

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

### QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended  
Sep 30, 2018
2. SEC Identification Number  
167423
3. BIR Tax Identification No.  
000-477-103
4. Exact name of issuer as specified in its charter  
MEGAWORLD CORPORATION
5. Province, country or other jurisdiction of incorporation or organization  
Metro Manila
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
30th Floor, Alliance Global Tower 36th Street cor. 11th Avenue Uptown Bonifacio,  
Taguig City  
Postal Code  
1634
8. Issuer's telephone number, including area code  
(632) 894-6300/6400
9. Former name or former address, 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	32,239,445,872
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:  
The shares of common stock of the Company are listed on the Philippine Stock Exchange
12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 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

*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 17-2 - Quarterly Report**  
*References: SRC Rule 17 and  
 Sections 17.2 and 17.8 of the Revised Disclosure Rules*

For the period ended	Sep 30, 2018
Currency (indicate units, if applicable)	Php (In Thousands)

#### Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2018	Dec 31, 2017
Current Assets	161,947,280	155,486,632
Total Assets	327,477,538	310,532,805
Current Liabilities	52,296,741	57,018,406
Total Liabilities	146,688,470	149,228,603
Retained Earnings/(Deficit)	100,929,316	91,603,349
Stockholders' Equity	180,789,068	161,304,202
Stockholders' Equity - Parent	158,648,104	138,777,878

<b>Book Value per Share</b>	4.66	4.36
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**Income Statement**

	<b>Current Year (3 Months)</b>	<b>Previous Year (3 Months)</b>	<b>Current Year-To-Date</b>	<b>Previous Year-To-Date</b>
<b>Gross Revenue</b>	14,159,316	12,181,899	39,882,818	35,425,220
<b>Gross Expense</b>	8,807,655	7,546,239	23,903,522	21,916,469
<b>Non-Operating Income</b>	825,539	644,084	1,873,206	1,671,929
<b>Non-Operating Expense</b>	922,550	674,159	2,810,189	1,827,518
<b>Income/(Loss) Before Tax</b>	5,254,650	4,605,585	15,042,313	13,353,162
<b>Income Tax Expense</b>	1,096,981	956,639	3,379,160	3,012,566
<b>Net Income/(Loss) After Tax</b>	4,157,669	3,648,946	11,663,153	10,340,596
<b>Net Income Attributable to Parent Equity Holder</b>	4,039,600	3,537,592	11,290,728	9,981,082
<b>Earnings/(Loss) Per Share (Basic)</b>	0.12	0.11	0.35	0.31
<b>Earnings/(Loss) Per Share (Diluted)</b>	0.12	0.11	0.35	0.31

	<b>Current Year (Trailing 12 months)</b>	<b>Previous Year (Trailing 12 months)</b>
<b>Earnings/(Loss) Per Share (Basic)</b>	0.44	0.38
<b>Earnings/(Loss) Per Share (Diluted)</b>	0.44	0.38

**Other Relevant Information**

NONE

**Filed on behalf by:**

<b>Name</b>	Dominic Isberto
<b>Designation</b>	Vice President

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **30 September 2018**
2. Commission 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. **30<sup>th</sup> Floor, Alliance Global Tower**  
**36<sup>th</sup> Street cor. 11<sup>th</sup> Avenue**  
**Uptown Bonifacio, Taguig City 1634**  
Address of issuer's principal office
8. **(632) 894-6300/6400**  
Issuer's telephone number, including area code
9. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Stock Outstanding
<b>Common</b>	<b>32,239,445,872</b>
<b>Preferred</b>	<b>6,000,000,000</b>
<b>Total</b>	<b>38,239,445,872</b>

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

Yes []                      No []

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**The shares of common stock of the Company are listed on the Philippine Stock Exchange.**

11. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code 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 (or for such shorter period 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

## **PART I - FINANCIAL INFORMATION**

### Item 1. Financial Statements

Interim financial statements are attached as Exhibits 1 to 5 hereof and incorporated herein by reference:

Exhibit 1 - Consolidated Statements of Financial Position as of December 31, 2017 and September 30, 2018

Exhibit 2 - Consolidated Statements of Income for the periods ended September 30, 2017 and September 30, 2018

Exhibit 3 - Consolidated Statements of Changes in Equity as of September 30, 2017 and September 30, 2018

Exhibit 4 - Consolidated Statements of Cash Flow as of September 30, 2017 and September 30, 2018

Exhibit 5 - Notes to Interim Financial Information

### Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Please refer to Exhibit 6 hereof.

### Item 3. Aging of Accounts Receivables

Please refer to Exhibit 7 hereof.

### Item 4. Schedule of Financial Soundness Indicators

Please refer to Exhibit 8 hereof.

## **PART II – OTHER INFORMATION**

The Company is not in possession of information which has not been previously reported in a report on SEC Form 17-C and with respect to which a report on SEC Form 17-C is required to be filed.

### **SIGNATURE**

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

**MEGAWORLD CORPORATION**

Issuer

By:



**FRANCISCO C. CANUTO**

Treasurer (Principal Financial Officer)  
and Duly Authorized Officer  
November 12, 2018

MEGAWORLD CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(In thousand pesos)

**EXHIBIT 1**

	Unaudited September 30, 2018	Audited December 31, 2017
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	P 13,127,042	P 16,430,137
Trade and other receivables - net	36,276,770	33,661,847
Residential, condominium units, golf and resort shares for sale - net	70,760,997	64,778,043
Property development costs	22,705,969	23,111,103
Advances to contractors and suppliers	11,763,877	10,538,276
Prepayments and other current assets - net	<u>7,312,625</u>	<u>6,967,226</u>
Total Current Assets	<u>161,947,280</u>	<u>155,486,632</u>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables - net	34,762,571	34,626,669
Advances to landowners and joint ventures	5,397,313	5,988,893
Land for future development	27,259,992	25,469,878
Investments in available-for-sale securities	4,486,939	4,353,411
Investments in and advances to associates and other related parties	5,828,564	5,395,003
Investment properties - net	78,742,776	71,415,689
Property and equipment - net	5,767,677	5,170,453
Deferred tax assets - net	142,564	41,581
Other non-current assets - net	<u>3,141,862</u>	<u>2,584,596</u>
Total Non-current Assets	<u>165,530,258</u>	<u>155,046,173</u>
<b>TOTAL ASSETS</b>	<b><u>P 327,477,538</u></b>	<b><u>P 310,532,805</u></b>

