOSSES) ON RETIREMENT BENEFIT PLAN** | | | | |
| Balance at beginning of year | | | | |
| As previously stated | | **-** | - | - |
| Effect of adoption of PAS 19 (Revised) | | **( 162,361,714 )** | ( 133,208,262 ) | ( 30,235,800 ) |
| As restated | 2 | **( 162,361,714 )** | ( 133,208,262 ) | ( 30,235,800 ) |
| Other comprehensive income (loss) for the year, net of tax | | **31,415,595** | ( 29,153,452 ) | ( 102,972,462 ) |
| Balance at end of year | | **( 130,946,119 )** | ( 162,361,714 ) | ( 133,208,262 ) |
| **NET UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES** | 8 | | | |
| Balance at beginning of year | | **713,379,422** | 120,851,245 | 3,809,113,412 |
| Other comprehensive income (loss) for the year | | **1,087,290,094** | 592,528,177 | ( 3,688,262,167 ) |
| Balance at end of year | | **1,800,669,516** | 713,379,422 | 120,851,245 |
| *Balance carried forward* | | **P 49,854,667,285** | P 37,289,149,476 | P 33,061,000,278 |

| | Notes | 2013 | 2012 (As Restated - see Note 2.2) | 2011 (As Restated - see Note 2.2) |
|---|---|---|---|---|
| *Balance brought forward* | | **P 49,854,667,285** | P 37,289,149,476 | P 33,061,000,278 |
| **SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES** | | | | |
| Balance at beginning of year | | **1,445,170** | 352,635 | 500,000 |
| Other comprehensive income (loss) for the year | 10 | **4,714,128** | 1,092,535 | ( 147,365 ) |
| Balance at end of year | | **6,159,298** | 1,445,170 | 352,635 |
| **ACCUMULATED TRANSLATION ADJUSTMENTS** | | | | |
| Balance at beginning of year | | **( 426,489,912 )** | ( 261,301,420 ) | ( 252,335,270 ) |
| Other comprehensive income (loss) for the year, net of tax | | **35,634,321** | ( 165,188,492 ) | ( 8,966,150 ) |
| Balance at end of year | | **( 390,855,591 )** | ( 426,489,912 ) | ( 261,301,420 ) |
| **RETAINED EARNINGS** | | | | |
| Balance at beginning of year | | | | |
| As previously stated | | **34,477,768,506** | 28,022,891,787 | 20,590,273,079 |
| Effect of adoption of PAS 19 (Revised) | | **8,689,387** | 3,894,702 | 1,853,494 |
| As restated | 2 | **34,486,457,893** | 28,026,786,489 | 20,592,126,573 |
| Net profit attributable to the company's shareholders | | **8,970,664,010** | 7,298,865,167 | 8,033,925,719 |
| Share-based compensation | 21, 24 | **30,382,120** | - | - |
| Cash dividends | 24 | **( 1,030,083,639 )** | ( 839,193,763 ) | ( 599,265,803 ) |
| Balance at end of year | | **42,457,420,384** | 34,486,457,893 | 28,026,786,489 |
| Total Equity Attributable to the Company's Shareholders | | **91,927,391,376** | 71,350,562,627 | 60,826,837,982 |
| **NON-CONTROLLING INTERESTS** | 10 | | | |
| Balance at beginning of year | | | | |
| As previously stated | | **9,885,358,617** | 11,815,953,737 | 743,113,007 |
| Effect of adoption of PAS 19 (Revised) | 2 | **( 9,994,638 )** | ( 9,295,947 ) | ( 546,285 ) |
| As restated | | **9,875,363,979** | 11,806,657,790 | 742,566,722 |
| Additions (deductions) | | **98,464,579** | ( 2,043,697,906 ) | 10,949,035,272 |
| Total comprehensive income attributable to non-controlling interests, net of tax | | **51,801,891** | 112,404,095 | 115,055,796 |
| Balance at end of year | | **10,025,630,449** | 9,875,363,979 | 11,806,657,790 |
| **TOTAL EQUITY** | | **P 101,953,021,825** | P 81,225,926,606 | P 72,633,495,772 |

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

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
***( A Subsidiary of Alliance Global Group, Inc.)***
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | **P 11,606,435,750** | P 9,664,547,197 | P 10,153,245,099 |
| Adjustments for: | | | | |
| Interest income | 19 | **( 1,566,850,939 )** | ( 1,840,964,871 ) | ( 1,618,727,549 ) |
| Interest expense | 20 | **1,317,523,303** | 917,317,657 | 838,727,411 |
| Depreciation and amortization | 18 | **956,774,624** | 752,578,923 | 566,641,137 |
| Gain on acquisition of a subsidiary | 19 | **( 763,834,597 )** | - | - |
| Foreign currency losses (gains) - net | 19, 20 | **491,259,799** | 52,961,596 | ( 65,503,537 ) |
| Equity in net earnings of associates | 10 | **( 311,681,755 )** | ( 794,347,508 ) | ( 597,834,536 ) |
| Realized fair value gains - AFS | 19 | **( 115,258,400 )** | - | ( 2,242,526,309 ) |
| Fair value losses (gains) - FVPTL | 19, 20 | **( 90,400,000 )** | ( 64,200,000 ) | 7,851,631 |
| Dividend income | 19, 23 | **( 55,359,121 )** | ( 53,887,430 ) | ( 32,661,662 ) |
| Gain on sale of investments in available-for-sale securities | 19 | **( 32,993,081 )** | - | - |
| Share option benefits expense | 21 | **30,382,120** | - | - |
| Donation expense | | **-** | 95,491,514 | - |
| Operating profit before working capital changes | | **11,465,997,703** | 8,729,497,078 | 7,009,211,685 |
| Increase in trade and other receivables | | **( 3,494,261,992 )** | ( 1,957,705,213 ) | ( 2,267,053,315 ) |
| Increase in residential and condominium units for sale | | **( 4,758,341,291 )** | ( 9,372,972,184 ) | ( 1,056,701,557 ) |
| Decrease (increase) in property development costs | | **( 1,201,786,932 )** | 725,377,207 | ( 236,023,249 ) |
| Increase in prepayments and other current assets | | **( 189,254,598 )** | ( 77,529,292 ) | ( 660,103,590 ) |
| Decrease in advances to landowners and joint ventures | | **45,729,027** | 105,564,033 | 698,482,342 |
| Increase (decrease) in trade and other payables | | **( 691,719,974 )** | 624,802,137 | 2,461,337,793 |
| Increase (decrease) in customers' deposits | | **( 820,197,797 )** | 1,868,983,034 | ( 543,697,574 ) |
| Increase in deferred income on real estate sales | | **1,030,441,263** | 1,181,324,244 | 1,195,329,212 |
| Increase in reserve for property development | | **1,939,375,575** | 1,499,066,031 | 1,535,423,535 |
| Increase in other liabilities | | **95,447,544** | 424,697,744 | 126,469,235 |
| Cash generated from operations | | **3,421,428,528** | 3,751,104,819 | 8,262,674,517 |
| Cash paid for income taxes | | **( 1,575,900,684 )** | ( 1,773,286,565 ) | ( 1,259,507,902 ) |
| Net Cash From Operating Activities | | **1,845,527,844** | 1,977,818,254 | 7,003,166,615 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisition of shares of stock of subsidiary and associates | | **( 8,309,882,171 )** | ( 1,248,571,429 ) | - |
| Additions to: | | | | |
| Investment property | 11 | **( 3,494,295,658 )** | ( 4,871,545,620 ) | ( 2,874,137,207 ) |
| Land for future development | | **( 1,762,592,832 )** | ( 53,602,987 ) | ( 2,803,899,896 ) |
| Property and equipment | 12 | **( 206,947,857 )** | ( 201,938,395 ) | ( 87,466,426 ) |
| Increase in other non-current assets | | **( 204,164,186 )** | ( 1,620,376,400 ) | ( 1,636,853,016 ) |
| Interest received | | **1,326,107,392** | 1,768,082,480 | 1,618,727,549 |
| Decrease (increase) in advances to associates and other related parties | 23 | **( 914,231,178 )** | 666,190,994 | ( 513,185,604 ) |
| Dividends received | 10, 19 | **669,429,121** | 53,887,430 | 32,661,662 |
| Increase (decrease) in advances from associates and other related parties | 23 | **( 572,116,721 )** | 482,362,107 | ( 79,625,814 ) |
| Decrease (increase) in investments in available-for-sale securities | 8 | **350,735,590** | ( 71,418,229 ) | 3,944,596,595 |
| Proceeds from redemption of preferred shares held | 10 | **-** | 428,410,000 | - |
| Net Cash Used in Investing Activities | | **( 13,117,958,500 )** | ( 4,668,520,049 ) | ( 2,399,182,157 ) |
| *Balance carried forward* | | **( P 11,272,430,656 )** | ( P 2,690,701,795 ) | P 4,603,984,458 |

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|---|---|---|---|
| *Balance brought forward* | | ( P 11,272,430,656 ) | ( P 2,690,701,795 ) | P 4,603,984,458 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from additional issuance of shares | 24 | 10,725,000,000 | - | - |
| Proceeds from availments of long-term liabilities | 14,15 | 10,259,227,640 | 330,000,000 | 9,013,788,580 |
| Payments of long-term liabilities | | ( 2,698,258,616 ) | ( 1,889,072,723 ) | ( 4,934,748,567 ) |
| Interest paid | | ( 1,896,694,645 ) | ( 1,518,454,819 ) | ( 818,237,019 ) |
| Cash dividends paid | 24 | ( 1,030,083,639 ) | ( 839,193,763 ) | ( 599,265,803 ) |
| Proceeds from exercise of share warrants | 24 | 721,812,120 | 3,109,659,359 | - |
| Net Cash From (Used in) Financing Activities | | 16,081,002,860 | ( 807,061,946 ) | 2,661,537,191 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | 4,808,572,204 | ( 3,497,763,741 ) | 7,265,521,649 |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES** | | 117,016,208 | - | 1,624,146,150 |
| **PREACQUISITION CHANGES IN CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES** | | ( 398,206 ) | - | ( 596,773,562 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 26,826,715,439 | 30,324,479,180 | 22,031,584,943 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | P 31,751,905,645 | P 26,826,715,439 | P 30,324,479,180 |

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

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate and other assets. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Property as the property goes through its various stages of development. These non-cash activities are not reflected in the consolidated statements of cash flows (see Notes 9 and 11).

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

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
***(A Subsidiary of Alliance Global Group, Inc.)***
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

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

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

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

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

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

| Subsidiaries/Associates | Explanatory Notes | Percentage of Ownership | | |
|---|---|---|---|---|
| | | **2013** | 2012 | 2011 |
| Subsidiaries: | | | | |
| Megaworld Land, Inc. (MLI) | | **100%** | 100% | 100% |
| Prestige Hotels and Resorts, Inc. (PHRI) | | **100%** | 100% | 100% |
| Mactan Oceanview Properties and Holdings, Inc. (MOPHI) | | **100%** | 100% | 100% |
| Megaworld Cayman Islands, Inc. (MCII) | | **100%** | 100% | 100% |
| Richmonde Hotel Group International (RHGI) | | **100%** | 100% | 100% |
| Eastwood Cyber One Corporation (ECOC) | | **100%** | 100% | 100% |
| Megaworld Cebu Properties Inc. (MCP) (formerly Forbes Town Properties and Holdings, Inc. ) | | **100%** | 100% | 100% |
| Megaworld Newport Property Holdings, Inc. (MNPHI) | | **100%** | 100% | 100% |
| Oceantown Properties, Inc. (OPI) | | **100%** | 100% | 100% |
| Piedmont Property Ventures, Inc. (PPVI) | (a) | **100%** | 100% | 100% |
| Stonehaven Land, Inc. (SLI) | (a) | **100%** | 100% | 100% |
| Streamwood Property, Inc. (SP) | (a) | **100%** | 100% | 100% |

| Subsidiaries/Associates | Explanatory Notes | Percentage of Ownership 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Subsidiaries: | | | | |
| Suntrust Properties, Inc. (SPI) | (b) | **100%** | 88.20% | 82.45% |
| Lucky Chinatown Cinemas, Inc. (LCCI) | (c) | **100%** | - | - |
| Luxury Global Hotels and Leisure, Inc. (LGHLI) | (c) | **100%** | - | - |
| Suntrust Ecotown Developers, Inc. (SEDI) | (c) | **100%** | - | - |
| Woodside Greentown Properties, Inc. (WGPI) (formerly Union Ajinomoto Realty Corporation) | (c) | **100%** | - | - |
| Empire East Land Holdings, Inc. and Subsidiaries (EELHI) | (d) | **81.53%** | 78.59% | 61.13% |
| Megaworld Central Properties, Inc. (MCPI) | (e) | **76.50%** | 75.90% | 73.76% |
| Megaworld-Daewoo Corporation (MDC) | | **60%** | 60% | 60% |
| Eastwood Cinema 2000, Inc. (EC2000) | (c) | **55%** | - | - |
| Manila Bayshore Property Holdings, Inc. (MBPHI) | (f) | **55%** | 55% | 55% |
| Gilmore Property Marketing Associates, Inc. (GPMAI) | (g) | **52.04%** | - | 46.45% |
| Megaworld Resort Estates, Inc. (MREI) | (h) | **51%** | 51% | 51% |
| Megaworld Globus Asia, Inc. (MGAI) | | **50%** | 50% | 50% |
| Philippine International Properties, Inc. (PIPI) | (i) | **50%** | 50% | 50% |
| Townsquare Development, Inc. (TDI) | (h) | **30.60%** | 30.60% | 30.60% |
| Associates: | | | | |
| Megaworld Global Estates, Inc. (MGEI) | (j) | **54.82%** | 40.00% | 40.00% |
| La Fuerza, Inc. (LFI) | (k) | **50%** | - | - |
| Suntrust Home Developers, Inc. (SHDI) | | **42.48%** | 42.48% | 42.48% |
| Palm Tree Holdings and Development Corporation (PTHDC) | | **40%** | 40% | 40% |
| Twin Lakes Corporation (TLC) | (l) | **31.35%** | 19% | - |
| Global Estate Resorts, Inc. (GERI) | (m) | **24.70%** | - | - |
| Resorts World Bayshore City, Inc. (RWBCI) | (n) | **10%** | - | - |
| Travellers International Hotel Group, Inc. (TIHGI) | (o) | **9%** | 10% | 10% |
| Alliance Global Properties Ltd (AGPL) | (p) | **-** | 39.44% | 39.44% |
| GPMAI | (g) | **-** | 37.23% | - |

Explanatory Notes:

*(a)* These were acquired subsidiaries in 2008 but have not yet started commercial operations as at December 31, 2013.

*(b)* As at December 31, 2012, the Company's ownership in SPI is 88.20% which consists of direct ownership of 58.80% and indirect ownership of 29.40% through EELHI and SHDI. On June 7, 2013, the Company purchased the shares held by EELHI and SHDI representing 32.96% and 8.24% ownership interest in SPI, respectively, thereby increasing the Company's direct ownership in SPI to 100%.

*(c)* In 2013, the Company acquired 100% ownership interest on these entities, except EC2000 (at 55%). WGPI and SEDI are engaged in the same line of business as the Company while LCCI and EC2000 are engaged in cinema operations. LGHLI is a newly incorporated subsidiary during the year and will be engaged in hotel operations. SEDI became a subsidiary of the Company through SPI, its intermediate parent company. The acquisition of WGPI resulted in a gain on acquisition (negative goodwill) of P763.8 million (see Note 19). Also, pre-acquisition loss of P6.3 million was recognized in the consolidated financial statements.

*(d)* On various dates in 2011, the Company acquired additional shares of EELHI, increasing its ownership to 61.13% and thereby making EELHI a subsidiary of the Company. In 2011, a pre-acquisition income amounting to P5.67 million was recognized. In 2013 and 2012, the Company subscribed to additional shares of EELHI resulting in increase in ownership interest to 81.53% and 78.59%, respectively.

*(e)* As at December 31, 2013, the Company owns 76.50% of MCPI consisting of 51% direct ownership, 18.92% indirect ownership thru EELHI and 6.58% indirect ownership through MREI.

*(f)* MBPHI was incorporated in October 2011 and started commercial operations on January 1, 2012. The Company holds 50% direct ownership in MBPHI; the latter is also 50% owned by TIHGI, thereby increasing the Company's ownership to 55%.

*(g)* In 2011, GPMAI became a subsidiary of the Company through EELHI, its intermediate parent company. In 2012, GPMAI was deconsolidated and treated as an associate of both the Company and EELHI, as EELHI lost its control due to the decrease in ownership interest, but has retained significant influence, over GPMAI. In 2013, as a result of the Company's increase in ownership interest to EELHI, the Company's ownership interest also increased to 52.04% while all members of the Board of Directors (BOD) of GPMAI are also members of the BOD of the Company; hence, GPMAI is now considered as a subsidiary.

*(h)* MREI was incorporated in 2007 while TDI was incorporated in 2006. MREI owns 60% of TDI resulting in the Company's indirect ownership interest of 30.60% in TDI.

*(i)* PIPI was incorporated in 2002 and acquired by the Company in 2006 but has not yet started commercial operations as at December 31, 2013.

*(j)* MGEI was incorporated on March 14, 2011 but has not yet started commercial operation as of December 31, 2013. In addition, the Company has indirect ownership interest in MGEI of 14.82% through GERI which resulted in the increase in ownership to 54.82%. In spite of more than 50% ownership, MGEI remains an associate of the Company as only significant influence has been established over MGEI and not control.

*(k)* On November 4, 2013, the Company acquired 50% ownership interest over LFI which is engaged in leasing of real estate properties. The Company has not yet established control over LFI; hence, the latter was only considered as an associate as at December 31, 2013.

*(l)* TLC was incorporated in 2011 and has started commercial operation in June 2012. In September 2012, the Company acquired 19% ownership in TLC. The Company also acquired an indirect interest of 12.35% in TLC through GERI which resulted in the increase in ownership to 31.35% as at December 31, 2013.

*(m)* In 2013, the Company acquired 24.70% ownership interest on GERI. GERI is considered as an associate of the Company as of December 31, 2013.

*(n)* In 2013, the Company acquired 10% ownership over RWBCI. Although the Company's percentage ownership is only 10%, RWBCI was considered as an associate due to the Company's significant influence over RWBCI through 2 out of 5 BOD representations. RWBCI was incorporated on April 30, 2013 and has not yet started commercial operations as at December 31, 2013.

