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SEC Registration Number

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(Company's Full Name)

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

**Constante T. Santos**

(Contact Person)

**633-7631**

(Company Telephone Number)

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Month Day  
(Fiscal Year)

1	7	Q	
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(Form Type)

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Month Day  
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

\_\_\_\_\_ LCU

Document ID

\_\_\_\_\_ Cashier

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended June 30, 2011
2. Commission identification number 184044
3. BIR Tax Identification No 000-775-860
4. Exact name of registrant as specified in its charter JG Summit Holdings, Inc.
5. Province, country or other jurisdiction of incorporation or organization  
Pasig City, Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of registrant's principal office Postal Code  
43<sup>rd</sup> Floor, Robinsons-Equitable Tower ADB Ave. corner Poveda Road, Pasig City 1600
8. Registrant's telephone number, including area code  
(632) 633-7631
9. Former name, former address and former fiscal year, if changed since last report  
Not Applicable
10. Securities registered pursuant to Sections 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>6,797,191,657</b>
<b>Long-term Debt</b>	<b>9,000 000 000</b>
11. Are any or all of the securities listed on the Philippine Stock Exchange?  
Yes [ / ] No [ ]

12. Indicate by check mark whether the registrant:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

## **PART I--FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

The unaudited consolidated financial statements are filed as part of this Form 17-Q.

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

#### **Results of Operations**

##### **Six Months Ended June 30, 2011 vs. June 30, 2010**

JG Summit's net income from equity holders of the Parent Company for the second quarter of 2011 amounted to ₱3.20 billion, making our net profit for the 1<sup>st</sup> half of the year to ₱5.98 billion, a 26.3% decline from ₱8.10 billion for the six months of fiscal 2010. The Company's take in the profits of its airline business, Cebu Pacific, is reduced to 67% following Cebu Pacific's IPO in October 2010, where the Group sold 33% of its ownership in Cebu Pacific. The Group also recorded lower market valuation gains on its financial assets as the capital markets have seen volatility during the period. Core earnings, likewise decreased 15.2% for the six months from ₱11.45 billion to ₱9.71 billion during the period, while EBITDA reached ₱18.0 billion, a 5.6% decrease compared to the same period last year.

Consolidated revenues were up 15.0% from ₱61.11 billion to ₱70.26 billion due to the strong performance of all business units. Only our equity in net earnings of associates showed a decline by 38.2% to ₱1.18 billion during the period.

Consolidated cost of sales and services for the first half of the year increased 27.4% from ₱33.61 billion last year to ₱42.82 billion, higher than the revenue growth as input costs of our food business have increased substantially as compared to the same period last year. The aviation fuel expenses incurred by Cebu Pacific also rose significantly due to the increase in fuel prices and higher volume of fuel consumed.

Consolidated operating expenses increased 16.2% as a result of higher general and administrative expenses in our telecoms, increased airline operations and food business.

Mark-to-market gains on financial assets recognized during the first half of fiscal 2011 amounted to ₱414.52 million, 47.6% lower from last year's ₱790.93 million mainly due to decline in market values of bond and equity investments for the period.

Foreign exchange gain – net recorded for the six months of 2011 amounted to ₱211.99 million compared to last year's net foreign exchange loss of ₱407.34 million mainly due to a more stable peso during the period this year compared to last year's.

Interest income for the six months of 2011 increased 55.6% from ₱865.81 million to ₱1.35 billion due to higher average investment portfolio during the period as compared to last year's.

## **FOODS**

**Universal Robina Corporation (URC)** generated a consolidated sale of goods and services of ₱33.30 billion for the six months ended March 31, 2011, 15.9% higher than the revenues posted in the same period last year. Sale of goods and services by business segment follows: (1) URC's BCFG (excluding packaging) increased by ₱3.22 billion or 15.5% to ₱24.0 billion in the first half of fiscal 2011 from ₱20.78 billion registered in the same period of last year. BCFG domestic sales increased by ₱700 million which was largely driven by the strong performance of its snackfoods which grew by 12.4% on account of growth in sales volume and increase in selling prices. BCFG international sales significantly increased by 36.6% to ₱9.40 billion in the first half of fiscal 2011 largely due to 42.9% increase in sales volume. Sales in URC's packaging division increased to ₱775 million in the first half of fiscal 2011 from ₱384 million posted in the same period last year due to increase in sales volume coupled with increase in selling prices. (2) URC's AIG recorded net sales of ₱3.25 billion, a 7.9% decrease from ₱3.53 billion last year brought about by a 25.4% decline in farm business due to lower sales volume and farm gate prices. (3) URC's CFG revenues rose to ₱5.28 billion in the first half of fiscal 2011 or up 30.8% from ₱4.03 billion reported in the same period last year primarily due to 52.3% increase in net sales of sugar business as a result of higher sales volume and better prices coupled with 4.5% growth in flour business as a result of price increases.

URC's cost of sales increased by ₱4.91 billion or 24.6% to ₱24.87 billion in the first half of fiscal 2011 from ₱19.96 billion reported in the same period last year. Cost of sales went down up due to increase in sales volume and costs of major raw materials. URC's gross profit in the first half of fiscal 2011 amounted to ₱8.42 billion, a decline of 3.8% from ₱8.76 billion posted in the same period last year. Gross margin declined by 5 percentage points versus same period last year as a result of higher input costs this year. Operating expenses increased by ₱187 million or 4.2% to ₱4.61 billion in the first half of fiscal 2011 from ₱4.42 billion registered in the same period of fiscal 2010. As a result of the above factors, operating income decreased by ₱524 million, or 12.1% to ₱3.82 billion in the first half of fiscal 2011 from ₱4.34 billion reported in the same period of fiscal 2010.

Market valuation loss on financial instruments at FVPL of ₱216 million was reported for the first half of fiscal 2011 against ₱821 million market valuation gain recognized in the same period of fiscal 2010 due to decline in the market values of bond and equity security investments. Finance costs decreased by ₱33 million or 6.2% to ₱498 million in the first half of fiscal 2011 from ₱531 million recorded in the same period of fiscal 2010 due to decline in level of financial debt. Foreign exchange loss – net amounted to ₱216 million in the first half of fiscal 2011, 9.6% decrease from ₱239 million reported in the same period last year due to lower realized foreign exchange loss on foreign currency denominated transactions. Provision for income tax of ₱310 million in the first half of fiscal 2011, 42.1% decrease from ₱535 million reported in the same period last year due to lower taxable income and provision for deferred tax asset on unrealized loss in market value of hogs and foreign exchange loss and accrual of pension expense.

URC's net income attributable to equity holders of the parent decreased by ₱1.28 billion or 29.3% to ₱3.08 billion in the first half of fiscal 2011 from ₱4.35 billion in the same period last year as a result of the factors discussed above.

URC's unaudited core earnings before tax (operating profit after equity earnings, net finance revenue and other income – net) in the first half of fiscal 2011 amounted to ₱4.03 billion, a decrease of 10.8% from ₱4.51 billion reported in the same period last year.

URC reported an EBITDA (operating income plus depreciation, amortization) of ₱5.52 billion in the first half of fiscal 2011, 7.8% lower than ₱5.99 billion recorded in the same period of fiscal 2010.

URC is not aware of any material off-balance sheet transactions, arrangements and obligations (including contingent obligations), and other relationship of URC with unconsolidated entities or other persons created during the reporting period that would have a significant impact on its operations and/or financial condition.

### **PROPERTY**

**Robinsons Land Corporation (RLC)** posted net income attributable to equity holders of Parent Company of ₱2.04 billion for the six months ended March 31, up by 13% compared with the same period last year. Likewise, EBITDA and EBIT rose by 15.7% and 18.2% to ₱3.50 billion and ₱2.49 billion, respectively. Real estate and hotel revenues were up by 14% to ₱6.06 billion against last year's ₱5.30 billion.

Commercial Centers Division contributed 49% or ₱3.0 billion of the gross revenues posting a 9% growth. Significant rental increments were contributed by the newly opened malls in Dumaguete, Ilocos Norte, General Santos, Tacloban and Davao. Metro Manila malls led by Robinsons Galleria, Ortigas, and Robinsons Place, Manila also contributed to the growth while other provincial malls also posted decent growth in rental revenues. Taking out negative effect of decrease in interest income, Commercial Centers Division would have posted a 12% growth.

RLC's Residential Division accounted for 31% of RLC's total revenues. Its realized revenues increased by 21% to ₱1.97 billion due to increase in completion level of existing projects such as McKinley Park Residences, The Fort Residences, East of Galleria and Woodsville Viverde and take up of realized revenues from new projects such as Trion Towers III, Sonata Private Residences and Amisa Towers.

The Office Buildings Division contributed 10% or ₱642.9 million of RLC's revenues, up by 14% from last year's ₱562.0 million. The increase in office rentals was due to rentals from Cybergate Center 3 and Cybergate Plaza.

The Hotels Division contributed 10% or ₱624.9 million to RLC's revenues, up by 8% due to opening of Go Hotel in Mandaluyong City. Crowne Plaza Galleria Manila, Holiday Inn Galleria Manila, Cebu Midtown Hotel, Summit Ridge Hotel and Go Hotel posted occupancy rates of 73%, 73%, 58%, 41% and 84%, respectively.

Real Estate cost went up by 18% due to higher realized sales of residential division. General and administrative expenses went up by 5% because of higher commissions and advertising and promotions.

### **TELECOMMUNICATIONS**

**DIGITEL's** consolidated service and nonservice revenues posted a 16.1% growth for the six months ended June 30, 2011 up from last year's ₱7.98 billion to ₱9.26 billion. This was driven by the 23.0% increase in the wireless business brought about by an aggressive drive to increase market share through subscribers' acquisition efforts and regionalized product offerings.

The wireless communication services posted a 23.0% growth in operating revenues to ₱7.68 billion during the six-month period ended June 30, 2011 from ₱6.24 billion during the same period last year. This is significantly attributable to the continued success of the unlimited service portfolio particularly the Text Unlimited products which increased by 42%. Voice usage and SMS usage revenues likewise increased by 25.0% and 11.0%, respectively, due to increase in subscriber count and introduction of new products and services. The wireline voice communication services registered revenues of ₱1.34 billion for the six months ended June 30, 2011. This is 10.1% lower than last year of ₱1.49 billion mainly due to lower revenues from international and domestic tolls, and local exchange partially offset by the growth Suntel products which registered an increase of 111% over last year. Revenues for wireline data communication services for the six months ended June 30, 2011 slightly increased by 1.3% to ₱241.6 million compared to last year's ₱238.5 million. This was due to increase in domestic data and internet services through its IP VPN services subscriptions.

Amidst a highly competitive environment, Digitel continues to manage its cost and operating expenses (excluding depreciation and amortization), improving ratio for the six months ended June 30, 2011 to 63.0% compared to 65.6% during the same period last year.

Accordingly, consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) for the first half of 2011 improved by 20.0% to ₱4.19 billion from ₱3.49 billion during the same period in 2010 due primarily to the higher service and non-service revenues generated by the wireless business.

Net income for the period amounted to ₱147.0 million higher than last year's ₱145.4 million due to higher service and non-service revenues generated by the wireless business.

#### **AIR TRANSPORTATION**

**Cebu Air, Inc. (Cebu Pacific)** registered revenues of ₱16.73 billion for the six months ended June 30, 2011, 12.2% higher than the ₱14.91 billion revenues earned in the same period last year. Passenger revenues grew by ₱980.14 million to ₱13.86 billion primarily due to the 13.4% growth in passenger volume to 5.9 million from 5.2 million last year as a result of the increased number of flights and higher seat load factor in 2011. Four airbus A320 aircraft were in operation during the six months ended June 30, 2011 thereby resulting in more flights which was up by 7.9% from last year. Said increase was offset in part by the reduction in average fares by 5.1% to ₱2,343 from ₱2,469 in 2010. Ancillary revenues also registered an 83.8% increase from ₱1.03 billion to ₱1.90 billion for the six months ended June 30, 2011 as a result of change in company travel regulations which led to increase in excess baggage fees. Cebu Air, commenced charging for every checked-in luggage with the elimination of free baggage allowance. Correspondingly, costs and operating expenses increased 29.5% from ₱11.27 billion last year to ₱14.60 billion this year. Growth was primarily due to the increase in aviation fuel expenses by 51.0% to ₱7.30 billion from ₱4.83 billion in 2010 consequent to the significant increase in aviation fuel prices to an average published MOPS price of U.S.\$125.71 per barrel in the six months ended June 30, 2011 from U.S.\$87.53 per barrel last year. Rise in aviation fuel expenses was further influenced by the increase in the volume of fuel consumed as a result of the increased number of flights year on year. Operating income recorded for the six months ended June 30, 2011 dropped 41.4% to ₱2.14 billion from ₱3.65 billion for the same period last year. Despite a foreign exchange gain recorded for the six months ended June 30, 2011 amounting to ₱187.10 million compared to a net forex loss last year of ₱68.38 million and a fuel hedging gain of ₱559.53 million during the period compared to only ₱8.25 million recorded last year, the airlines' net income for the first half of fiscal 2011 still dropped 22.9% from ₱3.17 billion last year to ₱2.44 billion this year.

#### **PETROCHEMICALS**

**JG Summit Petrochemicals Corporation's (JGSPC)** revenue for the first half of fiscal 2011 amounted to ₱2.79 billion an 73.6% increase from last year's ₱1.61 billion as a result of higher sales

volume from 28,694 MT last year to 51,208 MT this year. Cost of sales recorded this period is higher than last year's relative to higher revenues. Gross profit for the period amounted to ₱130.84 million for the six months of fiscal 2011 from a gross loss of ₱14.11 million last year. Interest expense went down 23.5% from ₱51.56 million to ₱39.43 million during the period due to lower level of financing debt. Net loss for the petrochemical business decreased because of the factors mentioned above from ₱141.47 million last year to ₱72.06 million this year.

### **EQUITY EARNINGS**

Equity earnings from associated companies and joint ventures dropped 38.2% from ₱1.91 billion for the six-month period ended June 2010 to ₱1.18 billion for the same period this year. The decline is mainly due to lower income recorded by UIC this year, from SGD 169.52 million last year to SGD 102.58 million this year due to recognition of lower gain on sales of residential properties from SGD 508.54 million to SGD 170.12 million during the period.

### **BANK**

**Robinsons Bank Corp.** recognized net income of ₱145.59 million during the first half of fiscal 2011 a 30.0% increase from last year's ₱111.95 million. Growth in net income is mainly due to higher revenues recorded during the period, from ₱685.62 million for the six months period last year to ₱939.37 million for the same period this year.

### **Financial Position**

#### **June 30, 2011 vs. December 31, 2010**

As of June 30, 2011, the Company's balance sheet remains healthy, with consolidated assets of ₱342.60 billion from ₱326.32 billion as of December 31, 2010. Current ratio stood at 1.41. The Company's indebtedness remained manageable with a gearing ratio of 0.70:1 and net debt to equity of 0.34:1 as of June 30, 2011.