Unaudited September 30, 2018	Audited December 31, 2017
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**LIABILITIES AND EQUITY**

**CURRENT LIABILITIES**

Interest-bearing loans and borrowings	P 11,936,895	P 8,623,911
Bonds payable	-	9,976,271
Trade and other payables	18,988,654	16,165,521
Customers' deposits	7,748,965	8,086,370
Redeemable preferred shares	251,598	251,598
Reserve for property development	6,566,707	6,381,894
Deferred income on real estate sales	4,768,708	4,512,313
Income tax payable	35,871	220,594
Other current liabilities	<u>1,999,343</u>	<u>2,799,934</u>
 Total Current Liabilities	 <u>52,296,741</u>	 <u>57,018,406</u>

**NON-CURRENT LIABILITIES**

Interest-bearing loans and borrowings	30,870,822	31,912,889
Bonds payable	25,478,779	24,388,714
Customers' deposits	2,868,652	475,548
Redeemable preferred shares	1,006,390	1,006,390
Reserve for property development	8,458,833	10,101,060
Deferred income on real estate sales	4,750,087	5,548,432
Deferred tax liabilities - net	11,522,482	10,230,565
Advances from associates and other related parties	2,676,857	2,633,192
Retirement benefit obligation	1,018,442	1,041,445
Other non-current liabilities	<u>5,740,385</u>	<u>4,871,962</u>
 Total Non-current Liabilities	 <u>94,391,729</u>	 <u>92,210,197</u>

Total Liabilities	<u>146,688,470</u>	<u>149,228,603</u>
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**EQUITY**

Total equity attributable to the Company's shareholders	158,648,104	138,777,878
Non-controlling interests	<u>22,140,964</u>	<u>22,526,324</u>
 Total Equity	 <u>180,789,068</u>	 <u>161,304,202</u>

<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>P 327,477,538</u></b>	<b><u>P 310,532,805</u></b>
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MEGAWORLD CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousand pesos, except earnings per share)

EXHIBIT 2

	2018 Unaudited Jul 1 - Sep 30	2018 Unaudited Jan 1 -Sep 30	2017 Unaudited Jul 1 - Sep 30	2017 Unaudited Jan 1 -Sep 30
<b>REVENUES AND INCOME</b>				
Real estate sales	P 8,370,048	P 23,035,142	P 7,335,451	P 20,959,502
Interest income on real estate sales	440,907	1,396,758	437,151	1,389,691
Realized gross profit on prior years' sales	1,360,717	3,957,613	1,113,656	3,306,363
Rental income	3,672,555	10,463,053	2,993,593	8,819,657
Hotel operations	315,089	1,030,252	302,048	950,007
Equity in net earnings of associates	33,435	79,304	58,476	112,292
Interest and other income - net	792,104	1,793,902	585,608	1,559,637
	14,984,855	41,756,024	12,825,983	37,097,149
<b>COSTS AND EXPENSES</b>				
Cost of real estate sales	4,467,069	12,679,565	4,290,460	11,991,474
Deferred gross profit	1,478,715	3,377,367	1,022,659	3,280,435
Cost of hotel operations	232,686	653,820	166,921	559,881
Operating expenses	2,629,185	7,192,770	2,066,199	6,084,679
Interest and other charges - net	756,073	2,643,712	674,159	1,830,234
Tax expense	1,096,981	3,379,160	956,639	3,012,566
	10,660,709	29,926,394	9,177,037	26,759,269
<b>PROFIT FOR THE PERIOD</b>				
BEFORE PREACQUISITION LOSS (INCOME)	4,324,146	11,829,630	3,648,946	10,337,880
PREACQUISITION LOSS (INCOME) OF SUBSIDIARIES	( 166,477 )	( 166,477 )	-	2,716
<b>NET PROFIT FOR THE PERIOD</b>	P 4,157,669	P 11,663,153	P 3,648,946	P 10,340,596
<b>Net profit attributable to:</b>				
Company's shareholders	P 4,039,600	P 11,290,728	P 3,537,592	P 9,981,082
Non-controlling interests	118,069	372,425	111,354	359,514
	P 4,157,669	P 11,663,153	P 3,648,946	P 10,340,596
<b>Earnings Per Share :</b>				
Basic	P 0.127	P 0.355	P 0.112	P 0.314
Diluted	P 0.126	P 0.353	P 0.110	P 0.312



**MEGAWORLD CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousand pesos)

	2018 Unaudited Jul 1 - Sep 30	2018 Unaudited Jan 1 - Sep 30	2017 Unaudited Jul 1 - Sep 30	2017 Unaudited Jan 1 - Sep 30
<b>NET PROFIT FOR THE PERIOD</b>	P 4,157,669	P 11,663,153	P 3,648,946	P 10,340,596
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Items that will be reclassified</b>				
<b>subsequently to consolidated profit or loss:</b>				
Fair value gains on available-for-sale-securities	243,912	45,753	380,226	681,346
Fair value change on cash flow hedge	39,211	216,331	-	-
Exchange difference on translating foreign operations	7,411	44,277	6,229	12,908
	290,534	306,361	386,455	694,254
<b>TOTAL COMPREHENSIVE INCOME</b>				
<b>FOR THE PERIOD</b>	P 4,448,203	P 11,969,514	P 4,035,401	P 11,034,850
<b>Total comprehensive income attributable to:</b>				
Company's shareholders	4,330,134	11,597,089	3,924,047	10,675,336
Non-controlling interests	118,069	372,425	111,354	359,514
	P 4,448,203	P 11,969,514	P 4,035,401	P 11,034,850

MEGAWORLD CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(In thousand pesos)

**EXHIBIT 3**

	Unaudited September 30, 2018	Unaudited September 30, 2017
CAPITAL STOCK	P 32,430,866	P 32,430,866
ADDITIONAL PAID-IN CAPITAL	16,657,990	16,657,990
TREASURY SHARES - AT COST	( 633,722 )	( 633,722 )
NET ACTUARIAL GAINS ON RETIREMENT BENEFIT PLAN	45,886	3,098
NET UNREALIZED LOSSES ON AVAILABLE-FOR-SALE SECURITIES	( 897,376 )	( 2,465,244 )
NET FAIR VALUE CHANGES ON CASH FLOW HEDGE	170,389	-
SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES	44,685	10,769
ACCUMULATED TRANSLATION ADJUSTMENT	( 337,829 )	( 370,151 )
PERPETUAL CAPITAL SECURITIES	10,237,899	-
RETAINED EARNINGS	100,929,316	88,809,161
NON-CONTROLLING INTERESTS	<u>22,140,964</u>	<u>19,977,955</u>
<b>TOTAL EQUITY</b>	<b><u>P 180,789,068</u></b>	<b><u>P 154,420,722</u></b>