*(o)* TIHGI was incorporated in 2003 and started commercial operations in August 2009. In 2008, the Company acquired 10% ownership in TIHGI through a share swap agreement. In August 2010, the Company's investment in TIHGI was converted to 10.0 million common shares and 990.0 million preferred shares of TIHGI. Subsequently, TIHGI redeemed 430.0 million in November 2010 and 428.41 million in March 2012 preferred shares held by the Company. The conversion of common shares and the redemption of preferred shares did not change the Company's ownership in TIHGI. On November 5, 2013, TIHGI had its initial public offering. This resulted in a decrease in the Company's ownership interest in TIHGI to 9%. TIHGI is considered as an associate due to the Company's significant influence over TIHGI through 2 out of 5 BOD representations

*(p)* In February 2009, RHGI acquired 44.34% ownership in AGPL, which resulted in the Company's indirect interest of 44.34% as at December 31, 2009. In October 2010, AGPL issued additional shares which resulted in the decrease in RHGI's ownership in AGPL to 39.44%. AGPL is considered as an associate due to the Company's significant influence, but not control, over AGPL. In 2013, RHGI disposed all of its shares of AGPL reducing the Company's ownership to AGPL to nil at the end of the year.

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

The Company and its subsidiaries, except for entities which have not yet started commercial operations as at December 31, 2013, are presently engaged in the real estate business, hotel and cinema operations and marketing services.

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

The consolidated financial statements of the Group for the year ended December 31, 2013 (including the comparatives for the years ended December 31, 2012 and 2011) were authorized for issue by the Company's BOD on March 10, 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The policies have been consistently applied to all the 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 (IASB).

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

*(b) Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS 1), *Presentation of Financial Statements*. The Group presents a consolidated statement of comprehensive income separate from the consolidated statement of income.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

The Group's adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts in the comparative statements for the year ended December 31, 2012 and in the corresponding figures as at January 1, 2012 [see Note 2.2(a)(ii)]. Accordingly, the Company presents a third statement of financial position as at January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

*(c) Functional and Presentation Currency*

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

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

### *2.2 Adoption of New and Amended PFRS*

*(a) Effective in 2013 that are Relevant to the Group*

In 2013, the Group adopted the following amendments to the following new PFRS, revisions and amendments thereto that are relevant to the Group and effective for financial statements for the annual periods beginning on or after July 1, 2012 or January 1, 2013:

| | | |
|---|---|---|
| PAS 1 (Amendment) | : | Presentation of Financial Statements – Clarification of the Requirements for Comparative Information |
| PAS 19 (Revised) | : | Employee Benefits |
| PFRS 7 (Amendment) | : | Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities |
| Consolidation Standards | | |
| PFRS 10 | : | Consolidated Financial Statements |
| PFRS 11 | : | Joint Arrangements |
| PFRS 12 | : | Disclosures of Interests in Other Entities |
| PAS 27 (Revised) | : | Separate Financial Statements |
| PAS 28 (Revised) | : | Investments in Associate and Joint Ventures |
| PFRS 10, 11 and 12 (Amendments) | : | Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12 |
| PFRS 13 | : | Fair Value Measurement |
| Annual Improvements | : | Annual Improvements to PFRS (2009 – 2011 Cycle) |

Discussed below and in the succeeding pages are the relevant information about these new, revised and amended standards.

(i) PAS 1 (Amendment), *Presentation of Financial Statements– Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively; hence, the presentation of other comprehensive income has been modified to reflect the changes. Prior period comparatives have been restated as a consequence of this change in presentation.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to the defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative financial statements for December 31, 2012 and the corresponding figures as at January 1, 2012. The effect of the restatement on the affected assets, liabilities and equity components is shown below.

| | December 31, 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
| *Change in consolidated asset and liabilities:* | | | |
| Deferred tax assets | P 42,259,622 | (P 809,689) | P 41,449,933 |
| Retirement benefit obligation | ( 390,201,956) | ( 235,918,957) | ( 626,120,913) |
| Deferred tax liabilities | ( 5,814,797,078) | 71,437,018 | ( 5,743,360,060) |
| Other current liabilities | ( 1,712,794,842) | 1,624,663 | ( 1,711,170,179) |
| | | (P 163,666,965) | |
| *Changes in consolidated components of equity:* | | | |
| Retained earnings | P 34,477,768,506 | P 8,689,387 | P 34,486,457,893 |
| Net actuarial losses on retirement benefit plan | - | ( 162,361,714) | ( 162,361,714) |
| Non-controlling interest | 9,885,358,617 | ( 9,994,638) | 9,875,363,979 |
| | | (P 163,666,965) | |

| | January 1, 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 | As Restated |
| *Change in consolidated asset and liabilities:* | | | |
| Deferred tax assets | P 7,333,579 | (P 779,231) | P 6,554,348 |
| Retirement benefit obligation | ( 285,421,740) | ( 200,115,939) | ( 485,537,679) |
| Deferred tax liabilities | ( 5,112,895,527) | 60,661,000 | ( 5,052,234,527) |
| Other current liabilities | ( 1,707,673,963) | 1,624,663 | ( 1,706,049,300) |
| | | (P 138,609,507) | |
| *Changes in consolidated components of equity:* | | | |
| Retained earnings | P 28,022,891,787 | P 3,894,702 | P 28,026,786,489 |
| Net actuarial losses on retirement benefit plan | - | ( 133,208,262) | ( 133,208,262) |
| Non-controlling interest | 11,815,953,737 | ( 9,295,947) | 11,806,657,790 |
| | | (P 138,609,507) | |

The effects of the adoption of PAS 19 (Revised) on the consolidated statements of income and consolidated statements of comprehensive income for the years ended December 31, 2012 and 2011 are shown below.

| | As Previously Reported | Effects of Adoption of PAS 19 | As Restated |
|---|---|---|---|
| **2012** | | | |
| *Changes in consolidated profit or loss:* | | | |
| Operating expenses | (P 4,934,193,655) | P 36,478,130 | (P 4,897,715,525) |
| Interest and other charges - net | ( 1,097,352,635) | ( 29,841,199) | ( 1,127,193,834) |
| Tax expense | ( 2,250,736,998) | ( 1,986,423) | ( 2,252,723,421) |
| | | P 4,650,508 | |
| *Change in consolidated other comprehensive income –* | | | |
| Net actuarial losses on retirement benefit plan | P - | (P 29,707,966) | (P 29,707,966) |
| *Total comprehensive income attributable to:* | | | |
| Company's shareholders | P 7,722,502,702 | (P 24,358,767) | P 7,698,143,935 |
| Non-controlling interest | 113,102,786 | ( 698,691) | 112,404,095 |
| | P 7,835,605,488 | (P 25,057,458) | P 7,810,548,030 |

| | As Previously Reported | Effects of Adoption of PAS 19 | As Restated |
|---|---|---|---|
| **2011** | | | |
| *Changes in consolidated profit or loss:* | | | |
| Operating expenses | (P 4,116,225,061) | P 22,576,374 | (P 4,093,648,687) |
| Interest and other charges - net | ( 911,378,066) | ( 20,490,392) | ( 931,868,458) |
| Tax expense | ( 1,995,469,148) | ( 138,393) | ( 1,995,607,541) |
| | | P 1,947,589 | |
| *Change in consolidated other comprehensive income –* | | | |
| Net actuarial losses on retirement benefit plan | P - | (P 111,628,505) | (P 111,628,505) |
| *Total comprehensive income attributable to:* | | | |
| Company's shareholders | P 4,334,508,829 | (P 100,931,254) | P 4,233,577,575 |
| Non-controlling interest | 123,805,458 | ( 8,749,662) | 115,055,796 |
| | P 4,458,314,287 | (P 109,680,916) | P 4,348,633,371 |

The adoption of PAS 19 (Revised) did not have a material impact on Group's consolidated statement of cash flows and on the basic and diluted earnings per share (see Note 25) for the years ended December 31, 2012 and 2011.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. The adoption of this amendment did not result in any significant changes in the Group's disclosures on its consolidated financial statements as it has no master netting arrangements; however, potential offsetting arrangements are disclosed in Note 28.2.

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

This package of consolidation, joint arrangements, associates and disclosures standards comprise of PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PFRS 12, *Disclosure of Interests in Other Entities*, PAS 27 (Revised 2011), *Separate Financial Statements* and PAS 28 (Revised 2011), *Investments in Associates and Joint Ventures*.

- PFRS 10 changes the definition of control focusing on three elements which determine whether the investor has control over the investee such as the: (a) power over the investee, (b) exposure or rights to variable returns from involvement with the investee, and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining control when it is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.

- PFRS 11 deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.

- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

Subsequent to the issuance of these standards, amendments to PFRS 10, PFRS 11 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and it has determined that the adoption of the foregoing standards, revisions and amendments had no material impact on the amounts recognized in the consolidated financial statements. Additional information, however, are disclosed in compliance with the requirements of PAS 27 (Revised) with respect to principal place of business and incorporation of the significant subsidiaries and associates (see Note 1).

(v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. This new standard applies prospectively from annual period beginning January 1, 2013; hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures presented in Note 29, the application of this new standard had no significant impact on the amounts recognized in the consolidated financial statements.

(vi) 2009 – 2011 Annual Improvements to PFRS. Annual Improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Group:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, related notes to the third statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' consolidated financial statements, the Group has presented a third consolidated statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8 (see Note 2.1).

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment.* The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.

(c) PAS 32 (Amendment), *Financial Instruments: Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

*(b) Effective in 2013 that are not Relevant to the Group*

The following amendments, annual improvements and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Group's consolidated financial statements:

| | | |
|---|---|---|
| PAS 34 (Amendment) | : | Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities |
| PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Government Loans |
| Annual Improvements PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Cost |
| Philippine Interpretation International Financial Reporting Interpretations Committee 20 | : | Stripping Costs in the Production Phase of a Surface Mine |

*(c) Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments and annual improvements and interpretation to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's consolidated financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements, if the impact of the amendment will be applicable.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have an impact on the consolidated financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and 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 amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS/PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

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

(vi) PFRS 10, 12 and PAS 27 (Amendments) – *Investment Entities* (effective from January 1, 2014). The amendments define the term "investment entities," provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss.

Management does not anticipate these amendments to have a material impact on the Group's consolidated financial statements.

(vii) Annual Improvements to PFRS. Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

*(a)* PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

*(b)* PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and should not the amounts of compensation paid or payable by the key management entity to its employees or directors.

*(c)* PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

*(d)* PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

*(a)* PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

*(b)* PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

*(c)* PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

(viii) Philippine IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and Philippine Securities and Exchange Commission after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage of completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at completion upon or after delivery. The Group is currently evaluating the impact of this interpretation on its consolidated financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines.

### *2.3 Basis of Consolidation*

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

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

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

*(a) Investments in Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when it is has the power over the investee, it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Company obtains control. The Company reassesess whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill (see also Note 2.12). If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly gain in profit or loss.

*(b) Investments in Associates*

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

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

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in Net Earnings of Associates account in the consolidated statement of income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.17).

Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity are recognized in other comprehensive income or equity of the Company, as applicable. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has commitments, has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profit, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

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

*(c) Interests in Jointly Controlled Operations*

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

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

*(d) Transactions with Non-controlling Interests*

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. Any difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses that are also recognized in equity.

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

### *2.4 Foreign Currency Transactions and Translation*

*(a) Transactions and Balances*

Except for MCII, RHGI and AGPL which use the U.S. dollars as their functional currency, the accounting records of the Company and its subsidiaries are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized under Interest and Other
Income – net in the consolidated statement of income.

*(b) Translation of Financial Statements of Foreign Subsidiaries and an Associate*

The operating results and financial position of MCII and RHGI, which are measured using the U.S. dollars, their functional currency, are translated to Philippine pesos, the Company's functional currency, as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end reporting period;

(ii) Income and expenses for each profit or loss account are translated at the annual average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in MCII and RHGI are recognized as Translation Adjustments in the consolidated statement of comprehensive income. As these entities are wholly owned subsidiaries, the translation adjustments are fully allocated to the Company's shareholders. When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the consolidated statement of comprehensive income as part of gains or loss on sale.

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

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

The Company's equity in net earnings or loss of AGPL, which is also measured in U.S. dollars, is translated to Philippine pesos using the annual average exchange rates.

### *2.5 Financial Assets*

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

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

The Group's financial assets are currently categorized as follows:

*(a) Financial Assets at FVTPL*

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

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

*(b) Loans and Receivables*

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

Loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to Contractors and Suppliers), Guarantee and other deposits (presented as part of Other Non-current Assets), and Advances to associates and other related parties (presented as part of Investments in and Advances to Associates and Other Related Parties) in the consolidated statement of financial position. Cash and cash equivalents are defined as 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.

Trade receivables, which generally have one-year to five-year terms, are generally noninterest-bearing instruments recognized initially at fair value and subsequently stated at amortized cost using the effective interest method for maturities beyond one year, less accumulated impairment losses, if any. An impairment loss is provided when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated 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.

*(c) AFS Securities*

This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included as Investments in AFS Securities under non-current assets section in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months of the reporting period. The Group's AFS securities include listed equity securities and quoted dollar-denominated corporate bonds.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Net Unrealized Gains on Available-for-Sale Securities account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest and Other Income - net and Interest and Other Charges – net accounts in the consolidated statement of income.

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

Derecognition of financial assets occurs when the contractual rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred to another party.

### *2.6 Real Estate Transactions*

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to the Land for Future Development account. These costs are reclassified to Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Group as part of the property development costs (see Note 2.20). Once a revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Residential and Condominium Units for Sale account. The cost of real estate property sold before completion of the development is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined by the project engineers, are charged to the Cost of Real Estate Sales presented in the consolidated statement of income with a corresponding credit to a liability account, Reserve for Property Development.

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

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known.

### *2.7 Prepayments and Other Assets*

Prepayments and other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

### *2.8 Investment Property*

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property, and carried at cost, net of accumulated depreciation and any impairment in value, except for land which is not subjected to depreciation. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Depreciation of investment property, excluding land, is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years. Investment property is subject to impairment testing as described in Note 2.17.

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

### *2.9 Property and Equipment*

Property and equipment are carried at acquisition or construction cost less subsequent depreciation, amortization and any impairment losses, if any.

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

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Amortization of office and land improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. The depreciation and amortization periods for property and equipment, based on the above policies, are as follows:

| | |
|---|---|
| Condominium units | 10-25 years |
| Office and land improvements | 5-20 years |
| Transportation equipment | 5 years |
| Office furniture, fixtures and equipment | 3-5 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see also Note 2.17).

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

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

### *2.10 Financial Liabilities*

Financial liabilities of the Group include Interest-bearing Loans and Borrowings, Bonds Payable, Trade and Other Payables and Advances from Associates and Other Related Parties.

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

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

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

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

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

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### *2.11 Offsetting Financial Instruments*

Financial assets and liabilities are offset and the resulting net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### *2.12 Business Combination*

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses (see also Note 2.17). Impairment losses on goodwill are not reversed.

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

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

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

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

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

### *2.13 Segment Reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Strategic Steering Committee (SSC), its chief operating decision-maker. The SSC is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses;
- expenses relating to share-based payments;
- research costs relating to new business activities;
- revenue, costs and fair value gains from investment property;
- interest income, equity in net earnings of associates, fair value gains, dividend income and foreign currency gains/losses; and
- finance costs

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

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

### *2.14 Provisions and Contingencies*

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

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

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

### *2.15 Revenue and Expense Recognition*

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

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

(a) *Sale of residential and condominium units* – For financial reporting purposes, revenues from transactions covering sales of residential and condominium units are recognized under the percentage-of-completion method. Under this method, realization of gross profit is recognized by reference to the stage of development of the properties, i.e., revenue is recognized in the period in which the work is performed. The unrealized gross profit on a year's sales is presented as Deferred Gross Profit in the consolidated statement of income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales (current and non-current liabilities) in the consolidated statements of financial position.

    The sale is recognized when a certain percentage of the total contract price has already been collected. The amount of real estate sales recognized in the consolidated statement of income is equal to the total contract price, net of day-one loss related to the discounting of noninterest-bearing receivables. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statements of financial position. Revenues and costs relative to forfeited or back out sales are reversed in the current year as they occur.

    For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from sales is used by the Company, MGAI, EELHI, ECOC, SPI, SEDI, WGPI and MBPHI while MDC reports revenues for tax purposes based also on the percentage-of-completion method.

(b) *Sale of undeveloped land* – Revenues on sale of undeveloped land are recognized using the full accrual method. Under the full accrual method, revenue is recognized when the risks and rewards of ownership on the undeveloped land have passed to the buyer and the amount of revenue can be measured reliably.

(c) *Rendering of services* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. Revenue from rendering of services include rental income, commissions, hotel operations, income from cinema operations and others. Rental income is recognized on a straight-line basis over the lease term. Advance rentals received are recorded as deferred rental income. Unearned Revenues pertain to advanced collections from real estate customers. For tax purposes, rental income is recognized based on the contractual terms of the lease.

(d) *Construction contracts* – Revenue is recognized when the performance of contractually agreed tasks have been substantially rendered using the cost recovery and percentage-of-completion methods. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

(e) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(f) *Dividends* – Revenue is recorded when the shareholders' right to receive the payment is established.

Costs of residential and condominium units sold before completion of the projects include the acquisition cost of the land, development costs incurred to date, applicable borrowing costs (see Note 2.20) and estimated costs to complete the project, determined based on estimates made by the project engineers (see also Note 2.6).

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

### *2.16 Leases*

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

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

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

### *2.17 Impairment of Non-financial Assets*

The Group's Investments in Associates, Goodwill (included as part of Other Non-current Assets), Investment Property, Property and Equipment and other non-financial assets are subject to impairment testing. 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 amount, which is the higher of its fair value less costs-to-sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

### *2.18 Employee Benefits*

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

*(a) Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by Philippine Dealing & Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income account in the consolidated statement of profit or loss.

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

*(b) Defined Contribution Plans*

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

*(d) Compensated Absences*

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

### *2.19 Share-based Employee Remuneration*

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

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

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as additional paid in capital (APIC).

### *2.20 Borrowing Costs*

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

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

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

### *2.21 Income Taxes*

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

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

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

### *2.22 Related Party Relationships and Transactions*

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

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

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

### *2.23 Equity*

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

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

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

Net actuarial gains (losses) on retirement benefit comprise accumulated actuarial gains and losses arising from remeasurement of on retirement benefit obligation, net of tax.

Net unrealized gains (losses) on AFS securities represent gains or losses recognized due to changes in fair values of these assets.

Share in other comprehensive income of associate represents cumulative share in other comprehensive income of associates attributable to the Group.

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

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

### *2.24 Earnings per Share*

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive common shares (see Note 25).

### *2.25 Events after the End of the Reporting Period*

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

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*(a) Impairment of Investments in AFS Securities*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and in operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Group's investments in AFS securities, management concluded that the assets are not impaired as of December 31, 2013 and 2012. Future changes in such information and circumstance might significantly affect the carrying amount of the assets.

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

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generates cash flows that are attributable not only to property but also to other assets used in the production or supply process while Land for Future Development are properties intended solely for future development.

