

# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

G	M	A		N	E	T	W	O	R	K		C	E	N	T	E	R		
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Atty. Roberto O. Parel

Contact Person

816-3716

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Month

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Day

Fiscal Year

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FORM TYPE

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Month

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Day

Annual Meetings

Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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Document I.D.

Cashier

STAMPS

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

OF

**GMA NETWORK, INC.**

1. For the fiscal year ended: **December 31, 2012**
2. SEC Identification Number: **5213**
3. BIR Tax Identification No. 000-917-916-000
4. Exact name of issuer as specified in its charter: **GMA NETWORK, INC.**
5. **PHILIPPINES**
6.  (SEC Use Only)
- Province, Country or other jurisdiction of  
Incorporation or organization  Industry Classification Code:
7. **GMA NETWORK CENTER, EDSA CORNER TIMOG AVENUE, DILIMAN, QUEZON CITY**  
Address of principal office Postal Code
8. **(632) 982 7777**  
Issuer's telephone number, including area code
9. **NOT APPLICABLE**  
Former name, former address, and former fiscal year, if changed since last report.
10. 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 Common Stock Outstanding and Amount of Debt
Outstanding	
<b>Common Stock</b>	<b>3,361,047,000</b>
<b>Preferred Stock</b>	<b>7,499,507,184</b>

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

Yes [ ☒ ] No [ ☐ ]

If yes, state the name of such stock exchange and the classes of securities listed herein:

**PHILIPPINE STOCK EXCHANGE / COMMON STOCK**

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. Aggregate market value of the voting stock held by non-affiliates of the registrant

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. (See definition of "affiliate" in "Annex B").

**Market Value = PhP48.5 B (as of April 24, 2013)**

**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.

**NOT APPLICABLE**

## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

GMA Network, Inc. is a free-to-air broadcasting company principally engaged in television and radio broadcasting, the production of programs for domestic and international audiences, and other related businesses. The Company derives the majority of its revenues from advertising related to television broadcasting.

The Company's Congressional television broadcasting franchise was renewed on March 20, 1992 through Republic Act 7252, which allows it to operate radio and television facilities in the Philippines for 25 years. GMA Network has 47 VHF (46 GMA owned and 1 affiliate) and 32 UHF TV stations throughout the Philippines with its signal reaching approximately 97% of the country's Urban TV Households (Source: 2012 AGB Nielsen Total Philippines Establishment Survey).

In 2012, GMA Network, Inc. maintained leadership in nationwide urban TV ratings. The Company posted an increase in its gross revenues while its net income for 2012 was slightly lower than 2011.

GMA Network garnered a nationwide average household audience share of 34.4%, up by 2.9 percentage points over its nearest competitor. GMA likewise maintained its TV ratings advantage in its traditional bailiwick areas of Mega Manila and Urban Luzon in 2012. The Network, its programs and personalities also reaped various local and international awards within the year.

GMA Network's international operations continued to expand during the year. GMA Pinoy TV closed 2012 with 329,108 subscribers, up by 13% over 2011, while GMA Life TV had 124,884 subscribers.

### **GMA SUBSIDIARIES, JOINT VENTURE AND AFFILIATES**

The Company's subsidiaries and affiliates are involved in media-related services such as movie making, sets and props construction, film syndication, music and video recording, new media, online gaming, post production services, and marketing, which complement the Company's core television and radio broadcasting business.

The following table shows the Company's holdings in its principal subsidiaries, joint ventures and affiliates as of December 31, 2012:

COMPANY	OWNERSHIP	PRINCIPAL ACTIVITIES
<b>Subsidiaries</b>		
GMA New Media, Inc. (NMI)	100%	Converging Technology

Citynet Network Marketing and Productions, Inc.	100%	Television entertainment production
GMA Network Films, Inc.	100%	Film production
GMA Worldwide (Philippines), Inc.	100%	International marketing, handling foreign program acquisitions and international syndication of the Parent Company's programs
RGMA Marketing and Productions, Inc. (GMA Records)	100%	Music recording, publishing and video distribution
Scenarios, Inc.	100%	Design, construction and maintenance of sets for TV, stage plays and concerts; transportation services
Script2010, Inc. (Script2010)*	100%	Design, construction and maintenance of sets for TV, stage plays and concerts; transportation and manpower services
Alta Productions Group, Inc.	100%	Pre- and post-production services
GMA Marketing & Productions, Inc. (GMPI)	100%	Exclusive marketing and sales arm of GMA's airtime
Mediamerge Corporation**	100%	Business development and operations for the Company's online publishing/advertising initiatives
Digify, Inc. (Digify)**	100%	Crafting, planning and handling advertising and other forms of promotion including multi-media productions
<b>Joint Ventures</b>		
INQ7 Interactive, Inc.	50%	A joint multimedia news and information delivery company of the Philippine Daily Inquirer, Inc. and GMA
Philippine Entertainment Portal, Inc. (PEP)**	50%	Operation of Pep.ph, an entertainment Portal
Gamespan, Inc.***	50%	A joint venture of GMA, through NMI, with Manila Jockey Club, Inc.
<b>Affiliates</b>		
Mont-Aire Realty and Development Corp.****	49%	A real estate holding company
RGMA Network, Inc.	49%	General management programming, research and event management services for the Company's radio stations

Notes:

\* Indirectly owned through Citynet Network Marketing and Productions, Inc.

\*\* Indirectly owned through GMA New Media, Inc.

\*\*\* Indirectly owned through GMA New Media, Inc. Gamespan will be fully operational in 2013.

\*\*\*\* On April 26, 2007, the Company's Board of Directors declared its shareholdings in Mont-Aire as subject to sale to any interested buyer. In the event the Company does not find a willing buyer, the same shall be declared as dividends to the stockholders of record as of April 26, 2007.

## **PUBLICLY ANNOUNCED NEW PRODUCT OR SERVICE**

Apart from launching GMA News TV International overseas in the second half of 2011 (p.8), the Company had no new publicly-announced product or service during the fiscal year covered by this report.

## **COMPETITION**

The Company currently competes for audiences and advertising revenues directly with other broadcast stations, radio stations, newspapers, magazines, cable television, and outdoor advertising within their respective markets.

The Following table presents major broadcasting networks in the country:

Network	Description		2012 Ratings & Audience Share (Total day; 6AM-12MN)		
			Mega Manila	Urban Luzon	Urban National
GMA		Household Ratings	16.0	15.2	13.5
		Audience Share	39.2	38.2	34.4
ABS-CBN	Radio and TV broadcasting network and multimedia company. Founded in 1953, and is the first television station in the Philippines.	Household Ratings	10.5	10.9	12.4
		Audience Share	25.8	27.4	31.5
GNTV	GMA Network's sister channel. It is programmed by GMA.  GMANEWS TV (GNTV) was launched on February 28, 2011.	Household Ratings	2.1	1.8	1.5
		Audience Share	5.0	4.5	3.9
TV5	Third-oldest TV network in the country, with main broadcast facilities in Novaliches, Quezon City. On March 2, 2010, Mediaquest acquired 100 percent ownership of the Associated Broadcasting Company and Primedia Inc., the broadcasting firm's major block airtimer.	Household Ratings	6.2	5.8	5.9
		Audience Share	15.2	14.6	15.1
ETC (RPN)/ SOLAR		Household Ratings	0.3	0.3	0.2

Network	Description		2012 Ratings & Audience Share (Total day; 6AM-12MN)		
			Mega Manila	Urban Luzon	Urban National
<b>TV (RPN) **</b>	Radio Philippines Network (RPN 9) is a Philippine VHF television network of the Government Communications Group. On November 29, 2009, the network re-branded again under the new name Solar TV on RPN.  **Solar TV went off air on February 26, 2011 and was relaunched as ETC (RPN) on March 2, 2011.	Audience Share	0.7	0.6	0.5
<b>Studio 23</b>	Sister network to the main ABS-CBN Broadcasting Corporation, airing programming aimed towards young adults, such as North American imports and other English language programming.	Household Ratings	0.9	1.1	1.2
		Audience Share	2.3	2.7	3.0
<b>National Broadcasting Network</b>	Official government TV, formerly called Maharlika Broadcasting System, Inc. and later the People's Television Network, Inc. (PTV).	Household Ratings	0.2	0.2	0.1
		Audience Share	0.5	0.4	0.4
<b>Intercontinental Broadcasting Corporation (IBC 13)</b>	IBC-13 is a VHF TV station of the Government Communications Group launched in 1975 by Roberto Benedicto.	Household Ratings	1.0	0.8	0.7
		Audience Share	2.4	2.0	1.9
<b>Southern Broadcasting Network</b>  <b>Solar News Channel/TALK TV (SBN)/ (ETC on SBN) ***</b>	On January 1, 2008, Solar Entertainment Corporation's entertainment channel ETC aired on this station.  ***SBN was launched as Talk TV (SBN) on March 3, 2011 and was later replaced by Solar News Channel on October 30, 2012.	Household Ratings	0	0.1	0
		Audience Share	0.1	0.1	0.1
<b>RJTV (2<sup>nd</sup> Ave.)</b>	RJTV is a UHF, free to air television channel owned and operated by Rajah Broadcasting Network, Inc. owned by Ramon "RJ" Jacinto. Solar is also programming 2 <sup>nd</sup> Ave.	Household Ratings	0.0	0.0	0.0
		Audience Share	0.0	0.0	0.0

NOTE: Ratings data are based on the Nielsen Television Audience Measurement (TAM).

## **RELATIVE SIZE AND FINANCIAL AND MARKET STRENGTH OF COMPETITORS**

The Company considers ABS-CBN as its longest and prime competitor, followed by TV5. ABS-CBN is the largest broadcasting company in the Philippines in terms of product and service

range and financial asset base. Its broadcasting operations contribute approximately 60% of its total revenue generated, followed by its cable and satellite businesses with a share of nearly 35%. Its other businesses, which comprise movie production, new media ventures, publishing and other consumer products and services, make up about 5% of total sales. In comparison, GMA is the second largest and is the oldest broadcasting company in the region and derives more than 80% of its business from broadcasting. The Company's international operations provides close to 10% of gross revenues while other businesses which includes film production, new media services, and other services fill in the remaining 5%.

In more recent years, a third major player came into the picture in TV 5 which was formerly known as ABC 5. It was re-launched in 2008 as TV 5 after reaching a partnership with MPB Primedia, Inc. (MPB), a local company backed by Media Prima Berhad of Malaysia – with MPB producing and sourcing most of the entertainments programs of the channel. On October 20, 2009, Media Prima divested its share in TV5, selling it to Mediaquest Holdings Inc., the broadcasting division owned by the Beneficial Trust Fund of the Philippine Long Distance Telephone Company (PLDT). In the first half of 2010, along with dramatic changes in programming, TV 5 branded itself as the “Kapatid” network parallel to ABS-CBN’s “Kapamilya” and GMA’s “Kapuso” brands.

GMA effectively competes with these two main competitors and the rest of the industry players by enriching the lives of the Filipinos everywhere with superior Entertainment and the responsible delivery of News and Information. The Company prides itself in launching the first ever free-to-air news channel with the launch of GMA News TV under Channel 11 in the first quarter of 2011. The Company has likewise proven its competitiveness by grabbing the number one spot in nationwide TV ratings since early 2010, maintaining its lead up to 2012, thus providing the much needed leverage to generate advertising revenues. Financial-wise, the Company leads both competitors in most key financial indicators, from gross profit margins, net income margins, to debt-equity ratios, with GMA remaining debt free for the past couple of years.

#### INTERNATIONAL DISTRIBUTION

The Company's television programs are distributed outside the Philippines in two ways. One is through its subscription-based international channels – GMA Pinoy TV, GMA Life TV, and GMA News TV International – and the other is through GMA Worldwide (Philippines), Inc. (GWI), a wholly-owned subsidiary of the Company. GWI distributes GMA's locally produced programs on all platforms through worldwide syndication sales to broadcasters/companies in China, Southeast Asia, Africa, and Europe.

#### GMA PINOY TV

The Company operates GMA Pinoy TV through which it offers subscription-based programs internationally. Launched in 2005, GMA Pinoy TV delivers to an international audience the Company's most popular news and public affairs and general entertainment programs.

GMA Pinoy TV is currently available in 50 states in the U.S. including Alaska and Hawaii, plus Puerto Rico and Washington DC; Canada; Japan; Guam; 49 countries in Europe; Saipan; Hong Kong; Singapore; Papua New Guinea; Australia; New Zealand; the British Indian Territory of



Diego Garcia; Madagascar; Malaysia; 16 countries in the Middle East including the key territories of the Kingdom of Saudi Arabia, United Arab Emirates, Qatar, Bahrain, and Kuwait; and 11 countries in North Africa. GMA Pinoy TV aims to establish global exposure and presence for the Network that will bring the company's programs to Filipino communities around the world.

Under the carriage and licensing agreements with international cable carriers, the Company generally receives a portion of the subscription fees and is also allocated a certain number of advertising minutes through which the Company may sell advertising spots, which it does, through its subsidiary, GMA Marketing and Productions, Inc. (GMPI). GMPI also participates in joint promotions with various carriers for the marketing of GMA Pinoy TV.

As of December 2012, GMA Pinoy TV's subscriber base closed at 329,108 – a 13 % increase over the 2011 closing subscriber number of 291,309.

#### GMA LIFE TV

Three years after the success of GMA Pinoy TV, GMA Life TV, GMA Network's second international channel, was launched. More than just offering mainstream entertainment, GMA Life TV engages more viewers with its exciting line-up of heart-warming and innovative programs that feature the Filipinos' lifestyle and interests.

GMA Life TV is available in the United States, Canada, Guam, Hong Kong, Japan, Australia, New Zealand, Papua New Guinea, Madagascar, 16 countries in the Middle East, 11 countries in North Africa, and 49 countries in Europe. As of December 2012, GMA Life TV's subscriber base closed at 124,884.

#### GMA NEWS TV INTERNATIONAL

In September 2011, GMA Network began distributing GMA News TV International in order to provide overseas Filipinos with the latest, most comprehensive, and most credible news coverage from the Philippines. It offers internationally acclaimed and award-winning news and public affairs programs with 7 to 8 hours of original content daily.

It is now available in Canada, Guam, Japan, Malaysia, Australia, New Zealand, the UAE, and Madagascar.

#### CONVERGING TECHNOLOGY

**GMA New Media, Inc. (NMI)** is the digital media arm of GMA Network, Inc. Since its inception in July 2000, it has launched category-breaking projects in multiple platforms, including internet, mobile, broadcast, and digital TV.

#### WEB

Online Publishing NMI initiated the collaboration among some of the Philippines' leading media companies for the adoption of global standards and best practices in online publishing, beginning with the appointment of a common provider for their third-party audience measurement system. The group has chosen Effective Measure (EM), an Australian company, as its preferred audience measurement solutions provider.

In 2011, NMI deepened its partnership with YouTube, Google's online video-sharing portal. Initially sealed in 2009, the deal to create an official GMA Channel on YouTube was the first of its kind in Asia. This partnership was recently expanded to include long-form catch-up content and secure live streaming.

NMI launched GMA's official entertainment website, iGMA.tv, and its official news website, GMAnews.tv, both of which have won local and international acclaim as well as loyal patronage among Filipinos here and abroad.

In collaboration with GMA Network's Program Support Department, News and Public Affairs, Entertainment, GMA International, GMA Radio, Kapuso Foundation, GMA Films, GMA Records, GMA Artist Center, GMA Corporate (Investor Relations), NMI launched in late 2011 [www.gmanetwork.com](http://www.gmanetwork.com), the umbrella site for all things GMA. This move further enhances GMA's connection with its audience online by providing news, entertainment, information, community, and public service at their fingertips, anytime, anywhere. The portal also allows users to get quick and easy access to all of the Network's web properties.

NMI entered into a joint venture with Summit Media and launched Pep.ph, the no. 1 showbiz news portal in the Philippines.

NMI entered into a joint venture with E-Games, the leading online games publisher in the Philippines.

NMI provided alternative means for viewers who have no access to TV to witness historic events such as Cory Aquino's funeral and several State of the Nation Addresses (SONAs) using live streaming online.

## MOBILE

NMI pioneered interactive TV in the Philippines with the launch of SMS-TV services in Debate and Startalk and Eat Bulaga's Cool Dudes segment. This laid the foundations for succeeding SMS-TV initiatives, which carried NMI through several years of growth and profit.

NMI launched Fanatxt, a mobile-based celebrity portal for Kapuso stars, which is one of the most successful mobile VAS services launched locally.

NMI broke new ground with the launch of Teledrama Text Saya, the first ever mobile point of purchase promo for GMA's primetime shows done in partnership with GMPI.

NMI continues to work closely with GMPI in the launch of groundbreaking convergent media campaigns such as Win Mo Kapuso and Win Mo Pamasko. The combination of TV plus new

media has become a valuable strategic offering for clients in terms of ensuring the widest possible reach for both online and offline audiences.

NMI unveiled in late 2012 version 2 of GMA News Online's Android and iOS applications designed for easy viewing on mobile phones, as a growing number of Filipinos access the website while on-the-go. GMA News Online applications are now available for Android smartphones and tablets and for iPhone users as well. This makes GMA News Online the only local news website to have its own applications for both Android and iPhone operating systems.

## BROADCAST

NMI introduced the first fully interactive show on Philippine TV called Txtube, which was eventually followed by a slew of copycats in other channels.

NMI ensured the fast and accurate delivery of poll results in the 2004 national elections and provided creative support in the form of world-class motion graphics. Every election coverage thereafter, NMI carried on as GMA News and Public Affairs' technology partner. It developed (in some cases, reverse-engineered) state-of-the-art broadcasting tools such as the RTX and Telewriter to deliver unparalleled TV coverage without the prohibitive cost of buying off-the-shelf solutions.

NMI similarly enabled the Entertainment Group with dynamic and interactive broadcast displays for its licensed game shows such as Whammy Push Your Luck and Family Feud. It also developed broadcast applications for shows such as Pinoy Idol, Celebrity Duets and Are You The Next Big Star?, among others. These displays and applications had to pass through a rigorous process of testing to meet standards set by international licensors.

On the broadcast side, NMI produces breakthrough real-time special effects for GMA. In collaboration with the Office of the President and GMA Engineering, NMI is involved in the development of GMA's Digital TV strategy. Efforts are underway to conduct testing for the service soon.

## MOVIE PRODUCTION

**GMA Network Films, Inc.** was established in August 1995 to produce movies that cater to both the local and international markets. Its movie productions have reaped both critical acclaim and commercial success. In 2012, GMA Films produced **My Kontrabida Girl**, **The Witness** (co-production with Indonesian producer, Skylar Pictures), **Just One Summer**, **Boy Pick-up** (with Regal Films), **Of All The Things** (with Viva Films) and **Tiktik: The Aswang Chronicles** (with Reality Pictures). **The Road** had its theatrical release in U.S. cinemas on May 11, 2012. GMA Films' Metro Manila Film Festival movie entries in 2012 were **Si Enteng**, **Si Agimat at Si Ako** (with Imus and MZet, APT and OctoArts) and **Sosy Problems**.

## MUSIC AND VIDEO RECORDING

**RGMA Marketing and Productions, Inc. (GMA Records)** was incorporated in September 1997 and became operational in 2004 after the Company decided to reactivate its musical recording business through the "GMA Records" label. Since resuming operations, GMA Records has leveraged the Company's talent and media resources, releasing albums of various artists. It also partnered with sister company GMA Films and other major film production outfits to release their films on DVD. Likewise, it has introduced the network's top rating programs and blockbuster TV series into the home video market worldwide through GWI.

GMA Records works with GMA New Media and other local-based content providers and aggregators to take advantage of new revenue streams, particularly in the emerging market of digital music downloads. The company also secured non-exclusive mobile, web and kiosk-based deals with different content providers worldwide to continuously exploit the potentials of its music and video assets.

GMA Records publishes music and administers copyrights on behalf of composers. GMA Records is also actively pursuing publishing deals, building on its current catalog of original compositions. GMA Records serves as a clearing house and a source of music for the Company's television and film productions. It is also a member of FILSCAP, the Filipino Society of Composers, Authors and Publishers.

## STAGE DESIGN

**Scenarios, Inc.** was incorporated in July 1996 and is engaged in transportation and warehousing services.

**Script2010, Inc.** was formally established in early 2010 as a subsidiary of Citynet Network Marketing and Productions, Inc. It engages in conceptual design and design execution through fabrication, construction, set-up and dismantling of sets, and creation of props. It also provides other related services such as live performances and events management, sales activation and promotion, and tradeshow exhibits.

**Script2010, Inc.** is also engaged in transportation, hauling and trucking services to further fulfill the needs of its clients. Other business units of **Script2010, Inc** are band/audio equipment rental, and facility support services to various GMA departments.

## POST PRODUCTION

**Alta Productions Group, Inc.** was established in 1988 as a production house primarily to provide production services for the Network. Until the late 1990s, it operated a satellite studio in Makati, producing award-winning News and Public Affairs Programs for GMA Channel 7.

Today, Alta Productions Group's core business is audio dubbing and mixing for broadcast. Its fully digital audio recording and mixing studios is in sync with the Network's production requirements and broadcast standards. Aside from dubbing foreign content into the local vernacular for airing on the Network, Alta Productions Group also dubs station-produced content into English for international consumption.

In addition, Alta Productions Group's shoot and video post-production department produces TVCs, broadcast content, and documentaries for both local and international clients. Its creative group also provides concept development, staging, and activation services for various clients' on-ground activities.

Alta Productions Group is proud to be one of the few production houses capable of servicing the complete spectrum of shoot and post-production requirements all under one roof. From conceptualization, creatives, shoot, post-production, all the way to execution.

#### MARKETING AND SALES OF COMMERCIAL AIRTIME AND EVENTS

**GMA Marketing and Productions, Inc. (GMPI)** was established in August 1980 and is the exclusive marketing and sales arm for the Company's commercial television and radio airtime and events. GMPI, a wholly owned subsidiary of the Company, provides the link between the Network and the advertisers and advertising agencies.

GMPI provides the Company's clients with services such as multi-media local and global media packages, promotional programs and materials, creative products, digital executions, and events. Part of GMPI's sales and marketing strategies are the integrated multi-platform packages, customized on-air, on-ground and online media solutions, branded entertainment, and other advertising and media-led promotional campaigns.

#### **DEPENDENCE UPON CUSTOMERS**

The broadcasting business of the Company generates revenues mainly from the sale of regional and national advertising time to agencies/advertisers and other blocktime producers. No single customer accounts for twenty (20%) percent or more of the Company's total consolidated revenues. The top 30 agencies/advertisers comprise less than 60% of the Company's business with the top advertiser accounting for less than 8% of revenues. The Company is not critically dependent upon a single or few customers to provide and ensure sustainability of its operations and financial viability. Major existing contracts include airtime sales with regular agencies and advertisers such as Unilever Philippines, Inc., Nestle Philippines, Inc., P&G Distributing (Phils.) Inc., Unilab Group, Monde Nissin Corporation, Starcom, Mediavest, Starlink Communication Services, Masscom, Inc., Zenith Optemedia, Mediacom, Maxus and Mindshare Philippines.

#### **TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES**

Please refer to **Item 12** of the report (p.57).

### **FRANCHISE, LICENSES AND GOVERNMENT APPROVALS**

The Company is a grantee of a congressional franchise to construct, install, operate and maintain for commercial purposes and in the public interest radio and television broadcasting stations in the Philippines. Its franchise was granted through Republic Act No. 7252 and has a term of twenty-five (25) years from the date of its approval or from March 20, 1992. The Company also operates and maintains various radio/TV stations nationwide under licenses/permits issued by the National Telecommunications Commission.

The Company has also applied for registration of its service marks (visible signs capable of distinguishing its services) with the Intellectual Property Office (IPO) and has complied with the provisions of Republic Act No. 8293 on the law on service marks for this purpose. A Certificate of Registration of Service Marks granted in favour of the Company remains in force for 20 years.

Similarly, the Company has applied for copyright registration with the IPO of its (a) published (b) unpublished works under Republic Act No. 8294 and Presidential Decree No. 49. A Certificate of Copyright Registration has a term of protection of Fifty (50) years from publication of the work.

The Company has also entered into several license agreements for its business of producing television programs aired over its local and international channels and producing television series based on a licensed property. The said license agreements are for periods between three to five years.

### **EFFECT OF GOVERNMENT REGULATIONS ON BUSINESS**

The foregoing franchise, licenses or permits, service marks, copyright registration and government approvals were obtained by the Company in accordance with the requirements of applicable laws and rules of regulatory agencies.

The Company's compliance with the above-mentioned government regulations are indispensable to its businesses, which are primarily, radio and television broadcasting, recording, film production and other information and entertainment business.

### **AMOUNT SPENT ON DEVELOPMENT ACTIVITIES**

The company approved specific budget for the operation/maintenance and upgrade of the following stations in 2012:

<u>New Station for 2012</u>	<u>Approved Budget</u> (PhP)
<u>TV-8 Daet</u>	<u>20.79M</u>
<u>Total</u>	<u>20.79M</u>

<u>Upgraded Stations in</u> <u>2011</u>	<u>Approved Budget</u> (PhP)
<u>TV-7 Tablas</u>	<u>25.7M</u>
<u>TV-5 Mt. Amuyao</u>	<u>24.43M</u>
<u>TV-12 Puerto Princesa</u>	<u>3.22M</u>
<u>Total</u>	<u>53.35M</u>

### **COSTS AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS**

GMA Network complies with various environmental laws such as R.A 8749 (Philippine Clean Air Act of 1999), R.A 6969 (Toxic Substance and Hazardous Wastes) under DENR and R.A. 9275 (Philippine Clean Water Act) under the Laguna Lake Development Authority.

Following are the details of the Company's compliance with the abovementioned environmental laws:

1. R.A 8749 – The Company has a Permit to Operate for the generator set installed in the GMA Network Center. The permit costs around P 14, 500.00, valid for five (5) years. As a requirement in the permit, the Company submits quarterly self monitoring reports on the consumed fuel of the generator sets. In addition, all generator sets undergo annual emission tests conducted by DENR's accredited 3<sup>rd</sup> party group. The emission tests cost around P140, 000.00 for the 5 units.

2. R.A. 6969 – All generated hazardous wastes such as used engine oils, busted fluorescent lamp (BFL), empty paint cans, contaminated rags and others are treated, recycled and appropriately disposed of with the DENR's accredited 3<sup>rd</sup> party hazardous waste treatment group. The annual cost for the treatment of hazardous waste is around P150,000.00.

3. R.A 9275 – GMA has a Discharge Permit from the Laguna Lake Development Authority (LLDA) to operate its Sewage Treatment Facility (STP) in the GMA Network Center. The annual permit costs P 26, 000.00.

In addition, the Company incurred approximately Php105,000 in costs for other permits and licenses required by governmental regulations such as, but not limited to, special land use permits, DENR-EMB permits, etc.

## **EMPLOYEES**

As of December 31, 2012, the Company has 2,386 regular and probationary employees, a 10.62% growth from 2011. The Company also engaged 2,737 talents in 2012, an 8.55 % decrease from the previous year. GMA Network, Inc. recognizes one labor union, the GMA Network, Inc. Employees Union. The Collective Bargaining Agreement (CBA) for the cycle 2009-2014 took effect in July 2009, with the new economic provisions effective for 2013-2014 re-negotiated in July 2012.

The classification of the Company's employees, including the number of employees it anticipates to have in the ensuing twelve (12) months, are presented below:

	<b>AS OF DEC. 31, 2012</b>	<b>**2013 ESTIMATED ADDITIONAL</b>	<b>TOTAL</b>
<b>Rank &amp; File *</b>	1,341	96	1,437
<b>Non-Rank and File</b>	984	145	1129
<b>Officers</b>	61	3	64
<b>Total</b>	<b>2,386</b>	<b>244</b>	<b>2,630</b>

*\* Covered by Collective Bargaining Agreement (CBA)*

*\*\* Based on approved MRF and hired EEs as of March 2013*

## **LABOR DISPUTES**

There were no strikes nor observed strikes and disputes between the labor and management in the past three (3) years.

## **MAJOR RISKS INVOLVED IN THE BUSINESSES OF THE COMPANY AND ITS SUBSIDIARIES**

Please refer to the discussion under Risk Management, Part IV of the report (p.62).



## **Item 2. Properties**

As of December 31, 2012, the Company's total property and equipment and real property amounted to P5,029.5 million. The property and equipment had a book value of P3,619.9 million, while its real properties had a fair market value of P1,409.6 million (based on an independent appraisal report as of December 31, 2008).

The following are the principal properties of the Company:

- The Channel 7 compound located in Barangay South Triangle, Diliman, Quezon City, which contains several buildings, including the GMA Network Center building;
- The GMA Network Center Studios, a four-storey building with an area of 4,053 square meter property adjacent to the GMA Network Center at GMA Network Drive cor. EDSA, Diliman Quezon City which houses two state-of-the-art studios, technical facilities and offices;
- The GMA-7 Antenna Tower in Tandang Sora Avenue, Barangay Culiati, Diliman Quezon City, which contains the TV and FM Transmitter building and the Satellite Uplink building;
- The GMA Fleet Center located on the east corner of Mother Ignacia Avenue and Sergeant Esquerra Avenue, Barangay South Triangle, Diliman Quezon City; and
- Properties in the key areas across different regions:

### ***Luzon***

- Land in Barangay Malued, Dagupan City, where the Company's radio and television studios are located;
- A 51,135 square meter property in Panghulo, Obando, Bulacan, where an AM transmitter site, a two-storey building, a genset house, and an AM tower are situated;
- A 2,000 square meter property in Barangay Concepcion Pequeña, Naga City, where a TV relay transmitter and an FM transmitter site are located; and
- A 10,000 square meter property in La Trinidad, Benguet where an FM transmitter site and a one storey building are situated.
- A 2000 square meter property in Bayubay Sur, San Vicente, Ilocos Sur where a TV studio is located.

### ***Visayas***

- Land located in Nivel Hills, Barangay Lahug, Cebu City, containing a multilevel building which houses radio and television operation facilities;
- Land in Barangay Tamborong, Jordan, Guimaras where an FM radio and television transmitter is located;
- Land in Alta Tierra, Jaro, Iloilo City where radio and television studios are located;
- Land in Barangay Jibao-an, Pavia, Iloilo where an AM transmitter site and building are located;
- Land in Barangay Sta. Monica, Puerto Princesa City, Palawan where a television relay transmitter site and building are located; and,
- Land in Barangay Bulwang, Numancia, Aklan where a television relay transmitter site

and a building are located.

***Mindanao***

- Land in Bo. Matina Hills, Davao City where an FM and television transmitter building and studio complex are located;
- Land in Barangay San Isidro, General Santos City where a television relay transmitter site and a building are located; and,
- Land in Barangay Cabatangan, Zamboanga City where a television relay transmitter site and a building are located.

The properties owned by the Company are currently unencumbered and are free from any existing liens.

The Company also leases land, building and studio/office space in various locations around the Philippines under lease agreements for periods of between three and 25 years. The lease agreements may be cancelled at the Company's option. Rental expense of the Company related to this amounted to P16.1 million for the year ended December 31, 2012.

**Regional Broadcast Stations**

GMA owns regional broadcast stations in various parts of the country. Originating TV stations are stand alone transmitter, studio and production facilities capable of producing and airing live and/or taped programs as well as plugs and advertising within their (local) service area/s independent of, or in conjunction with the national feed. Satellite TV stations are similar to originating TV stations except that they are not equipped with live production capability outside of news bulletins. Satellite TV stations are also capable of broadcasting local plugs or advertising within their respective (local) service areas either independent of, or in conjunction with national program feeds. TV relay stations are limited to transmitter and signal receiving facilities and only re-broadcast programs/content received from originating or satellite TV stations with which they are associated; either via satellite or other receiving methods.