**MEGAWORLD CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousand pesos)

**EXHIBIT 4**

	Unaudited September 30, 2018	Unaudited September 30, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	P 15,042,313	P 13,353,162
Adjustments for:		
Depreciation and amortization	1,613,200	1,307,485
Interest and other charges	2,534,868	1,705,048
Interest and other income	( 905,246 )	( 768,747 )
Employee share options	19,927	23,896
Equity in net earnings of associates	( 79,304 )	( 112,292 )
Operating profit before working capital changes	18,225,758	15,508,552
Net Changes in Operating Assets and Liabilities		
Increase in current and non-current assets	( 9,091,450 )	( 13,748,447 )
Increase (decrease) in current and non-current liabilities	4,369,628	( 1,552,013 )
Decrease in reserve for property development	( 1,457,415 )	( 410,503 )
Cash generated from (used in) operations	12,046,521	( 202,411 )
Cash paid for income taxes	( 1,860,514 )	( 1,711,174 )
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	10,186,007	( 1,913,585 )
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	( 10,433,482 )	( 7,034,494 )
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	( 3,242,959 )	3,711,809
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	( 3,490,434 )	( 5,236,270 )
<b>BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES</b>	187,339	4,015
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>16,430,137</u>	<u>16,395,663</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<u>P 13,127,042</u>	<u>P 11,163,408</u>

**MEGAWORLD CORPORATION AND SUBSIDIARIES**  
*(A Subsidiary of Alliance Global Group, Inc.)*  
**NOTES TO INTERIM FINANCIAL INFORMATION**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(UNAUDITED)**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

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

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

On June 27, 2017, the Philippine Securities and Exchange Commission (SEC) approved the change in the Company's registered office and principal place of business from 28th Floor, The World Centre, Sen. Gil Puyat Avenue, Makati City to 30th Floor, Alliance Global Tower, 36th Street cor. 11th Avenue, Uptown Bonifacio, Taguig City. The related approval from the Bureau of Internal Revenue (BIR) was obtained on July 17, 2017.

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

The Company holds ownership interests in the following subsidiaries and associates:

<u>Subsidiaries/Associates</u>	<u>Explanatory Notes</u>	<u>Effective Percentage of Ownership</u>	
		<u>September 2018</u>	<u>December 2017</u>
<b>Subsidiaries:</b>			
Prestige Hotels and Resorts, Inc. (PHRI)		100%	100%
Richmonde Hotel Group International Ltd. (RHGI)		100%	100%
Eastwood Cyber One Corporation (ECOC)		100%	100%
Megaworld Cebu Properties, Inc. (MCP)		100%	100%
Megaworld Newport Property Holdings, Inc. (MNPHI)		100%	100%

Subsidiaries/Associates	Explanatory Notes	Effective Percentage of Ownership	
		September 2018	December 2017
<b>Subsidiaries:</b>			
Oceantown Properties, Inc. (OPT)		100%	100%
Luxury Global Hotels and Leisure, Inc. (LGHLI)		100%	100%
Arcovia Properties, Inc. (API)		100%	100%
Mactan Oceanview Properties and Holdings, Inc. (MOPHI)	(a)	100%	100%
Megaworld Cayman Islands, Inc. (MCII)	(a)	100%	100%
Piedmont Property Ventures, Inc. (PPVI)	(a)	100%	100%
Stonehaven Land, Inc. (SLI)	(a)	100%	100%
Streamwood Property, Inc. (SP)	(a)	100%	100%
Global One Integrated Business Services, Inc. (GOIBSI)		100%	100%
Luxury Global Malls, Inc. (LGMI)		100%	100%
Davao Park District Holdings, Inc. (DPDHI)		100%	100%
Belmont Newport Luxury Hotels, Inc. (BNLHI)		100%	100%
Global One Hotel Group, Inc. (GOHGI)		100%	100%
Landmark Seaside Properties, Inc. (LSPI)	(b)	100%	100%
San Vicente Coast, Inc. (SVCI)	(a, b)	100%	100%
Savoy Hotel Manila, Inc. (SHMI)	(c)	100%	-
Megaworld Bacolod Properties, Inc. (MBPI)		91.55%	91.55%
Megaworld Central Properties, Inc. (MCPI)	(d)	76.55%	76.55%
Megaworld Capital Town, Inc. (MCTI)	(e)	76.28%	76.28%
Soho Café and Restaurant Group, Inc. (SCRGI)	(b)	75%	75%
La Fuerza, Inc. (LFI)		66.67%	66.67%
Megaworld-Daewoo Corporation (MDC)		60%	60%
Northwin Properties, Inc. (NWPI)	(a, c)	60%	60%
Gilmore Property Marketing Associates, Inc. (GPMAI)	(a, f)	52.14%	52.14%
Manila Bayshore Property Holdings, Inc. (MBPHI)	(g)	50.92%	50.92%
Megaworld Globus Asia, Inc. (MGAI)		50%	50%
Integrated Town Management Corporation (ITMC)		50%	50%
Maple Grove Land, Inc. (MGLI)	(a, b)	50%	50%
Megaworld Land, Inc. (MLI)		100%	100%
City Walk Building Administration, Inc. (CBAI)	(h)	100%	100%
Forbestown Commercial Center Administration, Inc. (FCCAI)	(h)	100%	100%
Paseo Center Building Administration, Inc. (PCBAI)	(h)	100%	100%
Uptown Commercial Center Administration, Inc. (UCCAI)	(h)	100%	100%
Iloilo Center Mall Administration, Inc. (ICMAI)	(h)	100%	100%
Newtown Commercial Center Administration, Inc. (NCCAI)	(h)	100%	100%
Valley Peaks Property Management, Inc. (VPPMI)	(h)	100%	100%
San Lorenzo Place Commercial Center Administration, Inc. (SLPCCAI)	(h)	100%	100%
Southwoods Lifestyle Mall Management, Inc. (SLMMI)	(h)	100%	-