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

(c) *Distinction between Operating and Finance Leases*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(d) *Consolidation of Entities in which the Group Holds Less than 50%*

Management considers that the Group has de facto control of TDI even though it holds less than 50% of the ordinary shares and voting rights in the latter. The Group is the majority shareholder of TDI with a 31% equity interest and has appointed 4 out of a total 5 members of the BOD. In making judgment regarding its involvement in TDI, management considered the Group's voting rights, the relative size and dispersion of the voting rights held by other shareholders and the extent of recent participation by those shareholders in general meetings. Based on recent experience, there is no history of other shareholders forming a group to exercise their votes collectively or to prevent the Group from having the practical ability to direct the relevant activities of TDI.

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provision are discussed in Note 2.14 and disclosures on relevant provisions and contingencies are presented in Note 26.

### *3.2 Key Sources of Estimation Uncertainty*

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

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

The Group uses the percentage-of-completion method in accounting for its gross profit on real estate sales. The use of the percentage-of-completion method requires the Group to estimate the portion completed using relevant information such as costs incurred to date as a proportion of the total budgeted cost of the project and estimates by engineers and other experts. Should the proportion of the percentage of completed projects differ by 5% from management's estimates, the amount of revenue recognized in 2013 would have increased by P393.7 million or would have decreased by P421.5 million if the proportion performed decreased. There were no changes in the assumptions or basis for estimation during the year.

*(b) Determining Net Realizable Value of Residential and Condominium Units for Sale, Property Development Costs and Land for Future Development*

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

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

The carrying values of the Group's Residential and Condominium Units for Sale, Property Development Costs, and Land for Future Development amounted to P35.1 billion, P9.7 billion and P5.0 billion, respectively, as of December 31, 2013 and P28.9 billion, P8.6 billion and P4.3 billion, respectively, as at December 31, 2012.

*(c) Fair Value of Share Options*

The Company estimates the fair value of the share option by applying an option valuation model, taking into account the terms and conditions on which the share option were granted. The estimates and assumptions used are presented in Note 24.6 which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the Company's share price and fair value of the Company's common shares. Changes in these factors can affect the fair value of share options at grant date.

The fair value of the share option recognized as part of Salaries and employee benefits shown under Operating Expenses in the 2013 consolidated statement of comprehensive income amounted to P30.4 million for the year ended December 31, 2013. A corresponding credit to Retained Earnings of the same amount is presented in the equity portion of the 2013 consolidated statement of financial position (see Notes 21.2 and 24.6).

*(d) Fair Value Measurement of Investment Property*

Investment Property is measured using the cost model. The fair value disclosed in Note 11 to the consolidated financial statements is determined by the Group using the discounted cash flows valuation technique since the information on current or recent prices of investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition. Portion of the investment property is also determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant areas.

*(e) Estimating Useful Lives of Property and Equipment and Investment Property*

The Group estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The carrying amounts of Investment Property and Property and Equipment are disclosed in Notes 11 and 12, respectively. Based on management's assessment as at December 31, 2013 and 2012, there is no change in the estimated useful lives of these assets during those years. Actual results, however may vary due to changes in estimates brought by changes in factors mentioned above.

*(f) Impairment of Trade and Other Receivables*

Adequate amount of allowance is provided for specific and groups of accounts, where an objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

*(g) Valuation of Financial Assets Other than Trade and Other Receivables*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ had the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. The carrying amounts of cash and cash equivalents, financial assets at FVTPL and AFS Securities and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 5, 7 and 8, respectively.

*(h) 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. Management assessed that the balance of deferred tax assets as at December 31, 2013 and 2012 will be utilized within the next two to three years.

The carrying amount of the net deferred tax assets as at December 31, 2013 and 2012 is disclosed in Note 22.

*(i) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainties relates to assumptions about future operating results and the determination of suitable discount rate. Also, the Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There were no impairment losses required to be recognized in 2013 and 2012 based on management's assessment.

*(j) Valuation of Post-employment Defined Benefit*

The determination of the Company'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 21.3.

*(k) Business Combinations*

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

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the development of residential and office units including urban centers integrating office, residential and commercial components. The Real Estate segment pertains to the development and sale of residential and office developments. The Rental segment includes leasing of office and commercial spaces. The Hotel Operations segment relates to the management of hotel business operations. The Corporate and Others segment includes cinema operations, marketing services, general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 2.13. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

### *4.2 Segment Assets and Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash, receivables, real estate inventories, property and equipment, and investment property, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

### *4.3 Intersegment Transactions*

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

## *4.4 Analysis of Segment Information*

The following tables present revenue and profit information regarding industry segments for the years ended December 31, 2013, 2012 and 2011 and certain asset and liability information regarding segments at December 31, 2013, 2012 and 2011.

**2013**

| | Real Estate | Rental | Hotel Operations | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | |
| Sales to external customers | P 25,843,907,662 | P 6,037,779,873 | P 451,040,792 | P 1,120,709,762 | P - | P 33,453,438,089 |
| Intersegment sales | - | 158,223,538 | - | 475,685,657 | ( 633,909,195) | - |
| Total revenues | P 25,843,907,662 | P 6,196,003,411 | P 451,040,792 | P 1,596,395,419 | (P 633,909,195) | P 33,453,438,089 |
| **RESULTS** | | | | | | |
| Segment results | P 6,095,543,660 | P 4,376,694,494 | P 86,049,397 | P 3,835,261 | P 58,653,918 | P 10,620,776,730 |
| Gain on acquisition of a subsidiary | | | | | | 763,834,597 |
| Interest and other income | | | | | | 1,712,610,060 |
| Interest and other charges | | | | | | ( 1,808,783,102 ) |
| Equity in net earnings of associates | | | | | | 311,681,755 |
| Tax expense | | | | | | ( 2,571,452,012 ) |
| Preacquisition loss of a subsidiary | | | | | | 6,315,710 |
| Net profit | | | | | | P 9,034,983,738 |
| **ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 124,344,277,458 | P29,874,431,168 | P 260,740,026 | P 6,628,157,158 | P - | P 161,107,605,810 |
| Investments in and advances to associates and other related parties - net | - | - | - | 12,774,499,537 | - | 12,774,499,537 |
| Total assets | P 124,344,277,458 | P29,874,431,168 | P 260,740,026 | P 19,402,656,695 | P - | P 173,882,105,347 |
| Segment liabilities | P 64,613,351,366 | P 5,373,189,923 | P 148,045,509 | P 1,794,496,724 | P - | P 71,929,083,522 |
| **OTHER SEGMENT INFORMATION** | | | | | | |
| Project and capital expenditures | | | | | | P 32,051,912,203 |

2012

| | Real Estate | Rental | Hotel Operations | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | |
| Sales to external customers | P 21,507,772,488 | P 4,994,769,197 | P 462,313,446 | P 886,134,955 | P - | P 27,850,990,086 |
| Intersegment sales | - | 110,085,770 | - | 222,831,481 | ( 332,917,251) | - |
| Total revenues | P 21,507,772,488 | P 5,104,854,967 | P 462,313,446 | P 1,108,966,436 | (P 332,917,251) | P 27,850,990,086 |
| **RESULTS** | | | | | | |
| Segment results | P 3,936,964.620 | P 3,848,300,987 | P 122,321,275 | P 4,097,830 | P 17,601,370 | P 7,929,286,082 |
| Unallocated expenses | | | | | | ( 47,859,441 ) |
| Interest and other income | | | | | | 1,959,052,301 |
| Interest and other charges | | | | | | ( 970,279,253 ) |
| Equity in net earnings of associates | | | | | | 794,347,508 |
| Tax expense | | | | | | ( 2,252,723,421 ) |
| Net profit | | | | | | P 7,411,823,776 |
| **ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P104,426,551,477 | P16,424,538,688 | P 259,410,181 | P13,830,692,349 | P - | P 134,941,192,695 |
| Investments in and advances to associates and other related parties - net | - | - | - | 7,782,205,062 | - | 7,782,205,062 |
| Total assets | P 104,426,551,477 | P16,424,538,688 | P 259,410,181 | P 21,612,897,411 | P - | P 142,723,397,757 |
| Segment liabilities | P 52,847,673,565 | P 2,203,461,213 | P 121,671,842 | P 6,324,664,531 | P - | P 61,497,471,151 |
| **OTHER SEGMENT INFORMATION** | | | | | | |
| Project and capital expenditures | | | | | | P 24,001,473,831 |

2011

| | Real Estate | Rental | Hotel Operations | Corporate and Others | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| **TOTAL REVENUES** | | | | | | |
| Sales to external customers | P 19,076,553,675 | P 3,826,341,215 | P 392,171,105 | P 3,023,156,092 | P - | P26,318,222,087 |
| Intersegment sales | - | 53,969,793 | - | 166,500,934 | ( 220,470,727) | - |
| Total revenues | P 19,076,553,675 | P 3,880,311,008 | P 392,171,105 | P 3,189,657,026 | (P 220,470,727) | P26,318,222,087 |
| **RESULTS** | | | | | | |
| Segment results | P 3,532,707,027 | P 2,903,020,448 | P 99,220,101 | P 2,184,832,849 | P 25,888,853 | P 8,745,669,278 |
| Unallocated expenses | | | | | | ( 43,245,469 ) |
| Interest and other income | | | | | | 1,716,892,748 |
| Interest and other charges | | | | | | ( 846,579,042 ) |
| Equity in net earnings of associates | | | | | | 597,834,536 |
| Tax expense | | | | | | ( 1,995,607,541 ) |
| Preacquisition income of a subsidiary | | | | | | ( 17,326,952 ) |
| Net profit | | | | | | P 8,157,637,558 |
| **ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 93,027,684,187 | P13,098,763,945 | P 261,591,040 | P 15,860,744,132 | P - | P122,248,783,304 |
| Investments in and advances to associates and other related parties - net | - | - | - | 6,745,964,129 | - | 6,745,964,129 |
| Total assets | P 93,027,684,187 | P13,098,763,945 | P 261,591,040 | P22,606,708,261 | P - | P128,994,747,433 |
| Segment liabilities | P 46,802,707,496 | P 1,853,118,305 | P 111,753,205 | P 7,593,672,655 | P - | P 56,361,251,661 |
| **OTHER SEGMENT INFORMATION** | | | | | | |
| Project and capital expenditures | | | | | | P 19,825,843,992 |

## 5. CASH AND CASH EQUIVALENTS

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

| | 2013 | 2012 |
|---|---|---|
| Cash on hand and in banks | **P 4,550,729,220** | P 1,807,234,630 |
| Short-term placements | **27,201,176,425** | 25,019,480,809 |
| | **P31,751,905,645** | P 26,826,715,439 |

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods between 15 to 30 days and earn effective interest ranging from 0.80% to 3.0% in 2013, 3.66% to 4.13% in 2012 and 3.5% to 4.9% in 2011.

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

| | Note | 2013 | 2012 |
|---|---|---|---|
| Current: | | | |
| Trade | 23.1 | **P 17,582,803,332** | P 13,228,178,001 |
| Allowance for impairment | | **( 18,625,105)** | ( 18,364,972) |
| | | **17,564,178,227** | 13,209,813,029 |
| Advances to contractors and suppliers | | **1,620,018,121** | 1,399,294,183 |
| Others | | **373,156,241** | 736,593,641 |
| | | **19,557,352,589** | 15,345,700,853 |
| Non-current: | | | |
| Trade | 23.1 | **23,407,069,973** | 23,924,555,970 |
| Allowance for impairment | | **( 12,224,936)** | ( 12,224,936) |
| | | **23,394,845,037** | 23,912,331,034 |
| Others | | **44,665,600** | 3,825,800 |
| | | **23,439,510,637** | 23,916,156,834 |
| | | **P 42,996,863,226** | P 39,261,857,687 |

A reconciliation of the allowance for impairment at the beginning and end of 2013 and 2012 is shown below.

| | 2013 | 2012 |
|---|---|---|
| Balance at beginning of year | **P 30,589,908** | P 30,683,023 |
| Impairment loss during the year | **260,133** | 18,300 |
| Write-off of trade receivables previously provided with allowance | **-** | ( 111,415) |
| Balance at end of year | **P 30,850,041** | P 30,589,908 |

Impairment losses recognized in 2013 and 2012 are presented as part of Miscellaneous under Interest and Other Charges – net in the consolidated statement of income. (see Note 20).

The installment period of sales contracts averages to five years. Trade receivables are noninterest-bearing and are remeasured at amortized cost using the effective interest rate of 10%. Interest income recognized amounted to P1.5 billion, P1.3 billion and P1.2 billion in 2013, 2012, and 2011, respectively; these amounts are presented as Interest Income on Real Estate Sales in the consolidated statements of income.

Certain receivables with carrying values of P220.0 million and P333.0 million as of December 31, 2013 and 2012, respectively, were discounted on a with recourse basis with certain local banks (see Note 14).

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to Trade and Other Receivables as the amounts recognized consist of a large number of receivables from various customers. Most receivables from trade customers are covered by postdated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The titles to the real estate properties remain with the Group until the receivables are fully collected.

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of investments in equity securities (see Note 23.5) which are presented at their fair values determined directly by reference to published prices quoted in the PSE as of December 31, 2013 and 2012. The changes in fair values of these financial assets are presented as Fair Value Gains on FVPTL under Interest and Other Income - net account in the consolidated statements of income (see Note 19).

## 8. INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

AFS securities comprise the following as of December 31:

| | Note | **2013** | 2012 |
|---|---|---|---|
| Equity securities | 23.5 | **P 3,928,755,091** | P 2,704,469,578 |
| Debt securities | | **-** | 552,317,041 |
| | | **P 3,928,755,091** | P 3,256,786,619 |

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

| | **2013** | 2012 |
|---|---|---|
| Balance at the beginning of year | **P 3,256,786,619** | P 2,591,747,678 |
| Fair value gains - net | **1,202,548,494** | 592,528,177 |
| Disposals | **( 451,141,706)** | ( 138,241,416) |
| Foreign currency gains (losses) | **( 79,438,316)** | 210,752,180 |
| Balance at end of year | **P 3,928,755,091** | P 3,256,786,619 |

Equity securities significantly pertain to investments in a publicly-listed holding company with fair values determined directly by reference to published prices in the PSE while debt securities consist of U.S. dollar-denominated corporate bonds quoted in a foreign active market.

A portion of the Group's AFS equity securities amounting to P189.2 million as at December 31, 2013 and 2012 refers to unquoted equity securities of certain investee companies. These AFS equity securities have no quoted market price; hence, are carried at cost.

The aggregate cost of AFS securities as at December 31, 2013 and 2012 amounted to P2.1 billion and P2.6 billion, respectively. The fair value gains or losses arising from these financial assets which comprised the movements in the carrying amounts and disposals of AFS, are reported as part of Net Unrealized Gains account under the equity section of the consolidated statements of financial position.

The resulting gain from sale of investments in 2013 and 2011 is presented as Gain on Sale of AFS Securities under Interest and Other Income - net account in the consolidated statements of income (see Note 19). There was no gain or loss on disposals made in 2012.

A portion of the AFS securities are owned by RHGI and EELHI, which are subsidiaries of the Company. Hence, the movements in the AFS Securities arising from fair value gains or losses are allocated to the Company's shareholders.

## 9. ADVANCES TO LANDOWNERS AND JOINT VENTURES

The Group enters into numerous joint venture agreements for the joint development of various projects. These are treated as jointly controlled operations; there were no separate entities created under these joint venture agreements. The joint venture agreements stipulate that the Group's joint venturer shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of residential and condominium units to be constructed on the properties. Costs incurred by the Group for these projects are recorded under the Property Development Costs account in the consolidated statements of financial position (see Note 2.6). The amounts of other related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group (see Note 2.3).

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint ventures under agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the agreements, the Group, in addition to providing specified portion of total project development costs, also commits to advance mutually agreed-upon amounts to the landowners to be used for pre-development expenses such as the relocation of existing occupants.

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

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

As of December 31, 2013 and 2012, there has been no outstanding commitment for cash advances under the joint venture agreements.

The net commitment for construction expenditures amounts to:

| | **2013** | 2012 |
|---|---|---|
| Total commitment for construction expenditures | **P 10,305,951,395** | P 9,580,606,292 |
| Total expenditures incurred | **( 7,711,181,450)** | ( 6,797,658,256) |
| Net commitment | **P 2,594,769,945** | P 2,782,948,036 |

The Group's interests in jointly-controlled operations and projects range from 73% to 95% in 2013 and 2012. The listing and description of the Group's jointly controlled projects are as follows:

Company:
- McKinley Hills
- Newport City
- Manhattan Parkway Residences
- Greenbelt Excelsior
- Forbeswood Heights
- Forbeswood Parklane 1 & 2
- The Noble Place

EELHI:
- Pioneer Woodlands
- San Lorenzo Place
- Various Metro Manila and Calabarzon projects

SPI:
- Adriatico Gardens
- Capitol Plaza
- Governor's Hill
- Mandara
- Sta. Rosa Heights
- Sta. Rosa Hills
- Sentosa
- Asmara

The aggregate amounts of the current assets, long-term assets, current liabilities, long-term liabilities, income and expenses as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 related to the Group's interests in joint ventures are not presented or disclosed as the joint ventures in which the Group is involved are not jointly-controlled entities (see Note 2.3).

As at December 31, 2013 and 2012, the Group either has no other contingent liabilities with regard to these joint ventures or has assessed that the probability of loss that may arise from contingent liabilities is remote.

## 10. INVESTMENTS IN AND ADVANCES TO ASSOCIATES AND OTHER RELATED PARTIES AND NON-CONTROLLING INTEREST

### *10.1 Breakdown of Carrying Values*

The details of investments in and advances to associates and other related parties, are as follows:

| | 2013 | 2012 |
|---|---|---|
| Investments in associates – at equity | | |
| Acquisition costs: | | |
| GERI | **P 5,932,063,610** | P - |
| LFI | **1,442,492,819** | - |
| TLC | **1,248,571,429** | 1,248,571,429 |
| SHDI | **875,445,000** | 875,445,000 |
| TIHGI | **141,590,000** | 141,590,000 |
| PTHDC | **64,665,000** | 64,665,000 |
| RWBC | **27,500,000** | - |
| MGEI | **5,000,000** | 5,000,000 |
| AGPL | **-** | 2,463,056,417 |
| GPMAI | **-** | 86,830,455 |
| | **9,737,327,858** | 4,885,158,301 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **1,003,061,319** | 207,621,276 |
| Equity share in net earnings for the year | **311,681,755** | 794,347,508 |
| Share in other comprehensive income | **4,714,128** | 1,092,535 |
| Dividends received from an associate | **( 743,991,000)** | - |
| Reversals resulting from: | | |
| Disposal of AGPL | **( 394,281,305)** | - |
| Consolidation of GPMAI | **47,770,162** | - |
| Balance at end of year | **228,955,059** | 1,003,061,319 |
| Advances to associates and other related parties (see Note 23.3) | **2,808,216,620** | 1,893,985,442 |
| | **P 12,774,499,537** | P7,782,205,062 |

In 2013, the Company acquired 50.0%, 24.7% and 10.0% ownership interest in LFI, GERI and RWBCI, respectively.