Cash and cash equivalents totaled ₱39.47 billion as of June 30, 2011 down by 6.3% from ₱42.11 billion as of December 31, 2010. The principal source of cash is from the Group's operating amounting to ₱14.01 billion. As of June 30, 2011, net cash used in investing activities amounted to ₱18.37 billion mainly for the Company's capital expenditure program. The Group's cash from financing activities amounted to ₱1.72 billion mainly from availment of new loans of an offshore subsidiary. Our financial assets, including those held at fair value through profit or loss and available for sale investments, increased 13.6% from ₱20.11 billion as of December 31, 2010 to ₱22.84 billion as of June 30, 2011 due to acquisition of additional bond holdings during the period.

Receivables, including noncurrent portion, went up 14.1% from ₱24.63 billion as of December 31, 2010 to ₱28.09 billion as of June 30, 2011 due to higher trade receivables of the food business. Finance receivables, including noncurrent portion, also increased 28.3% from ₱10.20 billion as of December 31, 2010 to ₱13.08 billion as of June 30, 2011.

Inventories went up to ₱19.51 billion as of June 30, 2011 from ₱16.31 billion as of December 31, 2010. Increase can be attributed to higher level of finished goods, raw materials and supplies and spareparts inventory of the food business and higher level of subdivision land and condominium and residential units for sale from the real estate business as a result of higher level of project completion.

Biological assets, including the noncurrent portion, increased 6.0% to ₱1.37 billion as of June 30 from ₱1.30 billion in December 31, 2010 increase in population of livestock net of decline in market value of hogs.

Investments in associates and joint ventures increased 2.5% due to recognition of equity income for the period and acquisition of additional investment in UIC.

Investment properties amounted to ₱35.31 billion as of June 30, 2011, from ₱32.18 billion in December 31, 2010, increase is due to continuous construction of our real estate business during the period.

Property, plant and equipment rose to ₱151.54 billion as of June 30, 2011, from ₱146.34 billion in December 31, 2010 mainly due to the on-going expansion of the facilities of our cellular telecommunications business, expansion of our branded consumer foods, on-going construction of olefins and acquisition of one Airbus A320 aircraft and engine and one ATR 72-500 aircraft of our airlines during the period.

Accounts payable and accrued expenses grew 21.1% from ₱30.26 billion as of year-end 2010 to ₱36.64 billion mainly due to higher level of trade payable and accrued expenses, particularly those pertaining to taxes and licenses and higher level of deposit liabilities of our bank subsidiary.

Short-term debt grew 13.1% from ₱15.35 billion as of December 31, 2010 to ₱17.36 billion as of June 30, 2011 due to availment of new loan of an offshore subsidiary during the period.

Income tax payable dropped 48.8% to ₱236.67 million as of June 30, 2011 from ₱462.21 million in December 31, 2010 mainly due lower tax payable by the food business.

Other current liabilities increased 18.5% to ₱8.07 billion as of June 30, 2011 from ₱6.81 billion as of December 31, 2010 due to higher customer deposits of the real estate business and unearned revenue of the airline business.

Equity attributable to equity holders of the parent grew to ₱122.94 billion as of June 30, 2011 from ₱117.57 billion at the end of 2010. Book value per share improved from ₱17.44 per share as of December 31, 2010 to ₱18.24 per share as of June 30, 2011.

### **KEY PERFORMANCE INDICATORS**

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements on a consolidated basis based on the financial data as of June 30, 2011 and December 31, 2010 and for the three months ended June 30, 2011 and 2010:

<b>Key Financial Indicators</b>	<b>2011</b>	<b>2010</b>
Revenues	P70,260 million	P61,112 million
EBIT	P10,539 million	P12,957 million
EBITDA	P17,997 million	P19,061 million
Current ratio	1.41	1.59
Gearing ratio	0.70	0.76
Net debt to equity ratio	0.34	0.37
Book value per share	18.24	17.44

The manner by which the Company calculates the above key performance indicators for both period-end 2011 and 2010 is as follows:

<b>Key Financial Indicators</b>		
Revenues	=	Total of sales and services, income from banking business and equity in net earnings



EBIT	=	Operating Income
EBITDA	=	Operating income add back depreciation and amortization expense
Current ratio	=	Total current assets over current liabilities
Gearing ratio	=	Total Financial Debt over Total Equity
Net debt to equity ratio	=	Total Financial Debt less Cash including Financial Assets at FVPL and AFS investments (excluding RSB and RBC Cash and AFS investments) over Total Equity
Book value per share	=	Stockholders' Equity (Equity attributable to parent) over outstanding number of common shares

As of June 30, 2011, the Company is not aware of any events and uncertainties that would have a material impact on the Company's net sales, revenues, and income from operations and future operations.

The Company, in the normal course of business, makes various commitments and has certain contingent liabilities that are not reflected in the accompanying consolidated financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, standby letters of credit for the purchase of equipment, tax assessments and bank guarantees through its subsidiary bank. The Company does not anticipate any material losses as a result of these transactions.

**PART II – OTHER INFORMATION**

NONE.

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**SIGNATURES**

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

**JG SUMMIT HOLDINGS, INC.**

By:



**LANCE Y. GOKONGWEI**  
President and Chief Operating Officer  
Date: 08-12-2011

PS



**CONSTANTE T. SANTOS**  
SVP - Corporate Controller  
Date 08-12-2011

PS

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES****UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF  
FINANCIAL POSITION****(In Thousands)**

	<b>June 30, 2011</b>	December 31, 2010
	<b>(Unaudited)</b>	(Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	<b>P39,468,570</b>	P42,110,004
Derivative assets (Note 8)	<b>1,210,196</b>	1,186,179
Financial assets at fair value through profit or loss (Note 9)	<b>11,644,387</b>	10,258,823
Available-for-sale investments (Note 10)	<b>11,192,946</b>	9,850,896
Receivables (Notes 4, 11 and 21)	<b>16,329,535</b>	14,609,814
Inventories (Note 12)	<b>19,508,761</b>	16,313,054
Biological assets	<b>1,018,617</b>	846,877
Other current assets (Note 13)	<b>6,556,199</b>	6,263,440
Total Current Assets	<b>106,929,211</b>	101,439,087
<b>Noncurrent Assets</b>		
Receivables (Notes 4 and 11)	<b>11,764,490</b>	10,016,684
Investments in associates and joint ventures	<b>31,181,871</b>	30,425,762
Property, plant and equipment	<b>151,545,383</b>	146,336,664
Investment properties	<b>35,309,439</b>	32,178,986
Goodwill	<b>890,375</b>	890,375
Biological assets	<b>354,439</b>	448,700
Intangible assets	<b>990,668</b>	993,831
Other noncurrent assets (Note 14)	<b>3,639,367</b>	3,593,547
Total Noncurrent Assets	<b>235,676,032</b>	224,884,549
	<b>P342,605,243</b>	P326,323,636
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Short-term debt (Note 17)	<b>P17,358,772</b>	P15,352,046
Accounts payable and accrued expenses (Notes 15 and 21)	<b>36,638,813</b>	30,257,526
Derivative liabilities (Note 8)	<b>252,867</b>	262,394
Income tax payable	<b>236,669</b>	462,209
Current portion of long-term debt (Note 17)	<b>13,267,914</b>	10,602,054
Other current liabilities (Note 16)	<b>8,068,604</b>	6,810,944
Total Current Liabilities	<b>75,823,639</b>	63,747,173

(Forward)

	<b>June 30,</b>	December 31,
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Audited)
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Note 17)	<b>80,713,500</b>	87,054,044
Deferred tax liabilities	<b>4,896,225</b>	5,056,559
Other noncurrent liabilities (Notes 8, 18 and 21)	<b>21,559,131</b>	21,005,463
Total Noncurrent Liabilities	<b>107,168,856</b>	113,116,066
Total Liabilities	<b>182,992,495</b>	176,863,239
<b>Equity</b>		
Equity attributable to equity holders of the Parent Company: (Note 19)		
Paid-up capital	<b>12,896,988</b>	12,856,988
Retained earnings	<b>94,946,463</b>	88,970,324
Equity reserve	<b>18,002,261</b>	18,563,003
Other comprehensive loss	<b>(1,925,284)</b>	(1,846,479)
Treasury shares	<b>(974,691)</b>	(974,691)
	<b>122,945,737</b>	117,569,145
Non-controlling interests	<b>36,667,011</b>	31,891,252
Total Equity	<b>159,612,748</b>	149,460,397
	<b>P342,605,243</b>	P326,323,636

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

## JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

### UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands Except Per Share Amounts)

	Quarters Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>REVENUE</b>				
Sale of goods and services:				
Foods	<b>P16,558,489</b>	P14,351,017	<b>P33,298,103</b>	P28,724,140
Air transportation	<b>9,210,054</b>	7,936,866	<b>16,730,226</b>	14,909,776
Telecommunications	<b>4,737,340</b>	4,070,388	<b>9,261,990</b>	7,975,253
Real estate and hotels	<b>3,051,729</b>	2,808,291	<b>6,055,791</b>	5,296,912
Petrochemicals	<b>1,611,035</b>	670,351	<b>2,792,080</b>	1,608,013
Banking	<b>505,225</b>	362,226	<b>939,374</b>	685,618
Equity in net earnings of associates and joint ventures	<b>653,351</b>	825,788	<b>1,182,747</b>	1,912,138
	<b>36,327,223</b>	31,024,927	<b>70,260,311</b>	61,111,850
<b>COST OF SALES AND SERVICES</b>	<b>22,002,973</b>	16,789,056	<b>42,819,057</b>	33,608,112
<b>GROSS INCOME</b>	<b>14,324,250</b>	14,235,871	<b>27,441,254</b>	27,503,738
General and administrative expenses	<b>8,434,433</b>	7,240,947	<b>16,721,572</b>	14,421,837
Impairment losses and others	<b>107,845</b>	65,395	<b>180,832</b>	125,302
<b>OTHER OPERATING EXPENSES</b>	<b>8,542,278</b>	7,306,342	<b>16,902,404</b>	14,547,139
<b>OPERATING INCOME</b>	<b>5,781,972</b>	6,929,529	<b>10,538,850</b>	12,956,599
Financing costs and other charges	<b>(1,472,002)</b>	(1,408,175)	<b>(2,968,970)</b>	(2,946,276)
Market valuation gain (loss) on financial assets at fair value through profit or loss	<b>68,656</b>	772,850	<b>(138,368)</b>	883,341
Market valuation gain (loss) on derivative financial instruments	<b>(57,992)</b>	(54,294)	<b>552,888</b>	(92,411)
Foreign exchange gains (losses)	<b>(149,117)</b>	(1,729,847)	<b>211,987</b>	(407,338)
Finance income	<b>594,156</b>	300,013	<b>1,346,723</b>	865,806
Others	<b>640,592</b>	413,016	<b>796,015</b>	574,203
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>5,406,265</b>	5,223,092	<b>10,339,125</b>	11,833,924
<b>PROVISION FOR INCOME TAX</b>	<b>703,016</b>	638,051	<b>1,304,559</b>	1,268,260
<b>NET INCOME</b>	<b>4,703,249</b>	4,585,041	<b>9,034,566</b>	10,565,664
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Cumulative translation adjustments	<b>(138,259)</b>	(8,456)	<b>(112,104)</b>	(116,307)
Net gains (losses) on available-for-sale investments	<b>68,901</b>	203,887	<b>(118,666)</b>	245,618
Net gains (losses) from cash flow hedges	<b>4,828</b>	(41,256)	<b>42,035</b>	(44,923)
Net unrealized gains (losses) on available-for-sale investments of an associate	<b>518</b>	476	<b>1,767</b>	347
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	<b>(64,012)</b>	154,651	<b>(186,968)</b>	84,735
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>P4,639,237</b>	P4,739,692	<b>P8,847,598</b>	P10,650,399

(Forward)

	Quarters Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	<b>P3,197,328</b>	P3,340,169	<b>P5,976,139</b>	P8,102,882
Non-controlling interests	<b>1,505,921</b>	1,244,872	<b>3,058,427</b>	2,462,782
	<b>P4,703,249</b>	P4,585,041	<b>P9,034,566</b>	P10,565,664
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>				
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	<b>P3,184,800</b>	P3,435,797	<b>P5,897,334</b>	P8,153,529
Non-controlling interests	<b>1,454,437</b>	1,303,895	<b>2,950,264</b>	2,496,870
	<b>P4,639,237</b>	P4,739,692	<b>P8,847,598</b>	P10,650,399
<b>Earnings Per Share Attributable to</b>				
<b>Equity Holders of the Parent Company</b>				
Basic/diluted earnings per share (Note 20)	<b>P0.47</b>	P0.49	<b>P0.89</b>	P1.19

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In Thousands)

For the Six Months Ended June 30, 2011 and 2010																
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY																
	Paid-up Capital			Retained Earnings			Other Comprehensive Income									
	Capital Stock (Note 19)	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Equity Reserve	Cumulative Translation Adjustments	Gains (Losses) on Available-for-Sale Investments	Unrealized Gains (Losses)	Unrealized Losses on Cash Flow Hedge (Note 8)	Total Other Comprehensive Income (Loss)	Treasury Shares	NON-CONTROLLING INTERESTS	TOTAL EQUITY	
Balance at January 1, 2011	P6,895,274	P5,961,714	P12,856,988	P33,336,450	P55,633,874	P88,970,324	P18,563,003	(P1,798,632)	P216,362	(P264,209)	(P1,846,479)	(P1,846,479)	(P974,691)	P117,569,145	P31,891,252	P149,460,397
Total comprehensive income (loss)	-	-	-	5,976,139	-	5,976,139	-	(73,123)	(56,783)	51,101	(78,805)	(78,805)	-	5,897,334	2,950,264	8,847,598
Issuance of preferred shares of stock	40,000	-	40,000	-	-	-	-	-	-	-	-	-	-	40,000	-	40,000
Changes in equity reserve	-	-	-	-	-	-	(560,742)	-	-	-	-	-	-	(560,742)	-	(560,742)
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,993,782	1,993,782
Increase in subsidiaries' treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(168,287)	(168,287)
<b>Balance at June 30, 2011</b>	<b>P6,935,274</b>	<b>P5,961,714</b>	<b>P12,896,988</b>	<b>P39,312,589</b>	<b>P55,633,874</b>	<b>P94,946,463</b>	<b>P18,002,261</b>	<b>(P1,871,755)</b>	<b>P159,579</b>	<b>(P213,108)</b>	<b>(P1,925,284)</b>	<b>(P1,925,284)</b>	<b>(P974,691)</b>	<b>P122,945,737</b>	<b>P36,667,011</b>	<b>P159,612,748</b>
Balance at January 1, 2010	P6,895,274	P5,961,714	P12,856,988	P36,389,709	P36,598,875	P72,988,584	P-	(P1,746,827)	P178,341	(397,499)	(P1,965,985)	(P1,965,985)	(P721,848)	P83,157,739	P21,736,756	P104,894,495
Total comprehensive income (loss)	-	-	-	8,102,882	-	8,102,882	-	(72,960)	168,530	(44,923)	50,647	50,647	-	8,153,529	2,496,870	10,650,399
Increase in subsidiaries' treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(142,482)	(142,482)
<b>Balance at June 30, 2010</b>	<b>P6,895,274</b>	<b>P5,961,714</b>	<b>P12,856,988</b>	<b>P44,492,591</b>	<b>P36,598,875</b>	<b>P81,091,466</b>	<b>P-</b>	<b>(P1,819,787)</b>	<b>P346,871</b>	<b>(P442,422)</b>	<b>(P1,915,338)</b>	<b>(P1,915,338)</b>	<b>(P721,848)</b>	<b>P91,311,268</b>	<b>P24,091,144</b>	<b>P115,402,412</b>