The following are GMA's television and radio stations throughout the Philippines:

**LIST OF GMA's OPERATING TV STATIONS**

NO	STATION	ADDRESS	CONTACT NUMBER
	<b>LUZON</b>		<b>TEL. NO./ MOBILE PHONE</b>
1	TV-7 Metro Manila	Brgy. Culiat, Tandang Sora, Quezon City	(02) 931-9183 (02) 924-2497
	TV-11 Metro Manila	Brgy. Culiat, Tandang Sora, Quezon City	(02) 931-9183

			(02) 924-2497
	TV-27 Metro Manila (UHF)	Brgy. Culiat, Tandang Sora, Quezon City	(02) 931-9183 (02) 924-2497
2	TV-5 Ilocos Norte	Brgy. San Lorenzo, San Nicolas, Ilocos Norte	0918-5328580
	TV-27 Ilocos Norte (UHF)	Brgy. San Lorenzo, San Nicolas, Ilocos Norte	0918-5328580
3	TV-48 Ilocos Sur	Mt. Caniao, Bantay, Ilocos Sur	0915-8632841
4	TV-10 Benguet	Mt. Sto. Tomas, Tuba, Benguet	0915-4417080
	TV-22 Benguet (UHF)	Mt. Sto. Tomas, Tuba, Benguet	0915-4417080
5	TV-10 Olongapo	Upper Mabayuhan, Olongapo City	0927-2570496
	TV-26 Olongapo (UHF)	Upper Mabayuhan, Olongapo City	0927-2570496
6	TV-12 Batangas	Mt. Banoy, Bo. Talumpok East, Batangas City	0915-8632860
	TV-26 Batangas (UHF)	Mt. Banoy, Bo. Talumpok East, Batangas City	0915-8632860
7	TV-7 Naga	Brgy. Concepcion Pequeña, Naga City	0915-4417071
	TV-28 Naga (UHF)	Brgy. Concepcion Pequeña, Naga City	0915-4417071
8	TV-12 Legaspi	Mt. Bariw, Estanza, Legaspi City	0915-8632867
	TV-27 Legaspi (UHF)	Mt. Bariw, Estanza, Legaspi City	0915-8632867
9	TV-12 Puerto Princesa, Palawan	Mitra Rd., Brgy. Sta. Monica, Puerto Princesa, Palawan	0939-2755280
	TV-27 Puerto Princesa, Palawan (UHF)	Mitra Rd., Brgy. Sta. Monica, Puerto Princesa, Palawan	0939-2755280
10	TV-6 Brooke's Point, Palawan	Poblacion, Brooke's Point, Palawan	0939-2755280
11	TV-7 Masbate	Brgy. Pinamurbuhan, Mobo, Masbate	0909-2405510
	TV-27 Masbate (UHF)	Brgy. Pinamurbuhan, Mobo, Masbate	0909-2405510

12	TV-13 Catanduanes	Brgy. Sto. Niño, Virac, Catanduanes	0906-7524547
13	TV-13 Occ. Mindoro	Bonifacio St., San Jose, Occidental Mindoro	0921-3524271
	TV-26 Occ. Mindoro (UHF)	Bonifacio St., San Jose, Occidental Mindoro	0921-3524271
14	TV-5 Aurora	Purok 3, Brgy. Buhangin, Baler, Aurora	0920-2603590
15	TV-7 Abra	Brgy. Lusuac, Peñarrubia, Abra	0999-4473166
16	TV-13 Aparri, Cagayan	Hi-Class Bldg., De Rivera St., Poblacion, Aparri, Cagayan	0908-3846771
17	TV-7 Tuguegarao, Cagayan	Phil. Lumber Bldg., Washington St., Tuguegarao, Cagayan	0929-5603195
18	TV-8 Coron, Palawan	Tapias Hill, Coron, Palawan	0929-6982107
19	TV-7 Batanes	Brgy. Kayvaluganan, Basco, Batanes	0928-7433472 09292804278
20	TV-7 Romblon	Triple Peak, Sta. Maria, Tablas, Romblon	0929-4812061
21	TV-7 Isabela	Heritage Commercial Complex, Maharlika Hi-way, Brgy. Malvar, Santiago City, Isabela	0915-6727845
22	TV-5 Mountain Province	Mt Amuyao, Barlig. Mountain Province	0915-4416450
23	TV-44 Jalajala	Mt. Landing, Jalajala, Rizal	0915-8632874
	<b>VISAYAS</b>		
24	TV-7 Cebu	Bonbon, Cebu City	0915-4417075
	TV-27 Cebu (UHF)	Bonbon, Cebu City	0915-4417075
25	TV-6 Iloilo	Bo. Tamburong, Jordan, Guimaras	0915-4417084
	TV-28 Iloilo (UHF)	Alta Tierra Subdivision, Jaro, Iloilo	0915-4417084
26	TV-11 Bohol	Banat-I Hills, Brgy. Bool, Tagbilaran City	0918-2502675
27	TV-10 Tacloban	Basper, Tigbao, Tacloban City	0919-3899212

	TV-26 Tacloban (UHF)	Basper, Tigbao, Tacloban City	0919-3899212
28	TV-12 Ormoc, Leyte	Brgy. Alta Vista, Ormoc City	0912-8660646
29	TV-8 Borongan	Poblacion, Borongan, Eastern Samar	0921-2602154
30	TV-5 Roxas City	Brgy. Milibili, Roxas City, Capiz	0921-9978181 0949-4912879
	TV-27 Roxas City (UHF)	Brgy. Milibili, Roxas City, Capiz	0921-9978181 0949-4912879
31	TV-5 Dumaguete	Barrio Looc, Sibulan, Negros Oriental	0906-5229490
	TV-28 Dumaguete (UHF)	Barrio Looc, Sibulan, Negros Oriental	0906-5229490
32	TV-10 Sipalay	Sipalay Municipal Building, Sipalay, Negros Occidental	0999-6932317
33	TV-5 Calbayog City	Purok 2 San Mateo St. Brgy. Matobato, Calbayog City, Western Samar	0948-7095868
34	TV-2 Kalibo	New Busuanga, Numancia, Aklan	0929-4356922
	TV-27 Kalibo (UHF)	New Busuanga, Numancia, Aklan	0929-4356922
35	TV-13 Bacolod	Security Bank Bldg., Rizal St. cor. Locsin St., Bacolod City	0915-8632864
	<b>MINDANAO</b>		
36	TV-5 Davao	Shrine Hills, Matina, Davao City	0915-4417082 0929-3292480
	TV-27 Davao (UHF)	Shrine Hills, Matina, Davao City	0915-4417082 0929-3292480
37	TV-12 Mt. Kitanglad	Mt. Kitanglad, Bukidnon	0915-8632863
38	TV-12 Cagayan De Oro	Malasag Heights, Brgy. Cugman, Cagayan de Oro City	0915-8632875
	TV-35 Cagayan de Oro	Malasag Heights, Brgy. Cugman,	0915-8632875

	(UHF)	Cagayan de Oro City	
39	TV-8 General Santos	Nuñez St., Brgy. San Isidro, General Santos City	0915-8632871
	TV-26 Gen. Santos (UHF)	Nuñez St., Brgy. San Isidro, General Santos City	0915-8632871
40	TV-12 Cotabato	Regional Government Center, Cotabato City	0920-3537395
	TV-27 Cotabato (UHF)	Regional Government Center, Cotabato City	0920-3537395
41	TV-9 Zamboanga	Brgy. Cabatangan, Zamboanga City	0915-8632870
	TV-21 Zamboanga (UHF)	Brgy. Cabatangan, Zamboanga City	0915-8632870
42	TV-5 Ozamis	Bo. Malaubang, Ozamis City, Misamis Occidental	0928-6278996
	TV-22 Ozamis (UHF)	Bo. Malaubang, Ozamis City, Misamis Occidental	0928-6278996
43	TV-4 Dipolog	Linabo Peak, Dipolog City, Zamboanga Del Norte	0921-4406867
	TV-26 Dipolog (UHF)	Linabo Peak, Dipolog City, Zamboanga Del Norte	0921-4406867
44	TV-10 Surigao	Lipata Hills, Surigao City	0919-8095052
	TV-27 Surigao (UHF)	Lipata Hills, Surigao City	0919-8095052
45	TV-12 Jolo	Ynawat Bldg., Hadji Butu St., Jolo, Sulu	0918-7923420 0926-7629292
46	TV-2 Tandag	Capitol Hill, Brgy. Telaje, Tandag, Surigao del Sur	0920-2952515
47	TV-3 Pagadian	Mt. Palpalan, Pagadian City	0908-6888017
	TV-26 Pagadian (UHF)	Mt. Palpalan, Pagadian City	0908-6888017
48	TV-11 Iligan	3/F Kimberly Bldg., A. Bonifacio cor. Isidoro Emilia Ave., Tibanga Hi-Way,	0921-3384319

		Iligan City	
<b>AFFILIATE STATION</b>			
1	TV-7 Butuan*	SJT Bldg., Montilla Blvd., Butuan City	(085) 342-9571/342-7073

*\*Affiliate stations are not owned by the company -- they are usually independently owned by local Filipino business people who re-broadcast the Company's originating signals during specified time blocks for negotiated fixed fees.*

### GMA's RADIO STATIONS

AREA	FREQ.	CALL SIGN	POWER		ADDRESS
LUZON					
METRO MANILA	97.1 mhz. 594 khz.	DWLS DZBB	FM AM	35kW 50kW	GMA Complex, EDSA cor. Timog Ave., Diliman, Quezon City
BAGUIO	92.7 mhz.	DWRA	FM	10kW	2/F Baguio Midland Courier Bldg. 16 Kisad Rd., Baguio City
DAGUPAN	93.5 mhz.	DWTL	FM	10kW	Claveria Road, Malued District  Dagupan City, Pangasinan
LEGASPI	96.3 mhz.	DWCW	FM	10kW	3rd level A.Bichara Silversreen Entertainment Center, Magallanes St., Legazpi City
LUCENA	91.1 mhz.	DWQL	FM	10kW	3/F Ancon Bldg., Merchan Street , Lucena City
NAGA	101.5 mhz.	DWQW	FM	10kW	4/F DMG Bldg., Penafrancia St. Naga City, Camarines Sur
PALAWAN	909 khz.	DYSP	AM	5kW	Solid Road, San Manuel Puerto Princesa City, Palawan
	97.5 mhz.	DYHY	FM	5kW	
TUGUEGARAO	89.3 mhz.	DWWQ	FM	10kW	4/F Villablanca Hotel Pattaui St. cor Pallua Rd., Ugac Norte Tuguegarao, Cagayan
VISAYAS					
BACOLOD	107.1mhz.	DYEN	FM	10kW	2/F Jomabo Centre Penthouse Rizal cor. Lacson Sts., Bacolod City
CEBU	999 khz. 99.5 mhz.	DYSS DYRT	AM FM	10kW 25kW	GMA Skyview Complex Nivel Hills, Lahug, Cebu City

ILOILO	1323 khz	DYSI	AM	10kW	Phase 5, Alta Tierra Village Jaro, Iloilo City
	93.5 mhz.	DYMK	FM	10kW	
KALIBO	92.9 mhz.	DYRU	FM	5kW	Torres-Olivia Bldg. Roxas Ave. Extension, Kalibo, Aklan
<b>MINDANAO</b>					
CAGAYAN DE ORO	100.7 mhz.	DXLX	FM	10kW	2/F Marel Realty Bldg., Pabayo corner Hayes St. Cagayan de Oro City, Misamis Oriental
ILIGAN	Relayed over DZBB				
DAVAO	103.5 mhz.	DXRV	FM	10K	Penthouse, Amesco Bldg. Damaso Suazo St., Uyanguren Davao City
	1125 khz	DXGM	AM	10K	
GENERAL SANTOS	102.3 mhz.	DXCJ	FM	10K	3/F PBC Bldg., Cagampang St. Gen. Santos City

## PROPERTIES INTENDED FOR ACQUISITION

As of the present, the Company does not intend to acquire any predetermined property within the next twelve (12) months.

### Item 3. Legal Proceedings

The Company and its subsidiaries are involved, from time to time, as plaintiff or defendant in litigation arising from transactions undertaken in the ordinary course of its business. Described below are the pending material litigation of which the Company and its subsidiaries or their properties are subject. The Company believes that a judgment rendered against it in the cases indicated below will not have a material adverse effect on its operations or financial condition.

None of the Company's affiliates, or their property, namely, RGMA Network, Inc., Philippine Entertainment Portal, Inc. and Mont-Aire Realty and Development Corporation, are involved in any material pending litigation as of December 31, 2010.

### Tax Cases

The Company filed a Petition for Review on September 22, 2004 against the Commissioner of Internal Revenue ("CIR") to dispute its assessment for deficiency taxes for the year 2000 in the total amount of ₱18.8 million based on the alleged failure by the Company to remit and withhold Value Added Tax ("VAT") due on income payments to foreign suppliers and for deficiency in final withholding taxes, failure to pay withholding tax on dividends and interest thereon and



failure to pay in full the interest on withholding tax deficiency on payment of interest on foreign loans. The Company raised the defense of prescription, arguing that the dividends declared to individuals in the year 2000 came from retained earnings for the year 1997. The Company also argued that it had already paid its liability for the alleged deficiency for withholding tax on payments to foreign companies on program rights and deficiency for final withholding tax on interest and foreign loans.

The Court of Tax Appeals (“CTA”) promulgated an adverse decision on July 26, 2007. The Company has filed a Petition for Review with the Supreme Court questioning the said CTA decision. However, the Supreme Court has denied the Petition. The Company filed a motion for reconsideration which was likewise denied by the Supreme Court. Further, the Company’s application for abatement with the BIR was denied.

### ***Labor Cases***

There is a pending case for illegal dismissal filed by Jelly Vinluan against Scenarios, Inc. On April 26, 2001, a judgment was rendered by Labor Arbiter Salimathar V. Nambi in favor of Mr. Vinluan ordering Scenarios, Inc. to pay him the amount of ₱119,190.37 representing back wages, separation pay, salary differential, service incentive leave pay, and 13<sup>th</sup>-month pay. Scenarios, Inc. only learned of the case when the sheriff of the NLRC served the writ of execution issued therein. As such, Scenarios, Inc. immediately filed a notice and memorandum of appeal, a motion to quash and/or recall writ of execution, and an urgent motion to lift the order of garnishment. On August 20, 2003, the NLRC issued an order remanding the case to the Labor Arbiter for proper service of summons but this was subsequently overruled by the Court of Appeals. Scenarios appealed this decision to the Supreme Court. In a Decision dated September 17, 2008, the Supreme Court denied the Petition. Scenarios filed a motion for reconsideration which was denied in a subsequent resolution by the Supreme Court. The case will revert back to the NLRC for execution of the decision of the Labor Arbiter.

There is another pending case for illegal dismissal, unfair labor practices, non-payment of overtime pay, holiday pay, premium pay for holiday and rest day and night shift differential and service incentive leave pay filed by Carlos Pabriga, Geoffrey Arias, Kirby Campo, Arnold Lagahit and Armand Catibug. The complainants were engaged on various dates from 1993 to 1997 to replace regular employees of the Company’s Cebu station who were on leave or otherwise unable to work. On August 24, 2000, the Labor Arbiter dismissed the complaints for illegal dismissal and unfair labor practices, but directed the Company to pay complainants their proportionate 13<sup>th</sup>-month pay. On appeal, the NLRC held that the complainants were regular employees with respect to the particular activity they were assigned until the activity ceased to exist and that they were entitled to separation pay, 13<sup>th</sup>-month pay, night shift differential and service incentive leave pay. The complainants claim that by virtue of this ruling, they are entitled to payment of a total of approximately ₱1.5 million as of March 2007. The case is presently pending before the Supreme Court on appeal of the Company.

There is also a case for illegal dismissal filed against GMA Marketing and Productions, Inc. (“GMPI”), another wholly-owned subsidiary of GMA Network, and its officers, Lizelle Maralag

and Leah Nuyda initiated by Corazon Guison, a former Sales Director of GMPI. The complainant claimed that she was unceremoniously terminated from her employment sometime in May 2010 and is entitled to reinstatement as well as payment of full backwages, unpaid commissions and salaries, moral and exemplary damages and attorney's fees. On January 31, 2011, the Labor Arbiter rendered a decision finding for complainant Guison and ordered the respondents to pay P807,007.50 as backwages and P1,691,000.00 as separation pay, as well as attorney's fees. On appeal, the NLRC reversed the decision of the Labor Arbiter and ordered the dismissal of plaintiff's complaint. Complainant filed a Petition with the Court of Appeals where it is pending.

### ***Infringement Cases***

The Company's officers, Felipe L. Gozon, Gilberto R. Duavit, Jr., Marissa L. Flores, Jessica A. Soho, Grace dela Peña-Reyes, John Oliver Manalastas, John Does and Jane Does were named as respondents in a criminal case initiated in June 2004 for copyright infringement before the City Prosecutor's Office of Quezon City and the Department of Justice ("DOJ"). The case was subsequently consolidated with the Company's counter charge for libel.

The respondents were charged in their capacities as corporate officers and employees of the Company responsible for the alleged unauthorized airing of ABS-CBN's exclusive live coverage of the arrival in the Philippines of Angelo dela Cruz, a Filipino overseas worker previously held hostage in Iraq. Aside from seeking to hold the named respondents criminally liable for infringement and unfair competition, ABS-CBN sought damages from the respondents jointly and severally in the aggregate amount of ₱200 million.

On July 27, 2004, the Company and certain of its officers filed a case for libel against certain officers of ABS-CBN for statements made in their programs Insider and Magandang Umaga Bayan relative to the incident involving the dela Cruz feed. The Company also seeks damages in the aggregate amount of ₱100 million.

In a Resolution dated December 3, 2004, the DOJ dismissed the complaint for libel against the ABS-CBN officers and employees and dropped the charges against the Company's officers except for Ms. Dela Peña-Reyes and Mr. Manalastas against whom the DOJ found probable cause for violation of the Intellectual Property Code. ABS-CBN filed a motion for partial reconsideration of the resolution on the grounds that the other named respondents were erroneously exonerated. The Company filed a petition for review with the DOJ with respect to the finding of probable cause against Ms. Dela Peña-Reyes and Mr. Manalastas and the dismissal of the case for libel which was denied. On August 1, 2005, the DOJ reversed the fiscal's resolution finding probable cause against Mr. dela Peña-Reyes and Mr. Manalastas and directed the fiscal to withdraw the Information. ABS-CBN filed a motion for reconsideration. Meanwhile, the DOJ issued a Resolution dated September 15, 2005 denying the Company's Petition for Review and ruling that ABS-CBN's officers and employees did not commit libel. The Company filed a motion for reconsideration.

On June 29, 2010, the DOJ issued a Resolution granting both the Company's and ABS-CBN's Motion for Reconsideration, and directing the filing of Information against ABS-CBN's officers and employees for libel. ABS-CBN moved for reconsideration which was denied by the DOJ. ABS-CBN filed a Petition with the Court of Appeals. In the meantime, an Information for libel was filed by the Quezon City Prosecutor with the Regional Trial Court of Quezon City, Branch 88.

The Company elevated the DOJ's June 29, 2010 Resolution directly to the Court of Appeals via a Petition for Certiorari docketed as CA-G.R. SP No. 115751. On November 9, 2010, the Court of Appeals issued a decision granting the Company's Petition for Certiorari and reversing the DOJ Resolution dated June 29, 2010 and reinstating the DOJ Resolution dated August 1, 2005 which ordered the withdrawal of Information for copyright infringement. ABS-CBN filed a Petition with the Supreme Court where it is pending.

### ***Libel Case***

A complaint for libel against Miguel Enriquez, as well as an action for ₱20 million in civil damages against the Company, Miguel Enriquez, and several others, was filed by Robert Lyndon Barbers, et al., for an episode of the program **Imbestigador**, concerning the widespread sale of kidneys in Siargao Island. The complainants alleged that they were made the subject of various imputations of wrongdoing in the episode in question. The complainants seek damages in the amount of ₱15 million for the malicious imputations; ₱2 million in moral damages; ₱2 million in exemplary damages; and ₱1 million in attorney's fees and expenses of litigation. After the provisional dismissal of the criminal case, the civil case for damages was also dismissed by mutual agreement of the parties.

### ***Civil Cases***

A complaint for damages was filed by Dolores Domingo, a Bureau of Customs ("BOC") employee, against the Company, Miguel Enriquez, Carmela Tiangco and Arnold Clavio sometime in 2003. The case arose from the airing of an episode of **Imbestigador**, **Saksi** and other programs, concerning two BOC employees who acquired motor vehicles disproportionate to their salaries as government employees. The plaintiff seeks moral damages in the amount of ₱400 thousand; nominal damages in the amount of ₱20 thousand; exemplary damages in the amount of ₱20 thousand; attorneys fees in the amount of ₱50 thousand as well as the cost of suit. The Regional Trial Court of Manila dismissed the complaint after trial.

Another case for damages was filed by Ronaldo Virola against Miguel Enriquez and the Company. Ronaldo Virola filed a case for damages arising from the airing of **Imbestigador** episodes showing the interviews of "Myra" and "Chona" who accused Virola of placing drugs in their drinks before molesting them. The said **Imbestigador** episodes also showed the raid conducted by operatives of Task Force Jericho of the Department of Interior and Local Government who applied for a warrant to search the residence of Virola. The complaint sought ₱800 thousand in moral damages, ₱300 thousand in exemplary damages, attorney's fees in the

amount of ₱100 thousand and the cost of suit. The Regional Trial Court of Caloocan dismissed the complaint after trial. Plaintiff appealed to the Court of Appeals.

On June 25, 2008, Mary the Queen Hospital filed a case for damages against the Company, Mike Enriquez as well as certain other members of the show, **Imbestigador**. The hospital alleged that the show damaged its reputation by falsely accusing them of illegally detaining a patient for failure to settle hospital bills. The hospital claimed a total of ₱ 5.5 million in moral, exemplary and temperate damages, as well as costs of the suit. The plaintiff is in the process of presenting its evidence.

Another case involved the Company and members of the show **Imbestigador**, stemmed from a story involving a police officer allegedly extorting money from arrested drug dependents, which ultimately led to his arrest. On September 4, 2008, the complaint sought to enjoin the airing of the story relating to his arrest by filing a case for injunction. However, the plaintiff's application for restraining order was denied by the RTC of Quezon City. Plaintiff then filed an amended complaint to include a claim for damages. The plaintiff is still presenting evidence before the trial court.

A petition for indirect contempt with damages was filed against GMA DYSI Super Radyo and other individual respondents alleging that they violated the sub judice rule by commenting on issues in an ongoing case on **Saksi sa Gab-I**. Plaintiff prayed for damages in the amount of about half a million in damages. The plaintiff unilaterally dismissed the complaint as against the company only.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

### Market Information

#### **Stock Prices GMA7**

<u>Period in 2012</u>	<u>Highest Closing</u>	<u>Lowest Closing</u>
1Q	10.00	6.60
2Q	10.62	8.45
3Q	10.90	9.65
4Q	9.50	8.20

## Stock Prices GMAP

<u>Period in 2012</u>	<u>Highest Closing</u>	<u>Lowest Closing</u>
1Q	10.94	6.53
2Q	10.50	8.19
3Q	10.78	9.42
4Q	9.45	8.00

The Company's common shares and Philippine Deposit Receipts have been listed with the Philippine Stock Exchange since 2007. The price information as of the close of the latest practicable trading date April 16, 2013; GMA7's closing price is P9.85 for GMA 7 and P10.00 for GMAP (PDRs).

## Holders

There are 1,770 holders of common equity as of March 31, 2013. The following are the top 20 holders of the common equity of the Company:

<b>Name of Shareholders</b>	<b>No. of Common Shares</b>	<b>Percentage of Ownership of Total Common Shares</b>
GMA Holdings, Inc.	857,509,800	25.49%
Group Management & Development, Inc.	789,813,389	23.47%
FLG Management & Development Corp.	663,929,027	19.73%
M.A. Jimenez Enterprises, Inc.	453,882,095	13.49%
Television International Corp.	334,378,037	9.94%
PCD Nominee Corp.	221,087,746	6.57%
Gozon Development Corp.	14,033,954	0.42%
Gozon Foundation Inc.	4,514,361	0.13%
Gilberto R. Duavit, Jr.	4,007,006	0.12%
Alegria F. Sibal	1,093,252	0.03%
Felipe S. Yalong	1,025,000	0.03%

<b>Name of Shareholders</b>	<b>No. of Common Shares</b>	<b>Percentage of Ownership of Total Common Shares</b>
Alberto Tio Ong	1,000,000	0.03%
Jose Mari L. Chan	872,000	0.03%
Judith Duavit Vazquez	588,000	0.02%
Anna Teresa G. Abrogar	529,000	0.02%
Jose P. Marcelo	501,498	0.01%
Nita Laurel Yupangco	346,127	0.01%
Jose C. Laurel V	346,127	0.01%
Susana Laurel -Delgado	346,127	0.01%
Horacio P. Borromeo	326,735	0.01%

The following are the top 20 holders of the Company's preferred shares as of March 31, 2013:

<b>Name of Shareholders</b>	<b>No. of Preferred Shares</b>	<b>Percentage of Ownership of Total Preferred Shares</b>
Group Management & Development Inc.	2,625,805,308	35.0130%
FLG Management & Development Corp.	2,181,898,644	29.0939%
M.A. Jimenez Enterprises	1,508,978,826	20.1210%
Television International Corp.	1,111,661,610	14.8231%
Gozon Development Corp.	46,245,306	0.6166%
Gozon Foundation Inc.	15,020,670	0.2003%
Alegria F. Sibal	2,623,806	0.0350%
Jose P. Marcelo	1,203,594	0.0160%
Sotero H. Laurel	830,706	0.0111%
Nita Laurel Yupangco	830,706	0.0111%
Jose C. Laurel V	830,706	0.0111%
Juan Miguel Laurel	830,706	0.0111%
Susana Laurel-Delgado	830,706	0.0111%
Ma. Asuncion Laurel-Uichico	830,706	0.0111%
Horacio P. Borromeo	784,164	0.0105%
Francis F. Obana	105,120	0.0014%
Eduardo Morato	38,028	0.0005%
Antonio Gomez	30,420	0.0004%
Jose N. Morales	30,420	0.0004%
Paul Sim	30,420	0.0004%

The information presented does not relate to an acquisition, business combination or other reorganization.

### Dividend Information

Dividends shall be declared only from the surplus profits of the corporation and shall be payable at such times and in such amounts as the Board of Directors shall determine, either in cash, shares or property of the Company, or a combination of the three, as said Board of Directors shall determine. The declaration of stock dividends, however, is subject to the approval of at least two-thirds of the outstanding capital stock. No dividend which will impair the capital of the Company shall be declared. The Company has no contractual restrictions which would limit its ability to declare any dividend.

### *Dividend History of the Company*

<u>Year</u>	<u>Amount</u>	<u>Date Declared</u>	<u>Type of Dividend</u>
2005	₱ 218,521,203.5	February 17, 2005	Cash and Property
2005	₱ 3,000,000,000.0	October 11, 2005	Stock
2006	₱ 1,150,000,000.0	June 13, 2006	Cash and Property
2007	₱ 1,500,000,000.0	March 19, 2007	Cash
2007	₱ 375,000,000.0	April 26, 2007	Stock
2007	₱ 1,000,000,000.0	July 2, 2007	Cash
2008	₱ 1,214,163,001.0	May 21, 2008	Cash
2009	₱ 1,701,069,453.0	April 2, 2009	Cash
2010	₱ 2,187,089,296.56	March 25, 2010	Cash
2010	₱ 1,215,049,069.20	October 28, 2010	Cash
2011	₱ 2,187,089,296.56	March 11, 2011	Cash
2012	₱ 1,944,079,375	April 16, 2012	Cash
2012	₱ 1,264,794,293	August 22, 2012	Cash
2013	₱ 1,215,049,609	March 21, 2013	Cash

The Company's Board of Directors has approved a dividend policy which will entitle holders of the Common Shares to receive annual cash dividends equivalent to a minimum of 50% of the prior year's net income based on the recommendation of the Board of Directors. Such recommendation will take into consideration factors such as the implementation of business plans, operating expenses, budgets, funding for new investments, appropriate reserves and working capital, among others. The cash dividend policy may be changed by the Company's Board of Directors at any time.

### Recent Sales of Unregistered or Exempt Securities

No sale of unregistered or exempt securities of the Company has occurred within the past three years.

## **Item 6. Management Discussion and Analysis of Financial Condition and Results of Operations for the Years Ended December 31, 2011 and 2010**

The Management Discussion and Analysis provides a narrative of the Company's financial performance and condition that should be read in conjunction with the accompanying financial statements, which have been prepared in accordance with accounting principles generally accepted in the Philippines.

As discussed below, the Company's financial statements do not show any losses from operation and hence the Company has not taken any measures to address the same.

### **KEY PERFORMANCE INDICATORS**

The Company uses the following measures to assess its performance from period to period.

#### **Ratings**

The performance of a program and/or network as a whole with respect to household ratings is the primary consideration for an advertiser in the Philippines to determine whether to advertise on a given program and/or network. AGB Nielsen, a media research firm, provides ratings to the Company on a subscription basis.

#### **Load Factor**

Load factor refers to the amount of advertising minutes aired during the breaks in a program as a percentage of the total minutes available for advertisement. The load factor is an indication of a program or a timeblock's ability to sell advertising minutes. Load factor statistics are internally generated, although certain third parties monitor such statistics.

#### **Signal reach/coverage**

The ability to reach a greater number of viewers is a part of the Company's strategy to provide its advertisers with more value for their advertising expenditures. The Company frequently assesses its signal strength and coverage by conducting in-house field intensity surveys and tests.

#### **Subscriber count**

Subscriber count is the key performance indicator for some of the Company's initiatives to diversify its revenue base beyond advertising revenues. The number of subscribers to GMA Pinoy TV and GMA Life TV and to the Company's ancillary media services, such as those provided by GMA New Media, form the benchmark for measuring the success of these services. The Company makes internal assessments to determine the market potential for each new initiative and sets a subscriber count target accordingly.

#### **Cost control**



The Company is continuously searching for ways to control costs and to improve efficiency. The Company has established systems and procedures to monitor costs and measure efficiency and has launched various initiatives and activities in relation to these efforts.

## FINANCIAL AND OPERATIONAL RESULTS

### For the Year Ended December 31, 2012

GMA Network, Inc. (the Company) reported consolidated gross revenues of ₱13,929 million for the full year of 2012, up by 6% versus 2011. At the end of the period, the Network managed a 7% growth in airtime sales to ₱12,703 million that comprised 91% of its gross revenues. Revenues from other businesses inched up 2% year-on-year.

The Company saw a 6% increase in its total operating expenses (OPEX) for the year to ₱9,538 million owing primarily to the hike in non-cash OPEX in order to further diversify and strengthen its programming and establish its presence nationwide. Although without the impact of one-time personnel related expenses, total OPEX grew by only 4%.

GMA thus ended 2012 with earnings before interest, taxes, depreciation and amortization (EBITDA) of ₱3,414 million, reaching a double-digit gain of 11% year on year.

However, due to the rise in non-cash OPEX, net income after tax settled at ₱1,617 million, a decline of 5% versus a year ago. The Company opted to do an early adoption of the PAS 19(R) on Employee Benefits which resulted in a reported total comprehensive income of ₱1,697 million for the year 2012, higher by 3% than the ₱1,641 million in 2011, as restated.

<b>Income Data</b>	<b>2012</b> <i>(in millions PhP)</i>	<b>2011 - As restated</b> <i>(in millions PhP)</i>	<b>Inc/(Dec)</b> <i>(in millions PhP)</i>	<b>%</b>
<b>Gross Revenues</b>				
Television and radio airtime	<b>12,703.4</b>	11,881.2	822.2	7%
Production and others	<b>1,226.0</b>	1,201.6	24.4	2%
	<b>13,929.4</b>	13,082.8	846.6	6%
<b>Total operating expenses</b>	<b>9,537.7</b>	8,984.9	552.8	6%
<b>EBITDA</b>	<b>3,413.6</b>	3,070.0	343.6	11%
<b>Net Income</b>	<b>1,616.9</b>	1,704.6	(87.8)	-5%

### Revenues

Consolidated gross revenues for the year of ₱13,929 million, comprised of airtime revenues from television and radio, subscription revenues from international operations, and other revenues from subsidiaries, recorded an ₱847 million or 6% increase from the ₱13,083 million top line pegged a year ago.

<b>Gross Revenues</b>	<b>2012</b> <i>(in millions PhP)</i>	<i>2011 - As restated</i> <i>(in millions PhP)</i>	<i>Inc/(Dec)</i> <i>(in millions PhP)</i>	<b>%</b>
Television and radio airtime	<b>12,703.4</b>	11,881.2	822.2	7%
Production and others	<b>1,226.0</b>	1,201.6	24.4	2%
	<b>13,929.4</b>	13,082.8	846.6	6%

Flagship channel – Ch 7’s revenue of ₱11,814 million drove this year’s increase by posting ₱ 788 million in incremental sales or an equivalent of 7% growth year-on-year, due to its consistent nationwide leadership across the year.

For the full year 2012, GMA led rival networks in nationwide ratings for the second year in a row based on data from the industry’s more widely recognized ratings service provider Nielsen TV Audience Measurement. For the covered period, GMA scored an average total day household audience share of 34.4%, leading ABS-CBN’s 31.5% by 2.9 points, and TV5’s 15.1% by 19.3 points.

GMA also ruled across all dayparts in the important areas of Urban Luzon and Mega Manila, which make up 77% and 59.5%, respectively, of the total urban television population in the country.

In Urban Luzon, GMA scored a 38.2% average total day household audience share, ahead by 10.8 points over ABS-CBN’s 27.4% and by 23.6 points over TV5’s 14.6% average. GMA also ended 2012 strongly in its bailiwick Mega Manila with an average total day household audience share of 39.2%, up 13.4 points from ABS-CBN’s 25.8% and up by 24 points from TV5’s 15.2%.

GMA subscribes to Nielsen TV Audience Measurement along with 22 other paying subscribers including another local major television network (TV5), Faulkner Media, CBN Asia, 15 advertising agencies, and 4 regional clients. In Mega Manila, Nielsen has a sample size of 1,190 homes versus Kantar Media’s 770 homes. Nationwide, Nielsen has an urban sample size of 2,000 homes compared to the lower sample size of 1,370 utilized by Kantar Media.

The improvement in the top line of the core channel was supported by revenues from Regional TV, the business unit that oversees GMA’s regional TV operations, which climbed a significant 25%, as a result of various expansion and improvement efforts in different areas nationwide. Leading local news channel GMA News TV, on the other hand, gained a modest 2% increase in its top line on its second year of operations, while airtime revenues from Radio dropped 3%.

Meanwhile, revenues from other sources contributed an additional ₱1,226 million to the total top line, recording a net improvement of ₱24 million or 2% from last year. GMA International, which manages the operations and distribution of the Network’s international channels, recorded an upswing in subscriber base of its primary channel GMA Pinoy (GPTV) and its lifestyle channel GMA Life TV (GLTV) of 13% to 329,108 and 9% to 124,884, respectively, at the period’s closing. However, subscription and advertising revenues from GMA International fell a tad short

by 0.9% partly dragged by the appreciation of the Peso against the US dollar by an average of 3%. Discounting the impact of the forex fluctuation, international sales slightly grew by 2%.

Subsidiaries' operations pitched in a 13% escalation in revenues from 2011. The growth mainly came from the newly launched Digify, Inc., GMA New Media's new techno-creative lab that provides technology-based solutions to other companies, which generated bulk of the net increase in this category.

GMA Films' co-produced entry to the 2012 Metro Manila Film Festival *Si Agimat, Si Enteng, at si Ako* raked in almost P98 million in gross receipts, while Julie Anne San Jose's self-titled album by GMA Records clinched a Double Platinum Record Award from its combined physical and digital sales of almost 38,000 units for the period August 15, 2012 to December 15, 2012. San Jose's carrier single titled "I'll Be There" gained over 245,000 downloads for the same period, which earned for it a Platinum Digital Single Award. According to PARI, San Jose is the very first recipient of this award.

GMA Worldwide, Inc. (GWI), GMA's content acquisition and distribution arm, likewise sold over 60 program and movie titles to Brunei, Cambodia, Hong Kong, Indonesia, Korea, Macau, Malaysia, Myanmar, Singapore, Thailand, Vietnam, Italy, Kenya, Tanzania and USA.

## **Expenses**

The Company's total operating expenses (OPEX) for the year reached P9,538 million, up 6% or P553 million from a year ago. Total direct costs (cash and non-cash production costs) inched up by only 2% while general and administrative expenses grew by 11%. Excluding the one-time signing bonus arising from the recent Collective Bargaining Agreement (CBA) of its employees, GAEX rose by a manageable 7% year-on-year.

Total direct cost for 2012 reached P5,220 million, higher by only P115 million or 2% year-on-year. Comprising 86% of total direct cost, cash production cost of P4,505 million even dropped by P58 million or 1% year-on-year. The spike in total production cost came from the 45% rise in amortization of program rights. Higher costing movies were shown (i.e. James Bond series, etc) which were also Tagalized to cater to viewer preference, thus incurring dubbing costs. Likewise, there was a build up of inventory of film rights amortized systematically over the period of the broadcast license agreement. Depreciation charges likewise increased due to the commissioning of the state-of-the-art Media Asset Management System (MAMS) that allows the Network to migrate to a tapeless, file-based workflow in the last quarter of 2011, along with massive investments for the launch of multi-million peso originating stations in Ilocos Norte (GMA Ilocos) and Naga City (GMA Bicol) in 2012.

	<b>2012</b> <i>(in millions PhP)</i>	<i>2011 - As restated</i> <i>(in millions PhP)</i>	<b>Inc/(Dec)</b> <i>(in millions PhP)</i>	<b>%</b>
<b>Production Costs</b>				
Talent fees	<b>2,753.5</b>	2,776.4	(22.9)	-1%
Rentals and outside services	<b>690.3</b>	763.3	(73.0)	-10%
Other program expenses	<b>1,061.5</b>	1,023.6	37.9	4%
<b>Sub-total - Cash Production Costs</b>	<b>4,505.2</b>	4,563.2	(58.0)	-1%
Program rights amortization	<b>460.9</b>	317.5	143.4	45%
Depreciation and amortization	<b>253.6</b>	224.2	29.4	13%
<b>Sub-total - Non-cash Production Costs</b>	<b>714.5</b>	541.7	172.8	32%
<b>Total production costs</b>	<b>5,219.8</b>	5,105.0	114.8	2%

The Company's total general and administrative expenses (GAEX) climbed by 11% to ₱4,318 million by the end of 2012. Personnel cost which comprised nearly 50% of total GAEX contributed the bulk of this year's increase owing primarily to the payment of the non-recurring employee bonuses as mentioned earlier compounded by the growth in the Network's manpower headcount. Minus the impact of this one-time bonus, total GAEX rose by only 7%.

	<b>2012</b> <i>(in millions PhP)</i>	<i>2011 - As restated</i> <i>(in millions PhP)</i>	<b>Inc/(Dec)</b> <i>(in millions PhP)</i>	<b>%</b>
<b>General and Administrative Expenses</b>				
Personnel costs	<b>2,091.7</b>	1,729.6	362.1	21%
Outside services	<b>654.1</b>	667.0	(12.9)	-2%
Facilities costs	<b>473.5</b>	458.0	15.5	3%
Taxes and licenses	<b>141.8</b>	211.4	(69.6)	-33%
Others	<b>537.4</b>	469.6	67.9	14%
<b>Subtotal - Cash GAEX</b>	<b>3,898.5</b>	3,535.6	362.9	10%
Depreciation and amortization	<b>356.0</b>	294.2	61.8	21%
Provision for doubtful accounts	<b>35.8</b>	24.5	11.2	46%
Amortization of software costs	<b>27.7</b>	25.7	2.0	8%
<b>Subtotal - Non-cash GAEX</b>	<b>419.5</b>	344.4	75.1	22%
<b>Total GAEX</b>	<b>4,317.9</b>	3,880.0	438.0	11%

Other increases in GAEX were brought about by spending in research and survey services, particularly for this year's subscription to digital capable metering technology for Rural TV Audience (RTAM).