Subsidiaries/Associates	Explanatory Notes	Effective Percentage of Ownership	
		September 2018	December 2017
<b>Subsidiaries:</b>			
Suntrust Properties, Inc. (SPI)		100%	100%
Suntrust Ecotown Developers, Inc. (SEDI)		100%	100%
Governor's Hills Science School, Inc. (GHSSI)		100%	100%
Sunrays Property Management, Inc. (SPMI)		100%	100%
Suntrust One Shanata, Inc. (SOSI)	(a)	100%	100%
Suntrust Two Shanata, Inc. (STSI)	(a)	100%	100%
Stateland, Inc. (STLI)	(i)	96.87%	-
Global-Estate Resorts, Inc. (GERI)	(j)	82.32%	82.32%
Southwoods Mall, Inc. (SMI)	(k)	91.09%	91.09%
Megaworld Global-Estate, Inc. (MGEI)	(l)	89.39%	89.39%
Twin Lakes Corporation (TLC)	(l)	90.99%	83.37%
Fil-Estate Properties, Inc. (FEPI)	(l)	82.32%	82.32%
Aklan Holdings, Inc. (AHI)	(a, l)	82.32%	82.32%
Blu Sky Airways, Inc. (BSAI)	(a, l)	82.32%	82.32%
Fil-Estate Subic Development Corp. (FESDC)	(a, l)	82.32%	82.32%
Fil-Power Construction Equipment Leasing Corp. (FPCELC)	(a, l)	82.32%	82.32%
Golden Sun Airways, Inc. (GSAI)	(a, l)	82.32%	82.32%
La Compañía De Sta. Barbara, Inc. (LCSBI)	(l)	82.32%	82.32%
MCX Corporation (MCX)	(a, l)	82.32%	82.32%
Pioneer L-5 Realty Corp. (PLRC)	(a, l)	82.32%	82.32%
Prime Airways, Inc. (PAI)	(a, l)	82.32%	82.32%
Sto. Domingo Place Development Corp. (SDPDC)	(a, l)	82.32%	82.32%
Fil-Power Concrete Blocks Corp. (FPCBC)	(a, l)	82.32%	82.32%
Fil-Estate Industrial Park, Inc. (FEIPI)	(a, l)	65.03%	65.03%
Sherwood Hills Development, Inc. (SHD)	(l)	45.28%	45.28%
Fil-Estate Golf and Development, Inc. (FEGDI)	(l)	82.32%	82.32%
Golforce, Inc. (Golforce)	(l)	82.32%	82.32%
Southwoods Ecocentrum Corp (SWEC)	(l)	49.39%	49.39%
Philippine Aquatic Leisure Corp. (PALC)	(a, l)	49.39%	49.39%
Fil-Estate Urban Development Corp. (FEUDC)	(l)	82.32%	82.32%
Novo Sierra Holdings Corp. (NSHC)	(a, l)	82.32%	82.32%
Global Homes and Communities, Inc. (GHCI)	(a, l)	82.32%	82.32%
Oceanfront Properties, Inc. (OFPI)	(l)	41.13%	41.13%
Empire East Land Holdings, Inc. (EELHI)		81.73%	81.73%
Eastwood Property Holdings, Inc. (EPHI)		81.73%	81.73%
Valle Verde Properties, Inc. (VVPI)	(a)	81.73%	81.73%
Sherman Oak Holdings, Inc. (SOHI)	(a)	81.73%	81.73%
Empire East Communities, Inc. (EECI)	(a)	81.73%	81.73%
20 <sup>th</sup> Century Nylon Shirt, Inc. (CNSI)	(a)	81.73%	81.73%
Laguna BelAir Science School, Inc. (LBASSI)		59.67%	59.67%
Sonoma Premier Land, Inc. (SPLI)	(a)	49.04%	49.04%
Megaworld Resort Estates, Inc. (MREI)		51%	51%
Townsquare Development, Inc. (TDI)		30.60%	30.60%
Golden Panda-ATI Realty Corporation (GPARC)		30.60%	30.60%

Subsidiaries/Associates	Explanatory Notes	Effective Percentage of Ownership	
		September 2018	December 2017
<b>Associates:</b>			
Bonifacio West Development Corporation (BWDC)		46.11%	46.11%
Suntrust Home Developers, Inc. (SHDI)	(m)	45.67%	45.67%
First Oceanic Property Management, Inc. (FOPMI)	(n)	45.67%	45.67%
Citylink Coach Services, Inc. (CCSI)	(n)	45.67%	45.67%
Palm Tree Holdings and Development Corporation (PTHDC)	(a)	40%	40%
GERI			
Boracay Newcoast Hotel Group, Inc. (BNHGI)	(o)	24.70%	24.70%
Fil-Estate Network, Inc. (FENI)	(p)	16.46%	16.46%
Fil-Estate Sales, Inc. (FESI)	(p)	16.46%	16.46%
Fil-Estate Realty and Sales Associates, Inc. (FERSAI)	(p)	16.46%	16.46%
Fil-Estate Realty Corp. (FERC)	(p)	16.46%	16.46%
Nasugbu Properties, Inc. (NPI)	(p)	11.52%	11.52%
EELHI			
Pacific Coast Mega City, Inc. (PCMCI)		16.35%	16.35%

Explanatory Notes:

- (a) These are entities which have not yet started commercial operations as at September 30, 2018.
- (b) SVCI and MGLI were incorporated in 2016 and are engaged in the same line of business as the Company. Meanwhile, LSPI and SCRGI were existing entities that were separately acquired in 2016 and were accounted for as business acquisitions. LSPI is engaged in the same line of business as the Company, while SCRGI is engaged in restaurant operations.
- (c) New subsidiary in 2018. SHMI is engaged in condominium-hotel operations.
- (d) As at September 30, 2018, the Company owns 76.55% of MCPI consisting of 51% direct ownership, 18.97% indirect ownership through EELHI and 6.58% indirect ownership through MREI.
- (e) New subsidiaries in 2017. MCTI and NWPI are existing entities that are separately acquired in 2017 and are accounted for as business acquisitions. Both are engaged in the same line of business as the Company.
- (f) As at September 30, 2018, the Company's ownership in GPMAI is at 52.14%, which consists of 38.72% and 13.42% indirect ownership from EELHI and MREI, respectively.
- (g) In 2017 and 2015, the Company and Travellers International Hotel Group, Inc. (TIHGI) equally subscribed to additional shares of MBPHI amounting to P0.2 billion and P0.5 billion each, respectively. The additional subscriptions on MBPHI did not affect the ownership interest of both TIHGI and the Company.
- (h) These were incorporated to engage in operation, maintenance, and administration of various malls and commercial centers. These companies became subsidiaries of the Company through MLI, their immediate parent company. SLPCCAI and SLMMI were consolidated in 2017 and 2018, respectively.
- (i) In July 2018, the Company acquired 17.19% direct ownership in STLI which is engaged in real estate business. The Company also held an indirect ownership in STLI of 79.68% through SPI.
- (j) In 2016, the Company acquired additional shares of GERI from the PSE, increasing its ownership interest to 82.32%.
- (k) SMI is a subsidiary of GERI acquired in 2014 which is engaged in real estate business. As at December 31, 2015, effective ownership interest over SMI totaled to 91.13%, consisting of 50% direct ownership and 41.13% indirect ownership through GERI. In 2016, both the Company and GERI subscribed to additional common shares of SMI resulting to 49.59% and 50.41% direct ownership interest, respectively.

- (l) Subsidiaries of GERI. As a result of the additional investments in GERI in 2016, the Company's indirect ownership interest over these subsidiaries increased in proportion to the increase in effective interest over GERI. Effective ownership interest over MGEI and TLC increased to 89.39% and 83.37%, respectively. In 2018, the company subscribed to additional common shares of TLC resulting to 49% direct ownership interest thus, effective ownership interest over TLC increased to 90.99%.
- (m) In 2017, TDI acquired shares of SHDI resulting into 45.67% effective ownership over SHDI consisting of 42.48% direct ownership and 3.19% indirect ownership through TDI.
- (n) Subsidiaries of SHDI. As a result of the additional investment in SHDI in 2017, the Company's indirect interest over these associates increased in proportion to the increase in effective interest over SHDI.
- (o) In 2017 and 2016, FEPI sold 15% ownership interest each year in BNHGI to a third party, decreasing the Company's ownership to 12.35% and 24.70%, respectively.
- (p) Associates of GERI. As a result of the additional investments in GERI in 2016, the Company's indirect ownership interest over these associates increased in proportion to the increase in effective interest over GERI.

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

The Company and its subsidiaries, except for entities which have not yet started commercial operations as at September 30, 2018, are presently engaged in the real estate business, hotel, business process outsourcing, educational, facilities provider and property management operations and marketing services.

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

## **2. BASIS OF PREPARATION OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

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

These interim condensed consolidated financial statements for the nine months ended September 30, 2018 and 2017 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended December 31, 2017.



The preparation of interim condensed consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRS) requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

These interim condensed consolidated financial statements are presented in Philippine peso, the functional and presentation currency of the Group, and all values represent absolute amounts except when otherwise indicated.

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

A number of new or amended standards became applicable for the current reporting period. However, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### **3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

In preparing the interim condensed consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. The judgments, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements as at and for the year ended December 31, 2017.

The Group performed its annual impairment test of goodwill and other intangible assets with indefinite useful life at year end and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill arising from business combination and other intangible assets is based on value-in-use calculations. The Group considers the relationship between the market capitalization of the subsidiaries and its net book value, among other factors, when reviewing for indicators of impairment. The Group's management assessed that for the nine months ended September 30, 2018 and as at December 31, 2017, goodwill arising from business combination and other intangible assets with indefinite useful life are not impaired.

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the development of residential and office units including urban centers integrating office, residential and commercial components. The Real Estate segment pertains to the development and sale of residential and office developments. The Rental segment includes leasing of office and commercial spaces. The Hotel Operations segment relates to the management of hotel business operations.

The Corporate and Others segment includes business process outsourcing, educational, facilities provider, maintenance and property management operations, marketing services, general and corporate income and expense items. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

### *4.2 Segment Assets and Liabilities*

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

### *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 nine months ended September 30, 2018 and 2017 and certain asset and liability information regarding segments as at September 30, 2018 and 2017.

	September 30, 2018					
	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
<b>TOTAL REVENUES</b>						
Sales to external customers	P 28,389,512,423	P 10,463,053,489	P 1,030,252,596	P 888,655,882	P -	P 40,771,474,390
Interest income	639,365,607	256,951,817	1,785,277	978,615	-	899,081,316
Intersegment sales	-	369,552,832	-	1,167,812,868	( 1,537,365,700)	-
Total revenues	<u>29,028,878,030</u>	<u>11,089,558,138</u>	<u>1,032,037,873</u>	<u>2,057,447,365</u>	<u>( 1,537,365,700)</u>	<u>41,670,555,706</u>
<b>RESULTS</b>						
Cost of sales and operating expense excluding depreciation and amortization	19,944,376,365	1,326,089,076	761,677,837	1,930,389,807	( 1,477,908,747)	22,484,624,338
Interest expense	677,043,212	289,106,409	-	13,141,004	-	979,290,625
Depreciation and amortization	205,134,022	1,254,296,547	60,901,359	92,867,593	-	1,613,199,521
	<u>20,826,553,599</u>	<u>2,869,492,032</u>	<u>822,579,196</u>	<u>2,036,398,404</u>	<u>( 1,477,908,747)</u>	<u>25,077,114,484</u>
Segment results	<u>P 8,202,324,431</u>	<u>P 8,220,066,106</u>	<u>P 209,458,677</u>	<u>P 21,048,961</u>	<u>(P 59,456,953)</u>	<u>P 16,593,441,222</u>
Unallocated other income						6,164,744
Unallocated other expenses						( 1,470,120,114)
Equity in net earnings of associates						79,303,674
Tax expense						( 3,379,159,536)
Pre-acquisition income of a subsidiary						( 166,476,960)
Net profit						<u>P 11,663,153,030</u>
<b>ASSETS AND LIABILITIES</b>						
Segment assets	P 217,330,168,455	P 93,181,738,289	P 3,748,114,824	P 7,388,952,471	P -	P 321,648,974,039
Investments in and advances to associates and other related parties - net	-	-	-	5,828,564,050	-	5,828,564,050
Total assets	<u>P 217,330,168,455</u>	<u>P 93,181,738,289</u>	<u>P 3,748,114,824</u>	<u>P 13,217,516,521</u>	<u>P -</u>	<u>P 327,477,538,089</u>
Segment liabilities	<u>P 111,878,044,387</u>	<u>P 30,430,961,009</u>	<u>P 462,749,800</u>	<u>P 3,916,714,209</u>	<u>P -</u>	<u>P 146,688,469,405</u>