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF**  
**CASH FLOWS**  
(In Thousands)

	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>P10,339,125</b>	P11,833,924
Adjustments for:		
Depreciation and amortization	<b>7,457,696</b>	6,104,292
Interest expense	<b>2,823,514</b>	2,873,959
Interest income	<b>(1,346,723)</b>	(865,806)
Dividend income	<b>(120,170)</b>	(108,322)
Equity in net income of associates and joint ventures	<b>(1,182,747)</b>	(1,912,138)
Provisions for impairment losses on receivables	<b>180,832</b>	125,302
Loss (gain) arising from changes in fair value less estimated point-of-sale costs of swine stocks	<b>47,880</b>	(198,895)
Foreign exchange loss - net	<b>(211,987)</b>	407,338
Market valuation loss (gain) on derivative instruments	<b>(552,888)</b>	92,411
Market valuation loss (gain) on financial assets at fair value through profit or loss	<b>138,368</b>	(883,341)
Loss (gain) on sale of financial assets at fair value through profit and loss and AFS investments	<b>(76,999)</b>	-
Operating income before changes in operating accounts	<b>17,495,901</b>	17,468,724
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss	<b>(1,442,357)</b>	(1,191,223)
Derivative financial instruments	<b>561,378</b>	4,473
Receivables	<b>(3,633,903)</b>	(2,298,322)
Inventories	<b>(3,195,707)</b>	(2,814,077)
Biological assets	<b>(191,627)</b>	(58,645)
Other current assets	<b>(292,758)</b>	(201,129)
Increase (decrease) in:		
Accounts payable and accrued expenses	<b>5,934,486</b>	3,355,535
Other current liabilities	<b>1,257,661</b>	1,307,855
Net cash generated from operations	<b>16,493,074</b>	15,573,191
Interest received	<b>1,332,267</b>	774,668
Interest paid	<b>(2,843,729)</b>	(2,651,898)
Dividends received	<b>120,170</b>	108,322
Income taxes paid	<b>(1,089,930)</b>	(1,204,399)
Net cash provided by operating activities	<b>14,011,852</b>	12,599,884

(Forward)



	<b>Six Months Ended June 30</b>	
	<b>2011</b>	2010
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease (increase) in the amounts of:		
Available-for-sale investments	<b>(1,385,629)</b>	(143,974)
Held-to-maturity investments	-	(238,886)
Other noncurrent assets	<b>(903,017)</b>	(1,589,902)
Investments in associates and joint ventures	<b>426,639</b>	16,367
Property, plant and equipment	<b>(12,375,557)</b>	(9,325,936)
Investment properties	<b>(4,133,625)</b>	(1,716,191)
Net cash used in investing activities	<b>(18,371,189)</b>	(12,998,522)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Short-term debt	<b>2,006,725</b>	(434,434)
Long-term debt	<b>(3,652,697)</b>	(1,523,076)
Increase (decrease) in the amounts of:		
Other noncurrent liabilities	<b>1,498,380</b>	1,799,158
Minority interest in consolidated subsidiaries	<b>1,825,495</b>	(142,482)
Proceeds from issue of preferred shares of stock	<b>40,000</b>	-
Net cash provided by (used in) financing activities	<b>1,717,903</b>	(300,834)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,641,434)</b>	(699,472)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>42,110,004</b>	18,473,693
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P39,468,570</b>	P17,774,221

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

## **JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

JG Summit Holdings, Inc. (the Parent Company) was incorporated in the Philippines on November 23, 1990. The registered office address of the Parent Company is 43rd Floor Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City.

The Parent Company is the holding company of the JG Summit Group (the Group). The Group has principal business interests in branded consumer foods, agro-industrial and commodity food products, real property development, hotels, banking and financial services, telecommunications, petrochemicals, air transportation and power generation.

The Group conducts business throughout the Philippines, but primarily in and around Metro Manila where it is based. The Group also has branded food businesses in the People's Republic of China and in the Association of Southeast Asian Nations region, and an interest in a property development business in Singapore.

The principal activities of the Group are further described in Note 6, *Segment Information*, to the consolidated financial statements.

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

##### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative financial instruments that are measured at fair value, and biological assets and agricultural produce that have been measured at fair value less estimated costs to sell.

The consolidated financial statements of the Group are presented in Philippine Peso, the functional currency of the Parent Company. All values are rounded to the nearest peso except when otherwise stated.

Except for certain foreign subsidiaries of the Parent Company and for certain consolidated foreign subsidiaries within Universal Robina Corporation (URC) and Subsidiaries (URC Group) which are disclosed below, the functional currency of other consolidated foreign subsidiaries is US Dollar.

<u>Subsidiaries</u>	<u>Country of Incorporation</u>	<u>Functional Currency</u>
<b>Parent Company</b>		
JG Summit Cayman Limited (Forward)	Cayman Islands	Philippine Peso

Subsidiaries	Country of Incorporation	Functional Currency
JG Summit Philippines, Ltd. and Subsidiaries		
JG Summit Philippines, Ltd.	Cayman Islands	Philippine Peso
JGSH Philippines Ltd.	British Virgin Islands	- do -
Multinational Finance Group, Ltd.	- do -	- do -
Telegraph Development, Ltd.	Singapore	- do -
Summit Top Investment, Ltd.	- do -	- do -
<b>URC Group</b>		
Universal Robina (Cayman), Limited	Cayman Islands	Philippine Peso
URC Philippines, Limited	British Virgin Islands	-do-
URC China Commercial Co. Ltd.	China	Chinese Renminbi
URC International Co., Ltd & Subsidiaries	British Virgin Islands	US Dollar
URC Asean Brands Co., Ltd. (UABCL) and Subsidiaries	-do-	-do-
URC (Thailand) Co., Ltd.	Thailand	Thai Baht
Siam Pattanasin Co., Ltd.	-do-	-do-
URC Foods (Singapore) Pte. Ltd.	Singapore	Singapore Dollar
PT URC Indonesia	Indonesia	Indonesian Rupiah
URC Vietnam Co., Ltd.	Vietnam	Vietnam Dong
URC Hanoi Company Limited	-do-	-do-
Ricellent Sdn. Bhd.	Malaysia	Malaysian Ringgit
URC Snack Foods (Malaysia) Sdn. Bhd.	-do-	-do-
Hong Kong China Foods Co., Ltd. (HCFCL) and Subsidiaries	British Virgin Islands	US Dollar
URC Hong Kong Company Limited	Hong Kong	HK Dollar
Xiamen Tongan Pacific Food Co., Ltd.	China	Chinese Renminbi
Shanghai Peggy Foods Co., Ltd.	-do-	-do-
Panyu Peggy Foods Co., Ltd.	-do-	-do-
Advanson International Pte. Ltd. (Advanson) and Subsidiary		
Advanson International Pte. Ltd.	Singapore	Singapore Dollar
Jiangsu Acesfood Industrial Co.	China	Chinese Renminbi
Acesfood Network Pte. Ltd. (Acesfood) and Subsidiaries	Singapore	Singapore Dollar
Shantou SEZ Toyo Food Industries Co., Ltd.	China	Chinese Renminbi
Shantou SEZ Shanfu Foods Co., Ltd.	- do -	-do-
Acesfood Network Pte. Ltd. and Subsidiaries	Singapore	Singapore Dollar
Acesfood Holdings Pte. Ltd.	- do -	-do-
Acesfood Distributors Pte. Ltd.	- do -	-do-
Guangdong Acesfood International Co., Ltd.	China	Chinese Renminbi

### Statement of Compliance

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

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following wholly and majority owned subsidiaries:

Subsidiaries	Country of Incorporation	Effective Percentage of Ownership	
		2011	June 30 2010
<b>Food</b>			
URC and Subsidiaries	Philippines*	64.17	63.89
<b>Air Transportation</b>			
CP Air Holdings, Inc. (CPAHI) and Subsidiaries	-do-	100.00	100.00
Cebu Air, Inc. (CAI) and Subsidiaries	-do-	66.65	100.00
Pacific Virgin Islands Holdings, Co., Ltd.	British Virgin Islands	100.00	100.00
<b>Telecommunications</b>			
Digital Telecommunications Phils., Inc. (Digitel) and Subsidiaries**	Philippines	49.57	49.57
<b>Real Estate and Hotels</b>			
Robinsons Land Corporation (RLC) and Subsidiaries	Philippines	60.97	60.29
Adia Development and Management Corporation (ADMC)	-do-	-	100.00
<b>Petrochemicals</b>			
JG Summit Petrochemical Corporation (JGSPC)	-do-	100.00	100.00
<b>Banking</b>			
Robinsons Savings Bank Corporation (RSBC)	-do-	-	100.00
Robinsons Bank Corporation (RBC)	-do-	70.83	-
<b>Supplementary Businesses</b>			
Westpoint Industrial Mills Corporation (WIMC)	-do-	-	100.00
Litton Mills, Inc. (LMI)	-do-	-	100.00
Express Holdings, Inc. (EHI) and a Subsidiary	-do-	100.00	100.00
Summit Forex Brokers Corporation	-do-	100.00	100.00
JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries	-do-	100.00	100.00
JG Summit Capital Markets Corporation	-do-	100.00	100.00
Summit Point Services Ltd.	-do-	100.00	100.00
Summit Internet Investments, Inc.	-do-	100.00	100.00
JG Summit (Cayman), Ltd. (JGSCL)	Cayman Islands	100.00	100.00
JG Summit Philippines Ltd. (JGSPL) and Subsidiaries	Cayman Islands	100.00	100.00
JGSH Philippines Ltd.	British Virgin Islands	100.00	100.00
Multinational Finance Group, Ltd.	-do-	100.00	100.00
Telegraph Development, Ltd.	Singapore	100.00	100.00
Summit Top Investment, Ltd.	British Virgin Islands	100.00	100.00
JG Summit Limited (JGSL)	-do-	100.00	100.00
Magellan Capital Holdings Corporation	Philippines	100.00	-
Cebu Pacific Manufacturing Corporation (CPMC)	-do-	-	100.00
Hello Snack Foods Corporation (HSFC)	-do-	-	100.00
JG Cement Corporation (JGCC)	-do-	-	100.00
Savannah Industrial Corporation (SIC)	-do-	-	100.00
Terai Industrial Corporation (TIC)	-do-	-	100.00
Unicon Insurance Brokers Corporation	-do-	100.00	100.00
Premiere Printing Company, Inc.(PPCI)	-do-	-	100.00
JG Summit Olefins Corporation	-do-	100.00	100.00

\* Certain subsidiaries are located in other countries, such as China, Vietnam, Thailand, Malaysia, etc.

\*\* The consolidated financial statements include the accounts of entities over which the Group has the ability to govern the

*financial and operating policies to obtain benefits from their activities. The Group's consolidated financial statements include the accounts of Digital Telecommunications Phils., Inc, and its wholly owned subsidiaries (the Digitel Group). As disclosed above, the Digitel Group is a 49.57% owned company as of June 30, 2011 and 2010.*

On June 17, 2011, the Parent Company executed a share purchase agreement with Magellan Capital Holdings under which the Parent Company has agreed to purchase 25,000,000 million shares of Batangas Agro-Industrial Development Corporation owned by Magellan Capital Holdings Corporation.

Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, prescribes guidance on the consolidation of special purpose entities (SPE). Under SIC 12, an SPE should be consolidated when the substance of the relationship between a certain company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist even in cases where an enterprise owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE or its assets in order to obtain benefits from its activities. In accordance with SIC 12, the Group's consolidated financial statements include the accounts of SPEs namely: Surigao Leasing Limited (SLL), Cebu Aircraft Leasing Limited (CALL), IBON Leasing Limited (ILL), Boracay Leasing Limited (BLL) and Sharp Aircraft Leasing Limited (SALL). SLL, CALL, ILL, BLL and SALL are SPEs in which the Group does not have equity interest. SLL, CALL, ILL, BLL and SALL acquired the passenger aircraft for lease to CAI under finance lease arrangements (Notes 17 and 42) and funded the acquisitions through long-term debt.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continue to be consolidated until the date when such control ceases. Control is achieved where the Parent Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Parent Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests (NCI) in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Group.

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 related other comprehensive income, recorded in equity and recycles the same to profit or loss or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in profit or loss.

Under Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements*, it is acceptable to use, for consolidation purposes, the financial statements of subsidiaries for fiscal periods differing from that of the Parent Company if it is impracticable for the management to prepare financial statements with the same accounting period with that of the Parent Company and the difference is not more than three months.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, except for the following fiscal year subsidiaries:

<u>Subsidiaries</u>	<u>Fiscal Year</u>
<b>Food</b>	
URC and Subsidiaries	September 30
<b>Real Estate and Hotels</b>	
RLC and Subsidiaries	-do-
<b>Petrochemicals</b>	
JGSPC	-do-
JG Summit Olefins Corp.	-do-

Any significant transactions or events that occur between the date of the fiscal subsidiaries' financial statements and the date of the Parent Company's financial statements are adjusted in the consolidated financial statements.

#### Business Combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire. Acquisition-related costs are recognized in profit or loss as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant PFRSS. Changes in the fair value of contingent consideration classified as equity are not recognized.

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

If the business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date ( the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

#### Goodwill

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date the control is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held interest, if any, in the entity over the net fair value of the identifiable net assets recognized.

If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest, if any, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

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

#### Business Combinations prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.
- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.
- When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise

would have been required under the contract.

- Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

#### Non-controlling Interests

Non-controlling interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separate from the Group's equity attributable to the equity holders of the Parent Company.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended PFRS, PAS and Philippine Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2010:

#### **New and Revised Standards**

- PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)  
The amended Standards have resulted in a change in accounting policy regarding increases or decreases in the Group's ownership interests in its subsidiaries. In prior years, in the absence of specific requirements in PFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized, where appropriate. The impact of decreases in interests in existing subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under PAS 27 (Amended), these treatments are no longer acceptable. All increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*  
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Group.

#### **Amendments to Standards**

- PFRS 2, *Share-based Payment*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

#### **Improvements to PFRSs**

*Improvements to PFRSs*, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.



- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 6.
- PAS 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

## **Significant Accounting Policies**

### Foreign Currency Translation

The Group's consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of comprehensive income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of 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.

### *Group companies*

As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Parent Company, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in the profit or loss in the consolidated statement of comprehensive income.

### Cash and Cash Equivalents

Cash represents 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 the dates of placement, and that are subject to an insignificant risk of changes in value.

### Recognition of Financial Instruments

#### *Date of recognition*

Financial instruments within the scope of PAS 39 are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on a trade date basis.

#### *Initial recognition of financial instruments*

Financial instruments are recognized initially at fair value. Except for financial instruments designated as at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, loans and receivables, or as derivatives designated as hedging instrument, in an effective hedge. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

#### *Determination of fair value*

The fair value for financial instruments traded in active markets at the reporting date is based on their 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 all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options

pricing models and other relevant valuation models.