## EBITDA

With the increase in top line outpacing the absolute growth in cash OPEX, EBITDA sealed the year at ₱3,414 million, reaching a double digit growth of 11% or ₱344 million year on year.

## Net Income

Due to the rise in non-cash OPEX of ₱248 million the EBITDA advantage was heavily weighed down – thus, net income before tax (NIBT) settled at ₱2,307 million, only ₱82 million or 4% ahead of last year. Moreover, a higher effective corporate income tax rate ensued with the conclusion of the Income Tax Holiday grant from BOI resulting in a net increase in the provision for income tax by ₱169 million or 33%. This further drove the Company's bottom line for 2012 to end at ₱1,617 million, ₱88 million or 5% lower than a year ago.

As the Company decided to do an early adoption of the Revised PAS 19, adjustments to other comprehensive income were made resulting in a total comprehensive income of ₱1.697 billion, 3% more than the restated total comprehensive income of 2011.

## Balance Sheet Accounts

Consolidated assets totaled ₱12,847 million, equivalent to a 5% rise from last year's ₱12,189 million. The increase came primarily from property and equipment which rose by ₱367 million or 11% closing at ₱3,619 million by the end of the year (mainly from the newly operated originating stations in Ilocos and Naga).

Trade days-sales-outstanding (DSO) improved by 11 days to 109 days at end-2012 vs. 120 days at the close of 2011.

On the other hand, total liabilities of ₱4,577 million spiked by 90% or ₱2,170 million driven by the presence of ₱1,700 million in notes payable mainly in relation to the special cash dividend paid out last September.

Equity of ₱8,270 million ended lower this year by 15% or ₱1,152 million resulting from lower net income realized during the year and from the cash dividend payouts.

<b>Cash Flows</b>	<b>2012</b> <i>(in millions PhP)</i>	<b>2011 - As restated</b> <i>(in millions PhP)</i>
Net cash provided by operating activities	<b>2,599.0</b>	3,104.3
Net cash used in investing activities	<b>(989.5)</b>	(934.4)
Net cash used in financing activities	<b>(1,548.0)</b>	(2,199.1)
Effect of exchange rate changes on cash and cash equivalents	<b>(3.2)</b>	4.8
Net increase in cash and cash equivalents	<b>58.3</b>	(24.4)
Cash and cash equivalents at beginning of period	<b>1,208.0</b>	1,232.4
<b>Cash and cash equivalents at end of period</b>	<b>1,266.2</b>	1,208.0

## Operating Activities

Net cash from operations registered at ₱2,599 million this year. This resulted from income before income tax of ₱2,293 million adjusted mainly by depreciation expense of ₱610 million, movement of pension liability before interest cost of ₱74 million, interest expense and financing charges on short-term loans of ₱43 million, interest income of ₱35 million and gain on sale of

property and equipment of ₱29 million apart from the changes in working capital. The primary components of the changes in working capital include the ₱289 million reduction in trade and other receivables owing to more aggressive collection efforts, partly offset by the ₱459 million rise in program and other rights from higher acquisition vis-à-vis usage and ₱16 million hike in prepaid expenses.

### **Investing Activities**

Net cash used in investing activities amounted to ₱990 million, coming primarily from the ₱975 million additions to property and equipment and ₱36 million worth of software costs. Also contributing to the cash used in investing activities was the ₱10 million joint venture with Manila Jockey Club. These were partly offset by the ₱31 million proceeds from sale of property and equipment and investment properties.

### **Financing Activities**

Net cash used in financing activities amounted to ₱1,548 million basically for the cash dividend payout amounting to ₱3,206 million during the year plus some ₱42 million in interest expense netted by ₱1,700 million remaining proceeds from short-terms loans. The Company availed total loans of ₱3,200 million in year 2012 of which ₱1,500 million were already paid before the year end.

## **FINANCIAL AND OPERATIONAL RESULTS**

### **For the Year Ended December 31, 2011**

The objective in grabbing the much coveted leadership in the national ratings game was finally attained by the first quarter of 2011 – a fitting reward to the unrelenting efforts poured into via a multitude of regional synergy initiatives and in continuously striving to delight our customers with innovative programming. This upper hand was instrumental in mitigating the adverse impact of developments in the international market particularly in the second half of the year which led to significant cutback in ad spend by major advertisers.

The Company ended the year with consolidated gross revenues of ₱13,083 million, translating into a 7% growth from regular advertising and other revenue sources vs. a year ago, after stripping the impact of some ₱2,054 million worth of political advocacies and advertisements in 2010's top line. Inclusive of the windfall from the 2010 national and local elections, consolidated gross revenues fell short by 9% year-on-year. The absence of this considerable contribution from prior year's election campaign coupled with cost increases drove consolidated net income to settle at ₱1,705 million or slightly over a billion less than comparable period.

<b>Income Data</b>	<b>2011 - As restated (in millions Php)</b>	<b>2010 - As restated (in millions Php)</b>	<b>Inc/(Dec) (in millions Php)</b>	<b>%</b>
<b>Gross Revenues</b>				
Television and radio airtime	<b>11,881.2</b>	13,192.7	(1,311.5)	-10%
Production and others	<b>1,201.6</b>	1,106.8	94.8	9%
	<b>13,082.8</b>	14,299.5	(1,216.7)	-9%
<b>Total operating expenses</b>	<b>8,984.9</b>	8,292.4	692.6	8%
<b>EBITDA</b>	<b>3,070.0</b>	4,724.3	(1,654.3)	-35%
<b>Net Income</b>	<b>1,704.6</b>	2,828.1	(1,123.4)	-40%

## Revenues

Consolidated gross revenues for the year, comprised of airtime revenues from television and radio, subscription revenues from international operations, and other revenues from subsidiaries, climbed ₱837 million or 7% more than the ₱12,246 million top line generated from recurring advertisements and other sources a year ago.

	<b>2011 - As restated (in millions Php)</b>	<b>2010 - As restated (in millions Php)</b>	<b>Inc/(Dec) (in millions Php)</b>	<b>%</b>
<b>Gross Revenues</b>				
<b>Gross Revenues</b>				
Television and radio airtime	<b>11,881.2</b>	11,138.9	742.3	7%
Production and others	<b>1,201.6</b>	1,106.8	94.8	9%
	<b>13,082.8</b>	12,245.7	837.1	7%
Add: Political advertisements	-	2,053.8	(2,053.8)	-100%
	<b>13,082.8</b>	14,299.5	(1,216.7)	-9%

Airtime revenues ended at ₱11,881 million for 2011 up 7% than 2010's top line from regular advertising. Inclusive of political ads in 2010 however, a 9% drop equivalent to ₱1,217 million was reflected in total gross revenues for this year.

Core channel, GMA-7 posted an improvement in its regular advertising revenues of 8% or ₱828 million vs. same period in 2010. Regional TV sales were likewise upbeat in 2011 with the lead in nationwide ratings giving the much needed push. Thus, RTV ended with a 21% hike year-on-year on recurring ad placements. Not to be left behind, Radio operations once again proved its steadfastness growing regular sales by 15%, likewise benefitting from the improvement in ratings standing in the radio broadcast industry. Lastly, the newly reformatted Ch-11 (from QTV to GNTV) also steadily gained ground as it solidified the main competence of the Network as a reputable source and provider of balanced news and information.

Meanwhile, revenues from international operations, subsidiaries and other sources finished off with a 9% climb vs. last year. GMA's international channels, led by GMA Pinoy TV, GMA Life TV and the recently launched third channel GMA News TV recorded an increase in subscriber

take up of 7% with more than 290,000 subscribers by the end of 2011. Of this number, some 115,000 are also subscribers of GLTV.

## Expenses

Spending-wise consolidated operating expenses reached ₱8,985 million for the year, climbing 8% or ₱693 million compared to 2010. Total direct costs (cash and non-cash production costs) escalated by 11% while general and administrative expenses (GAEX) grew by only 5%.

Total direct cost for 2011 reached ₱5,105 million, ₱512 million or 11% higher vs. last year. Cash production cost hiked by ₱644 million or 16% over last year coming from the following: a.) generally higher costs of in-house produced soaps, in particular *Captain Barbell* and the trailblazer epic-serye *Amaya*; b.) annualization of an additional daily soap in the afternoon replacing co-produced program *Daisy Siete*; c.) reformatting of Ch-11 from QTV to GNTV entailing more station-produced shows vis-à-vis rented materials; and general increases in talent fees.

<b>Production Costs</b>	<b>2011 - As restated (in millions Php)</b>	<b>2010 - As restated (in millions Php)</b>	<b>Inc/(Dec) (in millions Php)</b>	<b>%</b>
Talent fees	2,776.4	2,330.5	445.9	19%
Rentals and outside services	763.3	658.9	104.4	16%
Other program expenses	1,023.6	929.5	94.1	10%
<b>Sub-total - cash production costs</b>	<b>4,563.2</b>	<b>3,918.9</b>	<b>644.4</b>	<b>16%</b>
Program rights amortization	317.5	463.9	(146.3)	-32%
Depreciation and amortization	224.2	210.5	13.7	7%
<b>Sub-total - cash production costs</b>	<b>541.7</b>	<b>674.3</b>	<b>(132.6)</b>	<b>-20%</b>
<b>Total production costs</b>	<b>5,105.0</b>	<b>4,593.2</b>	<b>511.7</b>	<b>11%</b>

The hike in cash production costs was partly offset by the reduction in non-cash production cost of ₱133 million or 20% between comparable periods. In particular, program rights amortization dropped by ₱146 million or close to one-third of 2010 cost resulting from the aforementioned repackaging of Ch-11 to mostly station-produced shows.



<b>General and Administrative Expenses</b>	<b>2011 - As restated (in millions Php)</b>	<b>2010 - As restated (in millions Php)</b>	<b>Inc/(Dec) (in millions Php)</b>	<b>%</b>
Personnel costs	<b>1,729.6</b>	1,587.6	142.0	9%
Outside services	<b>667.0</b>	667.3	(0.3)	-0.05%
Facilities costs	<b>458.0</b>	443.0	15.1	3%
Taxes and licenses	<b>211.4</b>	191.3	20.1	11%
Others	<b>469.6</b>	462.7	6.9	1%
<b>Subtotal - Cash GAEX</b>	<b>3,535.6</b>	3,351.8	183.7	5%
Depreciation and amortization	<b>294.2</b>	296.5	(2.3)	-1%
Amortization of software costs	<b>25.7</b>	20.2	5.5	27%
Provision for doubtful accounts	<b>24.5</b>	30.6	(6.0)	-20%
<b>Subtotal - Non-cash GAEX</b>	<b>344.4</b>	347.3	(2.9)	-1%
<b>Total GAEX</b>	<b>3,880.0</b>	3,699.2	180.8	5%

On the other hand, the increase in consolidated GAEX was kept at bay at P181 million or only 5%. Personnel cost was the main driver for this year's climb, ending at 9% or P142 million more vs. last year. The annual salary adjustments from the collective bargaining agreements (CBA) of rank and file employees and merit increases of confidential employees as well as the augmentation in manpower complement during the year accounted from the principal reasons for the growth in the account.

Outside services comprised of advertising and promotions, management and professional fees and sales incentives was sealed at par with last year. Additional spending in advertising and consultancy fees were negated by the decline in sales incentives attuned to the reduction in the top line this year.

Utilities and repairs and maintenance which made up Facilities costs inched up by 3% or P15 million between comparable periods. The constant escalation in power rate hike not only in Metro Manila but in the regions coupled with increase in consumption due to full utilization of the Company's facilities were tempered by the reduction in charges for corrective maintenance and replacement of machine/broadcast equipment parts.

Taxes and licenses wrapped up moderately higher by P20 million or 11% vis-à-vis same period a year ago. The growth in local franchise tax using the 2010 political ads-laden revenues as base influenced the increase in the account, coupled with a one-time payment for prior year's tax assessment.

Other cash GAEX also ended at par with last year balance rising by only P7 million or 1%.

Meanwhile, non-cash GAEX for the year dipped by P3 million or 1% year-on-year. The increase in amortization of software costs was negated by the decline in depreciation and lower provision for doubtful accounts on trade receivables.

## **Net Income**

The year ended with earnings before income, taxes, depreciation, and amortization of P3,070 million, and net income after tax of P1,705 million.

## Balance Sheet Accounts

Consolidated assets totaled ₱12,183 million, equivalent to a 5% reduction from last year's ₱12,876 million. Considerable decline was seen in Trade and other receivables from ₱5,532 million in 2010 to ₱4,191 million at the end of this year. The ₱1,341 million or 24% drop in the account was a combination of the slowdown in revenues compounded by aggressive collection efforts this year.

Trade days-sales-outstanding (DSO) improved to 120 days at end-2011 vs. 145 days at the close of 2010.

The decline in net income pulled down financial indicators of the Company to a lower level this year falling between 6 to 10 percentage points, but nevertheless remaining competitive industry-wide.

Equity settled at ₱9,782 million as of December this year, 5% lower than last year's ₱10,329 million resulting from the lower bottom line recorded during this year.

<b>Cash Flows</b>	<b>2011 - As restated (in millions Php)</b>	<b>2010 - As restated (in millions Php)</b>
Net cash provided by operating activities	<b>3,104.3</b>	2,706.4
Net cash used in investing activities	<b>(934.4)</b>	(262.5)
Net cash used in financing activities	<b>(2,199.1)</b>	(3,403.8)
Effect of exchange rate changes on cash and cash equivalents	<b>4.8</b>	(7.9)
Net increase (decrease) in cash and cash equivalents	<b>(24.4)</b>	(967.8)
Cash and cash equivalents at beginning of year	<b>1,232.4</b>	2,200.2
<b>Cash and cash equivalents at end of year</b>	<b>1,208.0</b>	1,232.4

## Operating Activities

Net cash from operations registered at ₱3,104 million this year. This resulted from income before income tax of ₱2,236 million adjusted mainly by depreciation expense of ₱518 million, net movement in pension liability before interest cost of ₱56 million, interest income from bank deposits and short-term investments of ₱29 million and amortization of software costs of ₱26 million apart from the changes in working capital. The primary components of the changes in working capital include the ₱1,339 million reduction in trade and other receivables owing to lower top line compounded with more aggressive collection efforts, partly offset by the ₱172 million rise in program and other rights from higher acquisition vis-à-vis usage, as the reformatted Ch-11 concentrated on station-produced programs vice a mix of in-house and canned shows and ₱90 million hike in prepaid expenses.

## Investing Activities

Net cash used in investing activities amounted to ₱934 million, coming primarily from the ₱903 million additions to property and equipment and ₱35 million worth of software costs. Also contributed to the cash used in investing activities was the ₱12 million decrease in other

noncurrent assets. These were partly offset by the ₱24 million proceeds from sale of property and equipment and investment properties.

## Financing Activities

Net cash used in financing activities amounted to ₱2,199 million basically for the cash dividend payout amounting to ₱2,188 million during the year plus some ₱11 million in interest expense.

## Key Financial Performance Indicators

The key financial performance indicators that the Company monitors are the following:

	<b>2012</b>	<b>2011 - as restated</b>
	<i>(in millions PhP)</i>	<i>(in millions PhP)</i>
Gross revenues	<b>13,929.4</b>	13,082.8
Gross airtime revenues	<b>12,703.4</b>	11,881.2
Cash operating expenses	<b>8,403.7</b>	8,098.8
EBITDA	<b>3,413.6</b>	3,070.0
Net income before tax	<b>2,307.2</b>	2,225.5
Net income after tax	<b>1,616.9</b>	1,704.6
	<b>2012</b>	<b>2011 - as restated</b>
Current ratio	<b>1.89</b>	4.16
Asset-to-Equity ratio	<b>1.55</b>	1.25
Debt-to-Equity ratio	<b>0.21</b>	n/a
Interest Rate Coverage ratio	<b>53.97x</b>	192.38x
EBITDA margin	<b>25%</b>	23%
Net income margin	<b>12%</b>	13%

## KEY VARIABLE AND OTHER QUALITATIVE OR QUANTITATIVE FACTORS

- i. Trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.

As of December 31, 2012, there were no known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.

- ii. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration or an obligation.

As of December 31, 2012, there were no events which may trigger a direct or contingent financial obligation that is material to the Company.

- iii. Material off-balance-sheet transactions, arrangements, obligations (including contingent obligations), and other relations of the company with unconsolidated entities or other persons created during the reporting period.

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

- iv. Material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures.

For 2013, the parent company has allotted ₱1,004 million for capital expenditures. This will be financed by internally-generated funds.

- v. Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

GMA Network's results of operations depend largely on the ability to sell airtime for advertising. The Company's business may be affected by the general condition of the economy of the Philippines.

- vi. Significant elements of income or loss that did not arise from the Company's continuing operations.

As of December 31, 2012, there were no significant elements of income or loss that did arise from the issuer's continuing operations.

- vii. Causes for Material Changes in the Financial Statements

Balance Sheet (December 31, 2012 vs. December 31, 2011)

- Cash and short-term investments rose 5% to ₱1,275 million at year-end which is directly attributed to this year's result of operation.
- Program rights increased by 63% to ₱1,189 million mainly due to higher acquisitions vis-à-vis usage.
- Net book value of property and equipment up by 11% to ₱3,620 million as additions to fixed assets went beyond asset retirements and depreciation.
- There were ₱1,700 million outstanding interest-bearing loans as of end-December 2012 and none in 2011.
- Trade payables and other current liabilities increased by 11% to ₱1,676 million year-on-year.
- The 110% hike in income tax payable resulted from conclusion of Income Tax Holiday grant at end-February 2012.
- Obligation for program rights climbed by 524% to ₱249 million as total payments made were lower than acquisitions on account during the year.
- Pension liability decreased by 3% to ₱369 million as contribution to retirement fund in 2012 was lower vs. the same period last year.

- viii. Seasonal aspects that had a material effect on the financial condition or results of operations.

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

#### Interim Periods

The Company currently cannot make available the financial information for the first quarter of 2013. The Company however, undertakes to submit its SEC Form 17-Q on or before May 15, 2013 and to make the same available upon request during the Company's Annual Stockholders' Meeting.

### **Item 7. Financial Statements**

**Refer to attached copy.**

### **Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Audit Committee reviews the fee arrangements with the external auditor and recommends the same to the Board of Directors. The Company's Audit Committee was formed in 2007 and was formally organized during the latter portion of that year. The members of the Audit Committee are as follows:

Dr. Jaime C. Laya (Chairman)  
Chief Justice Artemio V. Panganiban  
Anna Teresa M. Gozon-Abrogar  
Judith D. Vasquez  
Laura J. Westfall

The Audit Committee has recommended the appointment of Sycip Gorres Velayo and Co., as the external auditor of the Company. The Sycip Gorres Velayo & Co. has acted as the Company's external auditors since 1994. The same accounting firm is being recommended for re-election at the scheduled annual meeting.

The Company has not had any disagreements on accounting and financial disclosures with its current external auditors during the two most recent fiscal years or any subsequent interim period.

Sycip Gorres Velayo & Co. has no shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

## **AUDIT AND AUDITED RELATED FEES**

The aggregate fees billed for each of the last two years for professional services rendered by Sycip Gorres Velayo and Co., amounted to P6.0 million both in 2012 and 2011 (these included the fees related to financial audit and services for general tax compliance).

## **TAX FEES**

There was no specific engagement availed by the Company for purely tax accounting. The total fees of P6.0 million already included basic tax review.

## **ALL OTHER FEES**

Other than the foregoing services, no other product or service was provided by the external auditor to the Company.

## **PART III - CONTROL AND COMPENSATION INFORMATION**

### **Item 9. Directors and Executive Officers of the Issuer**

#### Board of Directors, Officers and Senior Management

Under the Articles of Incorporation of the Company, the Board of Directors of the Company comprises nine directors, two of whom are independent. The Board is responsible for the overall management and direction of the Company and meets regularly every quarter and other times as necessary, to be provided with updates on the business of the Company and consulted on the Company's material decisions. The directors have a term of one year and are elected annually at the Company's stockholders meeting. A director who was elected to fill a vacancy holds the office only for the unexpired term of his predecessor. As of March 31, 2013, the Company's Board of Directors and Senior Management are composed of the following:

<b>Board of Directors</b>				<b>Senior Management</b>		
<b>Directors and Senior Management</b>	<b>Nationality</b>	<b>Position</b>	<b>Year Position was Assumed</b>	<b>Position</b>	<b>Year Position was Assumed</b>	<b>Age</b>
Felipe L. Gozon	Filipino	Chairman/ Director	1975	Chief Executive Officer	2000	73

Judith D. Vazquez	Filipino	Director	1988	N/A	N/A	50
Gilberto R. Duavit, Jr.	Filipino	Director	1999	President/Chief Operating Officer	2010	49
Anna Teresa M. Gozon-Abrogar	Filipino	Director/ Assistant Corporate Secretary	2000	N/A	N/A	41
Joel Marcelo G. Jimenez	Filipino	Director	2002	N/A	N/A	49
Laura J. Westfall	Filipino	Director	2002	N/A	N/A	45
Felipe S. Yalong	Filipino	Director/ Corporate Treasurer	2002	Executive Vice President	2011	56
Artemio V. Panganiban	Filipino	Independent Director	2007	N/A	2007	76
Jaime C. Laya	Filipino	Independent Director	2007	N/A	2007	74
Roberto O. Parel	Filipino	Corporate Secretary	1993	N/A	N/A	57
Marissa L. Flores	Filipino	N/A	N/A	Senior Vice President, News and Public Affairs	2004	49

The following are descriptions of the business experiences of the Company's directors, officers and senior management:

**Felipe L. Gozon**, Filipino, 73 years old, is the Chairman of the Board of Directors and the Network's Chief Executive Officer.

Atty Gozon is a Senior Partner at the Law Firm of Belo Gozon Elma Parel Asuncion & Lucila. Aside from GMA Network, Inc., he is also Chairman and CEO of GMA Marketing and Productions, Inc. and GMA New Media, Inc.; Chairman and President of FLG Management and Development Corp.; Chairman of Alta Productions Group, Inc., Citynet Network Marketing and Productions, Inc., Mont-Aire Realty and Development Corp. Philippine Entertainment Portal, Inc., and RGMA Network, Inc.; Vice Chairman of Malayan Savings and Mortgage Bank; Director of, among other companies, Gozon Development Corp., Justitia Realty and Management Corp., Antipolo Agri-Business and Land Development Corp., Sagittarius Condominium Corp. and President of Lex Realty, Inc. He serves as Chairman of the Board of Trustees of GMA Kapuso Foundation, Inc., Kapwa Ko Mahal Ko Foundation, Inc., and The Potter and Clay Christian School Foundation, Inc.; Chairman and President of Gozon Foundation; and Trustee of Bantayog ng mga Bayani Foundation.

Atty. Gozon is a recipient of several awards for his achievement in law, media, public service, and business, including the prestigious Chief Justice Special Award given by the Chief Justice of the Philippines (1991), Presidential Award of Merit given by the Philippine Bar Association (1990 & 1993), CEO of the Year given by Uno Magazine (2004), Master Entrepreneur – Philippines (2004) by Ernst and Young, Outstanding Citizen of Malabon Award for Legal and Business Management by the Kalipunan ng Samahan sa Malabon (KASAMA) (2005), People of the Year by People Asia Magazine (2005) and Lifetime Achievement Award given by the UP Alumni Association (2012). He is also listed among Biz News Asia's Power 100 (2003 to 2010). Gozon was also selected as a member of the Advisory Board for the 2010 Asian Television Awards (ATA).

Atty. Gozon earned his Bachelor of Laws degree from the University of the Philippines (among the first 10 of his class) and his Master of Laws degree from Yale University Law School. He was admitted to the Bar in 1962, placing 13th in the Bar examinations.

**Gilberto R. Duavit, Jr.**, Filipino, 49 years old, is the President and Chief Operating Officer of the Network. He has been a Director of the Company since 1999 and is currently the Chairman of the Network's Executive Committee. Aside from GMA Network, Inc., he is the Chairman of the Board of GMA Network Films, Inc. and GMA Worldwide, Inc. and Vice Chairman of the Board of GMA Marketing and Productions, Inc. He also serves as President and CEO of GMA Holdings, Inc., Scenarios, Inc., RGMA Marketing and Productions, Inc., Film Experts, Inc., and Dual Management and Investments, Inc. He is the President and a Director of Group Management and Development, Inc.; President and Director of MediaMerge Corp., Citynet Network Marketing and Productions, Inc.; Director of RGMA Network, Inc., GMA New Media, Inc., Alta Productions Group, Inc., Optima Digital, Inc., and Monte-Aire Realty and Development Corp. He also serves as the President and a Trustee of GMA Kapuso Foundation, Inc., President of Guronasyon Foundation, Inc. (formerly LEAF) and is a Trustee of the HERO Foundation.

Mr. Duavit holds a Bachelor's Degree in Philosophy from the University of the Philippines.

**Joel Marcelo G. Jimenez**, Filipino, 49 years old, has been a Director of the Company since 2002. He is currently the Senior Vice President of GMA Marketing and Productions, Inc., and the Chief Executive Officer of Alta Productions, Inc. He is a Director of RGMA Network, Inc., GMA New Media, Inc., Scenarios, Inc., and GMA Worldwide, Inc., besides also being a member of the Board of Directors of Malayan Savings and Mortgage Bank, and Unicapital Securities, Inc. He is also a Director of Nuvoland Philippines, a real-estate development company. He is a Trustee of GMA Kapuso Foundation, Inc.

He was educated in Los Angeles, California where he obtained a Bachelor's Degree in Business Administration from Loyola Marymount University. He also obtained a Master's Degree in Management from the Asian Institute of Management.

**Felipe S. Yalong**, Filipino, 56 years old, is the Executive Vice President and Head of the Corporate Services Group of GMA Network, Inc. He has been a Director of the Company since 2002. Aside from GMA Network, Inc., he also serves as Director and Corporate Treasurer of GMA Holdings, Inc., Scenarios, Inc., and GMA Network Films, Inc.; Director of Unicapital, Inc., Majalco Finance and Investments, Inc., and GMA Marketing and Productions, Inc.; Corporate Treasurer of RGMA Network, Inc., Mediamerge Corp.; Executive Vice President of RGMA Marketing and Productions, Inc.; and Corporate Treasurer of the Board of Trustees of GMA Kapuso Foundation, Inc.



He obtained a Bachelor of Science degree in Business Administration Major in Accounting from the Philippine School of Business Administration and completed the Management Development Program at the Asian Institute of Management. He is a Certified Public Accountant.

**Atty. Anna Teresa G. Abrogar**, Filipino, 41 years old, has been a Director of the Company since 2000. Atty. Anna Teresa M. Gozon-Abrogar graduated valedictorian from grade school and high school at Colegio San Agustin. She graduated cum laude, BS Management Engineering from Ateneo de Manila University and obtained her Bachelor of Laws degree from the University of the Philippines where she graduated valedictorian, cum laude. She later obtained her Master of Laws from Harvard University.

She is a junior partner in Belo Gozon Elma Parel Asuncion & Lucila and was an Associate Professor in the University of the Philippines, College of Law where she taught taxation.

She is currently Programming Consultant to the Chairman/CEO of GMA Network, Inc. and the President of GMA Films, Inc. and GMA Worldwide, Inc. She is a trustee of GMA Kapuso Foundation.

**Judith Duavit Vazquez**, Filipino, 50 years old, has been a Director of the Company since 1988. She is a member of the following special committees: Audit & Risk Committee and Compensation & Remuneration Committee. Moreover, she sits on the boards of the following GMA7 subsidiaries: RGMA, Inc., GMA New Media, Inc., GMA Worldwide, Inc., and GMA Films, Inc. She is a member of the Board of Trustees of the GMA Kapuso Foundation, Inc.

Judith is an acknowledged visionary and industry mover in Philippine Information and Communication Technology space. In 1995, she laid the nation's first fiber in the Central Business District of Makati and developed the country's first ICT ready intelligent skyscraper - the 45-storey Peak Tower, which boasts the largest neutral telecommunications tower in the city.

Judith is the founder and chairman of PHCOLO, Inc. - the premier interconnection site of telecommunications and Internet Service Provider companies on four platforms: fixed-line fiber, cable, wireless and satellite.

Her successful and visionary efforts in the field of Information and Communications Technology, have earned her the moniker "Godmother of the Philippine Internet," a position in Computerworld's list of "Philippines' Most Powerful in ICT" and in 2011 "IT Executive of the Year" by the Philippine Cyber Press.

Her philanthropic endeavors include Asian Institute of Management's first Professorial Chair for Entrepreneurship and support to the University of the Philippines' School of Economics, among others. International organization memberships include the Asia Pacific Network Information Center, Pacific Telecommunications Council, IEEE, Clinton Global Initiatives Foundation, Young

Presidents'/World World Presidents' Organization and other local business organizations. She has served the Management Association of the Philippines as a member of the Board of Governors, and is a Senior Lecturer for Entrepreneurship at the College of Business Administration, University of the Philippines.

Judith holds a Bachelor of Science degree in Business Economics from the University of the Philippines and is an alumna of Harvard Business School, University of Michigan (Ann Arbor) and Asian Institute of Management.

In October 2011, she was elected to the Board of Directors of ICANN – the Internet Corporation For Assigned Names and Numbers- governing body of the Global Internet. ICANN coordinates the 3 unique identifiers, which permit the Internet to function as a single infrastructure: Domain names, IP addresses and Port Assignments. Judith is the First Asian Female elected to this august and powerful international body. She is member of the following ICANN board committees: Audit, Risk, and Structural Improvements. Eligible to serve ICANN for 3 terms, Judith's first term as a voting board member ends in 2014.

**Laura J. Westfall**, Filipino, 45 years old, has been a Director of the Company since 2000. She held the following positions in the Company — Senior Vice President of Corporate and Strategic Planning and Senior Vice President for Finance. In addition, she has served as Chairperson and President of GMA New Media. Prior to joining the Company, she worked for BDO Seidman – Los Angeles, an international audit and management consulting firm. She currently holds various positions in the Majent Group of Companies and serves as Board Member of Coffee Bean and Tea Leaf Philippines, Bronzeoak Clean Energy, Inc., and Malayan Bank.

She holds a Masters Degree in Public and Private Management from Yale University and a Bachelor of Science degree in Accounting from the University of Southern California. She is a Certified Public Accountant (CPA) in the State of California.

**Chief Justice Artemio V. Panganiban**, Filipino, 76 years old, has been an Independent Director of the Company since 2007. In 1995, he was named a Justice of the Supreme Court and in 2005, he was appointed Chief Justice of the Philippines — a position he held until December 2006. At present, he is also an Independent Director of these listed firms: First Philippine Holdings Corp., Metro Pacific Investments Corp., Manila Electric Company, Robinsons Land Corp., GMA Holdings, Inc., Metro Pacific Tollways Corp., Petron Corporation, Bank of the Philippine Islands, Asian Terminals, and a regular Director of Jollibee Foods Corporation. He is also a Senior Adviser of Metropolitan Bank, Independent Adviser of Philippine Long Distance Telephone Co., Chairman, Board of Advisers of Metrobank Foundation, Chairman of the Board of Philippine Dispute Resolution Center, Inc., and Member, Advisory Board of the World Bank and of the Asian Institute of Management Governance Council. He also is a column writer of The Philippine Daily Inquirer.

Upon his retirement, he was unanimously conferred a Plaque of Acclamation by the Associate Justices of the Supreme Court as the “Renaissance Jurist of the 21st Century;” and an Award of Honor by the Philippine Bar Association. In recognition of his role as a jurist, lawyer, civic leader, Catholic lay worker, business entrepreneur and youth leader, he had been the recipient of over 250 other awards from various governments, civic clubs, consumer associations, bar groups, religious movements and other non-government organizations, both local and international.

He obtained his Associate in Arts, “With Highest Honors” and later his Bachelor of Laws, with cum laude and “Most Outstanding Student” honors from the Far Eastern University. He placed sixth among more than 4,200 candidates who took the 1960 Bar examinations. He is likewise the recipient of several honorary doctoral degrees from various universities.

**Dr. Jaime C. Laya**, Filipino, 74 years old, has been an independent Director of GMA Network, Inc. since 2007. He is the Chairman and President of Philippine Trust Company (Philtrust Bank), Director of Ayala Land, Inc., Philippine AXA Life Insurance Company, Inc., Philippine Ratings Services Corporation, and Bankers Association of the Philippines. He also serves as Chairman of Don Norberto Ty Foundation, Inc.; Trustee of De la Salle University - Taft, St. Paul University-Quezon City, Cultural Center of the Philippines, Metropolitan Museum of Manila, Yuchengco Museum, Fundación Santiago, Inc., Ayala Foundation, Inc., and other foundations. He writes a weekly column for the *Manila Bulletin*.

He was Minister of Budget, 1975-1981; Minister of Education, Culture and Sports, 1984-86; Chairman of the Monetary Board and Governor, Central Bank of the Philippines, 1981-1984; Chairman, National Commission for Culture and the Arts, 1996-2001. He was faculty member of the University of the Philippines, 1957-1978 and Dean of the College of Business Administration, 1969-1974. In 1986, he founded J.C. Laya & Co., Ltd. (Certified Public Accountants and Management Consultants) later the Philippine member firm of KPMG International; he served as the firm's Chairman until his retirement in 2004.

He earned his BSBA, magna cum laude, University of the Philippines, 1957; M.S. in Industrial Management, Georgia Institute of Technology, 1960; Ph.D. in Financial Management, Stanford University, 1966. He is a Certified Public Accountant.

**Atty. Roberto O. Parel**, Filipino, 57 years old, has been the Corporate Secretary of the Company since 1993. He is a Partner at the Law Firm of Belo Gozon Elma Parel Asuncion & Lucila. His practice areas include labor relations, natural resources and intellectual property. He is a Director of Time-Life International Philippines, Capitaalex Holdings Philippines, Iplan Nickel Corporation, Nickel Laterite Resources, Inc., Berong Nickel Corporation, Ulugan Nickel Corporation, Ulugan Resources Holdings, Inc., Nickeline Resources Holdings, Inc., TMM Management Inc., and Assetvalues Holding Company, Inc.; Director and Corporate Treasurer of Selenga Mining Corporation; Corporate Secretary of Alta Productions Group, Inc., Scenarios,

Inc., Citynet Network Marketing and Productions, Inc., GMA Kapuso Foundation, Inc., Hinoba Holdings (Philippines), Inc.

He graduated from the University of the Philippines with a Bachelor of Arts degree in Philosophy and a Bachelor of Laws degree. He was admitted to the Philippine Bar in 1981. Atty. Parel further pursued legal studies through short programs at the Center of American and International Law and the Southwestern Legal Foundation in Dallas, Texas. Later, he attended a training program on Industrial Property Rights held by the Japan Institute of Invention and Innovation and the Association for Overseas Technical Scholarship in Tokyo, Japan.

**Marissa L. Flores**, Filipino, 49 years old, is the Senior Vice President for News and Public Affairs since 2004. She joined the Company in 1987 as a researcher for public affairs documentaries and special reports and held the positions of Assistant Vice President for Public Affairs, Vice President for Production – News and Public Affairs before her appointment to her current position.

The Rotary Club of Manila recognized her as Television News Producer of the Year in 1996. In 2004, she was awarded the prestigious TOYM (The Outstanding Young Men) for Broadcast Management. In 2012, she received the CEO Excel Award from the International Association of Business Communicators (IABC) Philippines.