	September 30, 2017					
	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
<b>TOTAL REVENUES</b>						
Sales to external customers	P 25,655,555,590	P 8,819,656,826	P 950,006,887	P 790,890,180	P -	P 36,216,109,483
Interest income	520,550,313	222,814,381	1,377,966	2,156,981	-	746,899,641
Intersegment sales	-	249,629,318	-	964,909,592	( 1,214,538,910)	-
Total revenues	<u>26,176,105,903</u>	<u>9,292,100,525</u>	<u>951,384,853</u>	<u>1,757,956,753</u>	<u>( 1,214,538,910)</u>	<u>36,963,009,124</u>
<b>RESULTS</b>						
Cost of sales and operating expense excluding depreciation and amortization	18,216,972,561	1,239,249,996	708,041,531	1,578,274,599	( 986,627,742)	20,755,910,945
Interest expense	741,153,664	356,270,285	-	11,753,044	-	1,109,176,993
Depreciation and amortization	171,328,207	1,014,264,941	50,260,449	71,631,520	-	1,307,485,117
	<u>19,129,454,432</u>	<u>2,609,785,222</u>	<u>758,301,980</u>	<u>1,661,659,163</u>	<u>( 986,627,742)</u>	<u>23,172,573,055</u>
Segment results	<u>P 7,046,651,471</u>	<u>P 6,682,315,303</u>	<u>P 193,082,873</u>	<u>P 96,297,590</u>	<u>(P 227,911,168)</u>	P 13,790,436,069
Unallocated other income						21,847,547
Unallocated other expenses						( 574,129,364)
Equity in net earnings of associates						112,291,899
Tax expense						( 3,012,566,240)
Pre-acquisition loss of a subsidiary						2,715,950
Net profit						<u>P 10,340,595,861</u>
<b>ASSETS AND LIABILITIES</b>						
Segment assets	P 200,788,296,556	P80,497,961,194	P 3,080,340,537	P 6,323,429,172	P -	P 290,690,027,459
Investments in and advances to associates and other related parties - net	-	-	-	5,583,823,093	-	5,583,823,093
Total assets	<u>P 200,788,296,556</u>	<u>P80,497,961,194</u>	<u>P 3,080,340,537</u>	<u>P 11,907,252,265</u>	<u>P -</u>	<u>P296,273,850,552</u>
Segment liabilities	<u>P 109,171,822,472</u>	<u>P28,114,062,961</u>	<u>P 408,531,204</u>	<u>P 4,158,712,570</u>	<u>P -</u>	<u>P 141,853,129,207</u>

## 5. CASH DIVIDENDS

The details of the Company's cash dividend declarations, both for preferred and common shares, are as follows:

	<b>2018</b>
Declaration date/date of approval by BOD	<b>June 8, 2018</b>
Date of record	<b>June 26, 2018</b>
Date of payment	<b>July 20, 2018</b>
Amount declared and for payment	<b><u><u>P1,982,208,812</u></u></b>

## 6. EARNINGS PER SHARE

Earnings per share (EPS) amounts were computed as follows:

	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Net profit attributable to Company's shareholders	<b>P 11,290,728,353</b>	P 9,981,082,049
Computed dividends on cumulative preferred shares series "A"	<u>( 448,767)</u>	<u>( 448,767)</u>
Profit available to Company's common shareholders	<b><u>P 11,290,279,586</u></b>	<b><u>P 9,980,633,282</u></b>
Divided by weighted average number of outstanding common shares	<u>31,819,445,872</u>	<u>31,819,445,872</u>
Basic EPS	<b><u>P 0.355</u></b>	<b><u>P 0.314</u></b>
Divided by weighted average number of outstanding common shares and potential dilutive shares	<u>31,959,436,538</u>	<u>31,952,568,449</u>
Diluted EPS	<b><u>P 0.353</u></b>	<b><u>P 0.312</u></b>

## 7. COMMITMENTS AND CONTINGENCIES

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 interim 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.

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

## 8. SEASONAL FLUCTUATIONS

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

## 9. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Exposure to currency, interest rate, credit, liquidity and equity risk arise in the ordinary course of the Group's business activities. The main objective of the Group's risk management is to identify, monitor, and minimize those risks and to provide cost with a degree of certainty.

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

### *9.1 Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in Philippine peso, its functional currency. Exposures to currency exchange rates arise mainly from the Group's U.S. dollar-denominated cash and cash equivalents and loans and bonds payable which have been used to fund new projects and for general corporate purposes.

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions and mainly affect consolidated profit or loss of the Group. There are no material exposures on foreign exchange rate that affect the Group's consolidated other comprehensive income (loss).

### *9.2 Interest Rate Sensitivity*

The Group's interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. The Group maintains a debt portfolio unit of both fixed and floating interest rates. Most long-term borrowings are subject to fixed interest rate while other financial assets are subject to variable interest rates.

The Group manages its interest risk by leveraging the fixed interest rate debt obligations over the floating interest rate debt obligations in its debt portfolio.

### *9.3 Credit Risk*

The Group's credit risk is attributable to trade receivables, rental receivables and other financial assets. The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. 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.

#### ***9.4 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 nine-month and a one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are 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.

#### ***9.5 Other Price Risk Sensitivity***

The Group's market price risk arises from its investments in AFS securities carried at fair value. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

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.