*'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where variables used are made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss in the consolidated statement of comprehensive income 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.

*Financial assets and financial liabilities at FVPL*

Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes, derivative financial instruments or those designated upon initial recognition at FVPL.

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term.

Derivatives are also classified under financial assets or liabilities at FVPL, unless they are designated as hedging instruments in an effective hedge.

Financial assets or liabilities may be designated by management on initial recognition as at FVPL when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are reflected in profit or loss in the consolidated statement of comprehensive income under 'Market valuation gain (loss) on financial assets at FVPL.' Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right to receive payment has been established.

*Derivatives classified as FVPL*

The Parent Company and certain subsidiaries are counterparties to derivative contracts, such as interest rate swaps, currency forwards, cross currency swaps, currency options and commodity

options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments (including bifurcated embedded derivatives) are initially recorded at fair value on the date at which the derivative contract is entered into or bifurcated and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly in the profit or loss in the consolidated statement of comprehensive income as ‘Market valuation gain (loss) on derivative financial instruments.’ Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair values of the Group’s derivative instruments are calculated by using certain standard valuation methodologies and quotes obtained from third parties.

#### *Derivatives designated as accounting hedges*

For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

#### *Hedge accounting*

At the inception of a hedging relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis that they actually have been highly effective throughout the financial reporting periods for which they were designated.

#### *Cash flow hedge*

Cash flow hedges are hedges of the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the profit or loss. The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized as ‘Net gains (losses) on cash flow hedges’ in other comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the profit or loss in the consolidated statement of comprehensive income.

Amounts accumulated in other comprehensive income are recycled to profit or loss in the consolidated statement of comprehensive income in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognized in other comprehensive income is eventually recycled in the profit or loss in the consolidated statement of comprehensive income.

### *Hedge effectiveness testing*

To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 to 125 percent. Any hedge ineffectiveness is recognized in the profit or loss in the consolidated statement of comprehensive income.

### *Embedded derivatives*

Embedded derivatives are bifurcated from their host contracts, when the following conditions are met: (a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL; (b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that would otherwise be required.

The Group has certain derivatives that are embedded in nonfinancial host contracts (such as purchase orders, network contracts and service agreements). These embedded derivatives include foreign currency-denominated derivatives in purchase orders and certain network and service agreements. The fair value changes of these derivatives are recognized directly in the profit or loss in the consolidated statement of comprehensive income under 'Market valuation gain (loss)' on derivative financial instruments.

### **Current versus non-current classification**

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

#### *HTM investments*

HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the profit or loss in the consolidated statement of comprehensive income when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement of foreign currency-denominated HTM investments are recognized in the profit or loss in the consolidated statement of comprehensive income.

#### *Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees that are an integral part of the EIR and transaction costs. The amortization is included under 'Interest income' in the profit and loss in the consolidated statement of comprehensive income. Gains and losses are recognized in the the profit or loss in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

#### *AFS investments*

AFS investments are those nonderivative investments which are designated as such or do not qualify to be classified as designated financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the profit or loss in the consolidated statement of comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from profit or loss in the consolidated statement of comprehensive income and are reported under 'Net unrealized gain (loss) on

available-for-sale investments' in other comprehensive income of the consolidated statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the profit or loss in the consolidated statement of comprehensive income. Interest earned on holding AFS investments are reported as interest income using the effective interest method. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Dividends earned on holding AFS investments are recognized in the profit or loss in the consolidated statement of comprehensive income when the right to receive payment has been established.

The losses arising from impairment of such investments are recognized under 'Impairment losses and others' in the profit or loss in the consolidated statement of comprehensive income.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated as at FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees and debt issue costs that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in the profit or loss in the consolidated statement of comprehensive income.

#### Debt Issuance Cost

Debt issuance costs are amortized using the effective interest method and unamortized debt issuance costs are included in the measurement of the related carrying value of the loan in the consolidated statement of financial position. When a loan is repaid, the related unamortized debt issuance costs at the date of repayment are charged against profit or loss.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and accrued expenses and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension liabilities).

#### Customers' Deposits

##### *Deposits from lessees*

Deposits from lessees are measured initially at fair value. After initial recognition, customers' deposits are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred (included in 'Other noncurrent liabilities' in the consolidated statement of financial position) and amortized using the

straight-line method.

#### *Deposits from real estate buyers*

Deposits from real estate buyers represent mainly reservation fees and advance payments. These deposits will be recognized as revenue in the consolidated statement of comprehensive income as the related obligations are fulfilled to the real estate buyers. The deposits are recorded as 'Deposits from real estate buyers' and reported under the 'Other noncurrent liabilities' account in the consolidated statement of financial position.

#### Reclassification of Financial Assets

A financial asset is reclassified out of the financial assets at FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

The Group evaluated its AFS investments whether the ability and intention to sell them in the near term is still appropriate. When 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 in rare circumstances. 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 out of the AFS category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after



deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

#### Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or 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 (or events) 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 borrower or a group of borrowers 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 where 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*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost (i.e., receivables or HTM investments) 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 discounted at the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in the profit or loss in the consolidated statement of comprehensive income as 'Impairment losses and others.' The asset, together with the associated allowance account, is written-off when there is no realistic prospect of future recovery.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the profit or loss in the consolidated statement of comprehensive income to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss.

The review is accomplished using a combination of specific and collective assessment approaches,

with the impairment loss being determined for each risk grouping identified by the Group.

#### *AFS investments*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as AFS investments, objective evidence would include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss, is removed from other comprehensive income and recognized in the profit or loss in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the profit or loss in the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized as part of other comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Such accrual is recorded as part of 'Interest income' in the profit or loss in the consolidated statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss in the consolidated statement of comprehensive income, the impairment loss is reversed through the profit or loss in the consolidated statement of comprehensive income.

#### Derecognition of Financial Instruments

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the

asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss in the consolidated statement of comprehensive income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement 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 asset and settle the liability simultaneously.

#### Inventories

Inventories, including work-in-process, are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs. In determining the NRV, the Group deducts from cost 100% of the carrying value of slow-moving items and nonmoving items for more than one year. Cost is determined using the weighted average method.

When inventories are sold, the carrying amounts of those inventories are recognized under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income in the period when the related revenue is recognized.

The amount of any write-down of inventories to NRV is recognized in 'Cost of sales and services' while all other losses on inventories shall be recognized under 'Impairment losses and others' in the profit or loss in the consolidated statement of comprehensive income in the period the write-down or loss was incurred. The amount of any reversal of any write-down of inventories, arising from an increase in the NRV, shall be recognized as a reduction to 'Cost of sales and services' in the period where the reversal was incurred.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of a self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

#### *Finished goods, work-in-process, raw materials and packaging materials*

Cost is determined using the weighted average method. Finished goods and work-in-process include direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced, but excluding borrowing costs.

#### *Subdivision land and condominium and residential units for sale*

Subdivision land, condominium and residential units for sale are carried at the lower of cost and NRV. Cost includes costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction.

#### Assets Held for Sale

The Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets, and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The related results of operations and cash flows of the disposal group that qualify as discontinued operations are separated from the results of those that would be recovered principally through continuing use, and the prior years' profit or loss in the consolidated statement of comprehensive income and consolidated statement of cash flows are represented. Results of operations and cash flows of the disposal group that qualify as discontinued operations are presented in the profit or loss in the consolidated statement of comprehensive income and consolidated statement of cash flows as items associated with discontinued operations.

In circumstances where certain events have extended the period to complete the sale of a disposal group beyond one year, the disposal group continues to be 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 Group remains committed to its plan to sell the disposal group. Otherwise, if the criteria for classification of a disposal group as held for sale are no longer met, the Group ceases to classify the disposal group as held for sale.

#### *Initial and subsequent measurement*

Assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell. Impairment losses are recognized for any initial or subsequent write-down of the assets held for sale to the extent that these have not been previously recognized at initial recognition. Reversals of impairment losses for any subsequent increases in fair value less cost to sell of the assets held for sale are recognized as a gain, but not in excess of the cumulative impairment loss that has been previously recognized. Liabilities directly related to assets held for sale are measured at their expected settlement amounts.

#### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and impairment loss, if any. Land is carried at cost less impairment loss, if any. Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless

the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*).

The Group's investment properties are depreciated using the straight-line method over their estimated useful lives (EUL) as follows:

Land improvements	10 years
Buildings and building improvements	10 to 20 years
Theater furniture and equipment	5 years

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

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 benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the profit or loss in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or to inventories, the deemed cost of the property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under the 'Property, plant and equipment' account up to the date of change in use.

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of investment properties are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

#### Investment in Subsidiaries, Associates and Joint Ventures

##### *Investments in subsidiaries*

Subsidiaries pertain to all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity (see accounting policy on Basis of Consolidation).

#### *Investments in associates and joint ventures*

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The Group also has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

The Group's investments in its associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investments in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associates and joint ventures. The consolidated statement of comprehensive income reflects the share of the results of operations of the associates and joint ventures. Where there has been a change recognized in the investees' other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income in the consolidated statement of comprehensive income. Profits and losses arising from transactions between the Group and the associate are eliminated to the extent of the interest in the associates and joint ventures.

The Group's investments in certain associates and joint ventures include goodwill on acquisition, less any impairment in value. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortized.

Where necessary, adjustments are made to the financial statements of associates to bring the accounting policies used into line with those used by the Group.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment 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 investment and proceeds from disposal is recognized either in profit or loss or other comprehensive income.

#### Property, Plant and Equipment

Property, plant and equipment, except land which is stated at cost less any impairment in value, are carried at cost less accumulated depreciation, amortization and impairment loss, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation (ARO) relating to property, plant and equipment installed/constructed on leased properties or leased aircraft.

Subsequent replacement costs of parts of property, plant and equipment are capitalized when the recognition criteria are met. Significant refurbishments and improvements are capitalized when it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond

the originally assessed standard of performance. Costs of repairs and maintenance are charged as expense when incurred.

Foreign exchange differentials arising from the acquisition of property, plant and equipment are charged against profit or loss and are no longer capitalized.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use, and are computed using the straight-line method over the EUL of the assets, regardless of utilization.

The EUL of property, plant and equipment of the Group follow:

	EUL
Land improvements	10 to 40 years
Building and improvements	10 to 50 years
Machinery and equipment	4 to 50 years
Telecommunications equipment:	
Tower	20 years
Switch	10 to 20 years
Outside plant facilities	10 to 20 years
Distribution dropwires	5 years
Cellular facilities and others	3 to 20 years
Investments in cable systems	15 years
Assets under lease	15 years
Passenger aircraft*	15 years
Other flight equipment	5 years
Transportation, furnishing and other equipment	3 to 5 years

*\* With 15% residual value after 15 years*

Leasehold improvements are amortized over the shorter of their EULs or the corresponding lease terms.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Any change in the expected residual values, useful lives and methods of depreciation are adjusted prospectively from the time the change was determined necessary.

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use. Assets under construction are reclassified to a specific category of property, plant and equipment when the construction and other related activities necessary to prepare the properties for their intended use are completed and the properties are available for use.

Major spare parts and stand-by equipment items that the Group expects to use over more than one period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization on these major spare parts and stand-by equipment commence once these have become available for use (i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Group).

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

#### *ARO*

The Group is legally required under various lease contracts to restore certain leased properties and leased aircraft to their original conditions and to bear the cost of any dismantling and deinstallation at the end of the contract period. These costs are accrued based on an internal estimate made by the work of both third party and Group's engineers which includes estimates of certain redelivery costs at the end of the operating aircraft lease. The Group recognizes the present value of these costs as ARO asset (included under 'Property and equipment') and ARO liability (included under 'Noncurrent liabilities'). The Group depreciates ARO asset on a straight-line basis over the EUL of the related account or the lease term, whichever is shorter, or written off as a result of impairment of the related account. The Group amortizes ARO liability using the effective interest method and recognizes accretion expense (included in interest expense) over the lease term.

The Group regularly assesses the provision for ARO and adjusts the related asset and liability.

#### Borrowing Costs

Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress, and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate for general borrowings. For specific borrowings, all borrowing costs are eligible for capitalization.

Borrowing costs which do not qualify for capitalization are expensed as incurred.

Interest expense on loans is recognized using the effective interest method over the term of the loans.

#### Biological Assets

The biological assets of the Group are divided into two major categories with sub-categories as follows:



- |                   |   |
|-------------------|---|
| Swine livestock   | <ul style="list-style-type: none"> <li>- Breeders (livestock bearer)</li> <li>- Sucklings (breeders' offspring)</li> <li>- Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners)</li> <li>- Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat)</li> </ul> |
| Poultry livestock | <ul style="list-style-type: none"> <li>- Breeders (livestock bearer)</li> <li>- Chicks (breeders' offspring intended to be sold as breeders)</li> </ul>   |

Biological assets are measured on initial recognition and at each reporting date at its fair value less costs to sell, except for a biological asset where fair value is not clearly determinable. Agricultural produce harvested from an entity's biological assets are measured at its fair value less estimated costs to sell at the time of harvest.

The Group is unable to measure fair values reliably for its poultry livestock breeders in the absence of: (a) available market-determined prices or values; and (b) alternative estimates of fair values that are determined to be clearly reliable; thus, these biological assets are measured at cost less accumulated depreciation and impairment loss, if any. However, once the fair values become reliably measurable, the Group measures these biological assets at their fair values less estimated costs to sell.

Agricultural produce is the harvested product of the Group's biological assets. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when the life processes of the agricultural produce cease. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in the profit or loss in the consolidated statement of comprehensive income in the period in which it arises. The agricultural produce in swine livestock is the suckling that transforms into weanling then into fatteners/finishers, while the agricultural produce in poultry livestock is the hatched chick and table eggs.

*Biological assets at cost*

The cost of a biological asset comprises its purchase price and any costs attributable in bringing the biological asset to its location and conditions intended by management.

Depreciation (included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income) is computed using the straight-line method over the EUL of the biological assets, regardless of utilization. The EUL of biological assets is reviewed annually based on expected utilization as anchored on business plans and strategies that consider market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the biological assets. The EUL of biological assets ranges from two to three years.

The carrying values of biological assets at cost are reviewed for impairment, when events or changes in circumstances indicate that the carrying values may not be recoverable (see further discussion under Impairment of Nonfinancial Assets).

This accounting policy applies to the Group's poultry livestock breeders.

*Biological assets carried at fair values less estimated costs to sell*

Swine weanlings and fatteners/finishers are measured at their fair values less costs to sell. The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

A gain or loss on initial recognition of a biological asset carried at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of a biological asset is included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income in the period in which it arises.

Goodwill

Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's operating segments as determined in accordance with PFRS 8, *Operating Segments*.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see Impairment of Nonfinancial Assets).

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets

Intangible assets (other than goodwill) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the acquisition date. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment loss, if any.

The EUL of intangible assets are assessed to be either finite or indefinite.

The useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives.