The News and Public Affairs group under Ms. Flores continues to be the recipient of international awards, notably the New York Festivals, US International Film and Video Festival Awards, Asian TV Awards. GMA News and Public Affairs remains as the only Philippine broadcast network which has won highly-coveted Peabody Award (two Peabody awards as of 2010) — widely considered as broadcasting and cable's equivalent of the Pulitzer prize.

Besides overseeing news and public affairs programs in GMA Channel 7, it is also under Ms. Flores' leadership that GMA News Online was put up in 2007, and GMA News TV (GMA Network's news and public affairs channel on free TV) was launched in February 2011.

She earned her Bachelor's degree at the University of the Philippines, where she studied Journalism.

### Significant Employees

Although the Company and its key subsidiaries have relied on, and will continue to rely on, the individual and collective contributions of their executive officers and senior operational personnel, the Company and its key subsidiaries are not dependent on the services of any particular employee.

### Family Relationships

Judith D. Vazquez is the sister of Gilberto R. Duavit, Jr., and Joel Marcelo G. Jimenez and Laura J. Westfall are siblings. Anna Teresa M. Gozon-Abrogar is the daughter of Felipe L. Gozon. Felipe L. Gozon's sister, Carolina L. Gozon-Jimenez, is the mother of Joel Marcelo G. Jimenez and Laura J. Westfall.

#### Involvement in Certain Legal Proceedings

To the best of the Company's knowledge, during the past five years and up to date, there had been no occurrence of any of the following events which are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, or control person of the Company:

- Any filing of an insolvency or bankruptcy petition by or against any business of which such person was a general partner or executive officer, either at the time of the insolvency or within two years prior to that time;
- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, of any such person, excluding traffic violations and other minor offenses;
- Any final and executory order, judgment, or decree of any court of competent jurisdiction, domestic or foreign, against any such person, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and,
- Any final and executory judgment of any such person by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

#### Resignation of Directors

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual meeting of the Company because of a disagreement with the Company on matters relating to the Company's operations, policies and practices.

### **Item 10. Executive Compensation**

#### (a) CEO and Top 5 Compensated Executive Officers:

The following are the Company's highest compensated executive officers:

<b>Name and Position</b>	
Felipe L. Gozon	Chairman and CEO
Gilberto R. Duavit, Jr.	President and COO
Felipe S. Yalong	Senior Vice President, Corporate Services Group
Marissa L. Flores	Senior Vice President, News and Public Affairs

Jessica A. Soho	Vice President, News Programs			
	<b>Year</b>	<b>Annual salaries</b> (in Thousands)	<b>13th Month &amp; Bonuses</b> (in Thousands)	<b>Total</b> (in Thousands)
5 highest compensated officers	2010	79,172.2	70,954.1	150,126.4
	2011	80,585.7	53,642.4	134,228.1
	2012	75,335.3	57,615.6	132,951.0
	2013 (estimate)	78,348.8	59,920.3	138,269.0
Aggregate compensation paid to all officers and directors as a group	2010	119,163.7	117,828.8	236,992.5
	2011	117,612.5	84,338.5	201,951.0
	2012	122,618.2	94,243.7	216,862.0
	2013 (estimate)	127,523.0	98,013.5	225,536.5

(a) Directors and other Executive Officers

Section 8 of Article IV of the Company's By-Laws provides that as compensation of the directors, the Members of the Board shall receive and allocate yearly an amount of not more than two and a half percent (2.5%) of the net income after income tax of the corporation during the preceding year. Of the said 2.5%, one percent (1%) shall be allocated to the members of the Board of Directors to be distributed share and share alike. The remaining one and a half percent (1.5%) shall be allocated to the members of the Executive Committee to be distributed share and share alike.

Employee Stock Ownership Plan ("ESOP")

The Company has no outstanding options or warrants held by its CEO, the named executive officers, and all officers and directors as a group.

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

The security ownership of certain record and beneficial owners of more than 5% as of March 31, 2013 are as follows:

<b>Title Of class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Citizenship</b>	<b>Record / Beneficial</b>	<b>No. of shares held</b>	<b>Percent Owned</b>
Common	GMA Holdings, Inc. <sup>1</sup>  Unit 5D Tower One, One McKinley Place, Bonifacio Global City	Filipino	PCD Nominee Corporation	857,509,800	25.49%
Common	Group Management & Development Inc. <sup>2</sup>  No. 5 Wilson St., San Juan, Metro Manila	Filipino	The Record Owner is the Beneficial Owner	789,813,389	23.47%
Common	FLG Management & Development Corporation <sup>3</sup> Unit 2, 2/F, Building 2, 9 <sup>th</sup> Avenue, Bonifacio Global City, Taguig, Metro Manila	Filipino	The Record Owner is the Beneficial Owner	663,929,027	19.73%
Common	M.A. Jimenez Enterprises, Inc.  2/F Sagittarius Condominium, H. V. De la Costa St., Salcedo Village, Makati City <sup>4</sup>	Filipino	The Record Owner is the Beneficial Owner	453,882,095	13.49%
Common	Television International Corporation <sup>5</sup>  2/F Sagittarius Condominium, H. V. De la Costa St., Salcedo Village, Makati City	Filipino	The Record Owner is the Beneficial Owner	334,378,037	9.94%

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<sup>1</sup> The Board of Directors of GMA Holdings, Inc. has the power to decide how the shares owned in the Company are to be voted and has authorized Felipe L. Gozon and/or Gilberto R. Duavit, Jr. to vote on the company's shares in GMA Network, Inc.

<sup>2</sup> The Board of Directors of Group Management & Development, Inc. has authorized Gilberto R. Duavit, Jr. to vote on the common and preferred shares of the company in GMA Network, Inc.

<sup>3</sup> The Board of Directors of FLG Management & Development Corporation has authorized Felipe L. Gozon to vote on the common and preferred shares of the company in GMA Network, Inc.

<sup>4</sup> The Board of Directors of M.A. Jimenez Enterprises, Inc. has authorized Joel Marcelo G. Jimenez and/or Laura J. Westfall to vote on the common and preferred shares of the company in GMA Network, Inc.

<sup>5</sup> The Board of Directors of Television International Corporation has authorized Joel Marcelo G. Jimenez and/or Laura J. Westfall to vote on the common and preferred shares of the company in GMA Network, Inc.

<b>Total Common Shares</b>					
<b>3,099,512,348</b>					
<b>92.12%</b>					
Preferred	Group Management & Development Inc. No. 5 Wilson St., San Juan, Metro Manila	Filipino	The Record Owner is the Beneficial Owner	2,625,805,308	35.01%
Preferred	FLG Management & Development Corporation Unit 2, 2/F, Building 2, 9 <sup>th</sup> Avenue, Bonifacio Global City, Taguig, Metro Manila	Filipino	The Record Owner is the Beneficial Owner	2,181,898,644	29.09%
Preferred	M.A. Jimenez Enterprises, Inc. 2/F Sagittarius Condominium, H. V. De la Costa St., Salcedo Village, Makati City	Filipino	The Record Owner is the Beneficial Owner	1,508,978,826	20.12%
Preferred	Television International Corporation 2/F Sagittarius Condominium, H. V. De la Costa St., Salcedo Village, Makati City	Filipino	The Record Owner is the Beneficial Owner	1,111,661,610	14.82%
<b>Total Preferred Shares</b>					
<b>7,428,344,388</b>					
<b>99.04%</b>					

GMA Holdings, Inc. is 99% owned by Gilberto R. Duavit, Jr., Felipe L. Gozon and Joel Marcelo G. Jimenez. The shares of the Company owned by GMA Holdings, Inc. are covered by Philippine Deposit Receipts (“PDR”) which give the holder the right to delivery or sale of the underlying share. The PDRs are listed with the Philippine Stock Exchange.

Group Management and Development, Inc., FLG Management and Development Corporation, M.A. Jimenez Enterprises, Inc. and Television International Corporation are significant shareholders of the Company.

#### Security Ownership of Management as of March 31, 2013



As of March 31, 2013, the Company's directors and senior officers owned an aggregate of 6,771,350 common shares of the Company, equivalent to 0.20% of the Company's issued and outstanding common capital stock and 27,294 preferred shares equivalent to 0.00% of the Company's issued and outstanding preferred capital stock.

Stockholder Name	Position	Citizenship	Record / Beneficial (R/B)	No. of Common Shares Held	Percent of Common Shares	No. of Preferred Shares Held	Percent of Preferred Shares
Anna-Teresa M. Gozon-Abrogar	Director/Assistant Corporate Secretary	Filipino	R/B	529,003	0.02%	6	0.00%
Gilberto R. Duavit Jr.	Director/Pres. and COO	Filipino	R/B	4,007,000	0.12%	12	0.00%
Felipe L. Gozon	Director/Chairman and CEO	Filipino	R/B	3,181	0.00%	26,880	0.00%
Joel Marcelo G. Jimenez	Director	Filipino	R/B	325,003	0.01%	6	0.00%
Judith D. Vazquez	Director	Filipino	R/B	588,158	0.02%	378	0.00%
Laura J. Westfall	Director	Filipino	R/B	2	0.00%	6	0.00%
Felipe S. Yalong	Director/Executive Vice-President	Filipino	R/B	1,025,002	0.03%	6	0.00%
Jaime C. Laya	Independent Director	Filipino	R/B	294,000	0.009%	0	0.00%
Artemio V. Panganiban	Independent Director	Filipino	R/B	1	0.00%	0	0.00%
Marissa L. Flores	Senior Vice President – News and Public Affairs	Filipino	R/B	none	None	none	none

#### Voting Trust Holders of 5% or more

The Company is unaware of any persons holding more than 5% of shares under a voting trust or similar agreement.

#### Changes in Control

There are no existing provisions in the Articles of Incorporation or the By-Laws of the Company which will delay, defer or in any manner prevent a change in control of the Company. There have been no arrangements which have resulted in a change in control of the Company during the period covered by this report.

## **Item 12. Certain Relationships and Related Transactions**

### ***Advances to Affiliates***

The Company has, from time to time, made advances to certain of its affiliates. The advances are non-interest bearing.

As of December 31, 2012, Alta Tierra Resources, Inc. had advances owing to the Company in the amount of ₱4 million. Alta Tierra Resources, Inc. is a real estate holding company. Alta Tierra's outstanding shares are 8.2% owned by Majent Management and Development Corporation, and 91.8% by Group Management and Development, Inc.

As of December 31, 2006, the Company made advances to RGMA Network, Inc. in the amount of ₱225.3 million for RGMA's working capital requirements. On February 21, 2006, the Company's Board of Directors approved the conversion of a portion of such advances in the amount of ₱168 million into 7,205,882 shares of RGMA with a par value of ₱1.00 per share, representing approximately 49% of the outstanding capital stock of RGMA. The SEC approved the conversion of the advances into equity on February 6, 2007. As of the date hereof, RGMA's outstanding shares are 49% owned by the Company, 17.8% owned by Rachel Espiritu, 17.8% owned by the Jimenez family through Television International Corporation and 15.3% owned by the Gozon family through FLG Management and Development Corporation. There were no advances for working capital as of December 31, 2012 and 2011.

The Company also made advances to Mont-Aire in the amount of ₱121.4 million as of December 31, 2004. Of such advances, the Company converted the amount of ₱38.3 million into ₱38.3 million worth of common shares of Mont-Aire. Simultaneously, the other shareholders of Mont-Aire, namely, Group Management and Development, Inc., Television International Corporation and FLG Management and Development Corporation converted advances in the aggregate amount of ₱23.5 million made by them to Mont-Aire into ₱23.5 million worth of common shares of Mont-Aire. The SEC approved the conversion of the advances into equity on February 17, 2006. The Company owns 49% of Mont-Aire, with the remaining 51% being owned by the Duavit family, Gozon family and Jimenez family. Mont-Aire is a real estate holding company whose principal property is a 5.3 hectare property located in Tagaytay, Cavite. Such property is not used in the broadcasting business of the Company. As of December 31, 2012 and 2011, Mont-Aire has had advances owing to the Company in the amount of ₱84.5 million. Please see Note 20 of the Company's financial statements.

### ***Agreements with RGMA Network, Inc. ("RGMA")***

The Company has an existing agreement with RGMA for the latter to provide general management, programming and research, events management, on-air monitoring of

commercial placements, certificates of performance, billing and collection functions, and local sales service for the 25 radio stations of the Company. RGMA is paid management and marketing fees based on billed sales. Please see Note 20 of the Company's financial statements.

#### ***Agreements with GMA Marketing and Productions, Inc. ("GMA Marketing")***

The Company entered into a marketing agreement with its wholly-owned subsidiary, GMA Marketing wherein GMA Marketing agreed to sell television advertising spots and airtime in exchange for which GMA Marketing will be entitled to a marketing fee and commission. Apart from this, the Company likewise engaged the services of GMA Marketing to handle and mount promotional events as well as to manage the encoding, scheduling of telecast/broadcast placements and subsequent monitoring of sales implementations for which GMA Marketing is paid fixed monthly service fees. Please see Note 20 of the Company's financial statements.

#### ***Belo Gozon Elma Parel Asuncion & Lucila Law Office***

The Company and the law firm of Belo Gozon Elma Parel Asuncion & Lucila entered into a retainer agreement in 1993 under which Belo Gozon Elma Parel Asuncion & Lucila was engaged by the Company as its external counsel. As such external counsel, Belo Gozon Elma Parel Asuncion & Lucila handles all cases and legal matters referred to it by the Company. Other than Felipe L. Gozon, who is part of the Gozon Family, one of the principal shareholders of the Company, and director of the Company since 1975, some of the lawyers of Belo Gozon Elma Parel Asuncion & Lucila eventually assumed certain positions and functions in the Company either in their individual capacities or as part of the functions of Belo Gozon Elma Parel Asuncion & Lucila as the Company's external counsel. Please see Note 20 of the Company's financial statements.

## **PART IV – CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

GMA Network, Inc. is committed to the principles of good governance and recognizes their importance in safeguarding shareholders' interests and in enhancing shareholder value. The Company has adopted a Manual on Corporate Governance to institutionalize the Company's adherence to these principles. This Manual clearly sets out the principles of good management and defines the specific responsibilities of the Board, the Board Committees, and management within the over-all governance framework.

The Manual conforms to the requirements of the Philippine Securities and Exchange Commission and covers policies, among others:

(a) independent directors, (b) key board committees (e.g. Executive Committee, Nomination Committee, Audit and Risk Management Committee, Compensation and Remuneration

Committee); (c) independent auditors, (d) internal audit, (e) disclosure system of company's governance policies, (f) stockholder rights, (g) monitoring and assessment, and (h) penalties for non-compliance.

The Board of Directors, led by the Chairman, Atty. Felipe L. Gozon, strongly advocates accountability, transparency and integrity in all aspects of the business and commits themselves to the best practices of governance in the pursuit of the Company's Mission and Vision.

To ensure adherence to corporate governance, the Board designated a Compliance Officer who is also the Company's Corporate Secretary and Vice-President, Roberto O. Parel. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of good corporate governance.

Based on the certification of compliance with the Company's Manual filed with the Commission on January 8, 2013, there have been no deviations from the Company's Manual as of date.

### ***Board of Directors***

Compliance with the principles of good governance starts with the Company's Board of Directors. The Board is responsible for oversight of the business, determination of the company's long- term strategy and objectives, and management of the company's risks by ensuring the company's internal controls and procedures are observed. The Board of Directors ensures a high standard of governance, and promotes and protects the interests of the Company, its stockholders and other stakeholders.

The Board consists of nine directors, two of whom are independent directors. All nine members of the Board have the expertise, professional experience and background that allow a thorough discussion and deliberation of issues and matters affecting the Company.

The two independent directors – former Chief Justice Artemio V. Panganiban and Dr. Jaime C. Laya – have no relationship with the Company, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

The Board comprises the following members:

<b>Name</b>	<b>Position</b>
Felipe L. Gozon	Chairman and CEO
Gilberto R. Duavit, Jr.	President and COO
Anna Teresa G. Abrogar	Director
Joel Marcelo G. Jimenez	Director
Judith D. Vazquez	Director

Laura J. Westfall	Director
Felipe S. Yalong	Director
Artemio V. Panganiban	Independent Director
Jaime C. Laya	Independent Director

### **Board Performance**

Directors attend regular meetings of the Board, which are held every quarter and other times as necessary, and the Annual Stockholders' Meeting (ASM). In its meetings, the Board reviews the performance of the Company and its subsidiaries, approves plans, budgets and financial statements, sets policies and guidelines for management, and discusses matters requiring Board attention and approval. The Board met six (6) times in 2012. The attendance of the individual directors at these meetings is duly recorded as follows:

Director's Name	Regular and Special Meetings	
	<i>Present</i>	<i>Absent</i>
Felipe L. Gozon	6	0
Gilberto R. Duavit, Jr.	6	0
Joel Marcelo G. Jimenez	6	0
Felipe S. Yalong	6	0
Anna Teresa M. Gozon- Abrogar	6	0
Judith D. Vazquez	5	1
Laura J. Westfall	6	0
Artemio V. Panganiban	6	0
Jaime C. Laya	6	0

All directors have individually complied with the SEC's minimum attendance requirement of 50%.

The Chairman, Felipe L. Gozon, presided over all the Board meetings for the year. He likewise presided over the Annual Stockholders' Meeting, with all the members of the Board in attendance.

## ***Board Remuneration***

The amended by-laws of the Company provides that the Board of Directors shall be entitled to an amount of not more than two and a half percent (2.5%) of the net income after income tax of the corporation during the preceding year and per diems for every board meeting attended. Of the said 2.5%, one percent (1%) shall be distributed equally among the members of the Board of Directors, while the remaining one and a half percent (1.5%) shall be distributed equally among the members of the Executive Committee.

## ***Committees and Meetings of the Board of Directors***

Four committees were established to aid in complying with the principles of good governance and address issues requiring the Board's attention:

### Executive Committee

The Executive Committee (Excom) consists of three members which includes the Chairman of the Board and CEO Felipe L. Gozon, President and COO Gilberto R. Duavit, Jr. and Director Joel G. Jimenez. Mr. Gilberto R. Duavit, Jr. serves as Chairman of the Committee. It acts on matters delegated to it by the Board of Directors. The Excom acts by a majority vote and in accordance with the authority granted by the Board. All actions of the Excom are reported to the Board for ratification at the meeting immediately following such action.

### Nomination Committee

The Nomination Committee is chaired by Felipe L. Gozon and composed of four members that include an independent director in the person of former Chief Justice Artemio V. Panganiban as Vice Chairman, with Gilberto R. Duavit, Jr. and Joel Marcelo G. Jimenez as members. The mission of the Nomination Committee is to provide the shareholders with an independent and objective evaluation and assurance that the membership of the Board of Directors is competent and will foster the long-term success of the Corporation and secure its competitiveness. The Nomination Committee assists the Board of Directors in ensuring that all nominees to the Board of Directors are competent and qualified to be nominated as Director based on internal guidelines. This is to ensure that: (a) there is a proper mix of competent directors that would continuously improve shareholder's value; and, (b) Directors will ensure a high standard of best practices for the Company and its stakeholders.

### Compensation and Remuneration Committee

The members of the Compensation and Remuneration Committee are Felipe L. Gozon (Chairman), Former Chief Justice Artemio V. Panganiban (Vice Chairman), with Judith D. Vazquez and Laura J. Westfall as members. The Committee recommends a formal and transparent framework of remuneration and evaluation for the members of the Board of Directors and key executives to enable them to run the Company successfully.

## Audit and Risk Management Committee

### *Audit*

The Audit and Risk Management Committee is currently composed of five members: Dr. Jaime C. Laya, (Chairman), former Chief Justice Artemio V. Panganiban (Vice Chairman), Anna Teresa M. Gozon-Abrogar, Judith R. Duavit-Vazquez and Ms. Laura J. Westfall. The Audit and Risk Management Committee assists the Board in its fiduciary responsibilities by providing an independent and objective assurance to the Company's management and stakeholders in the continuous improvement of risk management systems, business operations and proper safeguarding and use of the Corporation's resources and assets. The Audit and Risk Management Committee provides a general evaluation and gives assistance in the over-all improvement of the risk management, control, and governance process of the Corporation as designed by Management and provides assurance that these are properly functioning.

The Committee conducts tenders for independent audit services, reviews audit fees and recommends the appointment and fees of the independent auditors to the Board. The Board, in turn, submits the appointment of the independent auditors for approval of the shareholders at the ASM.

The Audit and Risk Management Committee also approves the work plan of the Company's Internal Audit Group, as well as the overall scope and work plan of the independent auditors.

The Audit and Risk Management Committee held five (5) meetings in 2012 wherein the Committee reviewed and approved, among others, the Company's 2011 Consolidated Audited Financial Statements as prepared by the external auditors.

### *Risk Management*

The GMA Network's Board of Directors and management are mindful of the risks and uncertainties inherent in the business. In the formulation of corporate strategy and business decision-making, potential risks are always taken into account. Necessary steps are taken to minimize, if not eliminate, such risks.

The Audit and Risk Management Committee assists the Board in the oversight of the company's risk management, ensures that it has the proper controls in place, identifies and evaluates significant risk exposures and contributes to the improvement of risk management and control systems.

Both radio and television broadcasting are highly competitive businesses. GMA stations compete for listeners/viewers and advertising revenues within their respective markets directly with other radio and /or television stations, as well as with other media such as cable television and/ or cable radio, newspapers, magazines, the internet, billboard advertising, among others. Audience ratings and market shares are subject to change, and any change in a particular market could have a material adverse effect on the revenue of our stations located in that market.

Considering the potential impact of various risks to the company's ability to deliver quality content across multiple platforms, the Company has established a Programming Committee that deliberates weekly on the programming issues and strategies of the network. Regular monthly meetings of the Company's officers are also held to discuss plans, operational issues and strategies, implementation of projects and recommendations for improvements.

The Company's financial results are dependent primarily on its ability to generate advertising revenue through rates charged to advertisers. The advertising rates a station is able to charge is affected by many factors, including the ratings of its programs and the general strength of the local and national economies. Generally, advertising declines during periods of economic recession or downturns in the economy. As a result, the Company's revenue is likely to be adversely affected during such periods.

Management, being accountable to the Board, also prepares financial statements in a timely manner in accordance with generally accepted accounting standards in the Philippines. Management's statement of responsibility with regards to the Company's financial statements is included in this annual report.

The consolidated financial statements of GMA Network and its subsidiaries have been prepared in accordance with Philippine Financial Reporting Standards which are aligned with International Financial Reporting Standards. The financial statements are audited by external auditors and reviewed by the Audit and Risk Management Committee (with the support of the Internal Audit Group) to ensure that they fairly present, in all material respects, the financial position and results of the Company's operations before these are presented to the Board of Directors for approval.

The Board is responsible for presenting a clear, balanced and comprehensive assessment of the Company's financial position, performance and prospects each time it makes available its quarterly and annual financial statements to the public.

## **Management**

The Chairman of the Board and Chief Executive Officer is Felipe L. Gozon, while Gilberto R. Duavit, Jr. holds the position of President and Chief Operating Officer.

The CEO is accountable to the Board for the development and recommendation of strategies and the execution of strategic directions set by the Board, while the COO is responsible for the day-to-day management of the Company and the implementation of the directives provided by the CEO and the Board's policies and decisions. Both the CEO and COO are guided by the Company's Mission, Vision, and Core Values.

Management regularly provides the Board with complete and accurate information on the operations and affairs of the Company.



## **Employee Relations**

Employees are provided an employee handbook which contains the policies, guidelines for the duties and responsibilities of an employee of GMA Network, Inc. The Handbook also details the benefits and privileges accruing to all regular employees.

The News and Public Affairs Ethics Manual, on the other hand, sets the standards and rules on how News and Public Affairs personnel should conduct themselves at work.

Through an external newsletter and the intranet facilitated by the Corporate Affairs Division, employees are updated on material developments in the organization.

The Company also provides training programs and seminars for career advancement and development. The Company has also initiated activities centered on the safety, health and welfare of its employees.

## **Prompt Disclosures and Timely Reporting**

GMA Network, Inc. adheres to a high level of corporate disclosure and transparency regarding the company's financial condition and state of corporate governance on a regular basis. Through the Investor Relations and Compliance Division (IRCD), shareholders are provided disclosures, announcements and periodic reports filed with the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange. These are also available on line through the Company's Investor Relations website [www.gmanetwork.com/corporate/ir](http://www.gmanetwork.com/corporate/ir).

The Company, through the IRCD, holds regular Analysts' and Investors' briefings that are attended by the Company's Chief Executive Officer, Chief Operating Officer, Chief Finance Officer as well as other high ranking officers. Meetings with Fund Managers, Investment, Financial and Research Analysts are likewise handled by the IRCD.

Consolidated audited financial statements are submitted to the SEC on or before the prescribed period and distributed to the shareholders prior to the ASM.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 14. Exhibits and Reports on SEC Form 17-C**

#### **(a) Exhibits**

##### **Exhibit 1 - Financial Statements**

#### **(b) Reports on SEC Form 17-C**

- Material information discussed during the press interview with Atty. Felipe L. Gozon/Mr. Gilberto R. Duavit, Jr.

- Clarification of news article: "MVP fortifies Meralco control but pricing stalls GMA-7 talks"
- Additional clarification of news article: "MVP fortifies Meralco control but pricing stalls GMA-7 talks"
- Announcement of Annual Stockholders' Meeting date (May 16, 2012) and Record Date (April 18, 2012)
- Announcement of Ms. Wilma V. Galvante's retirement
- Results of Board Meeting: Declaration of Cash Dividends, Record Date and Payment Date and Approval of Financial Statement for 2011
- Agenda for the Annual Stockholders' Meeting
- Shareholders Agreement between GMA New Media and Manila Jockey Club
- Press Release: Results of Operations for year 2011
- Press Release: "GMA Refutes claims in Winston Marbella's article"
- Press Release: "Duavit clarifies Philippine Star article"
- Receipt of Order from RTC granting motion to withdraw Petition for Prohibition re: Quezon City Treasurer's business tax assessment.
- CEO's 2011 Report during the Annual Stockholders' Meeting held on May 16, 2012
- Results of Annual Stockholders' Meeting and Organizational Meeting of the Board of Directors
- Press Release: GMA Network profits P388 Million in Q1 2012
- Clarification of news article: "MVP confirms TV5, GMA Merger"
- Clarification of various news articles (in relation to statements made by MVP)
- Clarification of news article: " MVP closer to deal: GMA7 acquisition price seen at P52.5B"
- Press Release: GMA Network generates P1.014 Billion Net Income for H1 2012 and additional disclosures made during the financial briefing
- GMA – Record and Payment Dates of Special Cash Dividend
- Information discussed during interview of officer re: GMA-MVP issue and 2Q 2012 Performance
- Termination of talks – acquisition of GMA Network

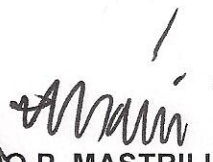
- Results of Board of Directors' meeting
- Press Release: "GMA Network seals strong Q3 financial performance"
- Clarification of news article by the PSE: "GMA open to revival of talks with PLDT"
- Clarification of news article by the PSE: "GMA allots P1 billion for capex, eyes much better earnings"
- Information discussed during interview with Officer
- Clarification of news article by the PSE: "GMA Network may miss profit goal"

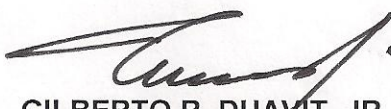
## SIGNATURES

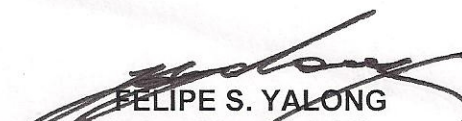
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on \_\_\_\_\_, 2013


By:

  
**FELIPE L. GOZON**  
Principal Executive Officer

  
**RONALDO P. MASTRILI**  
Comptroller /Principal Accounting Officer

  
**GILBERTO R. DUAVIT, JR.**  
Principal Operating Officer


  
**FELIPE S. YALONG**  
Principal Financial Officer

  
**ROBERTO O. PAREL**  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this 26<sup>th</sup> day of APRIL 2013 affiants exhibiting to me their Passport/Driver's License Numbers, as follows:

<b>Names</b>	<b>Passport No.</b>	<b>Date of Issue</b>	<b>Place of Issue</b>
Felipe L. Gozon	XX17461898	August 4, 2008	DFA, Manila
Gilberto R. Duavit, Jr.	EA0030704	Feb. 15, 2010	DFA, Manila
Felipe S. Yalong	XX1282901	May 27, 2008	DFA, Manila
Ronaldo P. Mastrili	EA0020825	January 6, 2010	DFA, Manila
Roberto O. Parel	N16-75-001436	February 19, 2012	LTO, Quezon City

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Page No. 46  
Book No. 1  
Series of 2013

  
**NOTARY PUBLIC**  
**EDWARD ALLAN P. LIM**  
Notary Public for Quezon City  
Until December 31, 2014  
Commission No. NP-185  
EDSA cor. Timog Ave., Diliman, QC  
PTR No. 7652777 - Jan 14, 2013 - QC  
IBP No. 842911 - Jan 10, 2013 - QC  
Roll No. 55745



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED  
FINANCIAL STATEMENTS**

March 21, 2013

Securities and Exchange Commission  
SEC Building, EDSA Greenhills  
Mandaluyong, Metro Manila

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

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

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of GMA Network, Inc. and Subsidiaries in accordance with the Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

FELIPE L. GOZON  
Chairman of the Board  
Chief Executive Officer

GILBERTO R. DUAVIT, JR.  
President  
Chief Operating Officer

FELIPE S. YALONG  
Executive Vice President  
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this APR 16 2013 day of            at QUEZON CITY  
affiants exhibited to me their (Felipe L. Gozon) TIN 106-174-605, (Gilberto R. Duavit, Jr.) TIN 158-  
147-748 and (Felipe S. Yalong) TIN 102-874-052.

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Page No. 38  
Book No. 1  
Series of 2013

EDWARD ALLAN P. LIM  
Notary Public for Quezon City  
Until December 31, 2014  
Commission No. NP-165  
EDSA cor. Timog Ave., Diliman, QC  
PTR No. 7652777 - Jan 14, 2013 - QC  
IRP No. 842911 - Jan 10, 2013 - QC  
Roll No. 65745

**GMA NETWORK, INC.**

GMA Network Center, EDSA cor. Timog Ave., Diliman, Quezon City, 1103, Philippines  
Telephone No.: (632) 982-7777

# COVER SHEET

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SEC Registration Number

[illegible]

(Group's Full Name)

[illegible]

(Business Address: No. Street City/Town/Province)

**Mr. Felipe S. Yalong**

(Contact Person)

982-7777

(Group Telephone Number)

1	2
---	---

Month

3	1
---	---

Day

(Fiscal Year)

A	A	C	F	S
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(Form Type)

0	5
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Month

1	5
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Day

(Annual Meeting)

\_\_\_\_\_

(Secondary License Type, If Applicable)

\_\_\_\_\_

Dept. Requiring this Doc.

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Amended Articles Number/Section

1,787

Total No. of Stockholders

### Total Amount of Borrowings

**₹1,700,000,000**

Domestic

P

Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

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LCU

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Document ID

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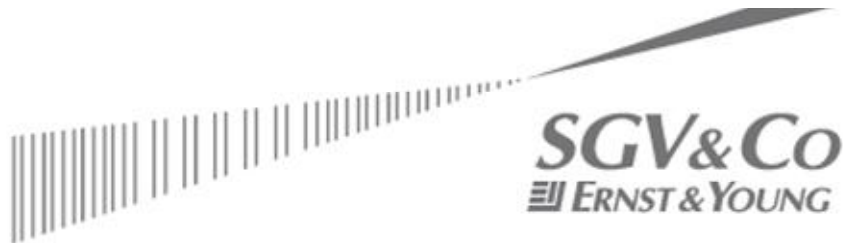
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## STAMPS

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**SyCip Gorres Velayo & Co.**

6760 Ayala Avenue  
1226 Makati City  
Philippines

Phone: (632) 891 0307

Fax: (632) 819 0872

www.sgv.com.ph

BOA/PRC Reg. No. 0001,  
December 28, 2012, valid until December 31, 2015  
SEC Accreditation No. 0012-FR-3 (Group A),  
November 15, 2012, valid until November 16, 2015

## **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors  
GMA Network, Inc.  
GMA Network Center  
Timog Avenue corner EDSA  
Quezon City

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

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

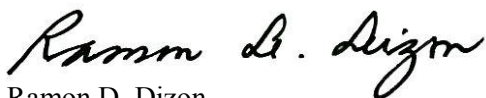
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

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

SYCIP GORRES VELAYO & CO.