## 10. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

### 10.1 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.

	September 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	P 13,127,041,798	P 13,127,041,798	P 16,430,136,465	P 16,430,136,465
Trade and other receivables – net	71,039,341,149	71,039,341,149	68,288,515,597	68,288,515,597
Advances to associates and other related parties	2,886,021,303	2,886,021,303	2,531,401,492	2,531,401,492
Guarantee and other deposits	899,468,570	899,468,570	857,523,551	857,523,551
Derivative asset	<u>534,339,463</u>	<u>534,339,463</u>	-	-
	<u>P 88,486,212,283</u>	<u>P 88,486,212,283</u>	<u>P 88,107,577,105</u>	<u>P 88,107,577,105</u>
AFS securities –				
Equity securities	<u>P 4,486,939,041</u>	<u>P 4,486,939,041</u>	<u>P 4,353,411,024</u>	<u>P 4,353,411,024</u>
<b>Financial Liabilities</b>				
Financial liabilities at amortized cost:				
Interest-bearing				
loans and borrowings	P 42,807,717,472	P 41,358,625,120	P 40,536,800,278	P 39,225,893,600
Bonds payable	25,478,778,938	24,475,865,685	34,364,985,052	31,146,543,930
Redeemable preferred shares	1,257,987,900	1,257,987,900	1,257,987,900	1,257,987,900
Trade and other payables	18,528,185,294	18,528,185,294	15,658,762,188	15,658,762,188
Advances from associates and other related parties	2,676,856,647	2,676,856,647	5,334,044,141	5,334,044,141
Derivative liability	-	-	109,913,612	109,913,612
	<u>P 90,749,526,251</u>	<u>P 88,297,520,646</u>	<u>P 97,262,493,171</u>	<u>P 92,733,145,371</u>

### 10.2 Fair Value Hierarchy

The Group uses the following hierarchy level in determining the fair values that will be disclosed for its financial instruments.

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. Except for Php27.44 million AFS equity securities categorized in Level 3, all other AFS equity securities are categorized in Level 1.



For assets and liabilities that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### 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 September 30, 2018 versus September 30, 2017

Megaworld, the Philippines' biggest developer of integrated urban townships and the largest lessor of office spaces, achieved a net income of Php11.66 billion during the first nine months of this year, up 12.79% compared to Php10.34 billion during the same period last year. Net income attributable to parent company ended at Php11.30 billion by end-September, growing 13.12% from Php9.98 billion during the same period last year.

Consolidated revenues, which grew 12.56% for the first three quarters of the year, reached Php41.76 billion, coming from Php37.10 billion during the same period last year.

**Development.** Among product portfolios, the bulk of consolidated revenues came from the sale of condominium units and residential and commercial lots, comprising 55.17% of total revenues. Real estate sales saw a 9.90% growth year on year during the period, amounting to Php23.04 and Php20.96 billion for the first nine months of the years 2018 and 2017, respectively. The Group's registered sales mostly came from the following projects: The Venice Luxury Residences, San Antonio Residence, The Ellis, Uptown Parksuites Towers 1 & 2, Noble Place, Maple Grove Commercial District, The Florence, Three Central, Uptown Ritz Residence, One Eastwood Avenue Tower 1, Salcedo Sky Suites, Eighty One Newport Boulevard, One Pacific Residence and The Albany Luxury Residences.

**Leasing.** Surging rental income continued to drive the Group's earnings by growing 18.63% during the first nine months of 2018, amounting to Php10.46 billion compared to Php8.82 billion for the same period last year. The Group's expanded office space and commercial retail portfolio backed the steady growth of leasing revenues.

**Hotel Operations.** The Group's revenues attributable to hotel operations posted an amount of Php1.03 billion during the first nine months of 2018 with an increase of 8.45% from Php0.95 billion for the same period last year.

Total costs and expenses amounted to Php29.93 billion, an increase by 11.84% from Php26.76 billion last year. Interest and other charges – net increased by 44.45%, amounting to Php2.64 billion this year from Php1.83 billion in 2017 primarily due to loss on foreign exchange re-measurement of dollar bonds recognized for the current year. Tax expense in 2018 amounting to Php3.38 billion resulted to an increase of 12.17% from 2017 reported amount of Php3.01 billion due to higher taxable income.

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

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

### **Financial Condition**

The Group maintains a prudent financial policy as it engages to a more competitive and challenging environment. The Group's Statements of Financial Position reflects stable financial growth. Total resources as at September 30, 2018 amounted to Php327.48 billion, posting an increase of 5.46% compared to Php310.53 billion as at December 31, 2017.

The Group shows steady liquid position as at September 30, 2018 by having its current assets at Php161.95 billion as against its current obligations at Php52.30 billion. Current assets posted an increase of 4.16% from December 31, 2017 balance of Php155.49 billion. Current obligations reflected a decrease of 8.28% from December 31, 2017 balance of Php57.02 billion.

Cash and cash equivalents decreased by 20.10% from Php16.43 billion in 2017 to Php13.13 billion in 2018. Current and non-current trade and other receivables – net increased by 4.03%, amounting to Php71.04 billion as at September 30, 2018 compared to Php68.29 billion as at December 31, 2017. Residential, condominium units, golf and resort shares for sale – net increased by 9.24% from Php64.78 billion in 2017 to Php70.76 billion in 2018 mainly due to the additional construction costs attributable to on-going projects. Property development costs amounted to Php22.71 billion, slightly decreased by 1.75% from Php23.11 billion last year. The Group's investments in available-for-sale securities increased by 3.07%, from Php4.35 billion in 2017 to Php4.49 billion as at September 30, 2018 due to changes in the fair market value of shares. Land for future development increased by 7.03% from Php25.47 billion in 2017 to Php27.26 billion in 2018. Investment properties – net increased by 10.26% amounting to Php78.74 billion as at September 30, 2018 from Php71.42 billion as at December 31, 2017 due to completion and additional construction costs of real properties for lease.

Trade and other payables amounted to Php18.99 billion and Php16.17 billion as at September 30, 2018 and December 31, 2017, respectively, reflecting a 17.46% increase. Total current and non-current customers' deposits as at September 30, 2018 amounted to Php10.62 billion compared Php8.56 billion as at December 31, 2017 with 24.01% increase. The combined effect of current and non-current deferred income on real estate sales decreased by 5.39% which amounted to Php9.52 billion as at September 30, 2018 compared to Php10.06 billion as at December 31, 2017.

The interest-bearing loans and borrowings current and non-current amounted to Php42.81 and Php40.54 billion for September 30, 2018 and December 31, 2017, respectively, reflecting a 5.60% increase. Bonds payable decreased by 25.86% from Php34.36 billion in 2017 to

Php25.48 billion in 2018. Total other liabilities amounted to Php7.74 billion from Php7.67 billion as at September 30, 2018 and December 31, 2017, respectively, a slight increase of 0.88%.