The period and the method of amortization of an intangible asset with a finite useful life are

reviewed at least at each financial year-end. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized under 'Cost of sales and services' and 'General and administrative expenses' in the profit or loss in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets with finite lives are assessed for impairment, whenever there is an indication that the intangible assets may be impaired.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level (see further discussion under Impairment of Nonfinancial Assets). Such intangibles are not amortized. The intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite useful life is no longer appropriate, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use are capitalized as intangible assets. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Group are also recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expense when incurred.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in the profit or loss in the consolidated statement of comprehensive income when the asset is derecognized.

A summary of the policies applied to the Group's intangible assets follow:

	Technology Licenses	Licenses	Product Formulation	Software Costs	Trademarks	
EUL	Finite (12 to 13.75 years)	Indefinite	Indefinite	Finite (5 years)	Finite (4 years)	Indefinite
Amortization method used	Amortized on a straight-line basis over the EUL of the license	No amortization	No amortization	Amortized on a straight-line basis over the EUL of the software cost	Amortized on a straight-line basis over the EUL of the trademark	No amortization
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired	Acquired	Acquired

### Deferred Subscriber Acquisition and Retention Costs

Subscriber acquisition costs primarily include handset and phonekit subsidies. Handset and phonekit subsidies represent the difference between the cost of handsets, accessories and subscriber's identification module (SIM) cards (included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income), and the price offered to the subscribers (included under 'Sale of telecommunications services' in the profit or loss in the consolidated statement of comprehensive income). Retention costs for existing postpaid subscribers are in the form of free handsets.

Subscriber acquisition and retention costs pertaining to postpaid subscriptions are deferred and amortized over the base contract period, which ranges from 18 to 24 months from the date in which they are incurred. Deferred subscriber acquisition and retention costs are shown under 'Other noncurrent assets' account in the consolidated statement of financial position. The related amortization of subscriber acquisition costs is included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income.

The Group performs an overall realizability test, in order to support the deferral of the subscriber acquisition costs. An overall realizability test is done by determining the minimum contractual revenue after deduction of direct costs associated with the service contract over the base contract period. Costs are deferred and amortized, if there is a nonrefundable contract or a reliable basis for estimating net cash inflows under a revenue-producing contract which exists to provide a basis for recovery of incremental direct costs.

### Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's investments in associates and joint ventures, investment properties, property, plant and equipment, biological assets at cost, intangible assets and goodwill and deferred subscriber acquisition and retention costs.

Except for goodwill and intangible assets with indefinite lives which are tested for impairment annually, the Group assesses at each reporting date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its 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 groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. 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 (or cash-generating unit).

Impairment losses from continuing operations are recognized under 'Impairment losses and others' in the profit or loss in the consolidated statement of comprehensive income.

The following criteria are also applied in assessing impairment of specific assets:

*Property, plant and equipment, investment properties, intangible assets with definite useful lives*

*and deferred subscriber acquisition and retention costs*

For property, plant and equipment, investment properties, intangible assets with definite useful lives and deferred subscriber acquisition and retention costs, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss in the consolidated statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

*Goodwill*

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative fair values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses relating to goodwill cannot be reversed in future periods.

The Group performs its impairment test of goodwill every December 31.

*Investments in associates and joint ventures*

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint ventures. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate or joint venture and the acquisition cost and recognizes the amount under 'Impairment losses and others' in the profit or loss in the consolidated statement of comprehensive income.

*Biological assets at cost*

The carrying values of biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

*Intangible assets with indefinite useful lives*

Intangible assets with indefinite useful lives are tested for impairment annually as of year-end either individually or at the cash-generating unit level, as appropriate.

### Common Stock

Common stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' in the consolidated statement of financial position. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Treasury Shares

Treasury shares are recorded at cost and are presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (a) additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued, and (b) retained earnings. No gain or loss is recognized in the profit or loss in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of goods*

Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discounts, prompt payment discounts and volume rebates.

#### *Rendering of tolling services*

Revenue derived from tolling activities, whereby raw sugar from traders and planters is converted into refined sugar, is recognized as revenue when the related services have been rendered.

#### *Rendering of air transportation services*

Passenger ticket and cargo waybill sales are initially recorded as 'Unearned revenue' (included under 'Other current liabilities' in the consolidated statement of financial position) until recognized as 'Revenue' in the profit or loss in the consolidated statement of comprehensive income, when the transportation service is rendered by the Group (e.i., when passengers and cargo are lifted). Unearned tickets are recognized as revenue using estimates regarding the timing of the recognition based on the terms and conditions of the ticket and historical trends.

The related commission is recognized as expense in the same period when the transportation service is provided and is included under 'Cost of sales and services' account in the consolidated statement of comprehensive income. The amount of commission not yet recognized as expense is recorded as a prepayment under 'Other current assets' in the consolidated statement of financial position.

#### *Ancillary Revenue*

Revenue from in-flight sales and other services are recognized when the goods are delivered or the services are carried out.

*Rendering of telecommunications services*

Revenue from telecommunications services includes the value of all telecommunications services provided, net of free usage allocations and discounts. Revenue is recognized when earned, and is net of the share of other foreign and local carriers and content providers, if any, under existing correspondence and interconnection and settlement agreements.

Revenue is stated at amounts billed or invoiced and accrued to subscribers or other carriers and content providers, taking into consideration the bill cycle cut-off (for postpaid subscribers), and charges against preloaded airtime value (for prepaid subscribers), and excludes valued-added tax (VAT) and overseas communication tax. Inbound traffic revenues, net of discounts and outbound traffic charges, are accrued based on actual volume of traffic monitored by the Group's network and in the traffic settlement system.

The Group's service revenue includes the revenue earned from subscribers and traffic. With respect to revenue earned from subscribers, revenue principally consists of: (1) per minute airtime and toll fees for local, domestic and international long distance calls in excess of free call allocation, less bonus airtime credits, airtime on free Subscribers' Identification Module (SIM), prepaid reload discounts and interconnection fees; (2) revenue from value-added services (VAS) such as short messaging services (SMS) in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), multimedia messaging services (MMS), content downloading and infotext services, net of amounts settled with carriers owning the network where the outgoing voice call or SMS terminates and payout to content providers; (3) inbound revenue from other carriers which terminate their calls to the Group's network less discounts; (4) revenue from international roaming services; (5) usage of broadband and internet services in excess of fixed monthly service fees; (6) fixed monthly service fees (for postpaid wireless subscribers) and prepaid subscription fees for discounted promotional calls and SMS.

Postpaid service arrangements include fixed monthly charges which are recognized over the subscription period on a pro-rata basis. Telecommunications services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. As a result of billing cycle cut-off, service revenue earned but not yet billed at end of month is estimated and accrued based on actual usage.

Proceeds from over-the-air reloading channels and sale of prepaid cards are initially recognized as unearned revenue (recorded under 'Other current liabilities' in the consolidated statement of financial position).

Revenue is realized upon actual usage of the airtime value of the card, net of free service allocation. The unused value of prepaid cards is likewise recognized as revenue upon expiration. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

Proceeds from sale of phonekits and SIM cards/packs received from certain mobile subscribers are recognized upon actual receipts, and are included under 'Other revenue' in the profit or loss in the consolidated statement of comprehensive income.

With respect to revenue earned from connecting carriers/traffic, inbound revenue and outbound

charges are based on agreed transit and termination rates with other foreign and local carriers and content providers. Inbound revenue represents settlement received for traffic originating from telecommunications providers that are sent through the Group's network, while outbound charges represent settlements to telecommunications providers for traffic originating from the Group's network and settlements to providers for contents downloaded by subscribers. Both the inbound revenue and outbound charges are accrued based on actual volume of traffic monitored by the Group from the switch. Adjustments are made to the accrued amount for discrepancies between the traffic volume per the Group's records and per records of other carriers. The adjustments are recognized as these are determined and are mutually agreed-upon by the parties. Uncollected inbound revenue is shown under 'Receivables' in the consolidated statement of financial position, while unpaid outbound charges are shown under 'Accounts payable and accrued expenses' in the consolidated statement of financial position.

#### *Real Estate Sales*

Revenue from sales of real estate and cost from completed projects is accounted for using the full accrual method. The percentage of completion is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of project.

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the 'Deposits from real estate buyers' account which is shown as part of the 'Other noncurrent liabilities' account in the liabilities section of the consolidated statement of financial position.

#### *Revenue from hotel operations*

Revenue from hotel operations is recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place. Rental income on leased areas of the hotel is recognized on a straight-line basis over the lease term.

#### *Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income.



Unearned discount is recognized as income over the terms of the receivables using the effective interest method and is shown as a deduction from loans.

*Service fees and commission income*

The Group earns fees and commission income from the diverse range of services it provides to its customers. These fees are earned for the provision of services over a period of time and accrued over that period. These fees include commission income and credit-related fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

*Trading and securities gain (loss)*

Income results from the disposal of FVPL and AFS investments and gains and losses from changes in fair value for financial liabilities at FVPL.

*Dividend income*

Dividend income is recognized when the shareholder's right to receive the payment is established.

*Rent income*

The Group leases certain commercial real estate properties to third parties under an operating lease arrangement. Rental income on leased properties is recognized on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Contingent rents are recognized as revenue in the period in which they are earned.

Rental income on leased areas of the hotel is recognized on a straight-line basis over the lease term.

*Amusement income*

Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services.

*Others*

Gain from sale of properties is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense under 'Financing costs and other charges' account in the profit or loss in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the 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 the consolidated financial statements when an inflow of economic benefits is probable.

### Pension Costs

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailments or settlements.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

The asset or liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation as of the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The defined benefit obligation is calculated by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

Past service costs, if any, are recognized immediately in the profit or loss in the consolidated statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortized on a straight-line basis over the vesting period.

The asset ceiling test requires a defined benefit asset to be measured at the lower of the amount of the net plan asset and the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

## Income Taxes

### *Current tax*

Current tax assets and liabilities for the current and prior periods 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 as of the reporting date.

### *Deferred tax*

Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- Where the deferred tax liability arises from the initial recognition of goodwill or 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 or loss; 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. Otherwise, no deferred tax liability is set-up.

Deferred tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits from unused minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward benefits of unused tax credits from 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 or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests 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 amounts of deferred tax assets are reviewed at each reporting date and reduced to extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recognized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax 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.

#### Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset;  
or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and is included in the consolidated statement of financial position under 'Property, plant and equipment' account with the corresponding liability to the lessor included under 'Long-term debt' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit or loss in the consolidated statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the EUL of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Cost of sales and services' and 'General administrative expenses' accounts in the profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

#### *Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of

the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Earnings (Loss) Per Share (EPS)

Basic EPS is computed by dividing net income (loss) attributable to the equity holders of the Parent Company by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net profit (loss) attributable to ordinary equity holders of the Parent Company (after deducting interest on the convertible preferred shares, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

#### Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company in the case of cash dividends, and the BOD and shareholders of the Parent Company in the case of stock dividends.

#### Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements.

#### Subsequent Events

Any post-year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the consolidated financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

#### **Future Changes in Accounting Policies**

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its consolidated financial statements.

#### **New Standards and Interpretations**

##### *Effective 2011*

- PAS 24, *Related Party Disclosures* (Revised)

The standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard

introduces a partial exemption of disclosure requirements for government-related entities.

- Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*

The interpretation is effective for annual periods on or after July 1, 2010, with earlier application permitted. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

#### *Effective 2012*

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate*  
This Interpretation is effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

#### *Effective 2013*

- PFRS 9, *Financial Instruments: Classification and Measurements*

The standard has mandatory effectivity on January 1, 2013, however earlier application is permitted for financial statements beginning on or after January 1, 2010. The standard introduces new requirements on the classification and measurement of financial assets and liabilities. It uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the many different rules in PAS 39. The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

PFRS 9, as issued in 2010, reflects the first part of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The second part of the project will address proposals on the impairment methodology for financial assets and the third part, on hedge accounting. The completion of this project is expected in the middle of 2011.

The Group has not yet decided whether or not to early adopt IFRS 9 for its 2011 financial reporting and therefore, the interim financial statements do not reflect the impact of the said standard. Currently, the Group is evaluating the impact of the possible early adoption on its financial statements.

In case of early adoption, accounts for reassessment would be Financial Assets at fair value through profit or loss, Available-for-sale investments and Net gains (losses) on available-for-

sale investments which has a balance of ₱11.6 billion, ₱11.2 billion and ₱159.6 million, respectively as of June 30, 2011.

### Amendments to Standards

#### *Effective 2011*

- PAS 32, *Financial Instruments: Presentation - Classification of Rights Issue*  
The amended standard is effective for annual periods beginning on or after February 1, 2010, with earlier application permitted. It amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
  
- Philippine Interpretation IFRIC-14, *Prepayments of a Minimum Funding Requirement*  
The amended interpretation is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

#### *Effective 2012*

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets*  
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
  
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets*  
The amendment is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

### Improvements to PFRSs

*Improvements to PFRSs* issued in May 2010 is an omnibus of amendments to PFRSs. Generally, these amendments are effective for annual periods beginning on or after January 1, 2011 unless otherwise stated. Except as otherwise indicated, the Group does not expect the adoption of these improvements to have significant impact on its financial statements.

- PFRS 3, *Business Combinations*
  - a. It clarifies that the amendments to PFRS 7, PAS 32 and PAS 39, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of

PFRS 3 (as revised in 2008). The amendment is applicable to annual periods beginning on or after July 1, 2010 and is applied retrospectively.

- b. The amendment limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS, e.g., PFRS 2. It is applicable to annual periods beginning on or after July 1, 2010. The amendment is applied prospectively from the date the entity applies PFRS 3 (revised).
  - c. It requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of NCI and measured at their market-based measure; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense. The amendment is applicable to annual periods beginning on or after July 1, 2010 and is applied prospectively.
- PFRS 7, *Financial Instruments: Disclosures*  
The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

The amendment is applicable for annual periods beginning January 1, 2011 and is applied retrospectively. Amendments to quantitative and credit risk disclosures are as follow:

- a. Clarify that only a financial asset whose carrying amount does not reflect the maximum exposure to credit risk needs to provide further disclosure of the amount that represents the maximum exposure to such risk;
- b. Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);
- c. Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;
- d. Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and
- e. Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

The Group expects that the additional disclosure requirements will only have minor impact as information is expected to be readily available.

- PAS 1, *Presentation of Financial Statements*



- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 21, *The Effect of Changes in Foreign Exchange Rates*
- PAS 28, *Investments in Associates*
- PAS 31, *Interests in Joint Ventures*
- Philippine Interpretation IFRIC-13, *Customer Loyalty Programmes*

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### 3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements, as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

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

#### *a. Going concern assessment*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

#### *b. Classification of financial instruments*

The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Group classifies certain quoted nonderivative financial assets with fixed or determinable

payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances, the Group will be required to reclassify the entire portfolio as AFS investments. Consequently, the investments would therefore be measured at fair value and not at amortized cost.

*c. Determination of fair values of financial instruments*

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income.

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

The fair values of the Group's financial instruments are presented in Note 5 to the consolidated financial statements.

*d. Revenue from real estate sales*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgment based on, among others:

- buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment; and
- stage of completion of the project.