LFI and GERI were considered as associates as the Company has established significant influence, but not control, over these two entities. Consequently, through indirect ownership interest from GERI, the Company has increased its ownership interest in MGEI and TLC, both subsidiaries of GERI, to 54.82% and 31.35%, respectively. TLC, a 60%-owned subsidiary of GERI, became an associate of the Company in 2012 after the latter acquired 19% ownership interest.

The Company also subscribed for 10% ownership in RWBCI which was incorporated during the year. Despite the 10% ownership, the Company considers RBWCI as an associate as it is able to exert significant influence over RWBCI through the two out of the five directors of RWBCI who are also members of the Company's BOD.

In November 2013, RHGI, a 100% owned subsidiary sold its entire ownership interest in AGPL to a third party. Consequently, the Company lost significant influence over AGPL during the year and, thus, ceases to be an associate.

TIHGI declared cash dividend of P744.0 million in 2013 (nil in 2012). The amount received is considered a return on investment and is presented as deduction from the Accumulated Equity in Net Earnings shown in the previous table presented (see Note 23). On November 5, 2013, TIHGI had its initial public offering. In 2012, TIHGI redeemed 428.4 million preferred shares held by the Company at a par value of P1 per share. There is an outstanding receivable of P129.9 million as of December 31, 2013 (nil as of December 31, 2012) arising from TIHGI's dividend declaration. There are no outstanding receivable arising from redemption of preferred shares held by the Company in 2013 and 2012. Despite the 9% ownership, the Company considers TIHGI as an associate as it is able to exert significant influence over TIHGI through the two out of the five directors of TIHGI who are also members of the Company's BOD.

In 2011, EELHI, SPI and GPMAI became subsidiaries of the Company (see Note 1). The increase in ownership in EELHI from 48.38% to 61.13% in 2011 resulted in the consolidation of the entity and increase in non-controlling interests and also in the presentation of the amount of pre-acquisition income in the consolidated statement of income. In 2011, the Company's indirect ownership in GPMAI also increased to 46.45% through the Company's increased ownership interest in EELHI, which resulted in the effective ownership interest of 52% in GPMAI. Subsequently, in 2012, GPMAI ceased to be a subsidiary of both EELHI and the Company (see Note 1). In 2013, as a result of the Company's increase in ownership interest to EELHI, the Company's ownership interest in GPMAI also increased to 52.04% while 5 out of 5 BOD of GPMAI were also members of the BOD of the Company; hence, control was re-established and GPMAI becomes a subsidiary.

The shares of TIHGI, GERI and SHDI are listed in the PSE. The total quoted or market value of SHDI amounted to P850.7 million and P516.1 million as of December 31, 2013 and 2012. TIHGI, which had only been listed during the year has a total market value as of December 31, 2013 of P14.6 billion. While, GERI, the Company's newly acquired associate, has a market value of P3.7 billion. The related book values of the Group's holdings in all of the associates are either in excess or approximate their carrying values; hence, management deemed that the recognition of impairment loss is not necessary. The fair values of all other investments in associates are not available as of December 31, 2013 and 2012.

The balance of the Accumulated Equity in Net Earnings of P0.2 billion and P1.0 billion as at December 31, 2013 and 2012, respectively, which is mainly lodged in the Group's Retained Earnings as of those dates, is not available for dividend declaration.

### *10.2 Summarized Financial Information*

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

| | Assets | Liabilities | Revenues | Net Profit (Loss) |
|---|---|---|---|---|
| **2013:** | | | | |
| GERI | P 31,041,953,861 | P 7,415,822,780 | P 1,758,715,249 | P 339,274,971 |
| LFI | 750,623,932 | 112,987,853 | 198,185,473 | 53,399,019 |
| TLC | 5,982,244,755 | 1,430,021,859 | 44,421,628 | ( 28,392,989) |
| SHDI | 398,645,173 | 273,168,573 | 282,887,917 | 17,496,796 |
| TIHGI | 61,225,735,552 | 27,797,891,304 | 30,848,028,933 | 2,739,516,493 |
| PTHDC | 1,136,148,867 | 1,004,801,955 | 17,848 | ( 451,069) |
| RWBCI | 964,833,598 | 688,966,309 | 2,524,621 | 867,280 |
| MGEI | 12,426,899 | 55,000 | 270,982 | 146,772 |
| | **P 101,512,612,637** | **P 38,723,715,633** | **P 33,135,052,651** | **P 3,121,857,273** |
| 2012: | | | | |
| TLC | P 5,525,542,334 | P 1,394,926,449 | P 13,734,389 | (P 43,885,015) |
| SHDI | 153,559,159 | 45,232,263 | 1,318,257 | ( 1,838,513) |
| TIHGI | 47,996,781,320 | 26,729,976,553 | 29,389,747,392 | 6,734,216,200 |
| PTHDC | 1,136,626,722 | 1,004,828,741 | 71,301 | ( 327,871) |
| MGEI | 12,275,979 | 50,582 | 392,240 | 192,136 |
| AGPL | 6,380,453,088 | 6,848,129 | 431,546,120 | 404,975,974 |
| GPMAI | 617,315,052 | 12,044,026 | 13,240,559 | ( 93,998,746) |
| | P 61,822,553,654 | P 29,193,906,743 | P 29,850,050,258 | P 6,999,334,165 |

### *10.3 Subsidiary with Material Non-controlling Interest*

EELHI has the material non-controlling interest (NCI) of the Group. As of December 31, 2013 and 2012, EELHI's NCI held 18.47% and 21.41% interest, respectively. Net profit allocated to NCI amounted to P65.7 million and P41.3 million, while accumulated NCI amounted to P8.8 billion and P8.2 billion, respectively.

No dividends were paid to the NCI in 2013 and 2012.

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

| | Assets | Liabilities | Equity | Revenues | Net Profit | Other Comprehensive Income |
|---|---|---|---|---|---|---|
| **December 31, 2013** | **P 32,951,539,362** | **P 8,161,935,395** | **P 24,789,603,967** | **P 2,951,099,574** | **P 300,121,825** | **P 1,287,539,550** |
| December 31, 2012 | P 31,974,683,980 | P 9,732,619,563 | P 22,242,064,417 | P 2,522,753,617 | P 236,021,986 | P 697,643,836 |

## 11. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of 2013 and 2012 are shown below.

| | Land | Buildings | Total |
|---|---|---|---|
| December 31, 2013 | | | |
| Cost | P 6,433,222,583 | P 21,899,120,429 | P 28,332,343,012 |
| Accumulated depreciation | - | ( 3,385,403,893 ) | ( 3,385,403,893 ) |
| Net carrying amount | **P 6,433,222,583** | **P 18,513,716,536** | **P 24,946,939,119** |
| December 31, 2012 | | | |
| Cost | P 1,412,634,527 | P 17,810,102,539 | P 19,222,737,066 |
| Accumulated depreciation | - | ( 2,590,701,403 ) | ( 2,590,701,403 ) |
| Net carrying amount | P 1,412,634,527 | P 15,219,401,136 | P 16,632,035,663 |
| January 1, 2012 | | | |
| Cost | P 1,412,634,527 | P 12,938,556,919 | P 14,351,191,446 |
| Accumulated depreciation | - | ( 1,978,900,781 ) | ( 1,978,900,781 ) |
| Net carrying amount | P 1,412,634,527 | P 10,959,656,138 | P 12,372,290,665 |

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 of investment property is shown below.

| | Land | Buildings | Total |
|---|---|---|---|
| Balance at January 1, 2013, net of accumulated depreciation | P 1,412,634,527 | P 15,219,401,136 | P 16,632,035,663 |
| Investment property of newly-acquired subsidiaries | 5,020,588,056 | - | 5,020,588,056 |
| Additions | - | 3,494,295,658 | 3,494,295,658 |
| Transfers from property development cost | - | 594,722,232 | 594,722,232 |
| Depreciation charges for the year | - | ( 794,702,490 ) | ( 794,702,490 ) |
| Balance at December 31, 2013, net of accumulated depreciation | **P 6,433,222,583** | **P 18,513,716,536** | **P 24,946,939,119** |
| Balance at January 1, 2012, net of accumulated depreciation | P 1,412,634,527 | P 10,959,656,138 | P 12,372,290,665 |
| Additions | - | 4,871,545,620 | 4,871,545,620 |
| Depreciation charges for the year | - | ( 611,800,622 ) | ( 611,800,622 ) |
| Balance at December 31, 2012, net of accumulated depreciation | P 1,412,634,527 | P 15,219,401,136 | P 16,632,035,663 |

Investment property with carrying values of P40.4 million and P43.5 million as of December 31, 2013 and 2012, respectively, are used as collateral by the Group for its various loans obtained from local banks (see Note 14).

Rental income earned from these properties amount to P6.0 billion, P5.0 billion and P3.8 billion in 2013, 2012 and 2011, respectively, and is shown as Rental Income in the consolidated statements of income. The direct operating costs, exclusive of depreciation, incurred by the Group relating to these investment properties amounted to P360.90 million in 2013, P174.31 million in 2012 and P135.08 million in 2011. The operating lease commitments of the Group as a lessor are fully disclosed in Note 26.1.

Depreciation of investment property is presented as part of Operating Expenses account (see Note 18).

The fair market values of these properties are P106.5 billion and P85.5 billion as at December 31, 2013 and 2012, respectively. These are determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate of 10% in 2013 and 2012 while the investment property of WGPI, a newly acquired subsidiary, is determined by independent appraiser and valuation expert.

Other information about the fair value measurement and disclosures related to the investment property are presented in Note 29.4.

## 12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2013 and 2012 are shown below.

| | Condominium Units | Office Furniture, Fixtures and Equipment | Office and Land Improvements | Transportation Equipment | Land | Total |
|---|---|---|---|---|---|---|
| December 31, 2013 | | | | | | |
| Cost | P 862,412,652 | P 528,919,165 | P 174,411,940 | P 146,142,080 | P 81,095,000 | P 1,792,980,837 |
| Accumulated depreciation and amortization | ( 578,989,364) | ( 308,066,539 ) | ( 111,797,739) | ( 92,453,453) | - | ( 1,091,307,095) |
| Net carrying amount | **P 283,423,288** | **P 220,852,626** | **P 62,614,201** | **P 53,688,627** | **P 81,095,000** | **P 701,673,742** |
| December 31, 2012 | | | | | | |
| Cost | P 786,366,715 | P 364,319,866 | P 161,106,262 | P 133,312,797 | P 81,095,000 | P 1,526,200,640 |
| Accumulated depreciation and amortization | ( 522,192,653) | ( 222,366,914 ) | ( 97,063,452) | ( 87,611,943) | - | ( 929,234,962) |
| Net carrying amount | P 264,174,062 | P 141,952,952 | P 64,042,810 | P 45,700,854 | P 81,095,000 | P 596,965,678 |
| January 31, 2012 | | | | | | |
| Cost | P 707,071,366 | P 295,154,303 | P 146,350,111 | P 99,645,611 | P 81,095,000 | P 1,329,316,391 |
| Accumulated depreciation and amortization | ( 463,382,815) | ( 180,626,286) | ( 82,351,477 ) | ( 62,096,083) | - | ( 788,456,661 ) |
| Net carrying amount | P 243,688,551 | P 114,528,017 | P 63,998,634 | P 37,549,528 | P 81,095,000 | P 540,859,730 |

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 of property and equipment is shown below.

| | Condominium Units | Office Furniture, Fixtures and Equipment | Office and Land Improvements | Transportation Equipment | Land | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013, net of accumulated depreciation and amortization | P 264,174,062 | P 141,952,952 | P 64,042,810 | P 45,700,854 | P 81,095,000 | P 596,965,678 |
| Additions | 76,045,937 | 101,599,189 | 13,305,678 | 15,997,052 | - | 206,947,857 |
| Property and equipment of newly-acquired subsidiaries | - | 63,000,110 | - | - | - | 63,000,110 |
| Disposals | - | - | - | ( 3,167,769) | - | ( 3,167,769 ) |
| Depreciation and amortization charges for the year | ( 56,796,711) | ( 85,699,625) | ( 14,734,287 ) | ( 4,841,510) | - | ( 162,072,134) |
| Balance at December 31, 2013, net of accumulated depreciation and amortization | **P 283,423,288** | **P 220,852,626** | **P 62,614,201** | **P 53,688,627** | **P 81,095,000** | **P 701,673,742** |
| Balance at January 1, 2012, net of accumulated depreciation and amortization | P 243,688,551 | P 114,528,017 | P 63,998,634 | P 37,549,528 | P 81,095,000 | P 540,859,730 |
| Additions | 79,295,349 | 69,142,747 | 14,784,675 | 38,715,624 | - | 201,938,395 |
| Reclassification | - | 28,524 | ( 28,524) | - | - | - |
| Disposals | - | ( 5,708 ) | - | ( 5,048,438) | - | ( 5,054,146 ) |
| Depreciation and amortization charges for the year | ( 58,809,838) | ( 41,740,628) | ( 14,711,975 ) | ( 25,515,860) | - | ( 140,778,301) |
| Balance at December 31, 2012, net of accumulated depreciation and amortization | P 264,174,062 | P 141,952,952 | P 64,042,810 | P 45,700,854 | P 81,095,000 | P 596,965,678 |

Depreciation and amortization is presented as part of Operating Expenses account (see Note 18).

The Group's fully depreciated assets that are still being used in operations amounted to P238.7 million and P354.0 million as of December 31, 2013 and 2012, respectively.

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

## 13. OTHER NON-CURRENT ASSETS

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Guarantee and other deposits | **P 435,979,746** | P 295,356,231 |
| Goodwill | **343,095,101** | 343,095,101 |
| Miscellaneous | **23,229,596** | 19,521,266 |
| | **P 802,304,443** | P 657,972,598 |

Goodwill is subject to impairment testing at least annually. No impairment losses were recognized in 2013 and 2012 based on management's assessment.

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

## 14. INTEREST-BEARING LOANS AND BORROWINGS

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

| | **2013** | 2012 |
|---|---|---|
| Current: | | |
| Company | **P 1,050,714,285** | P1,203,380,952 |
| SPI | **442,808,691** | 231,223,837 |
| EELHI | **71,200,342** | 152,989,611 |
| | **1,564,723,318** | 1,587,594,400 |
| Non-current: | | |
| Company | **1,280,119,048** | 3,667,833,333 |
| SPI | **806,532,059** | 1,005,842,266 |
| EELHI | **148,530,809** | 236,893,851 |
| | **2,235,181,916** | 4,910,569,450 |
| | **P 3,799,905,234** | P6,498,163,850 |

### *14.1 Company*

In 2008, the Company signed a financing deal with a local bank under which the Company may avail of a P5.0 billion unsecured loan, divided into Tranche A (P3.5 billion) and Tranche B (P1.5 billion). The Company had availed of P4.5 billion out of the P5.0 billion facility in 2008 while the remaining P500.0 million was availed of in 2009. The proceeds of the loan were used to fund the development of the Group's various real estate projects. The loan is payable in seven years with a grace period of two years, divided into 21 consecutive equal quarterly payments. Interest is payable every quarter based on the Philippine Dealing System Treasury Fixing rate (PDSTF-R) plus a certain spread. The outstanding balance pertaining to these loans amounted to P1.67 billion and P2.62 billion as at December 31, 2013 and 2012, respectively.

In February 2009, the Company issued unsecured corporate notes to several financial institutions in the aggregate principal amount of P1.4 billion which will mature in seven years from the issue date. The principal repayments on this loan commenced in February 2010 and interest is paid semi-annually based on a fixed 9.0% annual interest rate. The outstanding balance pertaining to this loan amounted to P1.35 billion as at December 31, 2012. In 2013, the Company had early redeemed these outstanding corporate notes. As a result of the early redemption of these notes, the Company incurred and paid P41.1 million penalty charges which is presented as part of the Finance Costs account under Interest and Other Charges in 2013 consolidated statement of income.

Also, in May 2009, the Company obtained an unsecured long-term loan from a local bank amounting to P500.0 million. The loan is payable for a term of seven years and interest is payable semi-annually based on a floating six-month PDSTF-R plus a certain spread, subject to semi-annual reprising. The outstanding balance pertaining to this loan amounted to P477.5 million and P482.5 million as at December 31, 2013 and 2012, respectively.

The Company also obtained an additional loan with original amount of P387 million in 2005 and P403.0 million in 2006 from the same local bank subject to the same terms and conditions. The outstanding balance pertaining to this loan amounted to P186.7 million and P418.7 million as of December 31, 2013 and 2012, respectively. Collateral for the loans consisted of a mortgage over certain investment property of the Company with carrying value of P40.4 million and P43.5 million as at December 31, 2013 and 2012, respectively (see Note 11).

### *14.2 EELHI*

EELHI has outstanding secured loans from local banks amounting to P219.7 million and P389.9 million as at December 31, 2013 and 2012, respectively. The loans bear annual interest rates ranging from 7.8% to 10.5% in 2013 and 2012 and 7.9% to 10.5% in 2011 Certain properties presented as part of Residential and condominium units for sale with an estimated carrying value of P434.7 million and P528.1 million as at December 31, 2013 and 2012, respectively, are used as collateral for these bank loans.

Bank loans of EELHI also include amounts arising from trade receivables discounted on a with-recourse basis amounting to P220.0 million and P333.0 million as at December 31, 2013 and 2012, respectively. (see Note 6). Included in the 2012 balance is the portion of a P400.0 million loan obtained in 2006. This loan bears annual interest of 10.5%. The principal amount is payable in seven equal annual amortization beginning March 15, 2007. The loan was fully paid in 2013.

### *14.3 SPI*

In 2011, SPI availed of a short-term loan from a local bank amounting to P400.0 million with an annual interest rate of 5.5% payable upon maturity in 2012. The loan was fully settled in 2012.

In 2012, SPI also availed of long-term loans from a local bank amounting to P330.0 million. As at December 31, 2013 and 2012, this unsecured loan which will mature in 2016, bear an annual interest of 5.5%, has an outstanding balance of P229.2 million and P330.0 million, respectively.

In 2013, SPI obtained short-term unsecured noninterest-bearing loan from a local bank amounting to P250.0 million. As at December 31, 2013, the outstanding balance is P241.0 million, net of P9.0 million payments during the year.

SPI partially manages its cash flows for use in operations through discounting its trade receivables on a with-recourse basis with certain local banks. The outstanding loans to the banks arising from receivables assigned as at December 31, 2013 and 2012 amounted to P779.2 million and P907.1 million, respectively, and is shown as part of Interest-bearing Loans and Borrowings account in the consolidated statements of financial position.

Finance costs arising from the preceding loans and borrowings that are directly attributable to construction of the Group's projects are capitalized as part of Residential and Condominium Units for Sale and Property Development Costs. The remaining interest costs are expensed outright.