Total Equity (including non-controlling interests) increased by 12.08% from Php161.30 billion as at December 31, 2017 to Php180.79 billion as at September 30, 2018 primarily due to issuance of perpetual capital securities and the Group's continuous profitability.

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

	September 30, 2018	December 31, 2017
Current Ratio *1	3.10:1.00	2.73:1.00
Quick Ratio *2	0.25:1.00	0.29:1.00
Debt to Equity Ratio *3	0.38:1.00	0.46:1.00

	September 30, 2018	September 30, 2017
Return on Assets *4	3.66%	3.60%
Return on Equity *5	7.59%	7.68%

\*1 – *Current Assets / Current Liabilities*

\*2 – *Cash and Cash Equivalents / Current Liabilities*

\*3 – *Interest Bearing Loans and Borrowings and Bonds Payable / Equity*

\*4 – *Net Profit / Average Total Assets*

\*5 – *Net Profit / Average Equity (Computed using figures attributable only to parent company shareholders)*

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

### **Material Changes in the Year 2018 Financial Statements (Increase/decrease of 5% or more versus December 31, 2017)**

#### **Statement of Financial Position**

20.10% decrease in cash and cash equivalents

Due to capital expenditures and operating activities for business expansion

9.24% increase in residential, condominium units, golf and resort shares for sale

Mainly due to the additional construction costs attributable to on-going projects

11.63% increase in advances to contractors and suppliers

Represents advance payments to contractors and suppliers

9.45% increase in prepayments and other assets – current and non-current

Due to increase in prepaid expenses

9.88% decrease in advances to landowners and joint ventures  
Mainly due to a subsidiary's reclassification of account to land for future development

7.03% increase in land for future development  
Mainly due to new acquisitions and subsidiary's reclassification from advances to landowners and joint ventures

8.04% increase in investments in and advances to associates and other related parties  
Mainly due to additional advances to other related parties

10.26% increase in investment properties – net  
Due to additional project costs of malls, commercial centers and office buildings

11.55% increase in property and equipment – net  
Represents additional costs incurred for hotel buildings

242.86% increase in deferred tax assets  
Due to higher deferred tax assets on taxable temporary differences

5.60% increase in interest-bearing loans and borrowings – current and non-current  
Due to availment of new loans

25.86% decrease in bonds payable – current and non-current  
Due to maturity of bonds

17.46% increase in trade and other payables  
Due to higher payables to suppliers and contractors

24.01% increase in customers' deposits – current and non-current  
Pertains to amounts received from customers for sale of residential and commercial lots and condominium units not yet qualified for sales recognition

8.84% decrease in reserve for property development – current and non-current  
Represents estimated cost to complete the development of various projects

5.39% decrease in deferred income on real estate sales – current and non-current  
Represents cumulative unearned gross profit

83.74% decrease in income tax payable  
Due to payment of prior year income tax due

12.63% increase in deferred tax liabilities – net  
Pertains to tax effects of taxable and deductible temporary differences

12.08% increase in equity  
Primarily due to issuance of perpetual capital securities and the Group's continuous profitability

*(Increase/decrease of 5% or more versus September 30, 2017)*

### **Statements of Income**

9.90% increase in real estate sales

Due to higher sales recognized for the period and contribution of new subsidiary

19.70% increase in realized gross profit on prior year's sale

Represents portion of gross profit from real estate sales made in prior years realized for the current period

18.63% increase in rental income

Due to aggressive expansion of the Group's leasing portfolio, escalation of rental rates and high demand for office space from BPO Companies

8.45% increase in hotel operations

Due to increase in hotel occupancy rates and opening of new hotel

29.38% decrease in equity in net earnings of associates

Mainly due to decrease in net income of associates

15.02% increase in interest and other income – net

Mainly due to higher interest income and contribution of new subsidiary

5.74% increase in cost of real estate sales

Due to increase in real estate sales

16.78% increase in hotel operations

Represents direct costs attributable to hotel operations

18.21% increase in operating expenses

Mainly contributed by direct operating cost attributable to investment properties

44.45% increase in interest and other charges – net

Primarily due to loss on foreign exchange re-measurement of dollar bonds recognized for the current period

12.17% increase in 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 the 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.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosure required in the financial statements and should be read in conjunction with the Group's consolidated annual financial statements as at and for the year ended December 31, 2017.

The accounting policies and methods of computation adopted in preparation of the Group's unaudited interim consolidated financial statements are the same with the most recent annual financial statements for the year ended December 31, 2017.

There were no known material events subsequent to the end of the interim period that have not been reflected in the Group's Financial Statements as at the third quarter of 2018.

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 statements, the same in the current year consolidated financial statements as at the third quarter of 2018.

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 interim 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 interim 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.

MEGAWORLD CORPORATION AND SUBSIDIARIES

EXHIBIT 7

Aging of Accounts Receivables

September 30, 2018

(In thousand pesos)

	TOTAL	CURRENT/ NOT YET DUE	1-3 Months	4-6 Months	7 Months - 1 Year	Above 1 Year	Past due accounts & items in Litigation
Type of Receivables:							
a. Trade and other receivables	<u>71,039,341</u>	<u>68,457,440</u>	<u>1,509,611</u>	<u>552,248</u>	<u>355,758</u>	<u>164,284</u>	<u>-</u>



**MEGAWORLD CORPORATION AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**SEPTEMBER 30, 2018 AND DECEMBER 31, 2017**

**EXHIBIT 8**

	SEPTEMBER 30, 2018	DECEMBER 31, 2017
Current ratio	3.10 :1.00	2.73 :1.00
Quick ratio	0.25 :1.00	0.29 :1.00
Debt-to-equity ratio	0.38 :1.00	0.46 :1.00
Interest-bearing debt to total capitalization ratio	0.30 :1.00	0.35 :1.00
Asset-to-equity ratio	1.81 :1.00	1.93 :1.00
		SEPTEMBER 30, 2017
Interest rate coverage ratio	566.25%	509.45%
Net profit margin	27.93%	27.87%
Return on assets	3.66%	3.60%
Return on equity	7.59%	7.68%

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 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 total revenues

Return on assets – net profit divided by average total assets

Return on equity – net profit attributable to the company's shareholders divided by average stockholders' equity attributable to the company's shareholders.