Ramon D. Dizon

Partner

CPA Certificate No. 46047

SEC Accreditation No. 0077-AR-3 (Group A),

February 21, 2013, valid until February 20, 2016

Tax Identification No. 102-085-577

BIR Accreditation No. 08-001998-17-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3669677, January 2, 2013, Makati City

March 21, 2013





**GMA NETWORK, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	January 1
	2012	2011 (As restated - Note 2)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 6, 30 and 31)	₱1,266,209,138	₱1,207,976,123
Short-term investments (Notes 6, 30 and 31)	8,538,142	—
Trade and other receivables (Notes 7, 20, 30 and 31)	3,902,013,892	4,191,137,923
Program and other rights (Note 8)	1,189,140,670	729,998,151
Prepaid expenses and other current assets (Note 9)	710,795,722	695,040,559
Asset classified as held for sale (Note 11)	26,432,472	26,432,472
Total Current Assets	7,103,130,036	6,850,585,228
<b>Noncurrent Assets</b>		
Available-for-sale financial assets (Notes 10, 30 and 31)	106,343,598	105,796,848
Investments and advances (Notes 11 and 20)	331,622,315	320,500,720
Property and equipment at cost (Note 12)	3,619,943,152	3,252,582,543
Land at revalued amounts (Note 13)	1,409,585,706	1,409,585,706
Investment properties (Note 14)	64,751,405	68,029,711
Deferred tax assets (Note 28)	69,788,536	47,644,005
Other noncurrent assets (Note 15)	141,745,997	128,339,387
Total Noncurrent Assets	5,743,780,709	5,332,478,920
	₱12,846,910,745	₱12,183,064,148
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade payables and other current liabilities (Notes 16, 20, 30 and 31)	₱1,674,512,107	₱1,507,601,256
Short-term loans (Notes 17, 30 and 31)	1,700,000,000	—
Income tax payable	196,608,438	93,651,733
Current portion of obligations for program and other rights (Notes 18, 30 and 31)	184,585,619	39,843,815
Dividends payable (Notes 30 and 31)	7,648,097	4,942,280
Total Current Liabilities	3,763,354,261	1,646,039,084
<b>Noncurrent Liabilities</b>		
Pension liability (Notes 2 and 26)	368,915,383	379,604,775
Other long-term employee benefits (Notes 2 and 26)	236,378,696	242,448,647
Deferred tax liabilities (Note 28)	144,250,390	132,605,086
Noncurrent portion of obligations for program and other rights (Notes 18, 30 and 31)	63,955,130	—
Total Noncurrent Liabilities	813,499,599	754,658,508
Total Liabilities	4,576,853,860	2,400,697,592

(Forward)



	December 31		January 1
		2011	2011
		(As restated -	(As restated -
	2012	Note 2)	Note 2)
<b>Equity</b>			
Capital stock (Note 19)	<b>₱4,864,692,000</b>	₱4,864,692,000	₱4,864,692,000
Additional paid-in capital (Note 19)	<b>1,659,035,196</b>	1,659,035,196	1,659,035,196
Revaluation increment in land - net of tax (Note 13)	<b>744,158,022</b>	744,158,022	744,158,022
Remeasurements gain (loss) on retirement plans - net of tax (Note 2)	<b>36,532,251</b>	(41,829,871)	22,913,721
Net unrealized gain on available-for-sale financial assets - net of tax (Note 10)	<b>4,065,927</b>	2,752,687	1,995,687
Retained earnings (Note 19)	<b>995,846,676</b>	2,587,831,709	3,070,279,169
Treasury stocks (Notes 19 and 29)	<b>(28,483,171)</b>	(28,483,171)	(28,483,171)
Underlying shares of the acquired Philippine Deposit Receipts (Notes 19 and 29)	<b>(5,790,016)</b>	(5,790,016)	(5,790,016)
Total Equity	<b>8,270,056,885</b>	9,782,366,556	10,328,800,608
	<b>₱12,846,910,745</b>	₱12,183,064,148	₱12,878,234,250

*See accompanying Notes to Consolidated Financial Statements.*



**GMA NETWORK, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
		2011 (As restated - Note 2)	2010 (As restated - Note 2)
	2012		
<b>NET REVENUES</b> (Note 21)	<b>₱11,834,064,182</b>	₱11,157,043,539	₱12,015,137,416
<b>PRODUCTION COSTS</b> (Note 22)	<b>5,219,768,541</b>	5,104,966,899	4,593,221,701
<b>GROSS PROFIT</b>	<b>6,614,295,641</b>	6,052,076,640	7,421,915,715
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 23)	<b>4,317,928,365</b>	3,879,975,809	3,699,154,322
<b>OTHER INCOME</b>			
Interest expense and financing charges on short-term loans (Note 17)	(42,904,186)	(11,479,294)	(3,785,282)
Interest income (Note 6)	34,726,258	28,567,427	77,221,603
Net interest cost on retirement plan (Notes 2 and 26)	(28,250,809)	(19,772,681)	(20,880,435)
Equity in net earnings of associates and joint ventures (Note 11)	3,731,882	5,019,389	6,867,724
Others - net (Note 25)	43,537,403	51,083,876	24,545,162
	<b>10,840,548</b>	53,418,717	83,968,772
<b>INCOME BEFORE INCOME TAX</b>	<b>2,307,207,824</b>	2,225,519,548	3,806,730,165
<b>PROVISION FOR INCOME TAX</b> (Note 28)			
Current	734,689,243	557,440,593	966,402,642
Deferred	(44,370,054)	(36,562,882)	12,246,061
	<b>690,319,189</b>	520,877,711	978,648,703
<b>NET INCOME</b>	<b>1,616,888,635</b>	1,704,641,837	2,828,081,462
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b> - net of tax			
Remeasurements gain (loss) on retirement plans (Note 2)	78,362,122	(64,743,592)	(10,335,868)
Unrealized gain (loss) on available-for-sale financial assets (Note 10)	1,313,240	757,000	(175,500)
	<b>79,675,362</b>	(63,986,592)	(10,511,368)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱1,696,563,997</b>	₱1,640,655,245	₱2,817,570,094
<b>Basic / Diluted Earnings Per Share</b> (Note 29)	<b>₱0.333</b>	₱0.350	₱0.582

*See accompanying Notes to Consolidated Financial Statements.*



# GMA NETWORK, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 19)	Additional Paid- in Capital (Note 19)	Revaluation Increment in Land - Net of Tax (Note 13)	Remeasurements on Retirement Plans - Net of Tax (Note 2)	Net Unrealized Gain on Available-for-sale Financial Assets - Net of Tax (Note 10)	Retained Earnings (Note 19)	Treasury Stock (Notes 19 and 29)	Underlying Shares of the Acquired Philippine Deposit Receipts (Notes 19 and 29)	Total Equity
Balances at January 1, 2012, as previously stated	₱4,864,692,000	₱1,659,035,196	₱744,158,022	₱-	₱2,752,687	₱2,591,073,835	(₱28,483,171)	(₱5,790,016)	₱9,827,438,553
Effect of adoption of the Revised PAS 19 (Note 2)	-	-	-	(41,829,871)	-	(3,242,126)	-	-	(45,071,997)
Balances at January 1, 2012, as restated	4,864,692,000	1,659,035,196	744,158,022	(41,829,871)	2,752,687	2,587,831,709	(28,483,171)	(5,790,016)	9,782,366,556
Net income	-	-	-	-	-	1,616,888,635	-	-	1,616,888,635
Other comprehensive income	-	-	-	78,362,122	1,313,240	-	-	-	79,675,362
Total comprehensive income	-	-	-	78,362,122	1,313,240	1,616,888,635	-	-	1,696,563,997
Cash dividends - ₱0.40 a share	-	-	-	-	-	(1,944,079,375)	-	-	(1,944,079,375)
Cash dividends - ₱0.26 a share	-	-	-	-	-	(1,264,794,293)	-	-	(1,264,794,293)
Total cash dividends	-	-	-	-	-	(3,208,873,668)	-	-	(3,208,873,668)
<b>Balances at December 31, 2012</b>	<b>₱4,864,692,000</b>	<b>₱1,659,035,196</b>	<b>₱744,158,022</b>	<b>₱36,532,251</b>	<b>₱4,065,927</b>	<b>₱995,846,676</b>	<b>(₱28,483,171)</b>	<b>(₱5,790,016)</b>	<b>₱8,270,056,885</b>
Balances at January 1, 2011, as previously stated	₱4,864,692,000	₱1,659,035,196	₱744,158,022	₱-	₱1,995,687	₱3,063,024,760	(₱28,483,171)	(₱5,790,016)	₱10,298,632,478
Effect of adoption of the Revised PAS 19 (Note 2)	-	-	-	22,913,721	-	7,254,409	-	-	30,168,130
Balances at January 1, 2011, as restated	4,864,692,000	1,659,035,196	744,158,022	22,913,721	1,995,687	3,070,279,169	(28,483,171)	(5,790,016)	10,328,800,608
Net income, as previously stated	-	-	-	-	-	1,715,138,372	-	-	1,715,138,372
Effect of adoption of the Revised PAS 19 (Note 2)	-	-	-	-	-	(10,496,535)	-	-	(10,496,535)
Net income, as restated	-	-	-	-	-	1,704,641,837	-	-	1,704,641,837
Other comprehensive income, as previously stated	-	-	-	-	757,000	-	-	-	757,000
Effect of adoption of the Revised PAS 19 (Note 2)	-	-	-	(64,743,592)	-	-	-	-	(64,743,592)
Other comprehensive income (loss), as restated	-	-	-	(64,743,592)	757,000	-	-	-	(63,986,592)
Total comprehensive income (loss), as restated	-	-	-	(64,743,592)	757,000	1,704,641,837	-	-	1,640,655,245
Cash dividends - ₱0.45 a share	-	-	-	-	-	(2,187,089,297)	-	-	(2,187,089,297)
<b>Balances at December 31, 2011</b>	<b>₱4,864,692,000</b>	<b>₱1,659,035,196</b>	<b>₱744,158,022</b>	<b>(₱41,829,871)</b>	<b>₱2,752,687</b>	<b>₱2,587,831,709</b>	<b>(₱28,483,171)</b>	<b>(₱5,790,016)</b>	<b>₱9,782,366,556</b>



	Capital Stock (Note 19)	Additional Paid- in Capital (Note 19)	Revaluation Increment in Land - Net of Tax (Note 13)	Remeasurements on Retirement Plans - Net of Tax (Note 2)	Net Unrealized Gain on Available-for-sale Financial Assets - Net of Tax (Note 10)	Retained Earnings (Note 19)	Treasury Stock (Notes 19 and 29)	Underlying Shares of the Acquired Philippine Deposit Receipts (Notes 19 and 29)	Total Equity
Balances at January 1, 2010, as previously stated	₱4,864,692,000	₱1,659,035,196	₱744,158,022	₱-	₱2,171,187	₱3,644,336,613	(₱28,483,171)	(₱5,790,016)	₱10,880,119,831
Effect of adoption of the Revised PAS 19 (Note 2)	-	-	-	33,249,589	-	-	-	-	33,249,589
Balances as at January 1, 2010, as restated	4,864,692,000	1,659,035,196	744,158,022	33,249,589	2,171,187	3,644,336,613	(28,483,171)	(5,790,016)	10,913,369,420
Net income, as previously stated	-	-	-	-	-	2,820,827,053	-	-	2,820,827,053
Effect of adoption of the Revised PAS 19 (Note 2)	-	-	-	-	-	7,254,409	-	-	7,254,409
Net income, as restated	-	-	-	-	-	2,828,081,462	-	-	2,828,081,462
Other comprehensive loss, as previously stated	-	-	-	-	(175,500)	-	-	-	(175,500)
Effect of adoption of the Revised PAS 19 (Note 2)	-	-	-	(10,335,868)	-	-	-	-	(10,335,868)
Other comprehensive loss, as restated	-	-	-	(10,335,868)	(175,500)	-	-	-	(10,511,368)
Total comprehensive income (loss), as restated	-	-	-	(10,335,868)	(175,500)	2,828,081,462	-	-	2,817,570,094
Cash dividends - ₱0.45 a share	-	-	-	-	-	(2,187,089,297)	-	-	(2,187,089,297)
Cash dividends - ₱0.25 a share	-	-	-	-	-	(1,215,049,609)	-	-	(1,215,049,609)
	-	-	-	-	-	(3,402,138,906)	-	-	(3,402,138,906)
Balances at December 31, 2010, as restated	₱4,864,692,000	₱1,659,035,196	₱744,158,022	₱22,913,721	₱1,995,687	₱3,070,279,169	(₱28,483,171)	(₱5,790,016)	₱10,328,800,608

See accompanying Notes to Consolidated Financial Statements.



**GMA NETWORK, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
		2011	2010
		(As restated -	(As restated -
	<b>2012</b>	Note 2)	Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱2,307,207,824</b>	₱2,225,519,548	₱3,806,730,165
Non-cash adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Notes 12 and 14)	<b>609,555,032</b>	518,357,818	506,969,581
Net movement in pension liability before interest cost (Notes 2 and 26)	<b>73,005,688</b>	56,074,259	(57,414,332)
Interest expense and financing charges on short-term loans	<b>42,904,186</b>	11,479,294	3,785,282
Interest income (Note 6)	<b>(34,726,258)</b>	(28,567,427)	(77,221,603)
Gain on sale of property and equipment (Note 25)	<b>(29,045,447)</b>	(16,040,347)	(13,853,541)
Net interest cost on defined benefit plans (Notes 2 and 26)	<b>28,250,809</b>	19,772,681	20,880,435
Amortization of software costs (Note 15)	<b>27,733,938</b>	25,711,619	20,213,004
Equity in net earnings of associates and joint ventures (Note 11)	<b>(3,731,882)</b>	(5,019,389)	(6,867,724)
Reversal of impairment loss in buildings and improvements (Notes 14 and 25)	—	(4,990,219)	—
Impairment loss on advances to joint venture and AFS financial assets (Note 23)	<b>3,663,837</b>	—	—
Net unrealized foreign currency exchange loss (gain)	<b>2,507,337</b>	(3,312,399)	7,688,256
Dividend income (Note 25)	<b>(1,394,334)</b>	(41,529)	(58,957)
Other noncash expenses	—	—	16,538,765
Working capital adjustments:			
Decreases (increases) in:			
Short-term investments	<b>(8,538,142)</b>	—	23,460,312
Trade and other receivables	<b>289,236,456</b>	1,339,249,381	(224,740,570)
Program and other rights	<b>(459,142,519)</b>	(171,925,558)	82,102,818
Prepaid expenses and other current assets	<b>(15,755,163)</b>	(89,738,827)	(217,511,261)
Increases (decreases) in:			
Trade payables and other current liabilities	<b>165,844,184</b>	(130,880,494)	(137,242,153)
Obligations for program and other rights	<b>209,399,888</b>	(37,221,513)	14,360,475
Other long-term employee benefits	<b>(6,069,951)</b>	61,905,191	(4,521,206)
Cash generated from operations	<b>3,200,905,483</b>	3,770,332,089	3,763,297,746
Interest received	<b>35,863,780</b>	28,754,764	80,260,737
Income taxes paid	<b>(631,732,538)</b>	(704,973,281)	(1,133,065,894)
Net cash provided by operating activities	<b>2,605,036,725</b>	3,094,113,572	2,710,492,589
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property and equipment (Note 12)	<b>(975,476,581)</b>	(903,454,640)	(428,438,349)
Software costs (Note 15)	<b>(35,652,462)</b>	(34,675,997)	(30,761,933)
Investment in joint venture (Note 11)	<b>(10,000,000)</b>	—	—
Land at revalued amounts (Note 13)	—	(6,463,241)	—
Investment properties (Note 14)	—	(2,815,163)	(6,188,853)
Available-for-sale financial assets	—	—	(250,000)

(Forward)



<b>Years Ended December 31</b>			
	<b>2012</b>	<b>2011</b> (As restated - Note 2)	<b>2010</b> (As restated - Note 2)
Proceeds from sale of property and equipment	<b>₱30,884,693</b>	₱23,675,161	₱49,558,559
Decrease (increase) in other noncurrent assets	<b>(5,488,086)</b>	(1,858,500)	90,182,312
Cash dividends received	<b>144,387</b>	1,438,838	11,595
Collections of advances to associates and joint ventures (Note 11)	<b>—</b>	—	59,281,531
Net cash used in investing activities	<b>(995,588,049)</b>	(924,153,542)	(266,605,138)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of:			
Cash dividends (Note 19)	<b>(3,206,167,851)</b>	(2,187,640,052)	(3,400,013,834)
Short-term loans (Note 17)	<b>(1,500,000,000)</b>	(950,000,000)	(300,000,000)
Interest and financing charges	<b>(41,837,519)</b>	(11,479,294)	(3,785,282)
Proceeds from short-term loans (Note 17)	<b>3,200,000,000</b>	950,000,000	300,000,000
Net cash used in financing activities	<b>(1,548,005,370)</b>	(2,199,119,346)	(3,403,799,116)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>61,443,306</b>	(29,159,316)	(959,911,665)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(3,210,291)</b>	4,783,599	(7,930,313)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,207,976,123</b>	1,232,351,840	2,200,193,818
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱1,266,209,138</b>	₱1,207,976,123	₱1,232,351,840

*See accompanying Notes to Consolidated Financial Statements.*



# **GMA NETWORK, INC. AND SUBSIDIARIES**

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information**

GMA Network, Inc. (the Parent Company) and its subsidiaries (collectively referred to as “the Group”) are incorporated in the Philippines. The Group is primarily involved in the business of radio and television broadcasting. The Group is also involved in film production and other information and entertainment-related businesses. The registered office address of the Parent Company is GMA Network Center, Timog Avenue corner EDSA, Quezon City. The Parent Company was registered with the Securities and Exchange Commission (SEC) on June 14, 1950.

The Parent Company’s shares of stock are publicly listed and traded in the Philippine Stock Exchange.

On July 20, 1995, the Board of Directors (BOD) approved the extension of the corporate term of the Parent Company for another 50 years from June 14, 2000. In 1997, the SEC approved the said extension.

The accompanying consolidated financial statements of the Group were approved and authorized for issue in accordance with a resolution of the BOD on March 21, 2013.

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### **2. Basis of Preparation, Changes in Accounting Policies and Disclosures and Basis of Consolidation**

#### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and land used in operations, which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency under PFRS. All values are rounded to the nearest peso, except when otherwise indicated.

#### Changes in Accounting Policies and Disclosures

The Group’s accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amendments to existing PFRS and Philippine Auditing Standards (PAS) which became effective on January 1, 2012 except for PAS 19, *Employee Benefits (Revised)*, which will be effective on January 1, 2013 but was early adopted by the Group starting January 1, 2012:

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Transfer of Financial Assets*
- Amendments to PAS 12, *Income Taxes - Deferred Income Tax: Recovery of Underlying Assets*
- Revised PAS 19, *Employee Benefits (Revised PAS 19)*





The adoption of PFRS 7 and PAS 12 did not have a significant impact on the Group's consolidated financial statements, while adoption of Revised PAS 19 has the following impact on the Group's consolidated financial statements.

#### Early Adoption of Revised PAS 19

For defined benefit plans, the Revised PAS 19 requires all remeasurements (including actuarial gains and losses) to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all remeasurements in other comprehensive income, which will not be reclassified to profit or loss in subsequent periods, and all past service costs in profit or loss in the period they occur. Moving forward, the Group will retain the remeasurements in other comprehensive income and will not transfer this to other items of equity.

Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The Group reclassified its employee leave entitlement previously presented under "Trade and other current liabilities" to "Other Long-term Employee Benefits" in the consolidated statements of financial position.

The changes in accounting policies have been applied retrospectively. The effects of first time adoption of PAS 19 Revised on the consolidated financial statements are as follows:

	As at December 31, 2011	As at January 1, 2011	As at January 1, 2010
Increase (decrease) in:			
<u>Consolidated statements of financial position</u>			
Pension liability and other long-term benefits	₱64,388,567	(₱43,097,329)	(₱47,499,413)
Deferred tax assets	35,892,300	(28,553,395)	(31,234,334)
Deferred tax liabilities	(16,575,730)	15,624,197	16,984,510
Remeasurements gain (loss) on retirement benefit plans - net of tax	(41,829,871)	22,913,721	33,249,589
Retained earnings	(3,242,126)	7,254,409	—



	2011	2010
<u>Consolidated statements of comprehensive income</u>		
Pension and other long-term benefit expense	(₱4,777,631)	(₱31,243,876)
Net interest cost	19,772,681	20,880,435
Provision for deferred tax	(4,498,515)	3,109,032
Net income	(10,496,535)	7,254,409
Remeasurements loss on retirement plans - net of tax	64,743,592	10,335,868

The effect on basic and diluted earnings per share related to the restatement was less than ₱0.001 and ₱0.002 in 2011 and 2012, respectively.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2012

The Group will adopt the following revised standards, interpretations and amendments to existing standards when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these revised standards, interpretations and amendments to PFRS to have a significant impact on its consolidated financial statements.

*Effective in 2013*

The new and amended PFRS are effective and to be applied for annual periods beginning on or after January 1, 2013.

Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.



PFRS 10, Consolidated Financial Statements

This standard replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC)-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

A reassessment of control was performed by the Parent Company on all its interests in other entities and has preliminarily determined that RGMA Network, Inc. (RGMA) needs to be consolidated starting January 1, 2013. The impact of the adoption of PFRS 10 is not significant to the consolidated financial statements.

PFRS 11, Joint Arrangements

This standard replaces PAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

PFRS 12, Disclosure of Interest in Other Entities

This standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The Group expects a more comprehensive disclosure about interests in subsidiaries, joint arrangements and associates upon adoption.

PFRS 13, Fair Value Measurement

This standard establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

The Group is currently assessing the impact of this standard on its financial statements, but based on its preliminary assessment, the impact is expected to be immaterial.

Revised PAS 27, Separate Financial Statements

As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

Revised PAS 28, Investments in Associates and Joint Ventures

As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

PAS 1, Financial Statements Presentation - Presentation of Items of Other Comprehensive Income

The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.



### *Improvements to Standards*

The Annual Improvements to PFRS (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively.

#### PFRS 1, *First-time Adoption of PFRS*

The amendments clarify that an entity that has stopped applying PFRS may choose to either: (a) re-apply PFRS 1, even if the entity applied PFRS 1 in a previous reporting period; or (b) apply PFRS retrospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, in order to resume reporting under PFRS. The amendments also clarify that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*.

#### PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*

The amendment requires an entity to present a: (a) comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period; and (b) opening statement of financial position when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement will be at the beginning of the preceding period.

#### PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.

#### PAS 32, *Financial Instruments: Presentation - Tax effect of Distribution to Holders of Equity Instruments*

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

#### PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

The amendment clarifies the requirements in PAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirement in PFRS 8, *Operating Segments*.

### *Effective in 2014*

The amendments to PFRS are effective and to be applied for annual periods beginning on or after January 1, 2014 except for Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, which is to be applied retrospectively.



Amendments to PFRS 10, Consolidated Financial Statements - Investment Entities

The amendments require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating them. New disclosure requirements relating to investment entities were added in PFRS 12 and PAS 27.

Amendments to PFRS 12, Disclosure of Interests in Other Entities - Investment Entities

The amendments require a parent that is an investment entity to disclose information about significant judgments and assumptions made in determining that it is an investment entity, as well as and any changes thereto. A parent that is an investment entity is also required to disclose certain information on unconsolidated subsidiaries, which are accounted for at fair value through profit or loss.

Amendments to PAS 27, Separate Financial Statements - Investment Entities

The amendments require a parent that is an investment entity and does not consolidate its subsidiaries in accordance with the exceptions of PFRS 10, to present separate financial statements as its only financial statements.

Amendments to PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the Group’s net assets, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements.

*Effective in 2015*

PFRS 9, Financial Instruments: Classification and Measurement

PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project.

The Group has made an evaluation of the impact of the adoption of this standard and decided not to early adopt PFRS 9 in 2012, ahead of its effectivity date on January 1, 2015, therefore, the consolidated financial statements as of and for the year ended December 31, 2012 do not reflect the impact of the said standard.

Only financial assets and liabilities will be affected by the standard and based on this evaluation, those classified under receivables and other financial liabilities, which are carried at amortized cost, and AFS equity financial assets carried at fair value, will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at their amortized cost for loans and receivables and other financial liabilities and at fair value through other comprehensive income for AFS equity financial assets.

The Group shall conduct another impact evaluation in 2013 using the financial statements as at and for the year ended December 31, 2012.



### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries, which are all incorporated in the Philippines, as at December 31, 2012 and 2011:

	Principal Activities	Percentage of Ownership
<b>Entertainment Business:</b>		
Alta Productions Group, Inc.	Pre- and post-production services	100
Citynet Network Marketing and Productions, Inc.	Television entertainment production	100
GMA Network Films, Inc.	Film production	100
GMA New Media, Inc. (GNMI)	Converging Technology	100
GMA Worldwide (Philippines), Inc.	International marketing, handling foreign program acquisitions and international syndication of the Parent Company's programs	100
RGMA Marketing and Productions, Inc.	Music recording, publishing and video distribution	100
Scenarios, Inc.*	Design, construction and maintenance of sets for TV, stage plays and concerts; transportation services	100
Script2010, Inc.**	Design, construction and maintenance of sets for TV, stage plays and concerts; transportation and manpower services	100
<b>Advertising Business:</b>		
GMA Marketing & Productions, Inc. (GMPI)	Exclusive marketing and sales arm of GMA's airtime; events management; sales implementation, monitoring and services	100



	Principal Activities	Percentage of Ownership
Digify, Inc. (Digify)***	Crafting, planning and handling advertising and other forms of promotion including multi-media productions	100
Others:		
Media Merge Corporation***	Business development and operations for the Parent Company's online publishing/advertising initiatives	100
Ninja Graphics, Inc. ****	Ceased commercial operations in 2001	51

\* *Under liquidation*

\*\* *Indirectly owned through Citynet*

\*\*\* *Indirectly owned through GNMI*

\*\*\*\* *Indirectly owned through Alta; ceased commercial operations in 2001*

#### Additional Investments in Joint Venture and Subsidiary

In March 2012, the Group through GNMI, invested ₱10.00 million for its joint venture with Manila Jockey Club (MJC), Inc. called "Gamespan, Inc." (Gamespan). Gamespan has not yet started commercial operations as at December 31, 2012 and is expected to operate in 2013 (see Note 11).

In October 2011, the Group, through GNMI, paid in cash a total of ₱3.13 million for the 100% capital subscription of Digify issued and outstanding shares. Digify was registered with the SEC on December 26, 2011.

### **3. Summary of Significant Accounting Policies**

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from acquisition date and that are subject to an insignificant risk of change in value.

#### Financial Assets

*Initial Recognition and Measurement.* Financial assets within the scope of PAS 39 are classified as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition and where appropriate, re-evaluates such designation at every reporting period.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, short-term investments, trade and nontrade receivables (excluding advances to suppliers), refundable deposits, included under "Other noncurrent assets" account in the consolidated statements of financial positions, and AFS financial assets.



As at December 31, 2012 and 2011, the Group does not have any financial asset at FVPL, HTM investments or derivatives designated as hedging instruments.

*“Day 1 Difference”.* Where the transaction price is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value of the financial instruments (a “Day 1 Difference”) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

*Subsequent Measurement.* The subsequent measurement of financial assets depends on their classification as described below:

- **Loans and receivables.** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest amortization is included in interest income in profit or loss. The losses arising from impairment are recognized under “General and administrative expenses” account in the statements of comprehensive income.

Loans and receivables are classified as current assets when the Group expects to realize the asset within twelve (12) months from reporting period. Otherwise, these are classified as noncurrent assets.

- **AFS financial assets.** AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the “Unrealized gain (loss) on AFS financial assets” account until the investment is derecognized, at which time the cumulative gain or loss is recognized in other income, or the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the “Unrealized gain (loss) on AFS financial assets” account to profit or loss in other expense.

AFS equity investments whose fair value cannot be reliably measured are measured at cost less any impairment. If a reliable measure of fair value subsequently becomes available, the asset is remeasured at that fair value, and the gain or loss recognized in other comprehensive income (provided it is not impaired). If a reliable measure ceases to be available, the AFS equity investment is thereafter measured at cost, which is deemed to be the fair value on that date. Any gain or loss previously recognized in other comprehensive income shall remain in equity until the asset has been sold, otherwise disposed of or impaired, at which time it is reclassified to profit or loss.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intention to do so significantly





changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Financial assets under this category are classified as current if expected to be realized within twelve (12) months from reporting period and as noncurrent assets if maturity date is more than a year from reporting period.

*Derecognition of Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; or
- Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Impairment of Financial Assets.* The Group assesses, at each reporting period, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial



reorganization and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- Financial assets carried at amortized cost. For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The accrued interest is shown under interest income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to interest expense in profit or loss.

- AFS financial assets. For AFS financial assets, the Group assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

### Financial Liabilities

*Initial Recognition and Measurement.* Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL and loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.



Financial liabilities under this category are classified as current if expected to be settled within twelve (12) months from reporting period and as noncurrent if maturity date is more than a year from reporting period and other long-term employee benefits.

The Group's financial liabilities include trade payables and other current liabilities (excluding payable to government agencies), short-term loans, current and noncurrent obligations for program and other rights, dividends payable and other long-term employee benefit.

As at December 31, 2012 and 2011, the Group does not have financial liabilities at FVPL.

*Subsequent Measurement.* After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as interest expense in profit or loss.

*Derecognition of Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented at gross in the consolidated statements of financial position.

#### Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting period is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; or
- A discounted cash flow analysis or other valuation models.



#### Program and Other Rights

Program and other rights with finite and infinite lives are stated at amortized cost less any impairment in value. The cost of programs and other rights with finite lives is amortized based on the manner and pattern of usage of the acquired rights and are fully amortized on the date of expiry. The cost of program and other rights with infinite lives is amortized on accelerated method based on the sum of the year's digit of ten (10) years with salvage value of 10% of the total cost. Amortization expense is shown as "Program and other rights usage".

For series of rights acquired, the cost is charged to income as each series is aired on a per episode basis.

For rights intended for airing over the international channels, the cost is amortized on a straight-line basis over the number of years indicated in the contract.

Program and other rights are classified as current assets because the Group expects to air any given title at any time within its normal operating cycle.

#### Prepaid Production Costs

Prepaid production costs, included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position, represent costs incurred prior to the airing of the programs or episodes. These costs include talent fees of artists and production staff and other costs directly attributable to production of programs. These are charged to expense upon airing of the related program or episodes. Costs related to previously taped episodes determined not to be aired are charged to expense.

#### Materials and Supplies Inventory

Materials and supplies inventory, included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position, is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the current replacement cost.

#### Tax Credits

Tax credits represent claims from the government arising from airing of government commercials and advertisements availed under Presidential Decree (PD) No. 1362. Pursuant to PD No. 1362, these will be collected in the form of tax credits which the Group can use in paying for import duties and taxes on imported broadcasting related equipment. The tax credits cannot be used to pay for any other tax obligation to the government. Tax credits are classified as current assets if these are expected to be utilized within twelve (12) months from reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2012 and 2011, the Group does not have tax credits classified as noncurrent.

#### Asset Classified as Held for Sale

Asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group).



### Investments and Advances

*Investments in Associates.* This account consists of investments in and permanent advances to associates.

The Group's investments in its associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statements of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statements of comprehensive income reflect the share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share in profit (loss) of the associates is shown on the face of the consolidated statements of comprehensive income as "Equity in net earnings of associates and joint ventures", which is the profit (loss) attributable to equity holders of the associates.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each reporting period whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the "Others - net" account in the consolidated statements of comprehensive income.

Upon loss of significant influence over the associates, the Group measures and recognizes any retaining investments at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investments and proceeds from disposal is recognized in profit or loss.

*Interests in Joint Ventures.* This account consists of interests in and permanent advances to joint ventures.

The Group has interests in joint ventures, which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its interests in the joint ventures using the equity method. The financial statements of the joint ventures are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealized gains and losses on such transactions between the Group and its joint ventures. Losses on transactions are recognized immediately if



the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss. The Group ceases to use the equity method of accounting on the date from which it no longer has joint control over, or significantly influence in the joint ventures or when the interests become held for sale.

Upon loss of joint control, the Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

#### Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization and impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is measured at fair value less accumulated impairment losses, if any, recognized after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recorded in other comprehensive income and hence, credited to the "Revaluation increment in land" account under equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case, the increase is recognized in profit or loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the "Revaluation increment in land" account.

Depreciation and amortization are computed on a straight-line basis over the following estimated useful lives of the assets:

Buildings, towers and improvements	11-20 years
Antenna and transmitter systems and broadcast equipment	5-10 years
Communication and mechanical equipment	3-5 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in profit or loss when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed at each financial year-end and adjusted prospectively, if appropriate.



Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

#### Investment Properties

Investment properties consist of real estate held for capital appreciation and rental.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties, except land, are measured at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

Depreciation and amortization are computed using the straight-line method over 11-20 years.

The remaining useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each financial year-end.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

#### Investment in Artworks

Investment in artworks, included under "Other noncurrent assets" account in the consolidated statements of financial position, is stated at cost less any impairment in value.

#### Software Costs

Costs incurred in the acquisition and customization of new software, included under "Other noncurrent assets" account in the consolidated statements of financial position, are capitalized and amortized on a straight-line basis over three (3) to five (5) years.

#### Impairment of Nonfinancial Assets

The carrying values of program and other rights, prepaid production costs, tax credits, investments and advances, property and equipment, investment properties and software costs are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets are considered impaired and are written down to their recoverable amount. The recoverable amount of these nonfinancial assets is the greater of an asset's or cash-generating unit's fair value less cost to sell or value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are



recognized in the consolidated statements of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss, except for land at revalued amount where the revaluation is taken to other comprehensive income, is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. For land at revalued amounts, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

In the case of investments in associates and interests in joint ventures, after application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's investments in associates and interests in joint ventures. The Group determines at each reporting period whether there is any objective evidence that the investments in associates and interests in joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of investments in associates and the acquisition cost and recognizes the amount in the consolidated statements of comprehensive income.

#### Equity

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as additional paid-in capital.

#### Treasury Stock and Underlying Shares of Acquired Philippine Deposit Receipts (PDRs)

The Parent Company's own reacquired equity instruments are deducted from equity. No gain or loss is recognized in the consolidated statements of comprehensive income on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

#### Dividends on Common Shares of the Parent Company

Dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after reporting period are dealt with as an event after reporting period.

#### Revenues

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount can be reliably measured, regardless of when the payment is being made. Revenues are measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.





The following specific recognition criteria must also be met before revenue is recognized:

*Airtime Revenue.* Revenue is recognized as income in the period the advertisements are aired. Such revenues are net of agency and marketing commissions and co-producers' share. The fair values of capitalizable exchange deals are included in airtime revenue and the related accounts. These transactions represent advertising time exchanged for program materials, merchandise or service.

Payments received before broadcast (pay before broadcast) are recognized as income on the dates the advertisements are aired. Prior to liquidation, these are net out against accounts receivables since a right of offset exists between the pay before broadcast balance and the regular accounts receivable with credit terms.

Goods received in exchange for airtime usage pursuant to ex-deal contracts executed between the Group and its customers are recorded at fair market values of assets received. Fair market value is the current market price.

Tax credits on aggregate airtime credits from government sales availed of under PD No. 1362 are recognized as income upon actual airing of government commercials and advertisements and when there is reasonable certainty that these can be used to pay duties and taxes on imported broadcasting related equipment.

*Subscription Income.* Revenue is recognized on an accrual basis in accordance with the terms of subscription agreements.

*Commission.* Revenue is recognized as income on an accrual basis in accordance with the terms of the related marketing agreements.

*Production and Others.* Production revenue is recognized when project-related services are rendered. Others pertain to revenue from sponsorship and licensing income. Revenue from sponsorship and licensing is recognized on an accrual basis in accordance with the terms of the agreement.

*Rental Income.* Revenue from lease of property and equipment is accounted for on a straight-line basis over the lease term.

*Dividend Income.* Revenue is recognized when the Group's right to receive payment is established.

*Interest Income.* Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

#### Agency and Marketing Commissions and Co-producers' Share

These are deducted from gross revenues in profit or loss in the period the advertisements are aired.

Agency commissions are recognized based on a certain percentage of revenue.

Share of co-producers on revenues of specific programs are covered by duly authorized contracts entered into between the Group and the co-producers. The co-producers normally undertake the production of such program in return for a stipulated percentage of revenue.



### Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily take a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Expenses

Expenses presented as “Production costs” and “General and administrative expenses” in the statements of comprehensive income are recognized as incurred.

### Pension and Other Long-term Employee Benefits

The Parent Company and one (1) of its subsidiaries have funded, noncontributory defined benefit retirement plans covering permanent employees. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method.

Below are the changes in accounting policies on pension benefits upon early adoption of the Revised PAS 19:

*Defined Benefit Plans.* The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit obligation or asset
- Remeasurements of net defined benefit obligation or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of production costs and general and administrative expenses in the consolidated statements of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit obligation or asset is the change during the period in the net defined benefit obligation or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit obligation or asset is recognized under “Other expense or income” in the consolidated statements of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).



The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

*Termination Benefits.* Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

*Employee Leave Entitlements.* Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The liability relating to employee leave entitlement is recognized for services rendered equivalent to the maximum credit leaves earned by the employee, which is expected to be settled upon the employee's resignation or retirement. The present value of the liability is determined by applying the discount rate based on government bonds.

The Group classifies employee leave entitlements as current liabilities if the obligation is expected to be settled within the next financial year, otherwise, the Group classifies it as noncurrent liabilities.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

*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 are recognized as expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

*Group as Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases are recognized as income in the consolidated statements of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing exchange rate at financial reporting period. All differences are taken to profit or loss in the consolidated statements of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Nonmonetary items



measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. For income tax purposes, foreign exchange gains and losses are treated as taxable income or deductible expenses when realized.

## Taxes

*Current Income Tax.* Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

*Deferred Income Tax.* Deferred income tax is provided using the liability method on temporary differences at reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting period.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of excess minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and unused NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced 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 assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws to be enacted or substantially enacted at the reporting period.

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

Income tax relating to other comprehensive income is recognized in other comprehensive income section of the consolidated statements of comprehensive income.

*Value-added Tax (VAT).* Revenues, expenses and assets are recognized net of the amount of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of “Prepaid expenses and other current assets” or “Trade payables and other current liabilities” accounts in the consolidated statements of financial position.

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income, net of income attributable to preferred shares, by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared.

Diluted EPS is calculated by dividing the net income (inclusive of income attributable to preferred shares) by the weighted average number of common shares outstanding during the year, plus the weighted average number of common shares that would be issued upon conversion of all dilutive potential common shares.

#### Segment Reporting

For management purposes, the Group’s operating businesses are organized and managed separately into three business activities (see Note 5). Such business segments are the basis upon which the Group reports its primary segment information. The Group considers television and radio operations as the major business segment. The Group operates in two geographical areas where it derives its revenue.

#### Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

#### Events after Reporting Period

Post year-end events that provide additional information about the Group’s position at the reporting period (adjusting events) are reflected in the consolidated financial statements. Post



year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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#### 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

##### Judgments

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

*Functional Currency.* The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. The Philippine peso is also the functional currency of all the subsidiaries. It is the currency of the primary economic environment in which the Group operates.

*Asset Classified as Held for Sale.* In January 2011, the Group, through GNMI's BOD, announced its decision to dispose of its shareholdings in X-Play Online Games Incorporated (X-Play), a jointly controlled entity (see Note 11). The Group assessed that the interest in X-Play met the criteria to be classified as held for sale at that date for the following reasons:

- X-Play is available for immediate sale and can be sold to a potential buyer in its current condition.
- GNMI's BOD had entered into preliminary negotiations with a potential buyer.
- IP E-Games Ventures, Inc. (IPE) and GNMI subsequently executed an option agreement whereby GNMI was granted an option to sell its shareholdings in X-Play to IPE, which can be exercised within a period of one (1) year from execution date on October 19, 2011.

As at December 31, 2012, the Company is in the process of finalizing the terms of the agreement in disposing its shareholdings in X-Play and expects to consummate the transaction by June 2013.

On March 19, 2013, GNMI and IPE extended until June 30, 2013 the exercise period of the option agreement.

Asset classified as held for sale amounted to ₱26.43 million as at December 31, 2012 and 2011 (see Note 11).

*Operating Leases - Group as Lessee.* The Group has entered into various lease agreements as a lessee. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessors retain all the significant risks and rewards of ownership of the properties and thus accounts for the contracts as operating leases.

Rental expense charged to operations amounted to ₱787.75 million, ₱851.93 million and ₱737.50 million in 2012, 2011 and 2010, respectively (see Note 27).



*Tax Credits.* The Parent Company has determined that tax credits earned from airing of government commercials and advertisements are recognized based on the Parent Company's forecast of importation for the next twelve (12) months from reporting period in which the tax credits will be applied and when the application is reasonably certain.

Revenue from tax credits recognized in profit or loss amounted to ₱40.00 million, ₱67.20 million and ₱84.00 million in 2012, 2011 and 2010, respectively.

*Classification of Leave Entitlements as Current or Noncurrent.* The Group assesses the classification of its leave entitlements as either current or noncurrent based on the historical experience of the outstanding leave availed. As at December 31, 2012, Management assessed that no outstanding annual leave is expected to be settled in the next 12 months resulting in the leave entitlements to be classified as noncurrent under "Other long-term employee benefits" account in the consolidated statements of financial position.

Other long-term employee benefits amounted to ₱236.38 million and ₱242.45 million as at December 31, 2012 and 2011, respectively (see Note 26).

#### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at 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, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Estimating Allowance for Doubtful Accounts.* Provisions are made for specific and groups of billed accounts where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances that affect the collectability of the accounts. The review is accomplished using a combination of specific and collective assessment. The factors considered in specific and collective impairment assessments include, but not limited to, the length of the Group's relationship with customers, customers' current credit status and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for doubtful accounts would increase the recorded general and administrative expenses and decrease current assets.

Provision for doubtful accounts amounted to ₱35.79 million, ₱24.55 million and ₱30.60 million in 2012, 2011 and 2010, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱3,902.01 million and ₱4,191.14 million as at December 31, 2012 and 2011, respectively (see Note 7).

*Amortization of Program and Other Rights.* The Group estimates the amortization of program and other rights with finite lives based on the manner and pattern of usage of the acquired rights. The Group estimates that programs are generally more marketable in their initial airing as compared to the succeeding airings. In addition, estimation of the amortization of program and other rights is based on the Group's experience with such rights. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.



Program and other rights usage amounted to ₱460.94 million, ₱317.52 million and ₱463.86 million in 2012, 2011 and 2010, respectively. Program and other rights, net of accumulated impairment loss, amounted to ₱1,189.14 million and ₱730.00 million as at December 31, 2012 and 2011, respectively (see Note 8).

*Impairment of AFS Financial Assets.* The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as a decline of 20% or below of the original cost of investment, and “prolonged” as period longer than twelve (12) months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Provision for impairment loss amounted to ₱1.05 million in 2012 and nil in 2011 and 2010. The carrying value of AFS financial assets amounted to ₱106.34 million and ₱105.80 million as at December 31, 2012 and 2011, respectively (see Note 10).

*Estimating Allowance for Inventory Losses.* The Group provides allowance for inventory losses whenever the net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying value of materials and supplies inventory amounted to ₱72.47 million and ₱108.96 million as at December 31, 2012 and 2011, respectively (see Note 9). There were no provisions for inventory losses in 2012, 2011 and 2010.

*Estimating Useful Lives of Property and Equipment, Software Costs and Investment Properties.* The Group estimates the useful lives of property and equipment, software costs and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, software costs and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment, software costs and investment properties is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment, software costs and investment properties would increase the recorded general and administrative expenses and decrease noncurrent assets.

There has been no change in the Group’s estimate of useful lives of its property and equipment, software costs and investment properties in 2012 and 2011.

*Revaluation of Land.* The Group engages an independent appraiser to determine the fair value of the land used in operations. Fair value is determined by reference to market-based evidence. The fair value amount would differ if the Group made different judgments and estimates or utilized a different basis for determining fair value.

Valuations from an independent appraiser are performed every three to five years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.





The revalued amount of land amounted to ₱1,409.59 million as at December 31, 2012 and 2011 (see Note 13).

*Impairment of Nonfinancial Assets.* For prepaid production costs, tax credits, investments and advances, property and equipment, investment properties and software costs, impairment testing is performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs to sell and the asset's value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Provision for impairment loss on the advances to joint venture amounted to ₱2.61 million and nil in 2012 and 2011, respectively (see Note 11).

The balance of nonfinancial assets as at December 31 follows:

	2012	2011
Property and equipment (see Note 12)	<b>₱3,619,943,152</b>	₱3,252,582,543
Investments and advances (see Note 11)	<b>331,622,315</b>	320,500,720
Prepaid production costs (see Note 9)	<b>181,683,840</b>	219,404,918
Tax credits (see Note 9)	<b>117,848,590</b>	118,368,267
Investment properties (see Note 14)	<b>64,751,405</b>	68,029,711
Software costs (see Note 15)	<b>56,340,047</b>	48,421,523
	<b>₱4,372,189,349</b>	₱4,027,307,682

*Estimating Realizability of Deferred Tax Assets.* The Group reviews the carrying amounts of deferred tax assets on nondeductible temporary differences and carryforward benefits of NOLCO and excess MCIT at each reporting date and reduces deferred tax assets 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 assets to be utilized.

Based on the Group's assessment, not all nondeductible temporary difference and carryforward benefits of NOLCO and excess MCIT will be realized.

Recognized deferred tax assets amounted to ₱279.34 million and ₱256.40 million as at December 31, 2012 and 2011, respectively, while unrecognized deferred tax assets amounted to ₱16.84 million and ₱2.72 million as at December 31, 2012 and 2011, respectively (see Note 28).

*Pension Benefits.* The determination of the Group's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 and include, among others, discount rate and



expected rate of salary increase. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

Pension liability amounted to ₱368.92 million and ₱379.60 million as at December 31, 2012 and 2011, respectively (see Note 26).

*Fair Value of Financial Assets and Liabilities.* The Group carries AFS financial assets at fair value, which requires extensive use of accounting estimates and judgments. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). However, the timing and amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of AFS financial assets would affect the statements of comprehensive. The fair value of financial assets and liabilities are enumerated in Note 31.

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## 5. Segment Information

### Business Segments

For management purposes, the Group is organized into business units based on its products and services and has three reportable segments, as follows:

- The television and radio segment, which engages in television and radio broadcasting activities and which generates revenue from sale of national and regional advertising time.
- The international subscription segment which engages in subscription arrangements with international cable companies.
- Other businesses which include movie production, consumer products and other services.

The Executive Committee, the chief operating decision maker, and Management monitor the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income or loss and is measured consistently with net income or loss in the consolidated financial statements. On a consolidated basis, the Group's performance is evaluated based on consolidated net income for the year.

### Geographical Segments

The Group operates in two major geographical segments. In the Philippines, its home country, the Group is involved in television operations. In the United States and in other locations (which include Middle East, Europe, Australia, Canada, Guam, Singapore, Hongkong and Japan), the Group ties up with cable providers to bring television programming outside the Philippines.

The Group's revenues were mostly generated from the Philippines, which is the Group's country of domicile. Revenues from external customers attributed to foreign countries from which the Group derives revenue were individually immaterial to the consolidated financial statements.

Noncurrent assets consist of property and equipment, land at revalued amounts, investment properties and intangible assets which are all located in the Philippines.

The Group does not have a single external customer whose revenue amounts to 10% or more of the Group's revenues.



Inter-segment Transactions

Segment revenues, segment expenses and segment results include transfers among business segments and among geographical segments. The transfers are accounted for at competitive market prices charged to unrelated customers for similar services. Such transfers are eliminated upon consolidation.

Measurement Basis

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statements, which is in accordance with PFRS.



Business Segment Data

	Television and Radio Airtime			International Subscriptions			Other Businesses			Eliminations			Consolidated		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
<b>Net Revenues</b>															
External sales	₱10,262,536,574	₱9,647,183,840	₱10,689,581,553	₱946,737,015	₱960,227,636	₱922,786,835	₱624,790,593	₱549,632,063	₱402,769,028	₱–	₱–	₱–	₱11,834,064,182	₱11,157,043,539	₱12,015,137,416
Inter-segment sales	–	–	–	–	–	–	381,626,944	244,794,350	382,633,199	(381,626,944)	(244,794,350)	(382,633,199)	–	–	–
	₱10,262,536,574	₱9,647,183,840	₱10,689,581,553	₱946,737,015	₱960,227,636	₱922,786,835	₱1,006,417,537	₱794,426,413	₱785,402,227	(381,626,944)	(₱244,794,350)	(₱382,633,199)	₱11,834,064,182	₱11,157,043,539	₱12,015,137,416
<b>Results</b>															
Segment results	₱1,763,346,005	₱1,615,775,571	₱3,134,158,787	₱513,773,226	₱510,702,679	₱532,898,732	(₱9,002,764)	₱25,849,900	₱45,352,866	₱–	₱–	(₱10,529,427)	₱2,268,116,467	₱2,152,328,150	₱3,701,880,958
Interest expenses and financing charges on short-term loans	(42,706,120)	(1,659,872)	(3,649,397)	–	–	–	(198,066)	(9,819,422)	(135,885)	–	–	–	(42,904,186)	(11,479,294)	(3,785,282)
Interest income from bank deposits and short-term investments	33,632,100	27,501,787	76,230,704	–	–	–	1,094,158	1,065,640	990,899	–	–	–	34,726,258	28,567,427	77,221,603
Net foreign currency exchange gains (losses)	(23,124,407)	(6,052,422)	(24,897,530)	–	–	2,049	(535,948)	280,313	(616,180)	–	–	–	(23,660,355)	(5,772,109)	(25,511,661)
Equity in net earnings (losses) of associates and joint ventures	–	–	–	–	–	–	3,731,882	5,019,389	6,867,724	–	–	–	3,731,882	5,019,389	6,867,724
Other income - net	67,569,107	54,130,094	52,862,653	–	–	–	2,628,651	2,725,891	1,194,170	(3,000,000)	–	(4,000,000)	67,197,758	56,855,985	50,056,823
Provision for income tax	(540,707,890)	(512,344,878)	(963,780,218)	(127,639,914)	–	–	(21,971,385)	(8,532,833)	(14,868,485)	–	–	–	(690,319,189)	(520,877,711)	(978,648,703)
Net income	₱1,258,008,795	₱1,177,350,280	₱2,270,924,999	₱386,133,312	₱510,702,679	₱532,900,781	(₱24,253,472)	₱16,588,878	₱38,785,109	(₱3,000,000)	₱–	(₱14,529,427)	₱1,616,888,635	₱1,704,641,837	₱2,828,081,462
<b>Assets and Liabilities</b>															
Segment assets	₱11,459,048,652	₱11,040,738,826	₱11,759,280,298	₱932,477,981	₱ 858,686,844	₱829,061,722	₱820,216,146	₱815,843,907	₱714,526,464	(₱681,767,515)	(₱813,264,497)	(₱727,134,026)	₱12,529,975,264	₱11,902,005,080	₱12,575,734,458
Investments in associates and interests in joint ventures - at equity	237,146,945	233,415,063	228,395,675	–	–	–	10,000,000	–	26,432,471	–	–	–	247,146,945	233,415,063	254,828,146
Deferred tax assets	–	–	–	–	–	–	69,788,536	47,644,005	49,613,363	–	–	–	69,788,536	47,644,005	47,671,646
Total assets	₱11,696,195,597	₱11,274,153,889	₱11,987,675,973	₱932,477,981	₱858,686,844	₱829,061,722	₱900,004,682	₱863,487,912	₱790,572,298	(₱681,767,515)	(₱813,264,497)	(₱727,134,026)	₱12,846,910,745	₱12,183,064,148	₱12,878,234,250
Segment liabilities	₱3,999,688,503	₱2,366,171,614	₱2,315,961,750	₱200,966,316	₱4,465,165	₱7,096,567	₱981,570,933	₱790,253,461	₱823,392,882	(₱749,622,282)	(₱892,797,734)	(₱793,887,420)	₱4,432,603,470	₱2,268,092,506	₱2,352,563,779
Deferred tax liabilities	144,250,390	132,605,086	196,869,863	–	–	–	–	–	–	–	–	–	144,250,390	132,605,086	196,869,863
Total liabilities	₱4,143,938,893	₱2,498,776,700	₱2,512,831,613	₱200,966,316	₱4,465,165	₱7,096,567	₱981,570,933	₱790,253,461	₱823,392,882	(₱749,622,282)	(₱892,797,734)	(₱793,887,420)	₱4,576,853,860	₱2,400,697,592	₱2,549,433,642
<b>Other Segment Information</b>															
Capital expenditures:															
Program rights and other rights and software cost	₱922,148,651	₱496,117,080	₱402,624,186	₱–	₱–	₱–	₱33,583,795	₱28,004,890	₱9,896,283	₱–	₱–	₱–	₱955,732,446	₱524,121,970	₱412,520,469
Property and equipment	956,155,200	883,305,571	403,866,267	9,830,044	7,318,113	6,904,559	9,491,337	12,830,956	17,667,523	–	–	–	975,476,581	903,454,640	428,438,349
Land at revalued amount	–	6,463,241	–	–	–	–	–	–	–	–	–	–	–	6,463,241	–
Investment properties	–	664,163	6,188,853	–	–	–	–	2,151,000	–	–	–	–	–	2,815,163	6,188,853
Depreciation and amortization	1,077,513,279	842,303,103	951,449,174	8,732,558	6,455,694	23,715,018	11,980,598	12,831,055	15,879,747	–	–	–	1,098,226,435	861,589,852	991,043,939
Noncash expenses other than depreciation and amortization	–	–	–	–	11,761,460	9,606,610	–	–	–	–	(11,761,460)	(9,606,610)	–	–	–



Geographical Segment Data

	Local						International Subscriptions			Eliminations			Consolidated		
	Television and radio airtime			Other Businesses											
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
<b>Net Revenues</b>															
External sales	₱10,262,536,574	₱9,647,183,840	₱10,689,581,553	₱624,790,593	₱549,632,063	₱402,769,028	₱946,737,015	₱960,227,636	₱922,786,835	₱–	₱–	₱–	₱11,834,064,182	₱11,157,043,539	₱12,015,137,416
Inter-segment sales	–	–	–	381,626,944	244,794,350	382,633,199	–	–	–	(381,626,944)	(244,794,350)	(382,633,199)	–	–	–
Total net revenues	₱10,262,536,574	₱9,647,183,840	₱10,689,581,553	₱1,006,417,537	₱794,426,413	₱785,402,227	₱946,737,015	₱960,227,636	₱922,786,835	(₱381,626,944)	(₱244,794,350)	(₱382,633,199)	₱11,834,064,182	₱11,157,043,539	₱12,015,137,416
<b>Results</b>															
Segment results	₱1,763,346,005	₱1,615,775,571	₱3,134,158,787	(₱9,002,764)	₱25,849,900	₱45,352,866	₱513,773,226	₱510,702,679	₱532,898,732	₱–	₱–	(₱10,529,427)	₱2,268,116,467	₱2,152,328,150	₱3,701,880,958
Interest expenses and financing charges on short-term loans	(42,706,120)	(1,659,872)	(3,649,397)	(198,066)	(9,819,422)	(135,885)	–	–	–	–	–	–	(42,904,186)	(11,479,294)	(3,785,282)
Interest income from bank deposits and short-term investments	33,632,100	27,501,787	76,230,704	1,094,158	1,065,640	990,899	–	–	–	–	–	–	34,726,258	28,567,427	77,221,603
Net foreign currency exchange gains (losses)	(23,124,407)	(6,052,422)	(24,897,530)	(535,948)	280,313	(616,180)	–	–	2,049	–	–	–	(23,660,355)	(5,772,109)	(25,511,661)
Equity in net earnings (losses) of associates and joint ventures	–	–	–	3,731,882	5,019,389	6,867,724	–	–	–	–	–	–	3,731,882	5,019,389	6,867,724
Other income - net	67,569,107	54,130,094	52,862,653	2,628,651	2,725,891	1,194,170	–	–	–	(3,000,000)	–	(4,000,000)	67,197,758	56,855,985	50,056,823
Provision for income tax	(540,707,890)	(512,344,878)	(963,780,218)	(21,971,385)	(8,532,833)	(14,868,485)	(127,639,914)	–	–	–	–	–	(690,319,189)	(520,877,711)	(978,648,703)
Net income	₱1,258,008,795	₱1,177,350,280	₱2,270,924,999	(₱24,253,472)	₱16,588,878	₱38,785,109	₱386,133,312	₱510,702,679	₱532,900,781	(₱3,000,000)	₱–	(₱14,529,427)	₱1,616,888,635	₱1,704,641,837	₱2,828,081,462
<b>Assets and Liabilities</b>															
Segment assets	₱11,459,048,652	₱11,040,738,826	₱11,759,280,298	₱820,216,146	₱815,843,907	₱714,526,464	₱932,477,981	₱858,686,844	₱829,061,722	(₱681,767,515)	(₱813,264,497)	(₱727,134,026)	₱12,529,975,264	₱11,902,005,080	₱12,575,734,458
Investments in associates and interests in joint ventures - equity	237,146,945	233,415,063	228,395,675	10,000,000	–	26,432,471	–	–	–	–	–	–	247,146,945	233,415,063	254,828,146
Deferred tax assets	–	–	–	69,788,536	47,644,005	49,613,363	–	–	–	–	–	–	69,788,536	47,644,005	47,671,646
Total assets	₱11,696,195,597	₱11,274,153,889	₱11,987,675,973	₱900,004,682	₱863,487,912	₱790,572,298	₱932,477,981	₱858,686,844	₱829,061,722	(₱681,767,515)	(₱813,264,497)	(₱727,134,026)	₱12,846,910,745	₱12,183,064,148	₱12,878,234,250
<b>Liabilities</b>															
Segment liabilities	₱3,999,688,503	₱2,366,171,614	₱2,315,961,750	₱981,570,933	₱790,253,461	₱823,392,882	₱200,966,316	₱4,465,165	₱7,096,567	(₱749,622,282)	(₱892,797,734)	(₱793,887,420)	₱4,432,603,470	₱2,268,092,506	₱2,352,563,779
Deferred tax liabilities	144,250,390	132,605,086	196,869,863	–	–	–	–	–	–	–	–	–	144,250,390	132,605,086	196,869,863
Total liabilities	₱4,143,938,893	₱2,498,776,700	₱2,512,831,613	₱981,570,933	₱790,253,461	₱823,392,882	₱200,966,316	₱4,465,165	₱7,096,567	(₱749,622,282)	(₱892,797,734)	(₱793,887,420)	₱4,576,853,860	₱2,400,697,592	₱2,549,433,642
<b>Other Segment Information</b>															
Capital expenditures:															
Program rights and other rights and software cost	₱922,148,651	₱496,117,080	₱402,624,186	₱33,583,795	₱28,004,890	₱9,896,283	₱–	₱–	₱–	₱–	₱–	₱–	₱955,732,446	₱524,121,970	₱412,520,469
Property and equipment	956,155,200	883,305,571	403,866,267	9,491,337	12,830,956	17,667,523	9,830,044	7,318,113	6,904,559	–	–	–	975,476,581	903,454,640	428,438,349
Land at revalued amount	–	6,463,241	–	–	–	–	–	–	–	–	–	–	–	6,463,241	–
Investment properties	–	664,163	6,188,853	–	2,151,000	–	–	–	–	–	–	–	–	2,815,163	6,188,853
Depreciation and amortization	1,077,513,279	842,303,103	951,449,174	11,980,598	12,831,055	15,879,747	8,732,558	6,455,694	23,715,018	–	–	–	1,098,226,435	861,589,852	991,043,939
Noncash expenses other than depreciation and amortization	–	–	–	–	–	–	–	11,761,460	9,606,610	–	(11,761,460)	(9,606,610)	–	–	–



## 6. Cash and Cash Equivalents

	2012	2011
Cash on hand and in banks	<b>₱1,019,359,655</b>	₱739,028,819
Short-term deposits	<b>246,849,483</b>	468,947,304
	<b>₱1,266,209,138</b>	₱1,207,976,123

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Short-term investments with original maturities of more than three months to one year are shown separately in the 2012 consolidated statement of financial position.

Interest income earned from bank deposits and short term investments amounted to ₱22.17 million, ₱28.57 million and ₱77.22 million in 2012, 2011 and 2010, respectively.

## 7. Trade and Other Receivables

	2012	2011
Trade:		
Television and radio airtime	<b>₱3,161,664,105</b>	₱3,631,453,604
Subscriptions	<b>618,236,636</b>	311,859,621
Related party (see Note 20)	<b>60,322,559</b>	60,622,219
Others	<b>148,831,724</b>	155,203,912
Nontrade:		
Advances to suppliers	<b>91,846,350</b>	199,978,803
Advances to officers and employees	<b>29,712,610</b>	34,738,409
Others	<b>64,171,144</b>	35,218,973
	<b>4,174,785,128</b>	4,429,075,541
Less allowance for doubtful accounts	<b>272,771,236</b>	237,937,618
	<b>₱3,902,013,892</b>	₱4,191,137,923

### Trade Receivables

*Television and Radio Airtime.* Television and radio airtime receivables are unsecured, noninterest-bearing and are generally on 60-90 day terms upon receipt of invoice by the customers. Invoicing normally takes around 30 days from airing.

Television and radio airtime receivables include unbilled airtime receivables, arising when advertisements have been aired during the year but billing or acceptance by the customer has been delayed due to time lag in completing all required documents.

Television and radio airtime receivables are presented net of payments received before broadcast amounting to ₱168.57 million and ₱128.13 million as at December 31, 2012 and 2011, respectively, since a right of offset exists between the advance payments and the regular trade receivables with credit terms.



*Subscriptions Receivable.* Subscriptions receivable pertain to receivables from international channel subscriptions and advertisements. These are unsecured, noninterest-bearing and normally collected within 30-60 days.

*Related Party.* Terms and conditions of receivables to related party are discussed in Note 20.

*Other Trade Receivables.* Other trade receivables are unsecured, noninterest-bearing and are generally on 60-90 day terms upon receipt of invoice by the customers.

#### Nontrade Receivables

*Advances to Suppliers.* Advances to suppliers are noninterest-bearing and are generally applied to acquisition of inventories and fixed assets and availment of services and others within the next financial year.

*Advances to Officers and Employees and Other Nontrade Receivables.* Advances to officers and employees and other nontrade receivables are noninterest-bearing and are normally collected within the next financial year.

#### Allowance for Doubtful Accounts

The movements in the allowance for doubtful accounts are as follows:

	2012		
	Television and Radio Airtime	Others	Total
Balance at beginning of year	₱234,640,484	₱3,297,134	₱237,937,618
Provision for the year (see Note 23)	35,232,086	553,121	35,785,207
Write-off	—	(951,589)	(951,589)
Balance at end of year	₱269,872,570	₱2,898,666	₱272,771,236

	2011		
	Television and Radio Airtime	Others	Total
Balance at beginning of year	₱210,840,896	₱2,547,299	₱213,388,195
Provision for the year (see Note 23)	23,799,588	749,835	24,549,423
Balance at end of year	₱234,640,484	₱3,297,134	₱237,937,618

The allowance for doubtful accounts for television and radio airtime and other receivables in 2012 and 2011 are results of specific and collective impairment assessments performed by the Group as follows:

	2012	2011
Individually impaired	₱266,956,063	₱226,067,516
Collectively impaired	5,815,173	11,870,102
	₱272,771,236	₱237,937,618



As at December 31, 2012 and 2011, the aging analysis of receivables that were not impaired follows:

2012						
	Trade					Total
	Television and Radio Airtime	Subscriptions	Related party	Others	Nontrade*	
Neither past due nor impaired	<b>₱2,325,020,464</b>	<b>₱228,237,158</b>	<b>₱—</b>	<b>₱113,789,346</b>	<b>₱77,407,445</b>	<b>₱2,744,454,413</b>
Past due but not impaired:						
1-30 days	200,283,481	43,541,678	1,290,820	8,368,681	5,334,370	258,819,030
31-60 days	276,000	212,194,922	618,428	4,075,532	3,089,575	220,254,457
61-90 days	153,605,708	35,811,981	2,773,142	570,133	219,228	192,980,192
91-180 days	104,585,378	41,492,804	—	4,336,073	227,419	150,641,674
181-365 days	59,854,871	53,020,637	—	5,989,073	256,970	119,121,551
Over 1 year	48,165,633	3,937,456	55,640,169	8,804,220	7,348,747	123,896,225
	<b>₱2,891,791,535</b>	<b>₱618,236,636</b>	<b>₱60,322,559</b>	<b>₱145,933,058</b>	<b>₱93,883,754</b>	<b>₱3,810,167,542</b>

\*Excluding advances to suppliers amounting to ₱91.85 million as at December 31, 2012.

2011						
	Trade					Total
	Television and Radio Airtime	Subscriptions	Related party	Others	Nontrade*	
Neither past due nor impaired	<b>₱2,052,849,685</b>	<b>₱140,911,528</b>	<b>₱—</b>	<b>₱65,521,276</b>	<b>₱37,547,734</b>	<b>₱2,296,830,223</b>
Past due but not impaired:						
1-30 days	260,640,826	89,404,778	1,890,300	5,128,207	7,801,413	364,865,524
31-60 days	259,043,565	21,046,947	—	20,254,421	4,660,658	305,005,591
61-90 days	18,179,674	16,755,356	—	4,606,401	4,697,818	44,239,249
91-180 days	74,829,169	23,664,791	—	2,247,745	5,524,317	106,266,022
181-365 days	237,536,716	14,583,349	—	19,509,362	4,625,353	276,254,780
Over 1 year	493,733,485	5,492,872	58,731,919	34,639,366	5,100,089	597,697,731
	<b>₱3,396,813,120</b>	<b>₱311,859,621</b>	<b>₱60,622,219</b>	<b>₱151,906,778</b>	<b>₱69,957,382</b>	<b>₱3,991,159,120</b>

\*Excluding advances to suppliers amounting to ₱199.98 million as at December 31, 2011.

Trade and other receivables that were not impaired are assessed by the management of the Group as good and collectible.

The Group's unbilled receivables amounted to ₱56.44 million and ₱107.7 million as at December 31, 2012 and 2011, respectively. These are included in trade receivables as "neither past due nor impaired" but with age of 31-60 days from date of airing.

## 8. Program and Other Rights

	2012		
	Program and Film Rights	Story Format Rights	Total
Cost:			
Balance at beginning of year	<b>₱661,208,475</b>	<b>₱71,491,936</b>	<b>₱732,700,411</b>
Additions	<b>919,516,659</b>	<b>563,325</b>	<b>920,079,984</b>
Program and other rights usage (see Note 22)	<b>(419,348,428)</b>	<b>(41,589,037)</b>	<b>(460,937,465)</b>
Balance at end of year	<b>1,161,376,706</b>	<b>30,466,224</b>	<b>1,191,842,930</b>
Accumulated impairment in value -			
Balance at beginning and end of year	<b>(2,702,260)</b>	<b>—</b>	<b>(2,702,260)</b>
	<b>₱1,158,674,446</b>	<b>₱30,466,224</b>	<b>₱1,189,140,670</b>





	2011		
	Program and Film Rights	Story Format Rights	Total
Cost:			
Balance at beginning of year	₱471,211,724	₱89,563,129	₱560,774,853
Additions	468,091,709	21,354,264	489,445,973
Program and other rights usage (see Note 22)	(278,094,958)	(39,425,457)	(317,520,415)
Balance at end of year	661,208,475	71,491,936	732,700,411
Accumulated impairment in value -			
Balance at beginning and end of year	(2,702,260)	—	(2,702,260)
	₱658,506,215	₱71,491,936	₱729,998,151

No impairment loss on program and other rights was recognized in 2012 and 2011.

#### 9. Prepaid Expenses and Other Current Assets

	2012	2011
Input VAT	₱184,698,052	₱104,090,498
Prepaid production costs	181,683,840	219,404,918
Tax credits	117,848,590	118,368,267
Creditable withholding taxes	80,160,100	58,800,765
Prepaid expenses	73,887,930	85,194,126
Materials and supplies inventory at cost	72,473,600	108,959,185
Others	43,610	222,800
	₱710,795,722	₱695,040,559

Prepaid production represents cost incurred prior to the airing of the programs or episodes. The Group expects to air the related programs or episodes within the next financial year.

Tax credits represent claims of the Parent Company from the government arising from airing of government commercials and advertisements. The Parent Company expects to utilize these tax credits within the next financial year.

Prepaid expenses include prepayments for rentals, insurance and other expenses.

#### 10. Available-for-Sale Financial Assets

	2012	2011
Investments in shares of stock:		
Quoted	₱57,225,100	₱55,624,800
Unquoted	49,118,498	50,172,048
	₱106,343,598	₱105,796,848

The fair value of unquoted shares is not reasonably determinable due to the unpredictable nature of future cash flows and lack of other suitable methods in arriving at fair value.



The movements in this account are as follows:

	2012	2011
Balance at beginning of year	<b>₱105,796,848</b>	₱104,966,848
Net change in the fair value of AFS financial assets	<b>1,600,300</b>	830,000
Balance at end of the year	<b>107,397,148</b>	105,796,848
Impairment loss (see Note 23)	<b>(1,053,550)</b>	–
	<b>₱106,343,598</b>	₱105,796,848

In 2012, the Parent Company recognized a provision for impairment loss for its unquoted AFS financial asset which ceased commercial operation. The impairment loss is included under “General and administrative expenses” in the 2012 consolidated statement of comprehensive income (see Note 23).

The movements in net unrealized gain on AFS financial assets are as follows:

	2012	2011
Balance at beginning of year	<b>₱2,752,687</b>	₱1,995,687
Gain due to changes in fair market value of AFS financial assets	<b>1,600,300</b>	830,000
Tax effect of the changes in fair market values	<b>(287,060)</b>	(73,000)
	<b>₱4,065,927</b>	₱2,752,687

The net unrealized gain on AFS financial assets are deferred and presented separately under the equity section of the consolidated statements of financial position. The movement in the net unrealized gain on AFS financial assets is presented under the consolidated statements of changes in equity. No portion of the net unrealized gain on AFS financial assets was transferred to profit in loss in 2012 and 2011.

## 11. Investments and Advances

	2012	2011
Investments in associates and interests in joint ventures accounted for under the equity method	<b>₱247,146,945</b>	₱233,415,063
Permanent advances to associates and joint ventures (see Note 20)	<b>84,475,370</b>	87,085,657
	<b>₱331,622,315</b>	₱320,500,720

The movements in the above amounts are as follows:

	2012	2011
Investments in associates and interests in joint ventures accounted for under the equity method		
Acquisition cost:		
Balance at beginning of year	<b>₱277,722,056</b>	₱327,722,056
Additions (see Note 2)	<b>10,000,000</b>	–
Interest in joint venture classified as held for sale - net of subscription payable (see Note 4)	–	(50,000,000)
Balance at end of year	<b>287,722,056</b>	277,722,056

(Forward)



	2012	2011
Accumulated equity in net losses:		
Balance at beginning of year	<b>(₱44,306,993)</b>	(₱72,893,910)
Equity in net earnings during the year	<b>3,731,882</b>	5,019,389
Accumulated equity in net losses associated with the asset held for sale	–	23,567,528
Balance at end of year	<b>(40,575,111)</b>	(44,306,993)
	<b>247,146,945</b>	233,415,063
Advances to associates and joint ventures (see Note 20):		
Balance at beginning of year	<b>87,085,657</b>	87,085,657
Impairment loss (see Note 23)	<b>(2,610,287)</b>	–
Balance at end of year	<b>84,475,370</b>	87,085,657
Total investments and advances	<b>₱331,622,315</b>	₱320,500,720

In 2012, the Parent Company recognized a provision for impairment loss amounting to ₱2.61 million for the net carrying value of its advances to INQ7 Interactive, Inc. (INQ7). The recognized impairment loss is included under “General and administrative expenses” in the 2012 consolidated statement of comprehensive income (see Notes 20 and 23).

The ownership interests in associates and joint ventures, which are all incorporated in the Philippines, are as follows:

	Principal Activities	Percentage of Ownership	
		2012	2011
Associates:			
RGMA	Radio Broadcasting and Management	<b>49.0</b>	49.0
Mont-Aire Realty and Development Corporation (Mont-Aire)	Real Estate	<b>49.0</b>	49.0
Joint Ventures:			
INQ7	Internet Publishing	<b>50.0</b>	50.0
Philippine Entertainment Portal, Inc. (PEP)	Internet Publishing	<b>50.0</b>	50.0
Gamespan	Betting Games	<b>50.0</b>	–

The carrying values of investments accounted for under the equity method and the related advances are as follows:

	2012		
	Investments	Advances (see Note 20)	Total
Associates:			
RGMA	<b>₱198,796,326</b>	<b>₱–</b>	<b>₱198,796,326</b>
Mont-Aire	<b>38,350,619</b>	<b>84,475,370</b>	<b>122,825,989</b>
Joint venture - Gamespan	<b>10,000,000</b>	<b>–</b>	<b>10,000,000</b>
	<b>₱247,146,945</b>	<b>₱84,475,370</b>	<b>₱331,622,315</b>



	2011		
	Investments	Advances (see Note 20)	Total
Associates:			
RGMA	₱195,064,444	₱—	₱195,064,444
Mont-Aire	38,350,619	84,475,370	122,825,989
Joint venture -			
INQ7	—	2,610,287	2,610,287
	₱233,415,063	₱87,085,657	₱320,500,720

#### X-Play

As discussed in Note 4, the Group, through GNMI's BOD, announced its decision to dispose of its shareholdings in X-Play on January 1, 2011, and classified its investment in X-Play as asset held for sale. The carrying value of asset held for sale previously classified as investment and advances to X-Play is shown below:

Investment cost	₱100,000,000
Less subscription payable	50,000,000
Net investment cost	50,000,000
Less accumulated equity in net losses associated with the asset held for sale	23,567,528
	₱26,432,472

In connection with the planned disposal of X-Play, in March 2013, GNMI and IPE extended until June 30, 2013 the exercise period of the option agreement which both companies entered on October 19, 2011 whereby IPE grants GNMI the option to sell all, but not less than all, of shares in stock of X-Play for a purchase price of ₱75.00 million in cash. Also, on March 23, 2012, GNMI agreed to subscribe to ₱130.00 million worth of shares of IPE's authorized but unissued capital stock to be offered on its Initial Public Offering in exchange for GNMI shares of stock in X-Play at a subscription price per share equivalent to the offering price.