Total finance costs attributable to all the loans of the Group amounted to P353.2 million, P509.18 million and P596.8 million in 2013, 2012 and 2011, respectively. Of these amounts, portion expensed is presented as part of Finance Costs under Interest and Other Charges - net in the consolidated statements of income (see Note 20). Interest capitalized in 2013, 2012 and 2011 amounted to P73.6 million, P183.0 million, and P355.6 million respectively. Capitalization rate used in determining the amount of interest charges qualified for capitalization is 5.06% in 2013, 6.73% in 2012 and 8.29% in 2011.

Certain interest bearing loans require the Group to maintain a debt- to-equity ratio of not more than 1:1 and current ratio of not less than 1:1. As at December 31, 2013 and 2012, the Group is in compliance with such financial covenant obligation.

## 15. BONDS PAYABLE

In 2013, the Group issued 10-year term bonds totaling U.S.$250 million. The bond carries a coupon rate of 4.25% per annum and are payable semi-annually in arrears starting October 17, 2013. The bond will mature in 2023. The proceeds of the bond issuance is being used by the Company for general corporate purposes.

Also, in 2011, the Group issued 7-year term bonds totaling U.S.$200 million. The bonds bear interest at 6.75% per annum payable semi-annually in arrears starting October 15, 2011. The bonds will mature in 2018. Also, in 2009, the Group issued P5.0 billion fixed rate unsecured bonds with a term of five years and six months which bear an interest of 8.46% per annum. The bonds were issued at par and will be redeemed at 100% of the face value on maturity date. The proceeds received are being used by the Group to finance its capital expenditures from 2009 up to 2013 mainly for the development of its real estate projects.

Total interest incurred on these bonds amounted to P1.3 billion in 2013, P984.3 million in 2012 and P1.0 billion in 2011, of which portions capitalized amounted to P423.0 million in 2013, 2012 and 2011. The remaining amounts are expensed and presented as part of Finance Costs under Interest and Other Charges - net in the consolidated statements of income (see Note 20). Capitalization rate used in determining the amount of interest charges qualified for capitalization is 8.46% both in 2013, 2012 and 2011.

## 16. TRADE AND OTHER PAYABLES

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Trade payables | **P 4,391,126,481** | P5,081,234,403 |
| Retention payable | **2,166,045,398** | 2,084,707,464 |
| Accrued interest | **281,898,919** | 292,296,901 |
| Accrued construction cost | **7,796,206** | 72,057,733 |
| Miscellaneous | **351,506,102** | 369,720,811 |
| | **P 7,198,373,106** | P7,900,017,312 |

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

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

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

## 17. OTHER LIABILITIES

This account consists of:

| | 2013 | 2012 [As Restated – see Note 2.2 (a)] |
|---|---|---|
| Current: | | |
| Unearned revenues | **P 1,802,882,065** | P1,463,820,018 |
| Deferred rental income | **150,792,198** | 246,307,507 |
| Other payables | **2,115,038** | 1,042,654 |
| | **1,955,789,301** | 1,711,170,179 |
| Non-current: | | |
| Deferred rental income | **1,631,709,613** | 1,725,888,010 |
| Other payables | **-** | 332,419,541 |
| | **1,631,709,613** | 2,058,307,551 |
| | **P 3,587,498,914** | P3,769,477,730 |

## 18. OPERATING EXPENSES

Presented below are the details of this account.

| | Notes | 2013 | 2012 [ As Restated – see Note 2.2 (a)] | 2011 [ As Restated – see Note 2.2 (a)] |
|---|---|---|---|---|
| Salaries and employee benefits | 21 | **P 1,206,397,043** | P 903,929,720 | P 752,982,215 |
| Depreciation and amortization | 11, 12 | **956,774,624** | 752,578,923 | 566,641,137 |
| Commission | | **905,847,959** | 940,106,924 | 934,748,085 |
| Advertising and promotions | | **589,935,280** | 643,939,022 | 572,052,650 |
| Taxes and licenses | | **446,823,406** | 172,504,165 | 196,304,569 |
| Rent | | **398,718,708** | 264,382,431 | 163,714,850 |
| Utilities and supplies | | **287,743,734** | 338,239,281 | 215,840,286 |
| Transportation | | **218,930,485** | 223,735,372 | 142,590,321 |
| Professional fees and outside services | | **201,182,692** | 225,648,686 | 176,664,004 |
| Association dues | | **169,925,605** | 188,226,417 | 103,023,327 |
| Miscellaneous | | **282,085,374** | 244,424,584 | 269,087,243 |
| | | **P 5,664,364,910** | P 4,897,715,525 | P 4,093,648,687 |

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

## 19. INTEREST AND OTHER INCOME

Presented below are the details of this account.

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Interest income | | **P 1,566,850,939** | P 1,840,964,871 | P 1,618,727,549 |
| Gain on acquisition of a subsidiary | 1 | **763,834,597** | - | - |
| Cinema operations income | | **226,072,923** | - | - |
| Realized fair value gains from AFS securities | | **115,258,400** | - | 2,242,526,309 |
| Fair value gains on FVTPL | 7 | **90,400,000** | 64,200,000 | - |
| Construction income | | **83,084,683** | 130,162,337 | 138,492,457 |
| Dividend income | 23 | **55,359,121** | 53,887,430 | 32,661,662 |
| Commission income | | **35,938,670** | 112,417,366 | 73,432,592 |
| Gain on sale of AFS securities | 8 | **32,993,081** | - | - |
| Foreign currency gain – net | | - | - | 65,503,537 |
| Miscellaneous – net | | **627,362,006** | 643,555,234 | 568,704,735 |
| | | **P 3,597,154,420** | P 2,845,187,238 | P 4,740,048,841 |

In August, 2013, the Company acquired 100% ownership interest on WGPI, thereby obtaining control. The acquisition was made to enhance the Group's landbanking position in the real estate industry within the country. The transaction was settled in cash amounting to P3.3 billion. The fair value of the net identifiable assets acquired amounted to P4.1 billion. Gain on acquisition of a subsidiary amounting to P763.8 million represents the excess of the fair value of the identifiable net assets of WGPI at the date of acquisition over the acquisition cost (see Note 1).

Miscellaneous income refers to forfeited deposits, collections, marketing fees and others.

## 20. INTEREST AND OTHER CHARGES

Presented below are the details of this account.

| | Notes | | **2013** | | 2012 [ As Restated – see Note 2.2 (a)] | | 2011 [ As Restated – see Note 2.2 (a)] |
|---|---|---|---|---|---|---|---|
| Interest expense resulting from: | | | | | | | |
| Bank loans and borrowings | 14, 15 | **P** | **1,280,554,678** | P | 887,476,458 | P | 818,237,019 |
| Post-employment defined benefit obligation | 2, 21 | | **36,968,625** | | 29,841,199 | | 20,490,392 |
| Foreign currency losses – net | | | **491,259,799** | | 52,961,596 | | - |
| Impairment of property development cost | | | **-** | | 61,518,212 | | - |
| Fair value loss on FVTPL | | | **-** | | - | | 7,851,631 |
| Miscellaneous – net | 6 | | **50,870,780** | | 95,396,369 | | 85,289,416 |
| | | **P** | **1,859,653,882** | P | 1,127,193,834 | P | 931,868,458 |

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

## 21. EMPLOYEE BENEFITS

### *21.1 Salaries and Employee Benefits*

Expenses recognized for salaries and employee benefits are presented below (see Note 18).

| | Notes | 2013 | 2012 [ As Restated – see Note 2.2 (a)] | 2011 [ As Restated – see Note 2.2 (a)] |
|---|---|---|---|---|
| Short-term benefits | | **P 1,048,509,131** | P 820,427,634 | P 706,127,598 |
| Post-employment benefits | 21.3 | **127,505,792** | 83,502,086 | 46,854,617 |
| Share option benefit expense | 21.2, 24.6 | **30,382,120** | - | - |
| | | **P 1,206,397,043** | P 903,929,720 | P 752,982,215 |

### *21.2 Employee Share Option Plan (ESOP)*

On November 6, 2012, the Company granted share options to qualified employees of the Group, giving them the right to subscribe to a total of 245 million common shares of the Company at the exercise price of P1.77 per share. The employee share options shall generally vest on the 60th birthday of the option holder and may be exercised until the date of his or her retirement from the Group. Based on management assessment, the amount of employee benefits relative to the share option is not significant to the consolidated financial statements in 2012; hence, the Group only started to accrue for such employee benefits in 2013 and throughout the vesting period of the share options granted.

Share option benefits expense, included as part of Salaries and Employee Benefits under Operating Expenses in the consolidated statements of income amounted to P30.4 million in 2013 (see Note 21.1) while the corresponding credit to Retained Earnings of the same amount is presented under the equity section of the 2013 consolidated statements of financial position (see Note 24).

### *21.3 Post-employment Defined Benefit Plan*

*(a) Characteristics of Defined Benefit Plan*

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

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

*(b) Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised) [see Note 2.2(a)(ii)].

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

| | **2013** | 2012 [As restated – see Note 2.2(a)] |
|---|---|---|
| Present value of the obligation | **P 851,805,596** | P 714,914,438 |
| Fair value of plan assets | **( 103,407,063)** | ( 88,793,525) |
| Net defined benefit liability | **P 748,398,533** | P 626,120,913 |

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

| | **2013** | 2012 [As restated – see Note 2.2(a)] |
|---|---|---|
| Balance at beginning of year | **P 714,914,438** | P 557,371,638 |
| Current service costs | **116,785,988** | 83,502,086 |
| Past service costs | **10,719,804** | - |
| Interest costs | **41,985,326** | 34,327,252 |
| Remeasurements – | | |
| Actuarial losses (gains) arising from changes in: | | |
| Financial assumptions | **( 26,746,027)** | 61,206,343 |
| Experience adjustments | **( 1,066,279)** | ( 20,377,152) |
| Benefits paid | **( 4,787,654)** | ( 1,115,729) |
| Balance at end of year | **P 851,805,596** | P 714,914,438 |

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

| | **2013** | 2012 [As restated – see Note 2.2(a)] |
|---|---|---|
| Balance at beginning of year | **P 88,793,525** | P 71,833,960 |
| Contributions paid into the plan | **15,200,000** | 15,200,000 |
| Benefits paid | **( 4,787,654)** | ( 1,115,728) |
| Interest income | **5,016,701** | 4,486,053 |
| Return on plan assets (excluding amount included in net interest cost) | **( 815,509)** | ( 1,610,760) |
| Balance at end of year | **P 103,407,063** | P 88,793,525 |

The plan asset is composed of cash and cash equivalents and investment in debt securities. The contributions to the retirement plan are made annually by the Group. The amount of contributions to the retirement plan is determined based on the expected benefit payments that the Group will incur within five years.

Actual return on plan assets were P4.2 million, P2.9 million and P4.9 million in 2013, 2012 and 2011, respectively.

The plan asset does not comprise any of the Company's own financial instruments or any of its assets occupied and/or used in its operations.

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

| | Notes | 2013 | 2012 [ As Restated - see Note 2.2 (a)] | 2011 [ As Restated - see Note 2.2 (a)] |
|---|---|---|---|---|
| *Reported in consolidated statements of income:* | | | | |
| Post-employment defined benefit: | | | | |
| Current service cost | | **P 116,785,988** | P 83,502,086 | P 46,854,617 |
| Past service cost | | **10,719,804** | - | - |
| | 21.1 | **127,505,792** | 83,502,086 | 46,854,617 |
| Net interest cost | 20 | **36,968,625** | 29,841,199 | 20,490,392 |
| | | **P 164,474,417** | P 113,343,285 | P 67,345,009 |
| *Reported in consolidated statements of comprehensive income* | | | | |
| Actuarial gains (losses) arising from changes in: | | | | |
| Financial assumptions | | **P 26,746,027** | (P 61,206,343) | (P 126,274,941) |
| Experience adjustments | | **1,066,279** | 20,377,152 | ( 33,710,572) |
| Return on plan assets (excluding amounts included in net interest expense) | | **( 815,509)** | ( 1,610,760) | 516,220 |
| | | **26,996,797** | ( 42,439,951) | ( 159,469,293) |
| Tax income (expense) | 22 | **( 8,099,039)** | 12,731,985 | 47,840,788 |
| | | **P 18,897,758** | (P 29,707,966) | (P 111,628,505) |

Current service cost is allocated and presented as part of Operating Expenses in the consolidated statements of income. The net interest cost is included in Finance Costs under Interest and Other Charges - net account in the consolidated statements of income (see Note 20).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Discount rates | **4.68% - 5.65%** | 5.64% - 6.7% | 6.25% - 8.07 |
| Expected rate of salary increases | **6.00 - 10.00%** | 5.00 - 10% | 6.00 - 9.00% |

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 23 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c) Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

*(i) Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

*(i) Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as at December 31, 2013:

| | Impact on Post-employment Benefit Obligation | | |
|---|---|---|---|
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| Discount rate | +/- 0.50% | ( 34,281,128 ) | 32,821,809 |
| Salary increase rate | +/ - 1.00% | 52,772,869 | ( 34,860,141 ) |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the 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 statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) Asset-liability Matching Strategies*

The Group, through its BOD, envisions that the investment positions shall be managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This aims to match the plan assets to the retirement obligations by investing in debt securities and maintaining cash and cash equivalents that match the benefit payments as they fall due and in the appropriate currency.

*(iii) Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P748.4 million based on the Group's latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 23 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, 2013 are as follows:

| | |
|---|---|
| Within one year | P 6,997,235 |
| More than one year to 5 years | 55,418,233 |
| More than five years to 10 years | 383,839,570 |
| More than ten years to 15 years | 440,623,950 |
| More than 15 years to 20 years | 629,882,797 |
| More than 20 years | 11,668,387,930 |
| | P 13,185,149,715 |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years.

## 22. TAXES

The components of tax expense as reported in the consolidated statements of income and consolidated statements of comprehensive incom7e are as follows:

| | **2013** | 2012 [As Restated – see Note 2.2(a)] | 2011 [As Restated – see Note 2.2(a)] |
|---|---|---|---|
| *Reported in consolidated statements of income:* | | | |
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 30% and 10% | **P 1,449,871,581** | P 1,319,257,201 | P 1,054,538,463 |
| Final tax at 20% and 7.5% | **115,764,691** | 171,404,904 | 181,904,031 |
| Preferential tax rates at 5% | **23,604,978** | 21,986,256 | 18,802,816 |
| Capital gains tax at 5% | **16,294,686** | | - |
| Minimum corporate income tax (MCIT) at 2% | **1,717,051** | 318,062 | 1,029,759 |
| | **1,607,252,987** | 1,512,966,423 | 1,256,275,069 |
| Deferred tax expense relating to origination and reversal of temporary differences | **964,199,025** | 739,756,998 | 739,332,472 |
| | **P 2,571,452,012** | P 2,252,723,421 | P 1,995,607,541 |
| *Reported in consolidated statements of comprehensive income –* | | | |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | **P 23,370,891** | (P 83,527,053) | (P 51,683,424) |

A reconciliation of tax on pretax profit computed at the applicable statutory rates to income tax expense reported in the consolidated statements of income is as follows:

| | 2013 | 2012 [As Restated – see Note 2.2(a)] | 2011 [As Restated – see Note 2.2(a)] |
|---|---|---|---|
| Tax on pretax profit at 30% | **P3,481,930,725** | P 2,899,364,159 | P 3,045,973,530 |
| Adjustment for income subjected to lower income tax rates | **( 612,457,778 )** | ( 528,127,818 ) | ( 310,945,790 ) |
| Tax effects of: | | | |
| Non-taxable income | **( 707,071,397 )** | ( 526,514,475 ) | ( 1,215,511,134 ) |
| Non-deductible expenses | **345,821,159** | 386,501,240 | 461,399,042 |
| Unrecognized deferred tax asset on net operating loss carry over (NOLCO) | **42,418,066** | 5,058,368 | 10,266,270 |
| Unrecognized deferred tax assets on temporary difference | **18,316,487** | 6,666,883 | 2,789,101 |
| Dividend income | **( 16,607,736 )** | ( 11,445 ) | ( 1,858,980 ) |
| Non-deductible interest expense | **12,454,397** | 18,208,891 | 5,576,527 |
| Reversal of expired MCIT and NOLCO | **6,417,208** | - | - |
| Excess of optional standard deduction over itemized deductions | **( 3,524,039 )** | ( 11,665,340 ) | ( 4,906,889 ) |
| Miscellaneous | **3,754,920** | 3,242,958 | 2,825,864 |
| | **P 2,571,452,012** | P 2,252,723,421 | P 1,995,607,541 |

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

| | 2013 | 2012 [As Restated – see Note 2.2(a)] |
|---|---|---|
| Deferred tax assets - net: | | |
| Retirement benefit obligation | **P 23,106,502** | P 6,782,000 |
| Allowance for impairment of receivables | **9,087,303** | 9,176,972 |
| Accrued rental expense | **6,979,763** | 15,703,397 |
| NOLCO | **2,659,649** | - |
| MCIT | **773,818** | 651,213 |
| Others | **1,008,303** | 9,136,351 |
| | **P 43,615,338** | P 41,449,933 |
| Deferred tax liabilities - net: | | |
| Uncollected gross profit | **P5,923,286,327** | P4,745,139,010 |
| Capitalized interest | **1,109,989,877** | 967,478,399 |
| Unrealized foreign currency loss | **( 294,955,326)** | - |
| Retirement benefit obligation | **( 218,775,911)** | ( 188,131,868) |
| Difference between the tax reporting base and financial reporting base of: | | |
| Investment property | **217,811,123** | 219,416,534 |
| Property and equipment | **( 18,998,485)** | ( 19,249,915 ) |
| Translation adjustments | **( 87,005,067)** | ( 102,276,919 ) |
| Uncollected rental income | **83,911,976** | 126,978,198 |
| Bond issuance cost | **34,010,072** | 20,754,688 |
| Share options | **( 9,114,636)** | - |
| Others | **( 7,064,569)** | ( 26,748,067) |
| | **P6,733,095,381** | P 5,743,360,060 |

The components of deferred tax expense (income) are as follows:

| | Consolidated Statements of Income | | | Consolidated Statements of Comprehensive Income | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 [As Restated – see Note 2.2(a)] | 2011 [As Restated – see Note 2.2(a)] | 2013 | 2012 [As Restated – see Note 2.2(a)] | 2011 [As Restated – see Note 2.2(a)] |
| Changes in deferred tax assets: | | | | | | |
| Retirement benefit obligation | **(P 16,324,502)** | (P 3,803,359) | (P 666,218 ) | **P -** | P - | P - |
| Allowance for impairment of receivables | **89,669** | ( 9,176,972) | - | **-** | - | - |
| Accrued rental expense | **8,723,634** | ( 15,667,568) | 32,588 | **-** | - | - |
| NOLCO | **( 2,659,649)** | 2,881,547 | 1,260,059 | **-** | - | - |
| MCIT | **( 122,605)** | ( 651,213) | - | **-** | - | - |
| Others | **8,128,048** | ( 8,538,935) | ( 133,459 ) | **-** | - | - |
| Changes in deferred tax liabilities: | | | | | | |
| Uncollected gross profit | **1,178,147,317** | 560,670,959 | 1,487,033,750 | **-** | - | - |
| Capitalized interest | **142,511,478** | 181,883,005 | 341,878,304 | **-** | - | - |
| Unrealized foreign currency loss | **( 294,955,326)** | - | - | **-** | - | - |
| Retirement benefit obligation | **( 38,743,082)** | ( 59,377,352) | ( 11,887,392 ) | **8,099,039** | ( 12,731,985) | ( 47,840,788 ) |
| Difference between tax reporting base and financial reporting base of: | | | | | | |
| Investment property | **( 1,605,411)** | 56,368,504 | ( 38,648,833 ) | **-** | - | - |
| Property and equipment | **251,430** | 270,230 | 270,771 | **-** | - | - |
| Translation adjustments | **-** | - | - | **15,271,852** | ( 70,795,068) | ( 3,842,636 ) |
| Uncollected rental income | **( 43,066,222)** | 50,137,713 | 76,840,485 | **-** | - | - |
| Bond issuance cost | **13,255,384** | ( 3,153,760) | 23,908,448 | **-** | - | - |
| Share options | **( 9,114,636)** | - | - | | | |
| Others | **19,683,498** | ( 12,085,801) | ( 11,171,037 ) | **-** | - | - |
| | **964,199,025** | 739,756,998 | 1,868,717,466 | **23,370,891** | ( 83,527,053) | ( 51,683,424) |
| Effect of consolidation of EELHI, SPI and GPMAI | **-** | - | ( 1,129,384,994 ) | **-** | - | - |
| Deferred Tax Expense (Income) | **P 964,199,025** | P 739,756,998 | P 739,332,472 | **P 23,370,891** | (P 83,527,053) | (P 51,683,424) |

No deferred tax liability has been recognized on the accumulated equity in net earnings of associates. The Group has no liability for tax should the amounts be declared as dividends since dividend income received from domestic corporation is not subject to income tax.