*e. Classification of leases*

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

The Group has entered into commercial property leases on its investment property portfolio. These leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease and the related lease terms do not approximate the EUL of the assets being leased. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

*f. Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

*g. Distinction between subdivision land, and land and land improvements*

The Group determines whether a property will be classified as ‘Subdivision land’ or ‘Land and land improvements.’ In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Subdivision land) or whether it will be retained as part of the Group’s strategic landbanking activities for development or sale in the medium or long-term (Land and land improvements under Investment properties and Property, plant and equipment).

*h. Consolidation of SPEs*

The Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the purchase of aircraft and assumption of certain liabilities; also included are transactions involving SPEs and similar vehicles. In all such cases, management makes an assessment as to whether the Group has the right to control or significantly influence the SPE, and based on this assessment, the SPE is consolidated as a subsidiary or an associated company. In making this assessment, management considers the underlying economic substance of the transaction and not only the contractual terms.

*i. Contingencies*

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group’s consolidated financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

*j. Functional currency*

PAS 21 requires management to use its judgment to determine an entity’s functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:

- a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- b. the currency in which funds from financing activities are generated; and
- c. the currency in which receipts from operating activities are usually retained.

In the case of an intermediate holding company or finance subsidiary, the principal consideration of management is whether it is an extension of the parent and performing the functions of the parent - i.e., whether its role is simply to hold the investment in, or provide finance to, the foreign operation on behalf of the parent company or whether its functions are essentially an extension of a local operation (e.g., performing selling, payroll or similar activities for that operation) or indeed it is undertaking activities on its own account. In the former case, the functional currency of the entity is the same with that of the parent; while in the latter case, the functional currency of the entity would be assessed separately.

*k. Significant subsequent events of fiscal subsidiaries*

The Group consolidates the balances of its fiscal subsidiaries using the balances as of the fiscal year end of each of the fiscal subsidiaries which are not more than three months from the consolidated reporting date of the Parent Company since management of the Group assessed that it is impracticable for fiscal subsidiaries to prepare financial statements as of the same date as the financial statements of the Parent Company. In accordance with PAS 27, management exercises judgement in determining whether adjustments should be made in the consolidated financial statements of the Group pertaining to the effects of significant transactions or events of the fiscal subsidiaries that occur between that date and the date of the Parent Company's financial statements.

Estimates

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

*a. Revenue and cost recognition*

The Group's revenue recognition policies require use of estimates and assumptions that may affect the reported amounts of revenue and costs.

- **Rendering of telecommunications services**  
Digitel's postpaid service arrangements include fixed monthly charges which are recognized over the subscription period on a pro-rata basis. Digitel bills the postpaid subscribers throughout the month according to the bill cycles of subscribers. As a result of the billing cycle cut-off, service revenue earned but not yet billed at end of the month is estimated and accrued based on actual usage.

Digitel's agreements with local and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by management. Initial recognition of revenue is based on observed traffic in the network, since normal historical experience adjustments are not material to the consolidated financial statements. The

differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates will not result in material adjustments in future periods.

The total unsettled net inbound traffic revenue from local and foreign traffic carriers is included under 'Receivables' in the consolidated statements of financial position, while the total unsettled net outbound traffic revenue to local and foreign carriers is included under 'Accounts payable and accrued expenses'.

- **Sale of real estate**

The Group's revenue from real estate sales are recognized based on the percentage-of-completion and the completion rate is measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of the project.

- **Rendering of transportation services**

Passenger sales are recognized as revenue when the transportation is provided. The value of unused tickets is included as unearned transportation revenue in the consolidated statement of financial position and recognized in revenue based on estimates. These estimates are based on historical experience. While actual results may vary from these estimates, the Group believes it is unlikely that materially different estimates for future refunds, exchanges, and forfeited tickets would be reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time estimates were made.

The balances of the Group's unearned transportation revenue is disclosed in Note 23 to the financial statements. Ticket sales that are not expected to be used for transportation are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends.

*b. Impairment of AFS investments*

*AFS debt investments*

The Group classifies certain financial assets as AFS investments and recognizes movements in the fair value in other comprehensive income. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in the profit or loss in the consolidated statement of comprehensive income.

*AFS equity investments*

The Group treats AFS equity investments 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 20% or more and 'prolonged' as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

c. *Estimation of allowance for impairment losses on receivables*

The Group maintains allowances for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of the receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Group provides full allowance for trade and other receivables that it deems uncollectible.

The Group reviews its finance receivables at each statement of financial position date to assess whether an impairment losses should be recorded in the profit or loss in the consolidated statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

d. *Determination of NRV of inventories*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally providing a 100% write down for nonmoving items for more than one year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect any market decline in the value of the recorded inventories. The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in inventory obsolescence and market decline would increase recorded operating expenses and decrease current assets.

e. *Estimation of ARO*

The Group is legally required under various contracts to restore certain leased property and leased aircraft to its original condition and to bear the costs of dismantling and deinstallation

at the end of the contract period. These costs are accrued based on an internal estimate which incorporates estimates on the amounts of asset retirement costs, third party margins and interest rates. The Group recognizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, and depreciates such on a straight-line basis over the EUL of the related asset.

The present value of dismantling or restoration costs of telecommunication segment is computed based on an average credit adjusted risk-free rate of 6.2% to 10.1% while the present value of the cost of restoration for the air transportation segment is computed based on CAI's average borrowing cost. Assumptions used to compute ARO are reviewed and updated annually.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in ARO would increase recorded operating expenses and increase noncurrent liabilities.

*f. Estimation of useful lives of property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost*

The Group estimates the useful lives of its depreciable property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost based on the period over which the assets are expected to be available for use. The EUL of the said depreciable assets are reviewed at least annually and are updated, if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the EUL of the depreciable property, plant and equipment, investment properties and intangible assets would increase depreciation and amortization expense and decrease noncurrent assets.

*g. Estimation of fair values less estimated costs to sell of biological assets*

The fair values of biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated, if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned.

The carrying value of the Group's biological assets carried at fair values less estimated costs to sell is disclosed in Note 18 to the financial statements.

*h. Estimation of pension and other benefits costs*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and

recorded obligation in such future periods.

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The Group also estimates other employee benefits obligation and expense, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows using the interest rate of Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date.

*i. Assessment of impairment on property, plant and equipment, investment properties, investments in associates and joint ventures, biological asset at cost, goodwill and other intangible assets*

The Group assesses the impairment on its property, plant and equipment, investment properties, investments in associates and joint ventures, biological assets at cost and goodwill and other intangible assets 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 or prolonged decline in the fair value of the asset;
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- 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 determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.



In the case of goodwill and intangible assets with indefinite lives, at a minimum, such assets are subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

*j Recognition of deferred tax assets*

The Group reviews the carrying amounts of its deferred tax assets at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized.

The Group has certain subsidiaries which enjoy the benefits of an income tax holiday (ITH). As such, no deferred tax assets were set up on certain gross deductible temporary differences that are expected to reverse or expire within the ITH period.

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#### **4. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, other than derivative financial instruments, comprise cash and cash equivalents, financial assets at FVPL, HTM investments, AFS investments, interest-bearing loans and borrowings and payables and other financial liabilities. The main purpose of these financial instruments is to finance the Group's operations and related capital expenditures. The Group has various other financial assets and financial liabilities, such as trade receivables and payables which arise directly from its operations. Also, the Parent Company and certain subsidiaries are counterparties to derivative contracts, such as interest rate swaps, currency forwards, cross currency swaps, currency options and commodity options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes.

The BODs of the Parent Company and its subsidiaries review and approve the policies for managing each of these risks which are summarized below, together with the related risk management structure.

##### Risk Management Structure

The BOD of the Parent Company and the respective BODs of each subsidiary are ultimately responsible for the oversight of the Group's risk management processes that involve identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Each BOD has created the board-level Audit Committee (AC) to spearhead the managing and monitoring of risks.

#### *AC*

The AC shall assist the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems and the internal audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and audit standards and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. audit activities of internal auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal auditors; and
- d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

#### *Enterprise Risk Management Group (ERMG)*

The ERMG was created to be primarily responsible for the execution of the enterprise risk management framework. The ERMG's main concerns include:

- a. recommendation of risk policies, strategies, principles, framework and limits;
- b. management of fundamental risk issues and monitoring of relevant risk decisions;
- c. support to management in implementing the risk policies and strategies; and
- d. development of a risk awareness program.

#### *Corporate Governance Compliance Officer*

Compliance with the principles of good corporate governance is one of the objectives of the Group's BOD. To assist the Group's BOD in achieving this purpose, the Group's BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance of the Group with the provisions and requirements of good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties for such infringements for further review and approval of the Group's BOD, among others.

#### *Day-to-day risk management functions*

At the business unit or company level, the day-to-day risk management functions are handled by four different groups, namely:

1. Risk-taking Personnel. This group includes line personnel who initiate and are directly accountable for all risks taken.
2. Risk Control and Compliance. This group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risk mitigation decisions.
3. Support. This group includes back office personnel who support the line personnel.
4. Risk Management. This group pertains to the business unit's Management Committee which

makes risk-mitigating decisions within the enterprise-wide risk management framework.

*Enterprise Resource Management (ERM) Framework*

The Parent Company's BOD is also responsible for establishing and maintaining a sound risk management framework and is accountable for risks taken by the Parent Company. The Parent Company's BOD also shares the responsibility with the ERMG in promoting the risk awareness program enterprise-wide.

The ERM framework revolves around the following eight (8) interrelated risk management approaches:

1. **Internal Environmental Scanning.** It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the Group.
2. **Objective Setting.** The Group's BOD mandates the business unit's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
3. **Event Identification.** It identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
4. **Risk Assessment.** The identified risks are analyzed relative to the probability and severity of potential loss which serves as a basis for determining how the risks should be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's attention, and risks which may materially weaken the Group's earnings and capital.
5. **Risk Response.** The Group's BOD, through the oversight role of the ERMG, approves the business unit's responses to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.
6. **Control Activities.** Policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. **Information and Communication.** Relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. **Monitoring.** The ERMG, Internal Audit Group, Compliance Office and Business Assessment Team constantly monitor the management of risks through risk limits, audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

*Risk management support groups*

The Group's BOD created the following departments within the Group to support the risk management activities of the Parent Company and the other business units:

1. **Corporate Security and Safety Board (CSSB).** Under the supervision of ERMG, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
2. **Corporate Supplier Accreditation Team (CORPSAT).** Under the supervision of ERMG, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
3. **Corporate Management Services (CMS).** The CMS is responsible for the formulation of

- enterprise-wide policies and procedures.
4. Corporate Planning (CORPLAN). The CORPLAN is responsible for the administration of strategic planning, budgeting and performance review processes of business units.
  5. Corporate Insurance Department (CID). The CID is responsible for the administration of the insurance program of business units concerning property, public liability, business interruption, money and fidelity, and employer compensation insurances, as well as, in the procurement of performance bonds.

### Risk Management Policies

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk, such as, foreign currency risk, commodity price risk, equity price risk and interest rate risk. The Group's policies for managing the aforementioned risks are summarized below.

### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group transacts only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVPL, AFS investments and certain derivative investments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

The Group has a counterparty credit risk management policy which allocates investment limits based on counterparty credit ratings and credit risk profile.

- a. Credit risk exposure
- b. Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence.

The Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. In order to avoid excessive concentrations of risks, identified

concentrations of credit risks are controlled and managed accordingly.

- i. Concentration by geographical location
  - ii. Concentration by industry
- c. Credit quality per class of financial assets  
*Classification of Financial Assets by Class used by the Group except for the Banking Segment*  
 High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top 10 banks in the Philippines in terms of resources and profitability.

Other high grade accounts are considered to be of high value since the counterparties have a remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

*Classification of Financial Assets by Class used by the Banking Segment*

For loans and receivables to customers, the Banking Segment’s internal credit rating system was approved in 2007 and covers corporate credit exposures and SMEs, which is defined by the BSP as exposures to companies with assets of more than ₱15.0 million. Around ₱5.0 billion of loans and receivables to customers do not have available credit ratings, including microfinance, automobile and real estate loans. Due from foreign banks are investment grade based on Fitch ratings. The Banking Segment considers Philippine peso-denominated securities related to the Philippine government as credit risk-free.

The Banking Segment’s internal credit risk rating is as follows:

<b>Grades</b>	<b>Categories</b>	<b>Description</b>
High grade		
<i>Risk rating 1</i>	Excellent	Very low probability of default, high degree of substance/stability/diversity of counterparty
<i>Risk rating 2</i>	Strong	Low probability of default, comfortable degree of stability/substance/diversity of counterparty
<i>Risk rating 3</i>	Good	Quite low probability of default, some degree of stability/substance of counterparty
Standard		
<i>Risk rating 4</i>	Satisfactory	Greater probability of default, volatile earnings/performance
<i>Risk rating 5</i>	Acceptable	Risk elements existing, but able to withstand

		normal business cycle
Sub-standard grade <i>Risk rating 6</i>	Watchlist	Unfavorable industry or company specific risk factors represent a concern, will find it difficult to cope with significant downturn
(Forward)		
<b>Grades</b>	<b>Categories</b>	<b>Description</b>
<i>Risk rating 7</i>	Special mention	Risk of inability to pay interest and principal due to evidence of weakness in financial condition, ability/willingness to service debt are in doubt
<i>Risk rating 8</i>	Substandard	Unfavorable record or unsatisfactory characteristics jeopardize liquidation, with well-defined weaknesses
Impaired <i>Risk rating 9</i>	Doubtful	Weaknesses similar to “Substandard”, but with added characteristics that make liquidation highly improbable
<i>Risk rating 10</i>	Loss	Uncollectible or worthless

The Banking Segment’s internal credit risk rating system intends to provide a structure to define the corporate credit portfolio, and consists of an initial rating for the borrower risk later adjusted for the facility risk. Inputs include an assessment of management, credit experience, financial condition, industry outlook, documentation, security and term.

#### External Ratings

In ensuring a quality investment portfolio, the Banking Segment uses the credit risk rating based on the rating of Moody’s Investors Service (Moody’s rating) as follows:

<b>Credit Quality</b>	<b>External Rating</b>									
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					
Impaired	D									

Fitch Ratings are as follows:

<b>Credit Quality</b>	<b>External Rating</b>		
High grade	AAA	AA±	A±
Standard grade	BBB±	–	–
Substandard grade	BB±	B±	–
Impaired	CCC±	CC±	C±

d. Aging analysis of the Group's receivables as of June 30, 2011 follow:

	<b>TOTAL</b>	<b>UP TO SIX MONTHS</b>	<b>OVER SIX MONTHS TO ONE YEAR</b>	<b>OVER ONE YEAR</b>
Trade Receivables	₱11,915,236	₱7,207,301	₱2,603,903	₱2,104,032
Less: Allowance for impairment loss	(1,362,437)	-	(1,362,437)	
Net Trade Receivables	10,552,799	7,207,301	1,241,466	2,104,032
Non-trade Receivables				
Finance Receivables (including noncurrent portion)	13,083,384	3,422,926	-	9,660,458
Others	5,384,900	4,802,703	582,197	-
	18,468,284	8,225,629	582,197	9,660,458
Less: Allowance for impairment loss	(927,058)	(718,709)	(208,349)	-
Net Non-trade Receivables	17,541,226	7,506,920	373,848	9,660,458
	<b>₱28,094,025</b>	<b>₱14,714,221</b>	<b>₱1,615,314</b>	<b>₱11,764,490</b>

e. Impairment assessment

The Group recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold. These and the other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment include: (i) specific/individual assessment; and (ii) collective assessment.