#### PEP

As at December 31, 2012 and 2011, accumulated equity in net losses of PEP exceeded the Group's interest in joint venture, thus, the carrying value of interest in joint venture with PEP has been reduced to zero. Unrecognized share of income (losses) in PEP amounted to (₱1.52 million), ₱2.11 million and (₱0.03 million) in 2012, 2011 and 2010, respectively. The accumulated unrecognized share of losses in PEP amounted to ₱2.71 million and ₱1.19 million as at December 31, 2012 and 2011, respectively.

#### INQ7

Losses of INQ7 recognized under the equity method in excess of the Group's interest were applied against its advances to the Parent Company. INQ7 ceased operations in 2007.

#### Gamespan

On March 22, 2012, the Group, through GNMI, executed a Shareholder's Agreement with Manila Jockey Club, Inc. (MJC) for the establishment of Gamespan, Inc., a joint venture corporation. The joint venture was organized to operate and manage the hardware and software owned by MJC, set-up new media infrastructure for offering and taking bets in horse racing and other sports. The joint venture has not yet started commercial operation as at December 31, 2012 and is expected to operate in 2013.



All associates and joint ventures are not listed in any public stock exchanges.

The table below shows the condensed financial information of the associates:

		Total Assets	Total Liabilities	Revenues	Net Income
RGMA	<b>2012</b>	<b>₱142,810,392</b>	<b>₱86,684,508</b>	<b>₱151,353,083</b>	<b>₱7,616,087</b>
	2011	126,139,501	75,172,507	146,714,016	10,243,651
Mont-Aire	<b>2012</b>	<b>160,136,147</b>	<b>94,460,607</b>	—	—
	2011	160,136,147	94,460,607	—	—

The aggregate amounts related to the Group's 50% interest in INQ7 and PEP follow:

	INQ7		PEP	
	2012	2011	2012	2011
Current assets	<b>₱7,699,079</b>	₱7,699,079	<b>₱13,168,924</b>	₱18,959,186
Noncurrent assets	<b>2,182,230</b>	2,182,230	<b>674,142</b>	691,270
Current liabilities	<b>29,032,924</b>	29,032,924	<b>17,637,207</b>	21,734,766
Revenues	—	—	<b>13,745,837</b>	12,422,343
Expenses	—	—	<b>15,262,916</b>	10,315,032
Net income (losses)	—	—	<b>(1,517,079)</b>	2,107,311

## 12. Property and Equipment at Cost

	2012				
	January 1	Additions/ Depreciation (see Notes 22 and 23)	Disposals	Reclassifications	December 31
Cost:					
Buildings, towers and improvements	<b>₱2,531,391,147</b>	<b>₱196,950,973</b>	<b>(₱689,500)</b>	<b>₱44,402,178</b>	<b>₱2,772,054,798</b>
Antenna and transmitter systems and broadcast equipment	<b>4,825,470,655</b>	<b>479,507,085</b>	<b>(2,369,504)</b>	<b>15,224,179</b>	<b>5,317,832,415</b>
Communication and mechanical equipment	<b>736,897,150</b>	<b>86,942,502</b>	<b>(1,642,728)</b>	<b>330,017</b>	<b>822,526,941</b>
Transportation equipment	<b>386,814,921</b>	<b>116,471,795</b>	<b>(83,626,532)</b>	<b>(1,941,318)</b>	<b>417,718,866</b>
Furniture, fixtures and equipment	<b>168,604,612</b>	<b>12,620,684</b>	<b>(1,012,131)</b>	<b>1,359,560</b>	<b>181,572,725</b>
	<b>8,649,178,485</b>	<b>892,493,039</b>	<b>(89,340,395)</b>	<b>59,374,616</b>	<b>9,511,705,745</b>
Accumulated Depreciation and Amortization:					
Buildings, towers and improvements	<b>1,080,986,851</b>	<b>127,291,335</b>	<b>(689,500)</b>	—	<b>1,207,588,686</b>
Antenna and transmitter systems and broadcast equipment	<b>3,587,194,730</b>	<b>317,778,911</b>	<b>(2,334,693)</b>	—	<b>3,902,638,948</b>
Communication and mechanical equipment	<b>545,883,400</b>	<b>82,318,942</b>	<b>(1,575,540)</b>	—	<b>626,626,802</b>
Transportation equipment	<b>226,130,145</b>	<b>68,414,682</b>	<b>(82,007,333)</b>	—	<b>212,537,494</b>
Furniture, fixtures and equipment	<b>140,068,769</b>	<b>10,472,856</b>	<b>(894,083)</b>	—	<b>149,647,542</b>
	<b>5,580,263,895</b>	<b>606,276,726</b>	<b>(87,501,149)</b>	—	<b>6,099,039,472</b>
Construction in progress and equipment for installation	<b>183,667,953</b>	<b>82,983,542</b>	—	<b>(59,374,616)</b>	<b>207,276,879</b>
	<b>₱3,252,582,543</b>	<b>₱369,199,855</b>	<b>(₱1,839,246)</b>	<b>₱—</b>	<b>₱3,619,943,152</b>



	2011				
	January 1	Additions/ Depreciation (see Notes 22 and 23)	Disposals	Reclassifications	December 31
Cost:					
Buildings, towers and improvements	₱2,460,432,706	₱84,495,293	(₱13,587,685)	₱50,833	₱2,531,391,147
Antenna and transmitter systems and broadcast equipment	4,256,889,902	559,920,132	(21,055,207)	29,715,828	4,825,470,655
Communication and mechanical equipment	636,205,627	105,743,565	(4,003,070)	(1,048,972)	736,897,150
Transportation equipment	346,917,213	81,642,642	(43,349,155)	1,604,221	386,814,921
Furniture, fixtures and equipment	161,473,218	9,331,503	(2,873,101)	672,992	168,604,612
	7,861,918,666	841,133,135	(84,868,218)	30,994,902	8,649,178,485
Accumulated Depreciation and Amortization:					
Buildings, towers and improvements	966,924,378	122,701,067	(8,638,594)	–	1,080,986,851
Antenna and transmitter systems and broadcast equipment	3,364,927,642	245,062,810	(22,147,659)	(648,063)	3,587,194,730
Communication and mechanical equipment	477,823,991	72,395,926	(3,708,750)	(627,767)	545,883,400
Transportation equipment	204,263,013	63,169,102	(41,316,970)	15,000	226,130,145
Furniture, fixtures and equipment	129,580,664	11,909,536	(1,421,431)	–	140,068,769
	5,143,519,688	515,238,441	(77,233,404)	(1,260,830)	5,580,263,895
Construction in progress and equipment for installation	153,602,180	62,321,505	–	(32,255,732)	183,667,953
	₱2,872,001,158	₱388,216,199	(₱7,634,814)	₱–	₱3,252,582,543

Depreciation and amortization on property and equipment charged to operations amounted to ₱606.28 million, ₱515.24 million and ₱504.41 million in 2012, 2011 and 2010, respectively. These amounts include amortization of previously capitalized borrowing costs amounting to ₱10.08 million each year. No borrowing cost was capitalized in 2012 and 2011.

The cost of fully depreciated assets still used by the Group amounted to ₱4,200.30 million and ₱3,654.75 million as at December 31, 2012 and 2011, respectively. The Group has no idle property and equipment as at December 31, 2012 and 2011.

Construction in progress pertains to the costs incurred for signals strengthening of transmitters nationwide and construction/improvement of studios and stations in the regions.

As at December 31, 2012 and 2011, no property and equipment have been pledged as collateral or security for any of the Group's liabilities.

### 13. Land at Revalued Amounts

	2012	2011
Cost:		
Balance at beginning of year	₱346,502,817	₱340,039,576
Additions	–	6,463,241
Balance at end of year	346,502,817	346,502,817
Revaluation increment -		
Balance at beginning and end of year	1,063,082,889	1,063,082,889
	₱1,409,585,706	₱1,409,585,706

Land used in operations were appraised by an independent firm of appraisers on January 5, 2009. In determining the fair value of the land, the independent appraisers considered the local market conditions, the extent, character and utility of the property, sales and holding prices of similar parcels of land and the highest and best use of the land.



While fair values of the land were not determined as at December 31, 2012 and 2011, the Group's management believes that there were no conditions present in 2012 and 2011 that would significantly change the fair value of the land from that was determined as at January 5, 2009.

As at December 31, 2012 and 2011, no land has been pledged as collateral or security for any of the Group's liabilities.

#### 14. Investment Properties

	2012		
	Land and Improvements	Buildings and Improvements	Total
Cost -			
Balance at beginning and end of year	₱33,975,381	₱73,565,501	₱107,540,882
Accumulated depreciation:			
Balance at beginning of year	—	37,465,998	37,465,998
Depreciation during the year (see Notes 22 and 23)	—	3,278,306	3,278,306
Balance at end of year	—	40,744,304	40,744,304
Accumulated impairment in value -			
Balance at beginning and end of year	—	2,045,173	2,045,173
	₱33,975,381	₱30,776,024	₱64,751,405

	2011		
	Land and Improvements	Buildings and Improvements	Total
Cost:			
Balance at beginning of year	₱33,399,381	₱71,326,338	₱104,725,719
Additions	576,000	2,239,163	2,815,163
Balance at end of year	33,975,381	73,565,501	107,540,882
Accumulated depreciation:			
Balance at beginning of year	—	34,346,621	34,346,621
Depreciation during the year (see Notes 22 and 23)	—	3,119,377	3,119,377
Balance at end of year	—	37,465,998	37,465,998
Accumulated impairment in value:			
Balance at beginning of year	—	7,035,392	7,035,392
Reversal during the year (see Note 25)	—	(4,990,219)	(4,990,219)
Balance at end of year	—	2,045,173	2,045,173
	₱33,975,381	₱34,054,330	₱68,029,711

The reversal of previously recognized impairment loss in 2011 resulted from the increase in fair value of certain buildings and improvements of GMPI amounting to ₱4.99 million as determined by an independent appraiser as at December 31, 2011, recognized under "Other income" in 2011 consolidated statement of comprehensive income (see Note 25).

The fair market value of investment properties owned by GMPI and Scenarios amounted to ₱21.09 million and ₱25.75 million as at December 31, 2012 and 2011 respectively, while the rest of the investment properties owned by the Parent Company and Alta amounted to ₱102.13 million as at December 31, 2005, as determined by independent appraisers. The fair value represents the



amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's-length transaction at the date of valuation in accordance with International Valuation Standards.

While fair values of the majority of investment properties were not determined as at December 31, 2012 and 2011, the Group's management believes that there were no conditions present in 2012 and 2011 that would significantly reduce the fair value of the investment properties from that determined in 2005.

Rental income and the directly related expenses arising from these properties follow:

	2012	2011	2010
Rental income derived from investment properties	<b>₱1,705,794</b>	₱2,175,581	₱3,251,844
Direct operating expenses (including repairs and maintenance) from investment properties	<b>(3,175,500)</b>	(3,097,803)	(2,561,895)
	<b>(₱1,469,706)</b>	(₱922,222)	₱689,949

As at December 31, 2012 and 2011, no investment properties have been pledged as collateral or security for any of the Group's liabilities.

## 15. Other Noncurrent Assets

	2012	2011
Software costs	<b>₱56,340,047</b>	₱48,421,523
Deferred input VAT	<b>36,157,216</b>	30,986,364
Guarantee deposits	<b>16,769,795</b>	18,086,984
Refundable deposits	<b>16,032,343</b>	18,925,664
Investment in artworks	<b>10,406,255</b>	10,406,255
Video rights and deferred production costs	<b>6,040,341</b>	1,512,597
	<b>₱141,745,997</b>	₱128,339,387

The movements in software costs follow:

	2012	2011
Cost:		
Balance at beginning of year	<b>₱186,516,860</b>	₱151,840,863
Additions	<b>35,652,462</b>	34,675,997
Balance at end of year	<b>222,169,322</b>	186,516,860
Accumulated amortization:		
Balance at beginning of year	<b>138,095,337</b>	112,383,718
Amortization during the year (see Note 23)	<b>27,733,938</b>	25,711,619
Balance at end of year	<b>165,829,275</b>	138,095,337
	<b>₱56,340,047</b>	₱48,421,523





## 16. Trade Payables and Other Current Liabilities

	2012	2011
Trade:		
Suppliers	<b>₱415,943,927</b>	₱305,297,742
Related party (see Note 20)	<b>28,817,640</b>	14,488,308
Payable to government agencies	<b>795,825,370</b>	756,299,280
Accrued:		
Payroll and talent fees	<b>142,660,577</b>	132,262,774
Production costs	<b>139,610,404</b>	171,700,931
Commission	<b>17,930,573</b>	37,067,964
Other general and administrative expenses	<b>81,684,975</b>	86,579,630
Others	<b>52,038,641</b>	3,904,627
	<b>₱1,674,512,107</b>	₱1,507,601,256

Trade payables to suppliers are noninterest-bearing and are normally settled on terms ranging from 7-30 days.

Terms and conditions of payables to related party are discussed in Note 20.

Payable to government agencies is remitted within 30 days after reporting period.

Accrued expenses and other payables are noninterest-bearing and are generally settled within the next financial year.

## 17. Short-term Loans

In 2012, the Parent Company obtained unsecured short-term loans with interest rate of 4.00% from various local banks for the payment of the dividends declared during the year. Total loans amounted to ₱3,200.00 million of which ₱1,300.00 million matured and ₱200.00 million was partially paid during the year. Short-term loans as at December 31, 2012 amounted to ₱1,700.00 million.

Interest expense incurred related to the short-term loans amounted to ₱37.63 million for 2012.

## 18. Obligations for Program and Other Rights

This account consists of:

	2012	2011
Current obligations for program rights	<b>₱184,585,619</b>	₱39,843,815
Noncurrent obligations for program rights	<b>63,955,130</b>	—
	<b>₱248,540,749</b>	₱39,843,815

Obligations for program and other rights represent liabilities to foreign and local film suppliers for program and other rights purchased by the Group. The current portion of the obligations for program rights is noninterest-bearing and is generally payable in equal monthly or quarterly installments. The amounts presented in the consolidated statements of financial position as at



December 31, 2012 and 2011 represent the nominal amounts of the obligations which are expected to be settled within the next 12 months.

The noncurrent portion of obligations for program rights is payable in four years and is presented at its present value in the consolidated statement of financial position as at December 31, 2012.

## 19. Equity

### a. Capital Stock

	Number of Preferred Shares	Number of Common Shares
Authorized - ₱0.20 par value per preferred share/₱1.00 par value per common share	7,500,000,000	5,000,000,000
Subscribed and issued at beginning and end of year	7,500,000,000	3,364,692,000
Treasury shares	492,816	3,645,000
PDRs	—	750,000

The preferred shares are of equal rank, preference and priority and are identical in all respect regardless of series. Preferred shares are participating at the rate of one fifth (1/5) of the dividend paid to common shares, the rate of which is adjusted proportionately by the Parent Company's BOD consequent to any stock split or stock dividend declaration affecting the common shares and preferred shares. Preferred shares are convertible at the option of the shareholders at the ratio of five (5) preferred shares to one (1) common share, based on par value.

Preferred shares enjoy priority over common shares in the distribution of assets of the Parent Company in the event of dissolution and liquidation, at such rates, terms and conditions as the BOD may determine. Each preferred share is entitled to one vote and shall have the same voting rights as the common shares.

The Parent Company's BOD may specify other terms and conditions, qualifications, restrictions and privileges of the preferred shares or series/classes thereof, insofar as such terms, conditions, qualifications, restrictions and privileges are not inconsistent with the articles of incorporation and any applicable law or regulation.



The following summarizes the information on the Parent Company's registration of securities with the SEC which was approved on June 20, 2007, as required by Securities Regulation Code Rule 68, As Amended (2011):

Securities	Authorized and issued shares	Issue/Offer Price
Initial public offering	91,346,000	₱8.50
Underlying common shares of PDRs	945,432,000	8.50
Over-allotment common shares	13,701,000	8.50
Common shares covering employee stock option plan	57,000,000	8.50
PDRs	945,432,000	8.50

b. Retained Earnings

The retained earnings of the Parent Company is restricted for the payment of dividends to the extent of ₱34.27 million as at December 31, 2012 and 2011, representing the cost of shares held in treasury amounting to ₱28.48 million in 2012 and 2011 and underlying shares of the acquired PDRs amounting to ₱5.79 million in 2012 and 2011.

Consolidated retained earnings include undeclared retained earnings of subsidiaries amounting to ₱51.20 million and ₱54.80 million as of December 31, 2012 and 2011, respectively. The Parent Company's retained earnings available for dividend declaration, computed based on the guidelines provided in SEC Memorandum Circular No. 11, amounted to ₱692.44 million and ₱2,262.68 million as at December 31, 2012 and 2011, respectively.

The BOD of the Parent Company approved the declaration of the following cash dividends, in 2012, 2011 and 2010:

Year	Declaration Date	Record Date	Cash Dividend Per Share	Total Cash Dividend Declared
<b>2012</b>	<b>March 28, 2012</b>	<b>April 16, 2012</b>	<b>₱0.40</b>	<b>₱1,944,079,375</b>
	<b>August 1, 2012</b>	<b>August 22, 2012</b>	<b>0.26</b>	<b>1,264,794,293</b>
				<b>₱3,208,873,668</b>
<hr/>				
2011	March 11, 2011	April 8, 2011	₱0.45	₱2,187,089,297
<hr/>				
2010	March 5, 2010	April 14, 2010	₱0.45	₱2,187,089,297
	October 28, 2010	November 17, 2010	0.25	1,215,049,609
				<b>₱3,402,138,906</b>

Event after Reporting Period

On March 21, 2013, the BOD of the Parent Company approved the declaration and distribution of a cash dividend of ₱0.25 per share totaling ₱1,215.05 million to all stockholders of record as at April 17, 2013 and will be paid on May 14, 2013.



## 20. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Transactions with related parties including the terms and conditions are as follows:

Related Party	Category	Year	Amount/ Volume of Transactions	Receivables (Payables)	Terms	Conditions
<b>Associates:</b>						
RGMA	Radio airtime and commission (see Notes 7 and 21)	<b>2012</b>	<b>₱—</b>	<b>₱60,322,559</b>		
	Maintenance and operations (see Note 16)	2011	60,561,323	60,622,219	Noninterest-bearing	Unsecured; not impaired
		<b>2012</b>	<b>135,228,672</b>	<b>(28,817,640)</b>	Noninterest-bearing	Unsecured
		2011	85,022,107	(14,488,308)		
Mont-Aire	Noninterest-bearing advances (see Note 11)	<b>2012</b>	—	<b>84,475,370</b>	Noninterest-bearing	Unsecured; not impaired
		2011	—	84,475,370		
<b>Common stockholders -</b>						
GMA Kapuso Foundation Inc. (GMA Foundation)	Noninterest-bearing advances	<b>2012</b>	—	<b>692,749</b>	Noninterest-bearing	Unsecured; not impaired
		2011	—	—		
	Donations	<b>2012</b>	<b>93,045</b>	—	Noninterest-bearing	Unsecured
		2011	1,702,205	—		
<b>Joint venture -</b>						
INQ 7	Noninterest-bearing advances (see Note 11)	<b>2012</b>	—	—	Noninterest-bearing	Unsecured; impaired
		2011	—	2,610,287		
<b>Other related parties:</b>						
Belo, Gozon, Elma Law and others	Legal, consulting and retainers' fees,	<b>2012</b>	<b>4,468,800</b>	<b>(865,200)</b>	Noninterest-bearing	Unsecured
		2011	14,589,120	(3,820,000)		

The advances made by the Parent Company to Mont-Aire in previous years are intended for future capital subscription.

### Others

These include FLG Management and Development Corporation, 3LM Koblenz Management Corporation and Majent Management and Development Corporation which are owned or partly owned by some officers of the Parent Company and GMPI. GMPI employs the services of these related parties in sourcing and hiring competent and capable personnel and in conducting studies to improve GMPI's capability in providing efficient services to clients.

### Compensation of Key Management Personnel

The compensation of key management personnel of the Group, by benefit type, follows:

	2012	2011	2010
Salaries and other long-term benefits	<b>₱271,919,949</b>	₱247,631,477	₱252,212,804
Pension benefits	<b>38,177,910</b>	28,619,956	28,810,122
	<b>₱310,097,859</b>	₱276,251,433	₱281,022,926



### Equity Investments of the Retirement Fund

The Group's retirement fund includes equity investments in GMA Network, Inc. and GMA PDRs amounting to ₱63.56 million and ₱496.56 million in 2012 and ₱45.69 million and ₱378.82 million in 2011, respectively (see Note 26).

## 21. Net Revenues

	2012	2011	2010
Television and radio airtime	<b>₱12,703,390,540</b>	₱11,881,201,505	₱13,192,728,856
Subscription income (see Note 27)	<b>956,293,603</b>	964,592,031	925,370,205
Production and others	<b>269,751,753</b>	237,012,535	181,417,798
	<b>13,929,435,896</b>	13,082,806,071	14,299,516,859
Agency commissions	<b>(2,072,135,849)</b>	(1,894,059,868)	(2,204,415,271)
Co-producers' shares	<b>(23,235,865)</b>	(31,702,664)	(79,964,172)
	<b>(2,095,371,714)</b>	(1,925,762,532)	(2,284,379,443)
	<b>₱11,834,064,182</b>	₱11,157,043,539	₱12,015,137,416

## 22. Production Costs

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Talent fees and production personnel costs (see Note 24)	<b>₱2,753,453,211</b>	₱2,776,389,552	₱2,330,496,360
Rental (see Note 27)	<b>690,288,940</b>	763,296,407	658,905,787
Tapes, sets and production supplies	<b>481,758,193</b>	572,365,965	534,769,220
Program and other rights usage (see Note 8)	<b>460,937,465</b>	317,520,415	463,861,354
Facilities and production services	<b>398,907,822</b>	249,539,604	197,433,955
Depreciation and amortization (see Notes 12 and 14)	<b>253,603,510</b>	224,202,422	210,468,361
Transportation and communication	<b>180,819,400</b>	201,652,534	197,286,664
	<b>₱5,219,768,541</b>	₱5,104,966,899	₱4,593,221,701

## 23. General and Administrative Expenses

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Personnel costs (see Note 24)	<b>₱2,091,699,837</b>	₱1,729,592,384	₱1,587,627,102
Advertising	<b>394,319,329</b>	425,348,586	401,373,131
Depreciation and amortization (see Notes 12 and 14)	<b>355,951,522</b>	294,155,396	296,501,220
Communication, light and water	<b>302,393,649</b>	270,459,167	240,967,848
Repairs and maintenance	<b>171,111,371</b>	187,580,420	202,020,277
Taxes and licenses	<b>141,767,760</b>	211,405,320	191,293,163
Professional fees	<b>139,712,495</b>	140,393,183	136,879,522
Research and surveys	<b>133,792,810</b>	112,664,696	105,380,684

(Forward)



	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Sales incentives	<b>₱120,043,176</b>	₱101,227,612	₱129,027,683
Rental (see Note 27)	<b>97,464,484</b>	88,633,501	78,591,408
Transportation and travel	<b>62,964,096</b>	63,559,183	68,532,979
Provision for doubtful accounts (see Note 7)	<b>35,785,207</b>	24,549,423	30,599,355
Amortization of software costs (see Note 15)	<b>27,733,938</b>	25,711,619	20,213,004
Materials and supplies	<b>23,520,309</b>	19,745,493	20,890,902
Insurance	<b>22,294,801</b>	21,872,912	18,631,682
Entertainment, amusement and recreation	<b>13,945,355</b>	14,372,425	13,996,511
Dues and subscriptions	<b>10,065,743</b>	11,036,697	11,391,554
Provisions for impairment loss on advances in joint venture and investment in AFS financial asset (see Notes 10 and 11)	<b>3,663,837</b>	—	—
Others	<b>169,698,646</b>	137,667,792	145,236,297
	<b>₱4,317,928,365</b>	₱3,879,975,809	₱3,699,154,322

## 24. Personnel Costs

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Talent fees	<b>₱2,633,735,276</b>	₱2,660,734,083	₱2,216,418,735
Salaries and wages	<b>1,398,854,130</b>	1,268,569,522	1,165,840,843
Employee benefits and allowances	<b>669,579,772</b>	417,563,885	446,428,667
Sick and vacation leaves expense	<b>57,370,649</b>	92,905,096	26,318,993
Net pension expense (see Note 26)	<b>85,613,221</b>	66,209,350	63,116,224
	<b>₱4,845,153,048</b>	₱4,505,981,936	₱3,918,123,462

The above amounts were distributed as follows:

	2012	2011	2010
Production costs (see Note 22)	<b>₱2,753,453,211</b>	₱2,776,389,552	₱2,330,496,360
General and administrative expenses (see Note 23)	<b>2,091,699,837</b>	1,729,592,384	1,587,627,102
	<b>₱4,845,153,048</b>	₱4,505,981,936	₱3,918,123,462

## 25. Others - Net

	2012	2011	2010
Gain on sale of property and equipment	<b>₱29,045,447</b>	₱16,040,347	₱13,853,541
Net foreign currency exchange loss	<b>(23,660,355)</b>	(5,772,109)	(25,511,661)
Tax refund of GMA Pinoy TV	<b>19,246,077</b>	14,781,093	17,845,874
Rental (see Note 27)	<b>5,467,117</b>	3,815,060	4,947,469
Merchandising license fees and others	<b>2,954,088</b>	6,781,724	1,076,674
(Forward)			



	2012	2011	2010
Commissions	<b>₱2,725,549</b>	₱4,011,520	₱3,515,842
Income from mall shows	<b>2,546,799</b>	2,443,521	1,873,000
Dividends	<b>1,394,334</b>	41,529	58,957
Sales of DVDs and integrated receiver-decoders	<b>1,014,342</b>	1,196,179	2,516,687
Income from unreturned video tapes	–	34,925	508,106
Reversal of impairment loss on investment properties (see Note 14)	–	4,990,219	–
Discount on tax credit certificates	–	–	2,670,692
Others	<b>2,804,005</b>	2,719,868	1,189,981
	<b>₱43,537,403</b>	<b>₱51,083,876</b>	<b>₱24,545,162</b>

## 26. Pension and Other Long-term Employee Benefits

### Pension Benefits

The Group operates non-contributory defined benefit retirement plans equal to 55 pay days for the Parent Company and GMPI and 22.5 pay days for the rest of the subsidiaries for every year of credited service.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Pension benefits recognized in the profit or loss are as follows:

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Pension expense (see Note 24)	<b>₱85,613,221</b>	₱66,209,350	₱63,116,224
Net interest cost	<b>28,250,809</b>	19,772,681	20,880,435
	<b>₱113,864,030</b>	<b>₱85,982,031</b>	<b>₱83,996,659</b>

Net pension liability recognized in the consolidated statements of financial position is as follows:

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Present value of defined benefit obligation	<b>₱1,057,637,961</b>	₱905,964,961	₱826,902,539
Fair value of plan assets	<b>688,722,578</b>	526,360,186	615,635,552
Net pension liability	<b>₱368,915,383</b>	<b>₱379,604,775</b>	<b>₱211,266,987</b>



The changes in the present value of the defined benefit obligation are as follows:

	2012	2011	2010
Balance at beginning of year	<b>₱905,964,961</b>	₱826,902,539	₱722,001,132
Current service cost	<b>85,613,221</b>	66,209,350	63,116,224
Interest cost	<b>52,740,037</b>	58,640,233	79,496,970
Benefits paid	<b>(84,278,401)</b>	(45,787,161)	(37,711,787)
Remeasurements losses (gains):			
Changes in financial assumptions	<b>208,963,150</b>	—	—
Changes in demographic assumptions	<b>(298,976,788)</b>	—	—
Experience adjustment	<b>187,611,781</b>	—	—
Balance at end of year	<b>₱1,057,637,961</b>	₱905,964,961	₱826,902,539

The changes in the fair value of plan assets are as follows:

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Balance at beginning of year	<b>₱526,360,186</b>	₱615,635,552	₱487,231,209
Contribution during the year	—	3,508,621	120,965,783
Interest income	<b>24,489,228</b>	38,867,552	58,616,534
Benefits paid	<b>(71,179,478)</b>	(39,182,501)	(36,412,249)
Remeasurements gain/(loss) - return on plan assets	<b>209,052,642</b>	(92,469,038)	(14,765,725)
Balance at end of year	<b>₱688,722,578</b>	₱526,360,186	₱615,635,552

At each reporting period, the Group determines its distribution based on the performance of its retirement fund.

The funds are managed and supervised by a trustee bank for the benefits of the members. However, the general administration of the funds is vested in a Retirement Committee.

The following table presents the carrying amounts and estimated fair values of the plan assets:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	<b>₱9,468,890</b>	<b>₱9,468,890</b>	₱17,593,822	₱17,593,822
Equity instruments (see Note 20):				
GMA Network, Inc.	<b>63,562,320</b>	<b>63,562,320</b>	45,688,400	45,688,400
GMA PDRs	<b>496,564,008</b>	<b>496,564,008</b>	378,816,100	378,816,100
Debt instruments -				
Government securities	<b>112,204,354</b>	<b>112,204,354</b>	83,875,144	83,875,144
Others	<b>6,923,006</b>	<b>6,923,006</b>	386,720	386,720
	<b>₱688,722,578</b>	<b>₱688,722,578</b>	₱526,360,186	₱526,360,186





The plan assets consist of the following:

- Cash and cash equivalents consist of regular savings and time deposits.
- Investments in equity instruments consist of unsecured and not impaired investments on the listed shares of GMA Network, Inc. and GMA PDRs (see Note 20). Changes in the fair market value in these investments amounted to a gain of ₱162.14 million in 2012 and a loss of ₱44.66 million in 2011.
- Investments in debt instruments bear interest ranging from 6.10% to 8.00% and have maturities from April 2017 to October 2037.
- Others consist of loans and receivables which are collectible within the next twelve (12) months.

Equity and debt instruments held have quoted prices in active market.

The person who exercises voting rights over shares is within the powers of the Trustee, who do not have any relationship with the directors or officers of the Group.

The plan assets consist of 81.33%, 80.65% and 81.00% investments in equity instruments as at December 31, 2012, 2011 and 2010, respectively. Such investments exposed the Group to equity price risk which arises from the changes in the levels of equity indices and the value of the individual stocks traded in stock exchange. However, in the event a benefit claim arises under the retirement plan and the retirement fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable to the retirement fund from the Group.

The Group does not expect to contribute to the plan in 2013.

The principal assumptions used in determining pension liability for the Group's plans are shown below:

	2012	2011	2010
Discount rate	6-7%	6-11%	10-11%
Expected rate of salary increase	4%	6%	6%
Turn-over rates			
19-24 years old	10.44%	10.44%	10.44%
25-29 years old	6.95%	6.95%	6.95%
30-34 years old	3.87%	3.87%	3.87%
35-39 years old	2.55%	2.55%	2.55%
40-44 years old	2.18%	2.18%	2.18%
≥45 years old	2.75%	2.75%	2.75%



The sensitivity analysis below has been determined by remeasuring the defined benefit obligation at the reporting date after first adjusting one of the current assumption that were reasonably possible at the valuation date while all other assumptions remained unchanged. It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

	2012	
	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
Discount rate	100 (100)	(₱21,065,068) 23,094,103
Future salary increases	100 (100)	21,876,682 (20,179,671)

The Group performed an Asset-Liability Matching Study (ALM) annually. The principal technique of the Group's ALM in order to minimize the portfolio liquidation risk is to ensure that the expected return on assets will be sufficient to support the desired level of funding arising from the defined benefit plans. The Group's current investment strategy consists of 81% equity instruments, 16% debt instrument, 2% cash and cash equivalents and 1% loans and receivables.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2012:

Year	Amount
2013	₱138,161,607
2014-2017	206,605,654
2018-2022	559,743,487
2023-2027	1,452,008,824
2028-2032	2,043,861,533
2033 and beyond	14,528,671,837

#### Other Long-term Employee Benefits

Other long-term employee benefits consist of accumulated employee sick and vacation leave entitlement amounting to ₱236.38 million and ₱242.45 million as at December 31, 2012 and 2011, respectively.

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## 27. Agreements

### Lease Agreements

*Operating Lease Commitments - Group as Lessee.* The Group entered into various lease agreements for the land, building, studio spaces, satellite and airtime that it presently occupies and uses for periods ranging from three to twenty five years. The leases are cancellable at the Group's option.

Also, in June 2012, the Parent Company agreed to extend its non-cancellable Co-production/Blocktime Rental Agreement with ZOE Broadcasting Network, Inc. (ZBN) for another seven (7) years from June 2012 to May 2019. The Parent Company shall pay ZBN an amount equivalent to total payments from June 2011 to May 2012, subject to yearly escalation of 10.00%.



Total rental expense amounted to ₱787.75 million, ₱851.93 million and ₱737.50 million in 2012, 2011 and 2010, respectively (see Notes 22 and 23).

The future minimum rentals payable under the non-cancellable operating leases follow:

	2012	2011
	<i>(In Millions)</i>	
Within one year	<b>₱131.24</b>	₱62.00
After one year but not more than five years	<b>670.01</b>	—
More than five years	<b>302.91</b>	—
	<b>₱1,104.16</b>	₱62.00

*Operating Lease - Group as Lessor.* The Group also leases out certain properties for a period of one year, renewable annually. Total rental income amounted to ₱5.47 million, ₱3.82 million and ₱4.95 million in 2012, 2011 and 2010, respectively (see Note 25).

#### Subscription Agreements

The Parent Company entered into various subscription agreements with international cable providers for the airing of its programs and shows abroad. The agreements generally have terms of three to five years and are based on certain agreed service package rates.

Total subscription income amounted to ₱956.29 million, ₱964.59 million and ₱925.37 million in 2012, 2011 and 2010, respectively (see Note 21).

## **28. Income Taxes**

The components of the Group's provision for income tax in the consolidated profit or loss are as follows:

	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
Current income taxes:			
RCIT	<b>₱734,689,243</b>	₱557,378,207	₱966,162,662
MCIT	—	62,386	239,980
	<b>734,689,243</b>	557,440,593	966,402,642
Deferred tax expense (benefit)	<b>(44,370,054)</b>	(36,562,882)	12,246,061
	<b>₱690,319,189</b>	₱520,877,711	₱978,648,703



### Income Tax

The reconciliation between the statutory income tax rate and effective income tax rates on income before income tax is shown below:

	2012	2011	2010
Statutory income tax rate	<b>30.00%</b>	30.00%	30.00%
Additions (deductions) in income tax rate resulting from:			
Income tax holiday	<b>(1.15)</b>	(6.82)	(4.21)
Interest income already subjected to final tax	<b>(0.23)</b>	(0.38)	(0.61)
Nonclaimable foreign tax credit	<b>0.21</b>	0.94	0.56
Equity in net earnings of associates and joint ventures	<b>(0.05)</b>	(0.07)	(0.05)
Impairment loss on investment	<b>0.04</b>	—	—
Others - net	<b>1.10</b>	(0.27)	0.02
Effective income tax rates	<b>29.92%</b>	23.40%	25.71%

### Deferred Income Taxes

The components of the Parent Company's net deferred tax liabilities are as follows:

	2012	2011 (As restated - Note 2)
Deferred tax assets:		
Pension liability	<b>₱50,145,102</b>	₱75,147,427
Allowance for doubtful accounts	<b>80,961,771</b>	70,392,145
Other long-term employee benefits	<b>61,712,292</b>	64,306,999
Accrued rent	<b>7,710,807</b>	4,220,634
Unrealized foreign exchange loss	<b>585,432</b>	—
Discounting of noncurrent obligation for program and other rights	—	635,659
	<b>201,115,404</b>	214,702,864
Deferred tax liabilities:		
Revaluation increment in land	<b>(318,924,867)</b>	(318,924,867)
Unamortized capitalized borrowing costs	<b>(24,185,166)</b>	(27,208,313)
Discounting of noncurrent obligation for program and other rights	<b>(1,713,790)</b>	—
Unrealized foreign exchange gain	—	(906,860)
Revaluation of AFS financial assets	<b>(541,971)</b>	(267,910)
	<b>(345,365,794)</b>	(347,307,950)
	<b>(₱144,250,390)</b>	(₱132,605,086)

The components of the net deferred tax assets of the subsidiaries are as follows:

	2012	2011 (As restated - Note 2)
Deferred tax assets:		
Pension liability	<b>₱60,128,911</b>	₱38,176,159
Allowance for doubtful accounts	<b>492,604</b>	419,961
Other long-term employee benefits	<b>8,991,226</b>	8,019,836
MCIT	<b>149,325</b>	1,093,681
Unrealized foreign exchange loss	<b>57,970</b>	12,520
NOLCO	–	40,226
	<b>69,820,036</b>	47,762,383
Deferred tax liability -		
Revaluation of AFS financial assets	<b>(31,500)</b>	(18,501)
Unrealized foreign exchange gain	–	(99,877)
	<b>₱69,788,536</b>	₱47,644,005

The components of deferred tax assets and (liabilities) pertaining to accounts presented under equity in the consolidated statements of financial position are as follows:

	2012	2011 (As restated - Note 2)
Pension liability - remeasurements (gain) loss on retirement plan	<b>(₱15,656,679)</b>	₱17,927,088
Revaluation of AFS financial assets	<b>(573,470)</b>	(286,410)
	<b>(₱16,230,149)</b>	₱17,640,678

The components of unrecognized deferred tax assets of certain subsidiaries are as follows:

	2012	2011 (As restated - Note 2)
NOLCO	<b>₱15,588,252</b>	₱1,150,629
Pension liability	<b>400,602</b>	557,847
Allowance for doubtful accounts	<b>376,996</b>	569,179
Other long-term employee benefits	<b>210,091</b>	407,760
MCIT	<b>154,354</b>	30,016
Unrealized foreign exchange loss	<b>108,799</b>	–
	<b>₱16,839,094</b>	₱2,715,431

The above deferred tax assets were not recognized as management believes that future taxable income against which the deferred tax assets can be used for these entities may not be available.