Majority of the entities 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 MCIT paid by certain subsidiaries, which can be applied as deduction from their respective future RCIT payable within three years from the year the MCIT was incurred, are shown below.

| Subsidiaries | Year incurred | Amount | Valid Until |
|---|---|---|---|
| MLI | 2013 | P 272,525 | 2016 |
| | 2012 | 312,872 | 2015 |
| | 2011 | 308,076 | 2014 |
| MNPHI | 2011 | 187,256 | 2014 |
| OPI | 2013 | 246,256 | 2016 |
| | 2012 | 168,093 | 2015 |
| | 2011 | 120,805 | 2014 |
| WGPI | 2013 | 112,883 | 2016 |
| | 2012 | 124,216 | 2015 |
| | 2011 | 124,272 | 2014 |
| PIPI | 2013 | 2,744 | 2016 |
| | 2012 | 2,744 | 2015 |
| | 2011 | 2,744 | 2014 |
| GPMAI | 2013 | 40,728 | 2016 |
| | 2012 | 1,773 | 2015 |
| | 2011 | 1,114 | 2014 |
| MCPI | 2013 | 1,403,798 | 2016 |
| | 2012 | 1,376,223 | 2015 |
| | 2011 | 519,955 | 2014 |

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

| Subsidiaries | Year incurred | Amount | Valid Until |
|---|---|---|---|
| MCPI | 2011 | P 11,471,042 | 2014 |
| WGPI | 2013 | 21,382,586 | 2016 |
| | 2012 | 18,450,002 | 2015 |
| | 2011 | 12,854,154 | 2014 |
| GPMAI | 2013 | 1,670,920 | 2016 |
| | 2012 | 2,347,098 | 2015 |
| | 2011 | 4,847,477 | 2014 |
| LGHLI | 2013 | 886,544 | 2016 |
| LCCI | 2013 | 9,870 | 2016 |
| | 2012 | 3,947,707 | 2015 |

Certain subsidiaries within the Group did not recognize the deferred tax assets on their MCIT and NOLCO as realization of such amounts is uncertain.

The aggregated amounts of assets, retained earnings (deficit), revenues and net profit (loss) of the subsidiaries which incurred NOLCO are as follows:

| | **Assets** | **Retained Earnings (Deficit)** | **Revenues** | **Net Profit (Loss)** |
|---|---|---|---|---|
| **2013** | | | | |
| WGPI | P 91,551,376 | (P 52,900,053) | P 7,142,418 | (P 21,490,342) |
| MCPI | 201,160,599 | ( 118,893,484) | 117,088,798 | 15,479,698 |
| GPMAI | 606,925,270 | 279,435,260 | 6,100,708 | ( 10,390,560) |
| LGHLI | 625,000 | ( 886,544) | - | ( 886,544) |
| LCCI | 54,625,726 | ( 3,717,192) | 70,787,071 | 151,607 |
| | **P 954,887,971** | **P 103,037,987** | **P 201,118,995** | **(P 17,136,141)** |
| 2012 | | | | |
| WGPI | P 85,055,102 | (P 21,409,711) | P 7,024,800 | (P 50,454,500) |
| MCPI | 148,594,849 | ( 134,373,182) | 116,741,133 | 13,341,848 |
| GPMAI | 617,315,052 | 318,325,820 | 13,240,559 | ( 93,998,746) |
| LCCI | 43,567,420 | ( 3,868,799) | 45,398,766 | ( 3,868,799) |
| | P 894,532,423 | P 158,674,128 | P 182,405,258, | (P 134,980,197) |

Except for certain subsidiaries, management has assessed that the net losses incurred, as well as the related NOLCO, can be recovered through future operations and are not significant to the overall financial condition and financial performance of the Group.

In 2013, 2012 and 2011, the Group opted to continue claiming itemized deductions, except for MDC which opted to use OSD in those years, in computing for its income tax due.

ECOC and SEDI are registered with Philippine Economic Zone Authority (PEZA) pursuant to Presidential Proclamation No. 191 dated October 6, 1999. As PEZA-registered entities, ECOC and SEDI are entitled to a preferential tax rate of 5% on gross income earned from registered activities, in lieu of all local and national taxes, and to other tax privileges.

In November 2011, the Board of Investments approved SPI's application for registration on a certain project. SPI shall be entitled to income tax holiday for three years from November 2011 or actual start of commercial operations/selling, whichever is earlier but in no case earlier than the date of registration, with certain terms.

## 23. RELATED PARTY TRANSACTIONS

The Group's related parties include the parent company, associates, the Group's key management and other related parties under common ownership as described below. Transactions with related parties are also discussed below and in the succeeding pages.

The summary of the Group's transactions with its related parties as of and for the years ended December 31, 2013 and 2012 are as follows:

| | | **2013** | | 2012 | |
|---|---|---|---|---|---|
| **Related Party Category** | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance |
| **Parent Company:** | | | | | |
| Issuance of shares | 24.2 | **P 10,725,000,000** | P **-** | P - | P - |
| Dividend income | 19 | **55,359,121** | **-** | 53,549,026 | - |
| Dividends paid | 24.4 | **( 412,228,484)** | **-** | ( 299,741,330 ) | - |
| Exercise of share warrants | 24.2 | **-** | **-** | 2,585,362,642 | - |
| Investments in equity securities: | | | | | |
| FVTPL | 23.5 | **90,400,000** | **258,000,000** | 64,200,000 | 167,600,000 |
| AFS | 23.5 | **671,968,472** | **3,739,513,754** | 665,038,941 | 3,067,545,282 |
| **Associates:** | | | | | |
| Sale of land (collection) | 23.1 | **( 592,037,899)** | **576,701,882** | 2,100,814,973 | 1,168,739,781 |
| Dividend income | 10 | **743,991,000** | **129,921,000** | - | - |
| Rendering of services | 23.1 | **33,623,683** | **30,866,479** | 28,655,442 | 1,991,972 |
| Granting of advances | 23.3 | **31,042,122** | **1,091,482,696** | 37,288,275 | 1,060,440,574 |
| Availment (payment) of advances | 23.4 | **( 21,126,007 )** | **29,373,408** | 47,509,568 | 50,559,415 |
| Redemption of preferred shares | 10 | **-** | **-** | 428,410,000 | - |
| **Related Parties Under Common Ownership:** | | | | | |
| Granting (collection) of advances | 23.3 | **883,189,056** | **1,716,733,924** | ( 703,479,269 ) | 833,544,868 |
| Availment (payment) of advances | 23.4 | **( 550,930,714 )** | **91,114,421** | 434,852,539 | 642,045,135 |
| Lease of property | | **9,223,864** | **148,175** | 21,283,194 | 1,123,111 |
| Availment of services | 23.2 | **-** | **-** | 141,474,682 | 96,390,635 |

The Group's outstanding receivables from and payables to related parties arising from the above transactions are unsecured and noninterest-bearing.

None of the companies under the Group is a joint venture. The Company is not subject to joint control and none of its related parties exercise significant influence over it.

### *23.1 Sale of Land and Rendering of Services to Related Parties*

| | Amount of Transactions | | |
|---|---|---|---|
| | **2013** | 2012 | 2011 |
| Associates | **P 33,623,683** | P 2,129,470,415 | P 1,626,503,151 |
| Other related parties under common ownership | **9,223,864** | 21,283,194 | 14,085,487 |
| | **P 42,847,547** | P 2,150,753,609 | P 1,640,588,638 |

Sale of Land and Rendering of Services to Related Parties are usually on a cost-plus basis, allowing a certain margin agreed upon by the parties.

In 2012, the Company sold to an associate parcels of land with a total contract price of P2.2 billion collectible in installments. Outstanding balance related to these transactions amounted to P0.6 billion and P1.2 billion as at December 31, 2013 and 2012.

In 2010, the same associate entered into a Management Agreement with the Company, who will provide management services for the overall administration of the associate's leasing operations for a fee, which is based on certain rates of collection plus commission. Total payments received from the associate amount to P4.8 million in 2013 and P42.0 million in 2012.

There were no impairment losses recognized on the resulting from the above transactions.

### *23.2 Obtaining Services from Related Parties*

| | Amount of Transactions | | | Outstanding Balances | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | **2013** | 2012 |
| Other related parties under common ownership | **P -** | P 141,474,682 | P109,239,723 | **P -** | P 96,390,635 |

Services obtained are usually on a cost-plus basis, allowing a margin ranging from 10% to 20%. There are no outstanding payables for services obtained from the associates as at December 31, 2013 and 2012. The outstanding balances of payable to other related parties under common ownership pertain to unpaid commissions presented as part of Advances from Other Related Parties in the consolidated statements of financial position (see Note 23.4).

### *23.3 Advances to Associates and Other Related Parties*

Associates and other related parties under common ownership are granted noninterest-bearing and unsecured advances by the Company and other entities in the Group with no repayment terms for working capital purposes. These are generally collectible in cash on demand, or through offsetting arrangements with the related parties.

The outstanding balances of Advances to Associates and Other Related Parties shown as part of Investments in and Advances to Associates and Other Related Parties in consolidated statements of financial position (see Note 10) are as follows:

| | **2013** | 2012 |
|---|---|---|
| Advances to associates: | | |
| PTHDC | **P 1,004,507,999** | P 1,004,534,615 |
| GERI | **86,768,037** | - |
| TLC | **206,660** | 37,415,119 |
| SHDI | **-** | 18,490,840 |
| | **1,091,482,696** | 1,060,440,574 |
| Advances to other related parties: | | |
| Landmark Seaside | **1,089,237,459** | - |
| Asia's Finest Cuisine, Inc. | **123,037,638** | 117,080,720 |
| Citylink Coach Services, Inc. | **46,307,892** | 26,285,973 |
| GERI | **-** | 6,449,325 |
| Other related parties under common ownership | **458,150,935** | 683,728,850 |
| | **1,716,733,924** | 833,544,868 |
| | **P 2,808,216,620** | P 1,893,985,442 |

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

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **P1,893,985,442** | P2,560,176,436 |
| Additions | **1,259,535,008** | 26,969,408 |
| Repayments | **( 345,303,830)** | ( 693,160,402) |
| Balance at end of year | **P2,808,216,620** | P1,893,985,442 |

Advances to other related parties pertain to advances granted to entities under common ownership of the parent company. No impairment losses on the advances to associates and other related parties were recognized in 2013, 2012 and 2011 based on management's assessment.

### *23.4 Advances from Associates and Other Related Parties*

Certain expenses of the entities within the Group are paid by other related parties on behalf of the former. The advances are noninterest-bearing, unsecured and with no repayment terms and are generally payable in cash on demand, or through offsetting arrangements with the related parties. The outstanding balances from these transactions are presented as Advances from Other Related Parties account in the consolidated statements of financial position and are broken down as follows:

| | **2013** | 2012 |
|---|---|---|
| TIHGI | **P 12,498,408** | P 50,559,415 |
| MGEI | **16,875,000** | - |
| Other related parties under common ownership | **91,114,421** | 642,045,135 |
| | **P 120,487,829** | P 692,604,550 |

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

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **P 692,604,550** | P 210,242,443 |
| Additions | **18,194,551** | 482,362,107 |
| Repayments | **( 590,311,272)** | - |
| Balance at end of year | **P 120,487,829** | P 692,604,550 |

### *23.5 Investments in Equity Securities*

The Group's equity securities mainly consist of investment in shares of Parent Company. The fair value of these securities has been determined directly by reference to published prices in active market. Movements and the related fair value gains or losses on these investments are shown and discussed in Notes 7 and 8.

### *23.6 Key Management Personnel Compensation*

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

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Short-term benefits | **P 130,245,735** | P 93,436,092 | P 78,370,241 |
| Post-employment benefits | **18,949,576** | 14,893,828 | 9,974,137 |
| Share option expense | **30,382,120** | - | - |
| | **P 179,577,431** | P 108,329,920 | P 88,344,378 |

### *23.7 Post-employment Plan*

The Group has a formal retirement plan established separately for the Company and each significant subsidiary, particularly EELHI, SPI and PHRI. The Group's retirement fund for its defined benefit post-employment plan is administered and managed by a trustee bank. The fair value and the composition of the plan assets as of December 31, 2013 and 2012 are presented in Note 21.3.

The retirement fund neither provides any guarantee or surety for any obligation of the Company nor its investments covered by any restrictions or liens.

The details of the contributions of the Company to the plan are also presented in Note 21.3.

## 24. EQUITY

Capital stock consists of:

| | Shares | | | Amount | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | **2013** | 2012 | 2011 |
| Preferred shares Series A – P0.01 par value | | | | | | |
| Authorized | **6,000,000,000** | 6,000,000,000 | 6,000,000,000 | **P 60,000,000** | P 60,000,000 | P 60,000,000 |
| Issued and outstanding | **6,000,000,000** | 6,000,000,000 | 6,000,000,000 | **P 60,000,000** | P 60,000,000 | P 60,000,000 |
| Common shares – P1 par value | | | | | | |
| Authorized | **40,140,000,000** | 30,140,000,000 | 30,140,000,000 | **P 40,140,000,000** | P 30,140,000,000 | P 30,140,000,000 |
| Issued and outstanding: | | | | | | |
| Balance at beginning of year | **28,878,862,985** | 25,769,203,626 | 25,769,203,626 | **P 28,878,862,985** | P 25,769,203,626 | P 25,769,203,626 |
| Issuance during the year | **3,221,812,120** | 3,109,659,359 | - | **3,221,812,120** | 3,109,659,359 | - |
| Balance at end of year | **32,100,675,105** | 28,878,862,985 | 25,769,203,626 | **P 32,100,675,105** | P 28,878,862,985 | P 25,769,203,626 |

On June 15, 1994, the PSE approved the listing of the Company's common shares totaling 140,333,333. The shares were initially issued at an offer price of P4.8 per common share. As at December 31, 2013 there are 2,690 holders of the listed shares, which closed at P3.24 per share as of that date.

The following also illustrates the additional listings made by the Company: May 23, 1996 – 1.6 billion; January 8, 1997 – 2.1 billion; November 23, 1998 – 2.0 billion; August 19, 1999 – 3.0 billion; October 12, 2005 – 7.0 billion; November 21, 2006 – 10.0 billion; July 17, 2007 –3.9 billion. The Company also listed a total of 3.1 billion shares in 2012 and 0.7 billion shares in 2013.

### *24.1 Preferred Shares Series "A"*

The preferred shares are voting, cumulative, non-participating, non-convertible and non-redeemable with a par value of P0.01 per share. The shares earn dividends at 1% of par value per annum cumulative from date of issue. Dividends paid on cumulative preferred shares amounted to P600,000 in 2013 and 2012.

### *24.2 Common Shares*

On May 23, 2013, the Company's BOD approved a P10.0 billion increase in authorized capital stock (ACS) consisting of 10 billion shares with par value of P1.0 per share. On November 20, 2013 the SEC approved the P10.0 billion increase in ACS, of which 2.5 billion shares were subscribed and paid by AGI at the price of P4.29 per share for a total subscription price of P10.73 billion.

On April 28, 2009, the Company offered 5,127,556,725 common shares, by way of pre-emptive share rights offering, to eligible existing common shareholders at the rate of one right for every four common shares held as of May 4, 2009 at an exercise price of P1 per share. Moreover, shareholders were given four additional share warrants for every five share rights subscribed. For every share warrant, shareholders can avail of one common share at P1 per share.

As a result of the share rights offering, 5,127,556,725 common shares were subscribed and issued on June 1, 2009. Of the total exercise price, 50% was paid as of May 31, 2009 and the remaining 50% was paid by the subscribers in 2010. Relative to the share subscription, 4,102,045,380 share warrants were issued and these will be exercisable beginning on the second year until the fifth year from issue date.

Out of the Company's 4,102,045,380 share warrants, 721,812,120 and 3,109,659,359 warrants were exercised at P1 per share in 2013 and 2012, respectively. The remaining warrants are exercisable until 2015.

### *24.3 Additional Paid-in Capital*

The APIC pertains to the excess of the total proceeds received from the Company's shareholders over the total par value of the common shares. APIC amounting to P8.2 billion was recognized during the year arising from the subscription of AGI (see Note 24.2). There were no movements in the Company's APIC accounts in 2012 and 2011.

### *24.4 Cash Dividends*

The details of the Company's cash dividend declarations, both for preferred and common shares, are as follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Declaration date/date of approval by BOD | **July 3, 2013** | June 14, 2012 | June 16, 2011 |
| Date of record | **July 17, 2013** | June 29, 2012 | July 6, 2011 |
| Date paid | **August 12, 2013** | July 25, 2012 | July 29, 2011 |
| Amounts declared and paid | **P 1,030,083,639** | P 839,193,763 | P 599,265,803 |

### *24.5 Treasury Shares*

In 2008, the Company's BOD approved the buy-back of shares of up to P2.0 billion worth of common shares in the open market at prevailing market prices. The share buy-back program is made through the trading facilities of the PSE and the funds used for the buy-back were taken from internally-generated funds. As at December 31, 2013, the Company reacquired 131.4 million shares at a total cost of P118.6 million.