*i. Specific/Individual Assessment*

Under specific/individual assessment, the Group assesses each individually significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment. Among the items and factors considered by the Group when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crisis; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favorable or unfavorable developments.

ii. *Collective Assessment*

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent or objective evidence of individual impairment. A particular portfolio is reviewed on a periodic basis, in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment on an individual assessment. Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write offs; (b) losses which are likely to occur but has not yet occurred; and (c) the expected receipts and recoveries once impaired.

The allowance for impairment loss on subscriber accounts is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from account-level monitoring of subscriber accounts between different age brackets, from current to one day past due to 120 days past due. The net flow to write-off methodology relies on the historical data of net flow tables to establish a percentage (“net flow rate”) of subscriber receivables that are current or in any state of delinquency as of reporting date that will eventually result in write-off. The allowance for impairment losses is then computed based on the outstanding balance of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bracket.

a. Collateral and other credit enhancements

*Collateral and other credit enhancements on finance receivables of RSBC*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- a. for reverse repurchase transactions, securities;
- b. for commercial lending, government guarantee; and
- c. for retail lending, mortgages over real estate and chattel.

All past due accounts of RSBC are assessed for impairment either individually or collectively.

RSBC periodically monitors the market value of collateral, and requests additional collateral in accordance with any underlying agreement as necessary. Collateral is also an input to the internal credit risk rating, and thus may have an impact on the individual assessment of impairment and corresponding loan loss provision.

It is RSBC’s policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

*Collateral and other credit enhancements on trade receivables of CAI*

As collateral against trade receivables from sales ticket offices or agents, CAI requires cash



bonds from major sales ticket offices or agents ranging from ₱50,000 to ₱2.1 million depending on CAI's assessment of sales ticket offices and agents' credit standing and volume of transactions.

*Other collateral and other credit enhancements*

Other collateral and other credit enhancements are included in the notes to the consolidated financial statements, where applicable.

*Carrying amount per class of financial assets which terms have been renegotiated*

RSBC's restructured loans are defined as performing or NPLs which principal terms and conditions have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payments on a periodic basis. When the loan account becomes past due and is being restructured or extended, the approval of the BSP is required before the loan is booked and is always governed by the BSP rules on restructuring.

Restructuring of loans requires the approval of the following:

- President - for loans amounting to ₱1.00 million and below.
- BOD - for loans larger than ₱1.00 million.

Liquidity risk

Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment of asset purchases as they fall due. The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include obtaining bank loans and capital market issues both onshore and offshore.

Market Risk

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

The following discussion covers the market risks of the Group except for its banking segment:

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Group makes use of derivative financial instruments, such as currency swaps, to hedge foreign currency exposure.

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency.

#### *Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

#### *Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Parent Company's and its subsidiaries' long-term debt obligations which are subject to floating rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group makes use of derivative financial instruments, such as interest rate swaps, to hedge the variability in cash flows arising from fluctuation in benchmark interest rates.

#### *Price interest rate risk*

The Group is exposed to the risks of changes in the value/future cash flows of its financial instruments due to its market risk exposures. The Group's exposure to interest rate risk relates primarily to the Group's financial assets at FVPL and AFS investments.

The tables below show the impact on income before income tax and equity of the estimated future yield of the related market indices of the FVPL and AFS investments using a sensitivity approach.

#### *Commodity price risk*

The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel.

The Group manages its commodity price risk through fuel surcharges which are approved by the Philippine Civil Aeronautics Board, a fuel hedge that protects the Group's fuel usage from volatile price fluctuations, and certain operational adjustments in order to conserve fuel use in the way the aircraft is operated.

#### *Banking Segment's Market Risk*

Market risk may be defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities. These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in interest rate, foreign exchange and equity.

RSBC presently uses historical method, a non-parametric approach for estimating VaR. It estimates future prices/rates directly from historical data based on the assumption that the market movement over the holding period will be the same as a movement which occurred within the specified historical data set.

RSBC observes market risk limits, which are approved by its BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are commensurate to the expected return, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. The approving authorities include the treasury head, an investment committee composed of top management, and the chairman of the BOD. Limit breaches are periodically presented to the BOD.

Value-at-risk (VaR) is computed to estimate potential losses arising from market movements. RSBC calculates and monitors VaR and profit or loss on a regular basis.

The historical data used by RSBC covers the most recent 500 business days (approximately 2 years). In accordance with the regulations, RSBC updates its data set no less frequently than once every quarter. RSBC estimates VaR using a 1-day holding period. Initially a 99<sup>th</sup> percentile one-tailed confidence interval was used however in October 2008, RSBC adjusted the VaR confidence level to 99.5<sup>th</sup> percentile, which is higher than the 99% required by the BSP.

#### *Objectives and limitations of the VaR methodology*

VaR is used by RBSC to measure market risk from the trading of financial instruments. VaR is an estimate of the maximum decline in value on a given position over a specified holding period in a normal market environment, with a given probability of occurrence.

Historical Simulation, the model being presently used by RSBC is a non-parametric approach of estimating VaR. The returns are not subjected to any functional distribution. VaR is estimated directly from the data without deriving parameters or making assumptions about the entire distribution of the data. This methodology is also based on the premise that the pattern of historical returns is indicative of future returns. This shortcoming is addressed by supplementing the VaR figure with stress testing.

#### *VaR methodology assumptions and parameters*

Discussed below are the limitations and assumptions applied by RSBC on its VaR methodology:

- a. VaR is a statistical estimate and thus, does not give the precise amount of loss. In statistical terms, rather than giving the entire tail, it is giving an arbitrary point in the tail;
- b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
- c. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e. an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated; and
- d. The shortcoming relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR figure with stress testing.

VaR backtesting is the process by which financial institutions periodically compare MTM Profit or Loss with the VaR figures to gauge the quality and accuracy of the VaR model. Quarterly backtesting was performed in 2010 and there were no instances that the actual MTM Profit or Loss exceeded the computed VaR figures.

RSBC supplements the VaR figures with weekly stress testing reported weekly to the MANCOM.

#### *Interest rate risk*

RSBC's ALCO includes lending and treasury heads. ALCO conducts weekly meetings. Among other discussions, ALCO surveys the interest rate environment, adjusts the interest rates for RSBC's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities.

RSBC also has specialized units that help monitor market and regulatory developments pertinent to interest rates and liquidity position, as well as prepare cash position reports as needed.

RSBC also uses the repricing gap report. The repricing gap report is a tool used by RSBC for measuring market risk arising from non-trading portfolios. Although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that RSBC's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap implies that RSBC's net interest income could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk. To help control interest rate risk arising from repricing gaps, maximum repricing gap targets are set for time bands up to one year.

Sensitivity analysis for several market factors showing how profit or loss and equity could be affected by changes in the relevant risk factor are in the following tables below. In general, sensitivity is estimated by comparing an initial value to the value derived after a specified change in the market factor, assuming all other variables are constant. The sensitivity of profit or loss may be the estimated effect of the assumed change in interest rates on net interest income, based on assets and liabilities held. The sensitivity of profit or loss may also be the estimated effect of the assumed change in foreign exchange rates on income, based on foreign currency assets and liabilities. On the other hand, AFS investments are revalued using the assumed market factor change to estimate the sensitivity of equity. A negative amount in a table reflects a potential reduction in profit or loss and equity, while a positive amount reflects a potential increase.

#### *Foreign currency risk*

RSBC seeks to maintain a square or minimal position on its foreign currency exposure. Foreign currency liabilities generally consist of foreign currency deposits in RSBC's FCDU. Foreign currency deposits are generally used to fund RSBC's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in the FCDU. In addition, the BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held in the FCDU.

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## **5. Fair Value of Financial Assets and Liabilities**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash and cash equivalents, receivables (except for finance receivables and installment contract receivables), accounts payable and accrued expenses and short-term debt*

Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

*Finance receivables*

Fair values of loans are estimated using the discounted cash flow methodology, using RSBC's and RBC's current incremental lending rates for similar types of loans. Where the instruments are repriced on a quarterly basis or have a relatively short-term maturity, the carrying amounts approximate fair values.

*Installment contract receivables*

Fair values of installment contract receivables are based on the discounted value of future cash flows using the applicable rates for similar types of receivables

*Debt securities* - Fair values of debt securities are generally based on quoted market prices.

*Quoted equity securities* - Fair values are based on quoted prices published in markets.

*Unquoted equity securities* - Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. These are carried at cost.

*HTM investments* - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments, or using the discounted cash flow methodology.

*Amounts due from and due to related parties*

Carrying amounts of due from and due to related parties which are collectible/payable and due on demand approximate their fair values. Due from related parties are unsecured and have no foreseeable terms of repayments.

*Deposit liabilities and bills payable*

Fair values are estimated using the discounted cash flow methodology using RSBC's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

*Noninterest-bearing refundable security deposits*

The fair values are determined as the present value of estimated future cash flows using prevailing market rates.

*Long-term debt*

The fair value of floating rate loans are determined by discounting the future cash flows (interests and principal) using prevailing market rates. The frequency of repricing per year affects the fair value. In general, a loan that is repriced every three months will have a carrying value closer to the fair value than a six-month repriceable loan with similar maturity and interest basis.

#### *Derivative financial instruments*

The fair values of the cross currency swaps, interest rate swaps and commodity options are determined based on the quotes obtained from counterparties. The fair values of forward exchange derivatives are calculated by reference to the prevailing interest differential and spot exchange rate as of valuation date, taking into account the remaining term-to-maturity of the forwards. The fair values of embedded prepayment option are estimated based on prices derived using the binomial pricing methodology.

#### *Fair Value Hierarchy of Financial Instruments*

The following table shows the Group's financial instruments carried at fair value, analyzed between those whose fair value is based on:

- (a) Level 1: quoted (unadjusted) prices in an active market for identical assets or liabilities;
- (b) Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- (c) Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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## **6. Segment Information**

### Operating Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The industry segments where the Group operates are as follows:

- Food, agro-industrial and commodities businesses - manufacturing of snack foods, granulated coffee and pre-mixed coffee, chocolates, candies, biscuits, instant noodles, ice cream and frozen novelties, pasta and tomato-based products and canned beans; raising of hog, chicken and manufacturing and distribution of animal feeds, corn products and vegetable oil and the synthesis of veterinary compound; and sugar milling and refining and flour milling.
- Air transportation - air transport services.
- Telecommunications - service provider of voice and data telecommunications services which include international gateway facilities, a local exchange network and traditional business services (fax, telex, leased lines and other value-added network products, value-added network provider using electronics data interchange).
- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.
- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), and other industrial chemicals.

- Banking - commercial and thrift banking operations.
- Other supplementary businesses - printing services, textile insurance brokering, foreign exchange and securities dealing.

No operating segments have been aggregated to form the above reportable operating business segments.

Management monitors the operating results of each segment. The measure presented to manage segment performance is the segment operating income (loss). Segment operating income (loss) is based on the same accounting policies as consolidated operating income (loss) except that intersegment revenues are eliminated only at the consolidation level. Group financing (including finance cost and other charges), interest income, market valuation gain(loss) on financial assets, foreign exchange gain (loss), other revenues, general and administrative expenses, impairment losses and others and income taxes are managed on a group basis and are not allocated to operating segments. Transfer pricing between operating segments are on arm's length basis in a manner similar to transactions with third parties.

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', 'Earnings before interest and income taxes (EBIT)' and 'Earnings before interest, income taxes and depreciation/amortization (EBITDA)' as of and for the three months ended June 30, 2011 and 2010.

The Group's operating segment information follows:

	June 30, 2011									
	Agro-Industrial and Commodities	Foods, Transportation	Air Transportation	Tele- communications	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>										
Sale of goods and services:										
External customer	₱33,298,103	₱16,730,226	—	₱9,261,990	₱6,055,791	₱2,792,080	₱939,374	₱—	₱—	₱69,077,564
Intersegment revenue	—	—	—	—	—	490,792	—	—	(490,792)	—
Equity in net income (loss) of associates and joint ventures	33,298,103	16,730,226	—	9,261,990	6,055,791	3,282,872	939,374	—	(490,792)	69,077,564
	9,764	16,835	—	—	1,103,690	—	—	58,440	(5,982)	1,182,747
<b>Total Revenue</b>	33,307,867	16,747,061	—	9,261,990	7,159,481	3,282,872	939,374	58,440	(496,774)	70,260,311
Cost of sales and services	24,873,005	11,294,828	—	1,014,449	2,660,915	3,152,031	314,621	—	(490,792)	42,819,057
<b>Gross Income</b>	₱8,434,862	₱5,452,233	—	₱8,247,541	₱4,498,566	₱130,841	₱624,753	₱58,440	₱(5,982)	27,441,254
General and administrative expenses										16,721,572
Impairment losses and others										180,832
<b>Operating Income</b>										10,538,850
Financing cost and other charges										(2,968,970)
Finance income										1,346,723
Other operating income										796,015
<b>Core earnings</b>										9,712,618
Market valuation gain (loss) on financial assets										414,520
Foreign exchange loss										211,987
<b>Income before income tax</b>										10,339,125
Provision for income tax										1,304,559
<b>Net income</b>										₱9,034,566
<b>Net income (loss) from equity holders of the Parent Company</b>	₱1,974,787	₱1,626,348	—	₱72,882	₱2,346,197	(₱72,064)	₱145,588	₱325,247	(₱442,846)	₱5,976,139
<b>Earnings before interest and income tax</b>	₱3,817,383	₱2,135,063	—	₱870,664	₱2,490,159	(₱36,153)	₱157,216	₱1,104,518	₱—	₱10,538,850
Depreciation and amortization	1,702,899	1,283,905	—	3,319,764	1,010,762	67,697	48,567	24,102	—	7,457,696
<b>Earnings before interest, income taxes and depreciation/amortization (EBITDA)</b>	₱5,520,282	₱3,418,968	—	₱4,190,428	₱3,500,921	₱31,544	₱205,783	₱1,128,620	₱—	₱17,996,546
<b>Other Information</b>										
Non-cash expenses other than depreciation and amortization:										
Impairment losses on receivables	₱—	₱611	—	₱149,160	₱—	₱—	₱31,061	₱—	₱—	₱180,832