As at December 31, 2012, the Group's MCIT and NOLCO are as follows:

Date Paid/Incurred	Carry forward Benefit Up To	MCIT	NOLCO
December 31, 2010	December 31, 2013	₱213,484	₱3,704,220
December 31, 2011	December 31, 2014	90,195	1,701,880
December 31, 2012	December 31, 2015	–	46,554,740
		<b>₱303,679</b>	<b>₱51,960,840</b>

The movements in MCIT and NOLCO in 2012 are as follow:

	MCIT	NOLCO
Balance at beginning of year	₱1,123,697	₱3,969,517
Additions	–	48,031,548
Applications	(598,561)	(40,226)
Expirations	(221,457)	–
	<b>₱303,679</b>	<b>₱51,960,839</b>

#### Board of Investments (BOI) Regulation

On February 19, 2007, the Parent Company was registered with the BOI as a new export producer of television and motion picture on a non-pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226). As a registered enterprise the Parent Company is entitled to income tax holiday for the registered activities for four years starting from registration date.

On December 10, 2010, the BOI granted the Parent Company an additional one year of income tax holiday for its registered activity from February 19, 2011 to February 18, 2012.

The total tax incentives availed of in 2012, 2011 and 2010 amounted to ₱26.49 million, ₱153.21 million and ₱159.87 million, respectively.

## **29. EPS Computation**

The computation of basic and diluted EPS follows:

	2012	2011	2010
Net income (a)	<b>₱1,616,888,635</b>	₱1,704,641,837	₱2,828,081,462
Less attributable to preferred shareholders	<b>498,896,537</b>	526,067,973	872,771,658
Net income attributable to common shareholders (b)	<b>₱1,117,992,098</b>	₱1,178,573,864	₱1,955,309,804

(Forward)



	2012	2011	2010
Common shares issued at the beginning of year	<b>₱3,364,692,000</b>	₱3,364,692,000	₱3,364,692,000
Treasury shares (see Note 19)	<b>(3,645,000)</b>	(3,645,000)	(3,645,000)
Underlying shares on acquired PDRs (see Note 19)	<b>(750,000)</b>	(750,000)	(750,000)
Weighted average number of common shares for basic EPS (c)	<b>₱3,360,297,000</b>	₱3,360,297,000	₱3,360,297,000
Weighted average number of common shares	<b>₱3,360,297,000</b>	₱3,360,297,000	₱3,360,297,000
Effect of dilution - assumed conversion of preferred shares	<b>₱1,500,000,000</b>	₱1,500,000,000	₱1,500,000,000
Reacquired preferred shares	<b>(98,563)</b>	(98,563)	(98,563)
Weighted average number of common shares adjusted for the effect of dilution (d)	<b>₱4,860,198,437</b>	₱4,860,198,437	₱4,860,198,437
Basic EPS (b/c)	<b>₱0.333</b>	₱0.351	₱0.582
Diluted EPS (a/d)	<b>₱0.333</b>	₱0.351	₱0.582

### 30. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include cash and cash equivalents. The main purposes of these financial instruments include raising financing for the Group's operations and managing identified financial risks. The Group has other financial assets and liabilities such as trade and nontrade receivables (excluding advances to suppliers), refundable deposits, trade payables and other current liabilities (excluding payable to government agencies), obligations for program and other right, short-term loans and dividends payable, which arise directly from its operations and AFS financial assets. The main risks arising from the use of financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk.

The BOD reviews and approves the Group's objectives and policies.

*Liquidity Risk.* The Group is exposed to the possibility that adverse changes in the business environment and/or its operations would result in substantially higher working capital requirements and subsequently pose difficulty in financing the additional working capital.

The Group manages liquidity risk by using its cash and cash equivalents from operations to meet its short-term liquidity needs. The Group likewise regularly evaluates other financing instruments and arrangements to broaden the Group's range of financing sources.



The tables below summarize the maturity profile of the Group's financial assets used for liquidity risk management purposes and financial liabilities based on contractual undiscounted payments as at December 31:

	On Demand	2012			Total
		Less than 3 Months	3 to 12 Months	More than 1 year	
Loans and receivables:					
Cash and cash equivalents	₱1,019,359,655	₱246,849,483	₱—	₱—	₱1,266,209,138
Short-term investments			8,538,142	—	8,538,142
Trade receivables:					
Television and radio airtime	366,211,590	2,525,579,945	269,872,570	—	3,161,664,105
Subscriptions	134,262,878	483,973,758	—	—	618,236,636
Related party	58,413,311	1,909,248	—	—	60,322,559
Others	22,598,165	126,233,559	—	—	148,831,724
Nontrade receivables:					
Advances to officers and employees	174,790	29,537,820	—	—	29,712,610
Others	7,877,575	56,293,569	—	—	64,171,144
Refundable deposits (under "Other non-current assets")	—	—	—	16,032,343	16,032,343
	1,608,897,964	3,470,377,382	278,410,712	16,032,343	5,373,718,401
AFS financial assets	—	—	—	106,343,598	106,343,598
	₱1,608,897,964	₱3,470,377,382	₱278,410,712	₱122,375,941	₱5,480,061,999
Trade payables and other current liabilities*	₱419,429,393	₱311,338,268	₱147,919,076	₱—	₱878,686,737
Short-term loans	—	1,710,333,333	—	—	1,710,333,333
Obligations for program and other rights	—	124,996,401	59,589,218	63,955,130	248,540,749
Dividends payable	7,648,097	—	—	—	7,648,097
Other long-term employee benefits	—	—	—	264,380,312	264,380,312
	₱427,077,490	₱2,146,668,002	₱207,508,294	₱328,335,442	₱3,109,589,228

\*Excluding payable to government agencies which is not considered as financial liability.





	2011				Total
	On Demand	Less than 3 Months	3 to 12 Months	More than 1 Year	
Loans and receivables:					
Cash and cash equivalents	₱739,028,819	₱468,947,304	₱—	₱—	₱1,207,976,123
Trade receivables:					
Television and radio airtime	1,373,232,296	2,052,849,685	205,371,623	—	3,631,453,604
Subscriptions	170,948,093	140,911,528	—	—	311,859,621
Related party	—	60,622,219	—	—	60,622,219
Others	89,682,636	65,521,276	—	—	155,203,912
Nontrade receivables:					
Advances to officers and employees	12,465,421	22,272,988	—	—	34,738,409
Others	19,944,227	15,274,746	—	—	35,218,973
Refundable deposits (under “Other non- current assets”)	—	—	—	18,925,664	18,925,664
	2,405,301,492	2,826,399,746	205,371,623	18,925,664	5,455,998,525
AFS financial assets	—	—	—	105,796,848	105,796,848
	₱2,405,301,492	₱2,826,399,746	₱205,371,623	₱124,722,512	₱5,561,795,373
Trade payables and other current liabilities*	₱280,410,678	₱341,031,669	₱129,859,629	₱—	₱751,301,976
Obligations for program and other rights	—	12,456,082	27,387,733	—	39,843,815
Dividends payable	4,942,280	—	—	—	4,942,280
Other long-term employee benefits	—	—	—	222,224,516	222,224,516
	₱285,352,958	₱353,487,751	₱157,247,362	₱222,224,516	₱1,018,312,587

\*Excluding payable to government agencies which is not considered as financial liability.

**Foreign Currency Exchange Risk.** Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group’s exposure to foreign currency exchange risk results from its business transactions denominated in foreign currencies. It is the Group’s policy to ensure that capabilities exist for active but conservative management of its foreign currency exchange risk.

The Group’s foreign currency-denominated monetary assets and liabilities follow:

	2012		2011	
<b>Assets</b>				
Cash and cash equivalents	\$7,712,351	₱316,633,059	\$5,781,923	₱253,479,504
Trade receivables	16,365,000	671,783,250	7,269,030	318,674,275
	\$24,077,351	₱988,416,309	\$13,050,953	₱572,153,779
<b>Liabilities</b>				
Trade payables	\$1,441,304	₱59,165,529	\$239,042	₱10,479,601
Obligations for program and other rights	1,192,276	48,942,930	335,672	14,715,860
	\$2,633,580	₱108,108,459	\$574,714	₱25,195,461

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the exchange rate used were ₱41.05 and ₱43.84 to US\$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2012 and 2011, respectively.



The following table demonstrates the sensitivity to a reasonably possible change in US\$ exchange rate, with all other variables held constant, of the Group's income before income tax from reporting period up to next reporting period (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity other than those already affecting profit or loss.

	Appreciation (Depreciation) of ₱	Effect on Income before Income Tax
<b>2012</b>	<b>0.50</b> <b>(0.50)</b>	<b>(₱2.68 million)</b> <b>2.68 million</b>
2011	0.50 (0.50)	(₱1.56 million) 1.56 million

*Interest Rate Risk.* Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates is attributed to cash and cash equivalents and short-term loans.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax from reporting period up to next reporting period. There is no impact on the Group's equity other than those already affecting profit or loss.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax	
		<b>2012</b>	2011
Cash and cash equivalents	50 (50)	<b>₱6.28 million</b> <b>(6.28 million)</b>	₱5.97 million (5.97 million)
Short-term loans	50 (50)	<b>(7.82 million)</b> <b>7.82 million</b>	(4.75 million) 4.75 million

*Credit Risk.* Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of products and services are made to customers with appropriate credit history. The Group has an internal mechanism to monitor the granting of credit and management of credit exposures. The Group has made provisions, where necessary, for potential losses on credits extended. The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of the instruments. The Group does not require any collateral for its financial assets, thus, maximum exposure to credit risk is equal to the carrying value of the financial instruments.



The table below shows the maximum exposure to credit risk for the components of the consolidated financial position as at December 31:

	2012	2011
Loans and receivables		
Cash and cash equivalents*	<b>₱1,255,814,115</b>	₱1,193,084,345
Short-term investments	<b>8,538,142</b>	—
Trade receivables:		
Television and radio airtime	<b>3,161,664,105</b>	3,631,453,604
Subscriptions	<b>618,236,636</b>	311,859,621
Related party	<b>60,322,559</b>	60,622,219
Others	<b>148,831,724</b>	155,203,912
Nontrade receivables:		
Advances to officers and employees	<b>29,712,610</b>	34,738,409
Others	<b>64,171,144</b>	35,218,973
Refundable deposits (under “Other non-current assets”)	<b>16,032,343</b>	18,925,664
	<b>5,363,323,378</b>	5,441,106,747
AFS financial assets	<b>106,343,598</b>	105,796,848
	<b>₱5,469,666,976</b>	₱5,546,903,595

\*Excluding cash on hand amounting to ₱10.40 million and ₱14.89 million as at December 31, 2012 and 2011, respectively.

The credit quality of financial assets is managed by the Group using high grade and standard grade as internal credit ratings.

- *High Grade.* Pertains to a counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes prime financial institutions and companies and top 20 advertisers in terms of volume of sales, who consistently pay on or before the maturity date and related parties.
- *Standard Grade.* Pertains to a counterparty with tolerable delays (normally from 1 to 30 days) in settling its obligations to the Group. The delays may be due to cut-off differences. This includes customers outside the top 20 advertisers in terms of volume of sales, who consistently pay on maturity date and officers and employees.

As at December 31, 2012 and 2011, the credit quality of the Group’s financial assets is as follows:

	2012			
	Neither Past Due Nor Impaired High Grade	Standard Grade	Past Due but not Impaired	Total
Loans and receivables:				
Cash and cash equivalents*	<b>₱1,255,814,115</b>	<b>₱—</b>	<b>₱—</b>	<b>₱1,255,814,115</b>
Short-term investments	<b>8,538,142</b>	<b>—</b>	<b>—</b>	<b>8,538,142</b>
Trade receivables:				
Television and other receivables	<b>228,406,247</b>	<b>2,096,614,217</b>	<b>566,771,071</b>	<b>2,891,791,535</b>
Subscriptions	<b>228,237,158</b>	<b>—</b>	<b>389,999,478</b>	<b>618,236,636</b>
Related party	<b>—</b>	<b>—</b>	<b>60,322,559</b>	<b>60,322,559</b>
Others	<b>—</b>	<b>113,789,346</b>	<b>32,143,712</b>	<b>145,933,058</b>

(Forward)



	2012			
	Neither Past Due Nor Impaired		Past Due but not Impaired	Total
	High Grade	Standard Grade		
Nontrade receivables:				
Advances to officers and employees	P—	P29,156,960	P555,650	P29,712,610
Others	—	48,250,485	15,920,659	64,171,144
Refundable deposits (under “Other non-current assets”)	16,032,343	—	—	16,032,343
	1,737,028,005	2,287,811,008	1,065,713,129	5,090,552,142
AFS financial assets	106,343,598	—	—	106,343,598
	P1,843,371,603	P2,287,811,008	P1,065,713,129	P5,196,895,740

\*Excluding cash on hand amounting to P10.40 million as at December 31, 2012.

	2011			
	Neither Past Due Nor Impaired		Past Due but not Impaired	Total
	High Grade	Standard Grade		
Loans and receivables:				
Cash and cash equivalents*	P1,193,084,345	P—	P—	P1,193,084,345
Trade receivables:				
Television and radio airtime	107,874,576	1,202,591,926	2,086,346,618	3,396,813,120
Subscriptions	140,911,528	—	170,948,093	311,859,621
Related party	60,622,219	—	—	60,622,219
Others	—	65,521,276	86,385,502	151,906,778
Nontrade receivables:				
Advances to officers and employees	—	34,470,831	267,578	34,738,409
Others	—	3,076,903	32,142,070	35,218,973
Refundable deposits (under “Other non-current assets”)	18,925,664	—	—	18,925,664
	1,521,418,332	1,305,660,936	2,376,089,861	5,203,169,129
AFS financial assets	105,796,848	—	—	105,796,848
	P1,627,215,180	P1,305,660,936	P2,376,089,861	P5,308,965,977

\*Excluding cash on hand amounting to P14.89 million as at December 31, 2011.

### Capital Management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay off existing debts, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for the three years ended December 31, 2012, 2011 and 2010.

The Group monitors its capital gearing by measuring the ratio of interest-bearing debt to total equity. Interest-bearing debt includes all short-term and long-term debts. The Group’s interest-bearing debt amounted to P1,700.00 million and nil as at December 31, 2012 and 2011, respectively. The Group’s total equity as at December 31, 2012 and 2011 amounted to P8,270.06 million and P9,782.37 million, respectively.



### 31. Financial Assets and Liabilities

The table below presents the carrying values and fair values of the Group's financial instruments, by category and by class, as at December 31:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	₱1,266,209,138	₱1,266,209,138	₱1,207,976,123	₱1,207,976,123
Short-term investment	8,538,142	8,538,142	–	–
Trade receivables:				
Television and radio airtime	2,891,791,535	2,891,791,535	3,396,813,120	3,396,813,120
Subscriptions	618,236,636	618,236,636	311,859,621	311,859,621
Related parties	60,322,559	60,322,559	60,622,219	60,622,219
Others	145,933,058	145,933,058	151,906,778	151,906,778
Nontrade receivables:				
Advances to officers and employees	29,712,610	29,712,610	34,738,409	34,738,409
Others	64,171,144	64,171,144	35,218,973	35,218,973
Refundable deposits (under "Other non-current assets")	16,032,343	15,589,855	18,925,664	16,821,962
	5,100,947,165	5,100,504,677	5,218,060,907	5,215,957,205
AFS financial assets	106,343,598	106,343,598	105,796,848	105,796,848
	₱5,207,290,763	₱5,206,848,275	₱5,323,857,755	₱5,321,754,053
<b>Financial Liabilities</b>				
Other financial liabilities:				
Trade payables and other current liabilities*	₱878,686,737	₱878,686,737	₱751,301,976	₱751,301,976
Short-term loans	1,700,000,000	1,700,000,000	–	–
Obligations for program and other rights:				
Current	184,585,619	184,585,619	39,843,815	39,843,815
Noncurrent	63,955,130	82,709,118	–	–
Dividends payable	7,648,097	7,648,097	4,942,280	4,942,280
Other long-term employee benefits	264,380,312	264,380,312	222,224,516	222,224,516
	₱3,099,255,895	₱3,118,009,883	₱1,018,312,587	₱1,018,312,587

\*Excluding payable to government agencies which are not considered as financial liability.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

#### Cash and Cash Equivalents and Trade and Nontrade Receivables

The carrying values of cash and cash equivalents and trade and nontrade receivables are the approximate fair values primarily due to the relatively short-term maturity of these financial instruments.

#### Refundable Deposits

The fair value of refundable deposits is based on the present value of the future discounted cash flows. Discount rates used range from 4.2% to 5.3% in 2012 and 2.17% to 3.17% in 2011.



#### AFS Financial Assets

These are investments in quoted and unquoted shares of stock. The fair value of quoted shares is based on quoted market prices. For unquoted shares, the carrying amounts (cost less allowance for impairment losses) approximate fair values due to unpredictable nature of future cash flows and lack of other suitable methods for arriving at reliable fair value.

#### Trade Payables and Other Current Liabilities, Short-term Loans, Current Portion of Obligations for Program and Other Rights and Dividends Payable

The carrying values of trade payables and other current liabilities, current portion of obligations for program and other rights and dividends payable are the approximate fair values due to the relatively short-term maturity of these financial instruments.

#### Noncurrent Portion of Obligations for Program and Other Rights

The fair value of noncurrent portion of obligation for program and other rights is based on the present value of the future cash flows. Discount rates used is 3.20% in 2012.

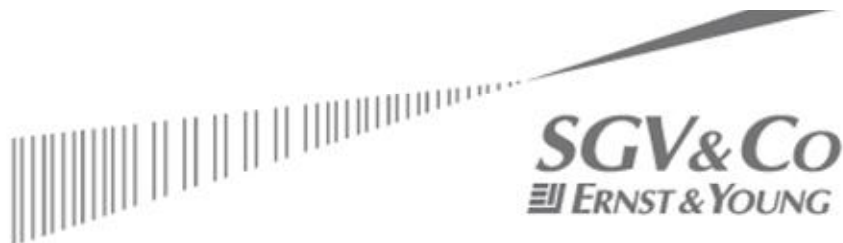
#### Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- a. Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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 financial instruments carried at fair value pertain only to the Group's AFS financial assets, which consist of quoted and unquoted equity securities and club shares. As at December 31, 2012 and 2011, quoted AFS financial assets were categorized under Level 1 of the fair value hierarchy while unquoted AFS financial assets were not categorized under Level 1, Level 2 or Level 3 fair value hierarchy since fair value cannot be reliably measured, instead, measured at cost less any impairment. The Group has no financial instruments categorized under Level 2 and Level 3. There were no transfer between levels of fair value measurement in 2012 and 2011.





**SyCip Gorres Velayo & Co.**

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BOA/PRC Reg. No. 0001,  
December 28, 2012, valid until December 31, 2015  
SEC Accreditation No. 0012-FR-3 (Group A),  
November 15, 2012, valid until November 16, 2015

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
GMA Network, Inc.  
GMA Network Center  
Timog Avenue corner EDSA  
Quezon City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of GMA Network, Inc. and its subsidiaries (the Group) as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 included in this Form 17-A, and have issued our report thereon dated March 21, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon

Partner

CPA Certificate No. 46047

SEC Accreditation No. 0077-AR-3 (Group A),

February 21, 2013, valid until February 20, 2016

Tax Identification No. 102-085-577

BIR Accreditation No. 08-001998-17-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3669677, January 2, 2013, Makati City

March 21, 2013



**GMA NETWORK, INC. AND SUBSIDIARIES**

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**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULES  
AS AT DECEMBER 31, 2012**

I.	Supplemental schedules required by Annex 68-E	
A.	Financial assets	Attached
B.	Amounts receivable from directors, officers, employees, related parties and principal stockholders (other than related parties)	Not applicable
C.	Amounts of receivables and payable from/to related parties which are eliminated during consolidation process of financial statements	Attached
D.	Intangible assets - other asset	Attached
E.	Long-term debt	Not applicable
F.	Indebtedness to related parties (Long-term loans from related parties)	Not applicable
G.	Guarantees of securities of other issuers	Not applicable
H.	Capital stock	Attached
II.	Schedule of all the effective standards and interpretations	Attached
III.	Reconciliation of retained earnings available for dividend declaration	Attached
IV.	Map of the relationships of the Company within the Group	Attached



**GMA NETWORK, INC. AND SUBSIDIARIES****I. SUPPLEMENTAL SCHEDULES REQUIRED BY ANNEX 68-E  
AS AT DECEMBER 31, 2012****Schedule A. Financial Assets**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and rates	Amount shown in the statements of financial position	Value based on market quotation at end of reporting period	Income received and accrued
<b>Cash in Banks</b>	—	<b>₱1,008,964,632</b>	<b>₱—</b>	<b>₱2,213,480</b>
<b>Peso Placements</b>				
Abacus Capital & Investment Corporation	—	₱76,800,441	—	₱7,640,074
Philippine National Bank	—	61,357,037	—	2,516,695
Land Bank of the Philippines	—	—	—	1,916,681
Malayan Bank	—	50,630,974	—	3,455,873
Unicapital, Inc.	—	—	—	—
Metrobank	—	2,498,008	—	—
Philippine Bank of Communications	—	—	—	856,284
Banco De Oro	—	—	—	1,041,082
Asia United Bank	—	—	—	—
East West Bank	—	—	—	420,775
Unicapital, Inc.	—	—	—	1,307,450
<b>Dollar Placements</b>	—	—	—	—
Asia United Bank	—	5,790,467	—	70,492
Eastwest Bank	—	28,109,453	—	398,514
Union Bank of the Philippines	—	21,663,103	—	266,378
<b>Total Placements</b>	—	<b>₱246,849,483</b>	<b>₱—</b>	<b>₱19,890,298</b>
<b>Short-term investments -</b>				
Malayan Bank		<b>₱8,538,142</b>	<b>₱—</b>	<b>₱68,883</b>

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and rates	Amount shown in the statements of financial position	Value based on market quotation at end of reporting period	Income received and accrued
<b>AFS Financial Assets</b>				
Philippine Long Distance Telephone Company (PLDT)	21,810	₱243,400	₱—	₱—
Manila Electric Company shares	45,108	7,467,200	—	—
Export - Industry Bank	5,545,000	1,053,550	—	—
Unicapital, Inc.		52,494,600	52,494,600	—
Manila Southwoods A	1	370,000	370,000	—
Royale Tagaytay (Tagaytay Country Club)	2	370,000	370,000	—
Metropolitan Club (Metroclub) A	8	1,150,000	—	—
Baguio Country Club	1	800,000	800,000	—
Ayala Alabang Country Club - A	1	1,800,000	—	—
Camp John Hay Golf Club	1	100,000	—	—
Mabuhay Philippines Satellite		29,000,000	—	—
Optima Studio		11,023,156	—	—
Others		471,692	—	—
	<b>106,343,598</b>	<b>₱106,343,598</b>	<b>₱54,034,600</b>	<b>₱—</b>

**Schedule C. Amounts of Receivable from and Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements  
As at December 31, 2012**

*Alta Productions Company, Inc. (Alta)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Trade Receivables	₱1,500,000	₱–	(₱1,500,000)	₱–	₱–	₱–	₱–
Trade payables	(3,980,882)	(52,687,824)	44,808,857	–	(11,859,849)	–	(11,859,849)
Due to Alta	(751,255)	–	751,255	–	–	–	–
<b>Total</b>	<b>(₱3,232,137)</b>	<b>(₱52,687,824)</b>	<b>₱44,060,112</b>	<b>₱–</b>	<b>(₱11,859,849)</b>	<b>₱–</b>	<b>(₱11,859,849)</b>

*Citynet Network Marketing and Productions, Inc. (Citynet)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Advances to Citynet	₱122,125,088	₱–	(₱1,899,370)	₱–	₱–	₱120,225,718	₱120,225,718
Trade Receivables	14,820	–	–	–	–	14,820	14,820
Due to Citynet	(1,899,370)	–	1,899,370	–	–	–	–
Trade Payables	–	(4,198,136)	2,688,000	–	(1,510,136)	–	(1,510,136)
<b>Total</b>	<b>₱120,240,538</b>	<b>(₱4,198,136)</b>	<b>₱2,688,000</b>	<b>₱–</b>	<b>(₱1,510,136)</b>	<b>₱120,240,538</b>	<b>₱118,730,402</b>

*GMA Network, Films, Inc. (GNFI)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Advances to GNFI	₱74,814,188	₱106,783	(₱30,409,657)	₱–	₱106,783	₱44,404,531	₱44,511,314
Due from GNFI	49,702,877	–	(49,702,877)	–	–	–	–
Trade Receivables	–	10,447,097	–	–	10,447,097	–	10,447,097
Trade Payables	(15,000)	(88,213,687)	87,945,187	–	(283,500)	–	(283,500)
Due to GNFI	–	(45,515,637)	18,864,780	–	(26,650,857)	–	(26,650,857)
<b>Total</b>	<b>₱124,502,065</b>	<b>(₱123,175,444)</b>	<b>₱26,697,433</b>	<b>₱–</b>	<b>(₱16,380,477)</b>	<b>₱44,404,531</b>	<b>₱28,024,054</b>

*GMA Marketing and Productions, Inc. (GMPI)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Trade Receivables	₱1,224,419	₱–	₱–	₱–	₱–	₱1,224,419	₱1,224,419
Due from GMPI	224,826	51,239	–	–	51,239	224,826	276,065
Trade Payables	(26,030,350)	(418,258,940)	411,711,135	–	(32,578,155)	–	(32,578,155)
<b>Total</b>	<b>(₱24,581,105)</b>	<b>(₱418,207,701)</b>	<b>₱411,711,135</b>	<b>₱–</b>	<b>(32,526,916)</b>	<b>1,449,245</b>	<b>(₱31,077,671)</b>

*GMA New Media, Inc. (GNMI)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Advances to GNMI	₱114,053,725	₱–	(₱78,528,879)	₱–	₱–	₱35,524,846	₱35,524,846
Trade Receivables	32,748,657	–	–	–	–	32,748,657	32,748,657
Due from GNMI	763,873	10,921,896	–	–	10,921,896	763,873	11,685,769
Trade Payables	(47,735,408)	(111,080,127)	145,578,539	–	(13,236,996)	–	(13,236,996)
<b>Total</b>	<b>₱99,830,847</b>	<b>(₱100,158,231)</b>	<b>₱67,049,660</b>	<b>₱–</b>	<b>(₱2,315,100)</b>	<b>₱69,037,376</b>	<b>₱66,722,276</b>

*GMA Worldwide (Philippines), Inc. (GWI)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Advances to GWI	₱8,116,077	₱–	(₱8,116,077)	₱–	₱–	₱–	₱–
Trade Receivables	39,744,502	–	(36,374,193)	–	3,370,309	–	3,370,309
Due from GWI	6,035,618	20,523,348	(26,558,966)	–	–	–	–
Trade Payables	(529,803)	(16,180,330)	11,410,030	–	(5,300,103)	–	(5,300,103)
<b>Total</b>	<b>₱53,366,394</b>	<b>₱4,343,018</b>	<b>(₱59,639,206)</b>	<b>₱–</b>	<b>(₱1,929,794)</b>	<b>₱–</b>	<b>(₱1,929,794)</b>

*RGMA Marketing & Productions, Inc. (GMA Records)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Advances to GMA Records	₱19,690,666	₱2,903,352	₱–	₱–	₱2,903,352	₱19,690,666	₱22,594,018
Trade Receivables	3,156,562	200,000	(200,000)	–	3,156,562	–	3,156,562
Due from GMA Records	5,929,804	83,181	(300,000)	–	83,181	5,629,804	5,712,985
<b>Total</b>	<b>₱28,777,032</b>	<b>₱3,186,533</b>	<b>(₱500,000)</b>	<b>₱–</b>	<b>₱6,143,095</b>	<b>₱25,320,470</b>	<b>₱31,463,565</b>

*Scenarios, Inc. (Scenarios)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Advances to Scenarios	₱798,216	₱–	₱–	₱–	₱–	₱798,216	798,216
Trade Receivables	23,225,649	1,317,330	–	–	1,317,330	23,225,649	24,542,979
Due from Scenarios	–	(392,202)	–	–	(392,202)	–	(392,202)
Trade Payables	(229)	(15,091,813)	–	–	(15,091,813)	(229)	(15,092,042)
Due to Scenarios	(21,606,823)	–	15,605,522	–	–	(6,001,301)	(6,001,301)
<b>Total</b>	<b>₱2,416,813</b>	<b>(₱14,166,685)</b>	<b>₱15,605,522</b>	<b>₱–</b>	<b>(14,166,685)</b>	<b>₱18,022,335</b>	<b>₱3,855,650</b>

*Script2010, Inc. (Script2010)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Trade Payables	(₱383,528)	(₱151,283,052)	₱125,607,774	₱–	(₱26,058,806)	₱–	(₱26,058,806)
Due from Script2010	13,968,690	2,112,824	(3,470,000)	–	2,112,824	₱10,498,690	12,611,514
<b>Total</b>	<b>₱13,585,162</b>	<b>(₱149,170,228)</b>	<b>₱122,137,774</b>	<b>₱–</b>	<b>(₱23,945,981)</b>	<b>₱10,498,690</b>	<b>(₱13,447,292)</b>

*Media Merge Corporation (MM)*

Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Due to MM	(P8,984,211)	P8,984,211	P–	P–	P–	P–	P–
Trade Payables	–	(64,880,638)	36,431,526	–	(28,449,112)	–	(28,449,112)
<b>Total</b>	<b>(P8,984,211)</b>	<b>(P55,896,427)</b>	<b>P36,431,526</b>	<b>P–</b>	<b>(P28,449,112)</b>	<b>P–</b>	<b>(P28,449,112)</b>

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Account	January 1, 2012	Additions	Deductions		Current	Non Current	December 31, 2012
			Amount Collected	Amount Written Off			
Trade Payables	P–	(P2,294,000)	P1,834,560	P–	(P459,440)	P–	(P459,440)

### Schedule D. Intangible Asset - Other Asset

Description	Beginning balance	Additions at cost	Charge to cost and expenses	Charged to other accounts	Other charges additions (deduction)	Ending balance
Program and film rights	₱661,208,475	₱919,516,659	(₱419,348,428)	(₱2,702,260)	₱–	₱1,158,674,446
Story format rights	71,491,936	563,325	(41,589,037)	–	–	30,466,224
Software cost	48,421,523	35,652,462	(27,733,938)	–	–	56,340,047
	₱781,121,934	₱955,732,446	(₱488,671,403)	(₱2,702,260)	₱–	₱1,245,480,717

### Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related statements of financial position caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers, and employees	Others
Common	5,000,000,000	3,361,047,000	NA	3,103,590,848	7,888,356	249,567,796
Preferred	7,500,000,000	7,499,507,184	NA	7,428,344,388	27,294	71,135,502

**GMA NETWORK, INC. AND SUBSIDIARIES****II. SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS  
AS AT DECEMBER 31, 2012**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as at December 31, 2012</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	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			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as at December 31, 2012		Adopted	Not Adopted	Not Applicable
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	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	Not Early Adopted		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			
<b>PFRS 10</b>	Consolidated Financial Statements			
<b>PFRS 11</b>	Joint Arrangements			
<b>PFRS 12</b>	Disclosure of Interests in Other Entities			
<b>PFRS 13</b>	Fair Value Measurement			
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	Not Early Adopted		
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Date	✓		
<b>PAS 11</b>	Construction Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as at December 31, 2012		Adopted	Not Adopted	Not Applicable
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans	✓		
<b>PAS 27</b>	Consolidated and Separate Financial Statements	✓		
<b>PAS 27 (Amended)</b>	Separate Financial Statements	Not Early Adopted		
<b>PAS 28</b>	Investments in Associates	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures	✓		
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Issued as at December 31, 2012		Adopted	Not Adopted	Not Applicable
	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	Not Early Adopted		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
<b>PAS 39</b>	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			✓
<b>PAS 40</b>	Investment Property	✓		
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Issued as at December 31, 2012</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	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			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine	Not Early Adopted		
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Issued as at December 31, 2012</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-21</b>	Income Taxes – Recovery of Revalued Non-Depreciable Assets			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs	✓		

*Note: Standards and Interpretations under the “Not Applicable” column are effective as at December 31, 2012 but for which no transactions of the Group for years ended December 31, 2012, 2011 and 2010 are deemed recovered.*

**GMA NETWORK, INC.**

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**III. SCHEDULE OF RETAINED EARNINGS AVAILABLE  
FOR DIVIDEND DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Unappropriated retained earnings, at beginning of year</b>	<b>₱2,320,501,194</b>
Adjustments:	
Less: Effect of recognized deferred tax assets during the year	(23,550,118)
Treasury shares	(28,483,171)
Underlying shares of the acquired Philippine Deposit Receipts	(5,790,016)
<b>Unappropriated retained earnings, as adjusted to     available for dividend declaration, beginning</b>	<b>2,262,497,889</b>
Effect of early adoption of Revised PAS 19	(3,242,126)
<b>Adjusted beginning balance of unappropriated retained earnings     available for dividend declaration, as restated</b>	<b>2,259,255,763</b>
<b>Net income based on the face of 2012 audited financial statements,     as reported</b>	<b>1,642,942,109</b>
Less: Effect of recognized deferred tax asset during the year	(880,265)
<b>Net income actually earned during the year,     as adjusted</b>	<b>1,642,061,844</b>
<b>Unappropriated retained earnings , as adjusted,     before dividend declaration during the year</b>	<b>3,901,317,607</b>
Less: Dividend declarations during the year	(3,208,873,668)
<b>Unappropriated retained earnings as adjusted to     available for dividend declaration, at end of year</b>	<b>₱692,443,939</b>

## GMA NETWORK, INC. AND SUBSIDIARIES

### IV. MAP OF THE RELATIONSHIP OF THE COMPANY WITHIN THE GROUP