This account also includes the Company's common shares held and acquired by RHGI and GPMAI. The number of treasury common shares aggregated to 537.4 million as of December 31, 2013. The changes in market values of these shares, recognized as fair value gains or losses, were eliminated in full and not recognized in the consolidated financial statements.

In 2011, after being held as an associate in 2010, GPMAI was consolidated back through EELHI and, accordingly, the cost of the treasury shares held by GPMAI as of December 31, 2011 amounting to P555.1 million was included back to Treasury Shares. In 2012, GPMAI was deconsolidated by EELHI and, thus, became an associate of both the Company and EELHI in that year; hence, the same cost of the treasury shares held by GPMAI was deducted from the balance of Treasury Share account. In 2013, however, GPMAI became a subsidiary again of the Company through increase in ownership in EELHI. As at December 31, 2013, the treasury shares held by GPMAI were already sold to third party.

A portion of the Company's retained earnings is restricted for dividend declaration up to the cost of treasury shares as of the end of the reporting period.

### *24.6 ESOP*

On April 26, 2012, the Company's BOD approved an ESOP for the Company's key executive officers, and on June 15, 2012, the shareholders adopted it.

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. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2012, the Company granted share options to certain key executives to subscribe to 245.0 million common shares of the Company, at an exercise price of P1.77 per share.

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 | 15.52 years |
| Average share price at grant date | P 2.71 |
| Average exercise price at grant date | P 1.86 |
| Average standard deviation of share price returns | 9.60% |
| Average dividend yield | 0.48% |
| Average risk-free investment rate | 3.60% |

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time consistent with the option life.

A total of P30.4 million share option benefits expense is recognized and presented as part of Salaries and Employee Benefits in the 2013 consolidated statement of comprehensive income with a corresponding credit to Retained Earnings account (see Note 21).

## 25. EARNINGS PER SHARE

Earnings per share (EPS) amounts were computed as follows:

| | 2013 | 2012 [As Restated - see Note 2.2(a)] | 2011 [As Restated - see Note 2.2 (a)] |
|---|---|---|---|
| Net profit attributable to Company's shareholders | **P 8,970,664,010** | P 7,298,865,167 | P 8,033,925,719 |
| Dividends on cumulative preferred shares series "A" | **( 600,000)** | ( 600,000) | ( 600,000) |
| Profit available to Company's common shareholders | **P 8,970,064,010** | P 7,298,265,167 | P 8,033,325,719 |
| Divided by weighted average number of outstanding common shares | **29,131,044,450** | 25,970,748,295 | 25,149,519,186 |
| Basic EPS | **P 0.308** | P 0.281 | P 0.319 |
| Divided by weighted average number of outstanding common shares and potential dilutive shares | **29,440,788,285** | 26,519,609,839 | 25,149,519,186 |
| Diluted EPS | **P 0.305** | P 0.275 | P 0.319 |

There were no outstanding convertible preferred shares and bonds or other shares equivalents that may be considered as potential dilutive common shares as of December 31, 2011. The potential dilutive common shares as of December 31, 2013 and 2012 relating to the unexercised shares warrants were considered in the computation of diluted EPS totaling 270,573,885 and 992,386,005, respectively (see Note 24.2). In 2013, the potentially dilutive share options of 245,000,000 shares were also considered in the computation (see Note 24.6).

## 26. COMMITMENTS AND CONTINGENCIES

### *26.1 Operating Lease Commitments – Group as Lessor*

The Group is a lessor under several non-cancellable operating leases covering real estate properties for commercial use (see Note 11). The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rates of 5% to 10%. The average annual rental covering these agreements amounts to about P7.0 billion for the consolidated balances. Future minimum lease payments receivable under these agreements are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Within one year | **P 5,709,494,083** | P 5,043,673,839 | P 4,144,019,854 |
| After one year but not more than five years | **29,646,014,378** | 25,817,849,759 | 21,253,587,459 |
| More than five years | **9,365,860,586** | 8,144,777,814 | 6,704,886,317 |
| | **P 44,721,369,047** | P 39,006,301,412 | P 32,102,493,630 |

### *26.2 Operating Lease Commitments – Group as Lessee*

The Group is a lessee under several non-cancellable operating leases covering condominium units for administrative use. The leases have terms ranging from 1 to 11 years, with renewal options, and include a 5% to 10% annual escalation rate. The average annual rental covering these agreements amounts to about P28.0 million for the consolidated balances. The future minimum rental payables under these non-cancelable leases as at December 31, are as follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Within one year | **P 61,865,533** | P 35,901,531 | P 19,395,713 |
| After one year but not more than five years | **99,110,534** | 58,183,558 | 41,710,168 |
| More than five years | **3,697,674** | 7,395,348 | 11,093,022 |
| | **P 164,673,741** | P 101,480,437 | P 72,198,903 |

### *26.3 Others*

As at December 31, 2013, EELHI has unused lines of credit amounting to P670.0 million. There are other commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the consolidated financial statements. The management of the Group is of the opinion that losses, if any, from these items will not have any material effect on its consolidated financial statements.

## 27. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

### *27.1 Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise mainly from the Group's U.S. dollar-denominated cash and cash equivalents and bonds payable which have been used to fund new projects and to refinance certain indebtedness for general corporate purposes.

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **U.S. Dollars** | **Pesos** | U.S. Dollars | Pesos |
| Financial assets | **$ 250,877,944** | **P 11,142,493,014** | $ 172,024,451 | P 7,086,031,183 |
| Financial liabilities | **( 446,406,588)** | **( 19,826,702,190)** | ( 207,848,467) | ( 8,561,694,049) |
| | **($195,528,644)** | **(P 8,684,206,176)** | ($ 35,824,016) | (P 1,475,662,866 ) |

The following table illustrates the sensitivity of the consolidated net results for the year with regards to the Group's financial assets and financial liabilities as shown previously and the U.S. dollar – Philippine peso exchange rate:

| Increase (decrease) in exchange rate | Effect on consolidated profit before tax 2013 | 2012 |
|---|---|---|
| P 1 | (P 195,528,644) | (P 35,824,016) |
| (P 1) | 195,528,644 | 35,824,016 |

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions and mainly affect consolidated profit or loss of the Group. There are no material exposures on foreign exchange rate that affect the Group's other comprehensive income (loss). Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

### *27.2 Interest Rate Sensitivity*

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. The Group maintains a debt portfolio unit of both fixed and floating interest rates. These long-term borrowings and other financial assets and liabilities are subject to variable interest rates.

The Group's ratio of fixed to floating rate debt stood at 33.46:1.00, 16.24:1.00, and 12.85:1.00 as of December 31, 2013, 2012 and 2011, respectively.

The following table illustrates the sensitivity of the consolidated net result for the year and consolidated equity to a reasonably possible change in floating interest rates of +1% and –1% in 2013 and 2012. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **+1%** | **-1%** | +1% | -1% |
| Consolidated net results for the year | **(P10,143,192)** | **P 10,143,192** | (P 9,438,380) | P 9,438,380 |
| Consolidated equity | **( 7,100,234)** | **7,100,234** | ( 6,606,866) | 6,606,866 |

### *27.3 Credit Risk*

Generally, the Group's credit risk is attributable to trade receivables, rental receivables and other financial assets. The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position (or in the detailed analysis provided in the notes to consolidated financial statements), as summarized below.

| | Notes | **2013** | 2012 |
|---|---|---|---|
| Cash and cash equivalents | 5 | **P 31,751,905,645** | P 26,826,715,439 |
| Trade and other receivables | 6 | **41,376,845,105** | 37,862,563,504 |
| Advances to associates and other related parties | 10, 23.3 | **2,808,216,620** | 1,893,985,442 |
| AFS debt securities | 8 | **-** | 552,317,041 |
| Guarantee and other deposits | 13 | **435,979,746** | 295,356,231 |
| | | **P 76,372,947,116** | P 67,430,937,657 |

None of the Company's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

*(a) Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

*(b) Trade and Other Receivables*

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to Trade and Other Receivables as the amounts recognized resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by post-dated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The title to the real estate properties remains with the Group until the receivables are fully collected.

Some of the unimpaired trade receivables are past due as at the end of the reporting period. The trade receivables that are past due but not impaired are as follows:

| | **2013** | 2012 |
|---|---|---|
| Not more than 3 months | **P 834,613,327** | P 841,118,917 |
| More than 3 months but not more than 6 months | **336,909,454** | 670,846,015 |
| More than 6 months but not more than one year | **213,183,360** | 207,286,843 |
| More than one year | **103,451,337** | 45,793,567 |
| | **P1,488,157,478** | P1,765,045,342 |

### *27.4 Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week, as well as on the basis of a rolling 30-day projection. Long-term needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2013 and 2012, the Group's financial liabilities have contractual maturities which are presented below.

| | 2013 | | | |
|---|---|---|---|---|
| | Current | | Non-current | |
| | Within 6 Months | 6 to 12 Months | 1 to 5 Years | Later 5 Years |
| Interest-bearing loans and borrowings | P 715,571,483 | P 849,151,835 | P 2,235,181,916 | P - |
| Trade and other payables | 2,798,996,863 | 4,399,376,243 | - | - |
| Bonds payable | - | - | 13,782,856,018 | 11,043,846,172 |
| Advances from associates and other related parties | - | - | 120,487,829 | - |
| | **P 3,514,568,346** | **P 5,248,528,078** | **P 16,138,525,763** | **P 11,043,846,172** |

| | 2012 | | | |
|---|---|---|---|---|
| | Current | | Non-current | |
| | Within 6 Months | 6 to 12 Months | 1 to 5 Years | Later 5 Years |
| Interest-bearing loans and borrowings | P 793,797,200 | P 793,797,200 | P 4,910,569,540 | P - |
| Trade and other payables | 2,662,082,166 | 5,237,935,146 | - | - |
| Bonds payable | - | - | 5,000,000,000 | 8,556,628,075 |
| Advances from associates and other related parties | - | - | 692,604,550 | - |
| | P 3,455,879,366 | P 6,031,732,346 | P 10,603,174,090 | P 8,556,628,075 |

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

### *27.5 Other Price Risk Sensitivity*

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

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Group's investments held at fair value is determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. Their impact on the Group's consolidated net profit and consolidated equity as at December 31, 2013 and 2012 are summarized as follows:

| | Observed Volatility Rates | | Impact of Increase | | Impact on Decrease | |
|---|---|---|---|---|---|---|
| | Increase | Decrease | Net Profit | Equity | Net Profit | Equity |
| **2013** | | | | | | |
| Investment in equity securities in a holding company | +73.12% | -73.12% | P 188,649,600 | P 2,734,332,457 | (P 188,649,600) | (P2,734,332,457) |
| 2012 | | | | | | |
| Investment in equity securities in a holding company | +49.09% | -49.09% | P 82,274,840 | P 1,234,725,543 | (P 82,274,840) | (P1,234,725,543) |

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.

## 28. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *28.1 Carrying Amounts and Fair Values by Category*

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

| | Notes | 2013 | | 2012 | |
|---|---|---|---|---|---|
| | | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| ***Financial Assets*** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 5 | **P 31,751,905,645** | **P 31,751,905,645** | P 26,826,715,439 | P 26,826,715,439 |
| Trade and other receivables - net | 6 | **41,376,845,105** | **41,376,845,105** | 37,862,563,504 | 37,862,563,504 |
| Advances to associates and other related parties | 10 | **2,808,216,620** | **2,808,216,620** | 1,893,985,442 | 1,893,985,442 |
| Guarantee and other deposits | 13 | **435,979,746** | **435,979,746** | 295,356,231 | 295,356,231 |
| | | **P 76,372,947,116** | **P 76,372,947,116** | P 66,878,620,616 | P 66,878,620,616 |
| Financial assets at FVTPL | 7 | **P 258,000,000** | **P 258,000,000** | P 167,600,000 | P 167,600,000 |
| AFS securities: | 8 | | | | |
| Equity securities | | **P 3,928,755,091** | **P 3,928,755,091** | P 2,704,469,578 | P 2,704,469,578 |
| Debt securities | | **-** | - | 552,317,041 | 552,317,041 |
| | | **P 3,928,755,091** | **P 3,928,755,091** | P 3,256,786,619 | P 3,256,786,619 |
| ***Financial Liabilities*** | | | | | |
| Financial liabilities at amortized cost: | | | | | |
| Interest-bearing loans and borrowings | 14 | **P 3,799,905,234** | **P 3,799,905,234** | P 6,498,163,850 | P 6,498,163,850 |
| Bonds payable | 15 | **24,826,702,190** | **24,826,702,190** | 13,556,628,075 | 13,556,628,075 |
| Trade and other payables | 16 | **7,198,373,106** | **7,198,373,106** | 7,900,017,312 | 7,900,017,312 |
| Advances from other related parties | 23.4 | **120,487,829** | **120,487,829** | 692,604,550 | 692,604,550 |
| | | **P35,945,468,359** | **P35,945,468,359** | P 28,647,413,787 | P 28,647,413,787 |

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 27.

### *28.2 Offsetting of Financial Assets and Financial Liabilities*

The Group has not set-off financial instruments in 2013 and 2012 and does not have relevant offsetting arrangements, except as disclosed in Notes 23.3 and 23.4. Currently, all other financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and shareholders. As such, the Group's outstanding receivables from and payables to the same related parties can be potentially offset to the extent of their corresponding outstanding balances.

## 29. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *29.1 Fair Value Hierarchy*

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

a.) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

b.) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

c.) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *29.2 Financial Instruments Measurement at Fair Value*

The table below shows the fair value hierarchy of the Group's investments in financial assets at FVTPL and AFS Securities measured at fair value in the statements of financial position on a recurring basis as at December 31, 2013 and 2012 (see Note 7 and 8).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2013** | | | | |
| Equity securities: | | | | |
| Financial assets at FVTPL | P 258,000,000 | P - | P - | P 258,000,000 |
| AFS securities | 3,739,513,754 | - | 189,241,337 | 3,928,755,091 |
| | **P3,997,513,754** | **P -** | **P 189,241,337** | **P 4,186,755,091** |
| **2012** | | | | |
| Equity securities: | | | | |
| Financial assets at FVTPL | P 167,600,000 | P - | P - | P 167,600,000 |
| AFS securities | 2,515,228,241 | - | 189,241,337 | 2,704,469,578 |
| Debt securities - | | | | |
| AFS securities | 552,317,041 | - | - | 552,317,041 |
| | P3,235,145,282 | P - | P 189,241,337 | P 3,424,386,619 |

The Company has no financial liabilities measured at fair value as at December 31, 2013 and 2012.

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, 2013 and 2012, instruments included in Level 1 comprise equity securities classified as financial assets at FVTPL and AFS financial assets. These securities were valued based on their market prices quoted in the Philippines Stock Exchange at the end of each reporting period.

Moreover, equity security held in certain investee companies are included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management to consider the differences in corporate profile and historical performance of the entity.

b) Debt securities

The fair value of the Company's debt securities which consist of corporate bonds is estimated by reference to quoted bid price in active market (i.e., Frankfurt Exchange) at the end of the reporting period and is categorized within Level 1.

### *29.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The Company's financial assets which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed include cash and cash equivalents, which are categorized as Level 1, and trade and other receivables, advances to associates and other related parties and guarantee deposits which are categorized as Level 3. Financial liabilities which are not measured at fair value but for which fair value is disclosed pertain to interest-bearing loans and borrowings, bonds payable, trade and other payables and advances from associates and other related parties which are categorized under Level 3.

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short-term duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

### *29.4 Fair Value Investment Property Measured at Cost for which Fair Value is Disclosed*

The fair value of the Group's investment property except for investment properties of WGPI (see Note 11) was determined by calculating the present value of the cash inflows anticipated until the life of the investment property using a discount rate of 10%. On the other hand, the fair value of WGPI was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's investment property is their current use.

As at December 31, 2013, the fair value of the Group's investment property 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 2013.

## 30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to ensure its ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using the debt-to-equity ratio.

| | **2013** | 2012 |
|---|---|---|
| Interest-bearing loans and borrowings | **P 3,799,905,234** | P 6,498,163,850 |
| Bonds payable | **24,826,702,190** | 13,556,628,075 |
| | **P 28,626,607,424** | P 20,054,791,925 |
| Total equity | **P101,953,021,825** | P 81,225,926,606 |
| Debt-to-equity ratio | **0.28 : 1.00** | 0.25 : 1:00 |

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

## 31. OTHER MATTERS

### *31.1 Registration with PEZA*

ECOC and SEDI are registered with the PEZA. As PEZA registered entities, they are entitled to a preferential tax rate of 5% on gross income earned from their PEZA registered activities, in lieu of all local and national taxes, and to other tax privileges.

### *31.2 International Organization for Standardization (ISO) Certification*

The Company was awarded a Certificate of Registration ISO 9001:1994 effective November 26, 1999 by Certification International Philippines, Inc. Effective November 21, 2002, the Company has upgraded its Certification to ISO 9001:2000 series. The scope of the certification covers all areas of the Company's operations, which include planning, design, project management and customer service for its real estate business. Among others, the Company is required to undergo surveillance audits every six months.

### *31.3 Awards*

The Company was recognized by various award-giving bodies in 2013 and 2012 as follows:

**2013**

- 2013 Corporate Governance Asia's 3rd Asian Excellence Awards – Asia's Best CEO
- 2013 Corporate Governance Asia's 3rd Asian Excellence Awards – Best Investor Relations
- 2013 Corporate Governance Asia's 3rd Asian Excellence Awards – Best CSR
- 2013 Corporate Governance Asia's 9th Corporate Governance Asia Recognition Awards – Asia's Icon on Corporate Governance
- 2013 Alpha Southeast Asia 3rd Annual Southeast Asia's Institutional Investor Corporate Poll
    - Most Organized Investor Relations
    - Best Senior Management IR Support
    - Strong Adherence to Corporate Governance
- 2013 The Asset Excellence in Management and Corporate Governance Awards – Gold award for Investor Relations, Corporation Governance and Financial Performance

2012

- Finance Asia's Best Managed Philippine Company, Best in Investor Relations and Best Mid-Cap Company;
- Corporate Governance Asia's 2nd Asian Excellence Awards- Best Investor Relations;
- Corporate Governance Asia's 8th Corporate Governance Asia Recognition Awards;
- Alpha Southeast Asia 2nd Annual Southeast Asia's Institutional Investor Corporate Poll- Most Organized Investor Relations and Strong Adherence to Corporate Governance.

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Certified Public Accountants to Accompany SEC Schedules Filed Separately from the Basic Financial Statements

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288
F +63 2 886 5506
www.punongbayan-araullo.com

**The Board of Directors and Stockholders**
**Megaworld Corporation and Subsidiaries**
28th Floor, The World Centre Building
Sen. Gil Puyat Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Megaworld Corporation and Subsidiaries (the Group) for the year ended December 31, 2013, on which we have rendered our report dated March 10, 2014. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By: **Nelson J. Dinio**
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 4225008, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 1036-AR-1 (until Aug. 21, 2016)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-32-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

March 10, 2014

**Megaworld Corporation and Subsidiaries**
**List of Supplementary Information**
**December 31, 2013**


| Schedule | Content | Page No. |
|---|---|---|
| **Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68** | | |
| A | Financial Assets | |
| | Financial Assets at Fair Value Through Profit or Loss | 1 |
| | Held-to-maturity Investments | N/A |
| | Available-for-sale Financial Assets | 1 |
| B | Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties) | 2 |
| C | Amounts Receivable/Payable from/to Related Parties which are Eliminated during the Consolidation of Financial Statements | 3 |
| D | Intangible Assets - Other Assets | 4 |
| E | Long-term Debt | 5 |
| F | Indebtedness to Related Parties | N/A |
| G | Guarantees of Securities of Other Issuers | N/A |
| H | Capital Stock | 6 |
| **Other Required Information** | | |
| | Reconciliation of Retained Earnings Available for Dividend Declaration | |
| | Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2013 | |
| | Map Showing the Relationship Between the Company and its Related Entities | |
| | Schedule of Financial Soundness Indicator | |

**Megaworld Corporation and Subsidiaries**
**Schedule A - Financial Assets**
**December 31, 2013**

| *Name of issuing entity and association of each issue* | *Number of shares or principal amount of bonds or notes* | *Amount shown on the balance sheet* | *Valued based on the market quotation at balance sheet date* | *Income received and accrued* |
|---|---|---|---|---|
| **Alliance Global Group Inc.** | 154,932,200 | P 3,997,513,753 | P 3,997,513,753 | P 55,359,121 |
| **Asia E-Commerce, Inc.** | 12,500,000 | 3,425,000 | 3,425,000 | |
| **Bonifacio West Development Corp.** | 4,611 | 185,816,338 | 185,816,338 | |
| | | P 4,186,755,091 | P 4,186,755,091 | P 55,359,121 |

**Megaworld Corporation and Subsidiaries**
**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**
**December 31, 2013**

| | | | *Deductions* | | *Ending Balance* | | |
|---|---|---|---|---|---|---|---|
| ***Name and designation of debtor*** [1] | ***Balance at beginning of period*** | ***Additions*** | ***Amounts collected*** | ***Amounts written off*** | ***Current*** | ***Not current*** | ***Balance at end of period*** |
| **Advances to Officers and Employees:** | | | | | | | |
| Philipps Cando | 350,600 | | ( 135,716 ) | | 214,884 | | 214,884 |
| First VP - Operations | | | | | | | |
| Garry V. de Guzman | - | 662,919 | - | - | 662,919 | - | 662,919 |
| First VP - Legal Affairs | | | | | | | |
| Monica Salomon | 65,404 | | ( 65,404 ) | - | - | - | - |
| First VP - Corporate Management | | | | | | | |
| Rolando D. Siatela | 463,210 | 1,841 | ( 108,991 ) | - | 356,060 | - | 356,060 |
| Assistant Corporate Secretary | | | | | | | |
| | P 879,214 | P 664,760 | ( P 310,111 ) | - | P 1,233,863 | - | P 1,233,863 |
| **Loans to Directors:** | - | - | - | - | - | - | - |

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
**SCHEDULE C- Amounts Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements**
**December 31, 2013**

| Name and designation of debtor | Balance at beginning of period | Additions | Deductions | | Current | Not current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| | | | Amounts collected | Amounts written off | | | |
| ***Due from Related Parties:*** | | | | | | | |
| Megaworld Land Inc. (MLI) | 178,660,784 | - | 7,938,845 | - | - | 170,721,939 | 170,721,939 |
| Megaworld Newport Property Holdings, Inc. (MNPHI) | 92,761,068 | 41,596,031 | - | - | - | 134,357,099 | 134,357,099 |
| Oceantown Properties, Inc. (OPI) | 258,838,136 | 56,662,254 | - | - | - | 315,500,390 | 315,500,390 |
| Piedmont Property Ventures, Inc. (PPVI) | 116,880 | 34,176 | - | - | - | 151,056 | 151,056 |
| Stonehaven Land, Inc.(SLI) | 116,880 | 34,176 | - | - | - | 151,056 | 151,056 |
| Streamwood Property, Inc. (SP) | 142,089 | 56,089 | - | - | - | 198,178 | 198,178 |
| Richmonde Hotel Group International, Ltd. (RHGI) | 2,130,075,576 | - | 2,130,075,576 | - | - | - | - |
| Suntrust Properties Inc. (SPI) | 610,132,684 | 685,845,314 | - | - | - | 1,295,977,998 | 1,295,977,998 |
| Empire East Landholdings Inc. (EELHI) | 2,223,474,163 | - | 1,135,142,485 | - | - | 1,088,331,678 | 1,088,331,678 |
| Eastwood Property Holdings, Inc. (EPHI) | 100,954,019 | 1,159,579 | - | - | - | 102,113,598 | 102,113,598 |
| Eastwood Cyber One Corporation (ECOC) | - | 144,486,236 | - | - | - | 144,486,236 | 144,486,236 |
| Suntrust Ecotown Developers Inc. (SEDI) | - | 100,000,000 | - | - | - | 100,000,000 | 100,000,000 |
| Woodside Greentown Properties Inc. (WGPI) | - | 88,839,974 | - | - | - | 88,839,974 | 88,839,974 |
| Eastwood Cinema 2000, Inc (EC2000) | - | 13,750,000 | - | - | - | 13,750,000 | 13,750,000 |
| Lucky Chinatown Cinemas, Inc (LCCI) | - | 10,312,293 | - | - | - | 10,312,293 | 10,312,293 |
| Luxury Global Hotels and Leisure, Inc (LGHLI) | - | 873,211 | - | - | - | 873,211 | 873,211 |
| ***Due to Related Parties:*** | | | | | | | |
| Prestige Hotels and Resorts, Inc.( PHRI) | 22,456,427 | 24,132,862 | - | - | - | 46,589,289 | 46,589,289 |
| Megaworld Daewoo Corporation (MDC) | 231,150,840 | - | 2,381,302 | - | - | 228,769,538 | 228,769,538 |
| Megaworld Central Properties, Inc. (MCPI) | 67,502,401 | 34,865,874 | - | - | - | 102,368,275 | 102,368,275 |
| Townsquare Development Inc. (TDI) | 769,575,753 | - | 71,570,707 | - | - | 698,005,046 | 698,005,046 |
| Mega Globus Asia, Inc. (MGAI) | 238,579,082 | - | 10,585,317 | - | - | 227,993,765 | 227,993,765 |
| Philippine International Properties, Inc. (PIPI) | 3,754,831 | 542,458.00 | - | - | - | 4,297,289 | 4,297,289 |
| Richmonde Hotel Group International, Ltd. (RHGI) | - | 837,725,348 | - | - | - | 837,725,348 | 837,725,348 |

**Megaworld Corporation and Subsidiaries**
**Schedule D - Intangible Assets - Other Assets**
**December 31, 2013**

| | | | *Deduction* | | | |
|---|---|---|---|---|---|---|
| ***Description*** | ***Beginning balance*** | ***Additions at cost*** | ***Charged to cost and expenses*** | ***Charged to other accounts*** | ***Other changes additions (deductions)*** | ***Ending balance*** |
| Goodwill | P 343,095,101 | - | - | - | - | P 343,095,101 |

**Megaworld Corporation and Subsidiaries**
**Schedule E - Long-Term Debt**
**December 31, 2013**

| *Title of issue and type of obligation* | *Amount authorized by indenture* | *Amount shown under caption "Current portion of long-term debt" in related balance sheet* | *Amount shown under caption "Long-Term Debt" in related balance sheet* |
|---|---|---|---|
| Long -term loan | P 14,621,188,723 | P 1,564,723,318 | P 7,235,181,916 |
| Foreign borrowings | $ 450,000,000 | - | 19,826,702,190 |
| | | P 1,564,723,318 | P 27,061,884,106 |

**Megaworld Corporation and Subsidiaries**
**Schedule H - Capital Stock**
**December 31, 2013**

| | | | | *Number of shares held by* | | |
|---|---|---|---|---|---|---|
| ***Title of Issue*** | ***Number of shares authorized*** | ***Number of shares issued and outstanding as shown under the related balance sheet caption*** | ***Number of shares reserved for options, warrants, conversion and other rights*** | ***Related parties*** | ***Directors, officers and employees*** | ***Others*** |
| Common shares - P1 par value | 40,140,000,000 | 31,969,255,105 | 515,573,885 | 21,284,521,882 | 99,068,543 | 10,585,664,680 |
| Preferred shares - P.01 par value | 6,000,000,000 | 6,000,000,000 | | 6,000,000,000 | | |

**MEGAWORLD CORPORATION**
***(A Subsidiary of Alliance Global Group Inc.)***
**28th Floor, The World Centre Building**
**Sen. Gil Puyat Avenue, Makati City**

**Reconciliation of Retained Earnings Available for Dividend Declaration**
**For the Year Ended December 31, 2013**

| | | |
|---|---|---|
| **Unappropriated Retained Earnings at Beginning of Year** | | P 24,521,018,838 |
| **Effect of PAS 19 Restatement** | | 5,692,078 |
| **Unappropriated Retained Earning as Restated** | | 24,526,710,916 |
| **Prior Years' Outstanding Reconciling Items, net of tax** | | |
| Deferred tax income | ( 128,728,928 ) | |
| Day-one gain on initial measurement of security deposits at amortized cost | ( 202,267,906 ) | ( 330,996,834 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted** | | 24,195,714,082 |
| **Net Profit Realized during the Year** | | |
| **Net profit per audited financial statements** | | 6,317,233,563 |
| **Non-actual/unrealized income, net of tax** | | |
| Deferred tax income | ( 305,676,606 ) | |
| Day-one gain on initial measurement of security deposits at amortized cost | ( 61,593,451 ) | ( 367,270,057 ) |
| | | 5,949,963,506 |
| **Other Transactions During the Year** | | |
| Dividends declared | | ( 1,045,000,006 ) |
| **Retained Earnings Restricted for Treasury Shares** | | ( 118,555,453 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at End of Year** | | **P 28,982,122,129** |

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
***( A Subsidiary of Alliance Global Group, Inc.)***

**Schedule of Philippine Financial Reporting Standards and Interpretations**
**Adopted by the Securities and Exchange Commission and the**
**Financial Reporting Standards Council as of December 31, 2013**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** | | ♋ | | |
| Conceptual Framework Phase A: Objectives and Qualitative Characteristics | | ♋ | | |
| **Practice Statement Management Commentary** | | | ♋ | |
| ***Philippine Financial Reporting Standards (PFRS)*** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | | | ♋ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ♋ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ♋ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ♋ |
| | Amendment to PFRS 1: Government Loans | | | ♋ |
| **PFRS 2** | Share-based Payment | ♋ | | |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | ♋ | | |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | ♋ | | |
| **PFRS 3 (Revised)** | Business Combinations | ♋ | | |
| **PFRS 4** | Insurance Contracts | | | ♋ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ♋ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ♋ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ♋ |
| **PFRS 7** | Financial Instruments: Disclosures | ♋ | | |
| | Amendments to PFRS 7: Transition | ♋ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ♋ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ♋ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ♋ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ♋ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | ♋ | | |
| | Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *(deferred application)* | | | ♋ |
| **PFRS 8** | Operating Segments | ♋ | | |
| **PFRS 9** | Financial Instruments | | | ♋ |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | | ♋ |
| **PFRS 10** | Consolidated Financial Statements** | ♋ | | |
| | Amendment to PFRS 10: Transition Guidance** | ♋ | | |
| | Amendment to PFRS 10: Investment Entities** | ♋ | | |
| **PFRS 11** | Joint Arrangements** | ♋ | | |
| | Amendment to PFRS 11: Transition Guidance** | ♋ | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ♋ | | |
| | Amendment to PFRS 12: Transition Guidance** | ♋ | | |
| | Amendment to PFRS 12: Investment Entities** | ♋ | | |
| **PFRS 13** | Fair Value Measurement | ♋ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| ***Philippine Accounting Standards (PAS)*** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ♋ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ♋ | | |
| | Amendment to PAS 1: Presentation of Items of Other Comprehensive Income | ♋ | | |
| **PAS 2** | Inventories | ♋ | | |
| **PAS 7** | Statement of Cash Flows | ♋ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ♋ | | |
| **PAS 10** | Events after the Reporting Period | ♋ | | |
| **PAS 11** | Construction Contracts | ♋ | | |
| **PAS 12** | Income Taxes | ♋ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ♋ | | |
| **PAS 16** | Property, Plant and Equipment | ♋ | | |
| **PAS 17** | Leases | ♋ | | |
| **PAS 18** | Revenue | ♋ | | |
| **PAS 19 (Revised)** | Employee Benefits | ♋ | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ♋ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ♋ | | |
| | Amendment: Net Investment in a Foreign Operation | ♋ | | |
| **PAS 23 (Revised)** | Borrowing Costs | ♋ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ♋ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ♋ |
| **PAS 27 (Revised)** | Separate Financial Statements | ♋ | | |
| | Amendment to PAS 27: Investment Entities | ♋ | | |
| **PAS 28 (Revised)** | Investments in Associates and Joint Ventures | ♋ | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ♋ |
| **PAS 32** | Financial Instruments: Presentation | ♋ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ♋ | | |
| | Amendment to PAS 32: Classification of Rights Issues | ♋ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2014)* | | | ♋ |

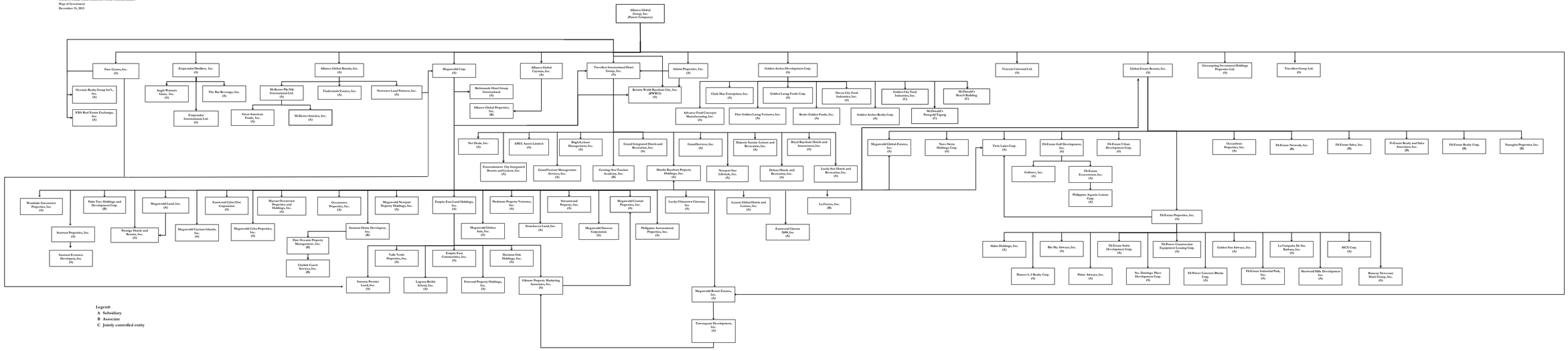
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 33** | Earnings per Share | ♋ | | |
| **PAS 34** | Interim Financial Reporting | ♋ | | |
| **PAS 36** | Impairment of Assets | ♋ | | |
| | Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets* *(effective January 1, 2014)* | | | ♋ |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ♋ | | |
| **PAS 38** | Intangible Assets | ♋ | | |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ♋ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ♋ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | ♋ | | |
| | Amendments to PAS 39: The Fair Value Option | ♋ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ♋ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ♋ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ♋ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | ♋ | | |
| | Amendment to PAS 39: Eligible Hedged Items | ♋ | | |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting* *(effective January 1, 2014)* | | | ♋ |
| **PAS 40** | Investment Property | ♋ | | |
| **PAS 41** | Agriculture | | | ♋ |
| ***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)*** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities** | | | ♋ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ♋ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ♋ | | |
| **IFRIC 5** | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** | | | ♋ |
| **IFRIC 6** | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ♋ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ♋ |
| **IFRIC 9** | Reassessment of Embedded Derivatives** | ♋ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives** | ♋ | | |
| **IFRIC 10** | Interim Financial Reporting and Impairment | ♋ | | |
| **IFRIC 12** | Service Concession Arrangements | | | ♋ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ♋ |
| **IFRIC 14** | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ♋ | | |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction** | ♋ | | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ♋ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners** | ♋ | | |
| **IFRIC 18** | Transfers of Assets from Customers** | ♋ | | |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments** | ♋ | | |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine** | | | ♋ |
| **IFRIC 21** | Levies** | | | ♋ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| ***Philippine Interpretations - Standing Interpretations Committee (SIC)*** | | | | |
| **SIC-7** | Introduction of the Euro | | | ♋ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ♋ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ♋ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ♋ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | ♋ | | |
| **SIC-15** | Operating Leases - Incentives | ♋ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders** | ♋ | | |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ♋ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ♋ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ♋ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ♋ |

* These standards will be effective for periods subsequent to 2013 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
**Map of Investment**
**December 31, 2013**




Legend:
A Subsidiary
B Associate
C Jointly controlled entity

**MEGAWORLD CORPORATION AND SUBSIDIARIES**
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**
**DECEMBER 31, 2013 AND DECEMBER 31, 2012**

| | DECEMBER 31, 2013 | DECEMBER 31, 2012 |
|---|---|---|
| Current ratio | 3.80 :1.00 | 3.17 :1.00 |
| Quick ratio | 1.23 :1.00 | 1.04 :1.00 |
| Debt-to-equity ratio | 0.28 :1.00 | 0.25 :1.00 |
| Interest-bearing debt to total capitalization | 0.24 :1.00 | 0.22 :1.00 |
| Asset-to-equity ratio | 1.71 :1.00 | 1.76 :1.00 |
| | | |
| Interest rate coverage ratio | 725% | 707% |
| Net profit margin | 24.93% | 24.22% |
| Return on assets | 5.71% | 5.46% |
| Return on equity/investment | 8.86% | 9.12% |
| Return on equity/investment of owners | 9.76% | 10.23% |

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.
Current ratio – computed as current assets divided by current liabilities
Quick ratio – computed as cash and cash equivalents divided by current liabilities

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.
Debt to equity ratio – computed as interest bearing loans and borrowings and bonds payable divided by total stockholders' equity.
Interest-bearing debt to total capitalization ratio – computed as interest-bearing debt divided by interest-bearing debt+stockholders' equity attributable to the company's shareholders.

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by total stockholders' equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments. It is computed as Earnings before income tax and interest expense (EBIT) divided by interest payments.

PROFITABILITY RATIOS
Net profit margin – computed as net profit divided by revenues
Return on assets – net profit divided by average total assets
Return on investment – net profit divided by total stockholders' equity.
Return on investment of owners – net profit attributable to the company's shareholders divided by equity attributable to the company's shareholders.