June 30, 2010

	Foods, Agro-Industrial and Commodities	Air Transportation	Tele- communications	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>									
Sale of goods and services:									
External customer	₱28,724,140	₱14,909,776	₱7,975,253	₱5,296,912	₱1,608,013	₱685,618	₱-	₱-	₱59,199,712
Intersegment revenue	-	-	-	-	208,947	-	-	(208,947)	-
Equity in net income (loss) of associates and joint ventures	28,724,140	14,909,776	7,975,253	5,296,912	1,816,960	685,619	-	(208,947)	59,199,712
	18,432	13,683	-	1,842,248	-	-	40,048	(2,273)	1,912,138
<b>Total Revenue</b>	28,742,572	14,923,459	7,975,253	7,139,160	1,816,960	685,619	40,048	(211,220)	61,111,850
Cost of sales and services	19,962,861	8,434,335	1,062,469	2,322,941	1,831,075	203,378	-	(208,947)	33,608,112
<b>Gross Income</b>	₱8,779,711	₱6,489,124	₱6,912,784	₱4,816,219	(₱14,115)	₱482,241	₱40,048	₱(2,273)	27,503,738
General and administrative expenses									14,421,837
Impairment losses and others									125,302
<b>Operating Income</b>									12,956,599
Financing cost and other charges									(2,946,276)
Finance income									865,806
Other operating income									574,203
<b>Core earnings</b>									11,450,332
Market valuation gain (loss) on financial assets									790,930
Foreign exchange loss									(407,338)
<b>Income before income tax</b>									11,833,924
Provision for income tax									1,268,260
<b>Net income</b>									₱10,565,664
<b>Net income (loss) from equity holders of the Parent Company</b>	₱2,781,131	₱3,093,459	₱72,435	₱2,924,890	(₱141,475)	₱111,955	(₱526,725)	(₱212,788)	₱8,102,882
<b>Earnings before interest and income tax</b>	₱4,340,602	₱3,652,447	₱1,066,462	₱2,106,982	(₱136,967)	₱118,673	₱1,808,400	₱-	₱12,956,599
Depreciation and amortization	1,646,175	995,849	2,425,280	917,932	69,593	31,928	17,535	-	6,104,292
<b>Earnings before interest, income taxes and depreciation/amortization (EBITDA)</b>	₱5,986,777	₱4,648,296	₱3,491,742	₱3,024,914	₱(67,374)	₱150,601	₱1,825,935	₱-	₱19,060,891
<b>Other Information</b>									
Non-cash expenses other than depreciation and amortization:									
Impairment losses on receivables	₱-	₱-	₱109,913	₱-	₱-	₱15,389	₱-	₱-	₱125,302

Other information on the Group's operating segment follows:

June 30, 2011							
Foods, Agro-Industrial and Commodities							
	Air Transportation	Tele- communications	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations
							Consolidated
Segment assets	₱52,140,403	₱92,381,299	₱55,050,931	₱14,109,118	₱28,105,172	₱157,648,958	₱342,605,243
Segment liabilities	₱24,992,473	₱92,189,768	₱25,276,813	₱16,189,826	₱23,319,854	₱87,025,383	₱182,992,495
Capital expenditures	₱1,783,693	₱2,755,870	₱4,445,037	₱2,637,864	₱65,493	₱16,518	₱16,509,182

  

June 30, 2010							
Foods, Agro-Industrial and Commodities							
	Air Transportation	Tele- communications	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations
							Consolidated
Segment assets	₱64,576,922	₱87,979,441	₱53,756,293	₱5,475,178	₱19,508,619	₱156,895,539	₱293,615,588
Segment liabilities	₱24,591,223	₱86,484,992	₱26,538,521	₱7,625,480	₱15,066,444	₱87,605,499	₱178,213,177
Capital expenditures	₱2,037,324	₱5,235,456	₱1,822,169	₱75,554	₱61,269	₱95,320	₱11,042,127

### Intersegment revenues

Intersegment revenues are eliminated at the consolidation level.

### Segment Results

Segment results pertain to the net income (loss) of each the operating segments adjusted by the subsequent take up of significant transactions of operating segments with fiscal year end and the capitalization of borrowing costs at the consolidated level for qualifying assets held by a certain subsidiary. The chief decision maker also uses the 'Core earnings', 'EBIT' and 'EBITDA' in measuring the performance of each the Group's operating segment. The Group defines each of the operating segment's 'Core earnings' as the total of the 'Operating income', 'Finance income' and 'Other revenue' deducted by the 'Finance cost and other charges'. EBIT is computed by reconciling the finance cost and other charges, provision for income tax to the net income attributable to equity holders of the Parent Company while EBITDA is computed by adding back to the EBIT the depreciation and amortization expenses during the period.

### Segment Assets

Segment assets are resources owned by each of the operating segments with the exclusion of intersegment balances, which are eliminated, and adjustment of significant transactions of operating segment with fiscal year end.

### Segment Liabilities

Segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated. The Group also reports to the chief operating decision maker the breakdown of the short-term and long-term debt of each of the operating segments.

### Capital Expenditures

The components of capital expenditures reported to the chief operating decision maker are the acquisitions of investment property and property plant and equipment during the period.

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## 7. Cash and Cash Equivalents

This account consists of:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 (Audited)
Cash on hand	<b>₱601,243</b>	₱783,768
Cash in banks	<b>16,113,553</b>	12,564,138
Cash equivalents	<b>22,753,774</b>	28,762,098
	<b>₱39,468,570</b>	<b>₱42,110,004</b>

Cash in bank earns interest at the respective bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.

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## 8. Derivative Financial Instruments

### *Derivatives not designated as accounting hedges*

The Group's derivatives not designated as accounting hedges include transactions to take positions for risk management purposes. Also included under this heading are any derivatives which do not meet PAS 39 hedging requirements.

- Interest rate swaps

On May 28, 2008, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of ₦2.0 billion to hedge its interest rate exposures on the Inverse Floating Rate Notes bearing an interest of 15.7% less 3-month (3M) benchmark rate (PDST-F). The interest rate swap has a term of five years and interest exchange is every 5<sup>th</sup> day of March, June, September and December. Under the agreement, the Group agreed with the counterparty to exchange at quarterly intervals, the Group's floating rate which is based on 3M PSDT-F but not to exceed 15.7% and the counterparty's fixed interest rates. The swap agreement effectively fixes the Group's interest rate exposures on the inverse floating note to 8.8%.

In 2010, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of US\$100.6 million to hedge its interest rate exposures on the long-term USD floating rate liability. The interest rate swap has a term of six years and interest exchange is every 28th day of June and 29th day of December.

- Commodity options

The Group entered into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a credit to or charge against profit or loss.

- Foreign currency forwards

The Group entered into short-term nondeliverable foreign currency forward contracts. The Group's short-term forwards have varying tenors ranging from one to three months.

- Currency options

The Group entered into currency options that are all due within one year from respective reporting dates.

- Embedded forwards

The Group has derivatives embedded in some of its contracts. Such derivatives pertain to embedded currency forwards noted in purchase, sales and service contracts, denominated in a currency which is not the functional currency of a substantial party to the contract or routine currency of the transaction for the contracts. The nonfinancial contracts consist mainly of foreign currency-denominated purchase orders with various expected delivery dates. The nonfinancial contracts have various expected delivery dates ranging from 12 to 40 months.

### *Derivatives designated as accounting hedges*

As part of its asset and liability management, the Group uses derivatives, particularly currency swaps and interest rate swaps, as cash flow hedges in order to reduce its exposure to market risks that is achieved by hedging portfolios of floating rate financial instruments.

The accounting treatment explained in Note 2 to the financial statements, *Hedge Accounting*, varies according to the nature of the hedged item and compliance with the hedge criteria. Hedges entered into by the Group which provide economic hedges but do not meet the hedge accounting criteria are included under derivatives not designated as accounting hedges.

- **Interest rate swaps**  
On April 23, 2008 and May 9, 2008, the Group entered into two interest rate swaps with amortizing notional amount of US\$100.0 million each. The swaps are intended to hedge the interest rate exposure due to the movements in the benchmark LIBOR on \$200.0 million of the \$300.0 million Guaranteed Term Loan Facility due 2013. Under the swaps, the Group pays fixed and receives LIBOR every interest payment date (every June 16 and December 16). The effectivity of both swaps is on June 16, 2008 and maturity date is on June 16, 2013. The terms of the swaps (i.e., benchmark rate, notional amount, fixing dates and maturity date) coincide with the hedged loan.
- **Currency swaps**  
On January 27, 2010, July 16, 2009 and June 11, 2008, RSBC entered into a long-term currency swap agreements to hedge the foreign exchange risk on 100.00% of certain AFS investments. Under these agreements, RSBC effectively swaps the principal amount and interest from certain US dollar-denominated AFS investments into Philippine peso-denominated cash inflows of principal and interest to be received up to February 15, 2011 and February 15, 2013, respectively.

#### Hedge Effectiveness Results

The distinction of the results of hedge accounting into “Effective” or “Ineffective” represent designations based on PAS 39 and are not necessarily reflective of the economic effectiveness of the instruments.

The net changes in fair value of derivatives taken to profit or loss are included under ‘Market valuation gain (loss) on derivative financial instruments’ in the consolidated statements of comprehensive income.

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## 9. Financial Assets at Fair Value through Profit or Loss

These investments that are held for trading consist of:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 (Audited)
Debt securities:		
Private	<b>₱7,690,103</b>	₱6,528,896
Government	<b>1,273,193</b>	1,289,922
	<b>8,963,296</b>	7,818,818
Equity securities:		
Quoted	<b>2,681,086</b>	2,440,001
Unquoted	<b>5</b>	4
	<b>2,681,091</b>	2,440,005
	<b>₱11,644,387</b>	₱10,258,823

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## 10. Available-for-Sale Investments

This account consists of investments in:

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Debt securities:		
Government	₱6,679,564	₱4,775,866
Private	3,148,431	3,695,869
	<b>9,827,995</b>	<b>8,471,735</b>
Equity securities:		
Quoted	1,154,263	1,168,563
Unquoted	210,688	210,598
	<b>1,364,951</b>	<b>1,379,161</b>
	<b>₱11,192,946</b>	<b>₱9,850,896</b>

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## 11. Receivables

This account consists of:

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Trade receivables	₱11,915,236	₱12,035,940
Finance receivables	13,083,384	10,198,213
Due from related parties (Note 21)	2,279,889	2,226,814
Interest receivable	725,860	711,404
Other receivables	2,379,151	2,465,741
	<b>30,383,520</b>	<b>27,638,112</b>
Less allowance for impairment losses	2,289,495	3,011,614
	<b>₱28,094,025</b>	<b>₱24,626,498</b>

Total receivables shown in the consolidated statements of financial position follow:

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Current portion	₱16,329,535	₱14,609,814
Noncurrent portion	11,764,490	10,016,684
	<b>₱28,094,025</b>	<b>₱24,626,498</b>

### Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group. These are collectible in monthly installments over a period of between one year to five years.

Other trade receivables are noninterest-bearing and generally have 30 to 90-day terms.

### Finance Receivables

Finance receivables represent receivables from customers of RSBC and RBC.

### Others

Other receivables include claims receivables, creditable withholding tax and dividends receivables.

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## 12. Inventories

This account consists of inventories held as follows:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 <b>(Audited)</b>
At cost:		
Raw materials	<b>₱3,552,950</b>	₱2,968,664
Finished goods	<b>3,480,428</b>	2,594,613
	<b>7,033,378</b>	5,563,277
At NRV:		
Subdivision land, condominium and residential units for sale	<b>7,661,247</b>	6,197,308
Spare parts, packaging materials and other supplies	<b>3,595,027</b>	3,166,756
Work-in-process	<b>189,946</b>	123,325
By-products	<b>30,222</b>	34,418
	<b>11,476,442</b>	9,521,807
Materials in-transit	<b>998,941</b>	1,227,970
	<b>₱19,508,761</b>	₱16,313,054

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## 13. Other Current Assets

This account consists of:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 <b>(Audited)</b>
Input VAT - net	<b>₱4,335,203</b>	₱4,734,149
Prepaid expenses	<b>1,183,450</b>	870,463
Advances to suppliers	<b>1,020,912</b>	622,669
Restricted cash in bank	<b>60</b>	21,967
Others	<b>16,574</b>	14,192
	<b>₱6,556,199</b>	₱6,263,440

Restricted cash pertains to cash in bank being held as collateral by the counterparty in relation to the Group's existing derivative transactions. These amounts are not immediately available for use in the Group's operations. The amount of cash to be reserved is determined based on the fair value of the derivative on the date of valuation.

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#### 14. Other Noncurrent Assets

This account consists of:

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Deferred subscriber acquisition and retention costs	P1,436,669	P1,454,925
Security and miscellaneous deposits	929,813	581,938
Deferred tax assets	232,656	231,358
Pension assets	27,905	77,905
Others	1,012,324	1,247,421
	<b>P3,639,367</b>	<b>P3,593,547</b>

##### Others

Others include repossessed chattels and utility deposits.

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#### 15. Accounts Payable and Accrued Expenses

This account consists of:

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Accrued expenses	P11,737,441	P10,296,588
Trade payables	9,545,861	8,451,724
Deposit liabilities	10,821,755	8,561,960
Due to related parties	360,081	532,241
Withholding taxes payable	465,255	358,996
Output value added tax	352,733	265,530
Dividends payable	8,705	7,569
Other payables	3,346,982	1,782,918
	<b>P36,638,813</b>	<b>P30,257,526</b>

##### Trade Payables

Trade payables are noninterest-bearing and are normally settled on 30- to 60-day terms. Trade payables arise mostly from purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations. Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts. Obligations arising from purchase of inventories necessary for the daily operations and maintenance of aircraft which include aviation fuel, expendables and consumables, equipment and in-flight supplies are also charged to this account.

##### Deposit Liabilities

Deposit liabilities represent the savings, demand and time deposit liabilities of RSBC and RBC.

##### Other Payables

Other payables mostly consists of management bonus, royalty payables and airport and other related fees.



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## 16. Other Current Liabilities

This account consists of:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 <b>(Audited)</b>
Unearned revenue	<b>₱5,652,437</b>	₱5,295,751
Deposits from real estate buyers and lessees	<b>2,416,167</b>	1,515,193
	<b>₱8,068,604</b>	<b>₱6,810,944</b>

### Unearned Revenue

The unearned revenue account includes the Group's (a) unearned air transportation revenue and (b) unearned telecommunications revenue.

#### *Unearned transportation revenue*

Passenger ticket and cargo waybill sales are initially recorded under 'Unearned revenue' in the consolidated statements of financial position, until these are recognized under 'Air transportation revenue' in the statement of comprehensive income, when the transportation service is rendered by the Group (or once tickets are flown).

#### *Unearned telecommunications revenue*

Unearned telecommunications revenue represents the unused/unexpired airtime value of prepaid cards and over-the-air reload services sold. Proceeds from sale of prepaid cards and airtime values through the over-the-air reloading services are initially recognized as unearned revenue by the Group. Revenue is recognized upon the actual usage of the airtime value of the card, net of free service allocation. The unused value of prepaid card is likewise recognized as revenue upon expiration.

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## 17. Short-term and Long-term Debt

### Short-term Debt

Short-term debt consists of:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 <b>(Audited)</b>
Parent Company:		
Philippine Peso - with interest rate of nil in June 30, 2011 and 3.0% in December 31, 2010	<b>₱-</b>	₱679,400
Subsidiaries:		
Foreign currencies - with interest rates ranging from 0.4% to 2.5% in June 30, 2011 and 0.3% to 2.5% in December 31, 2010	<b>17,221,272</b>	14,535,146
Philippine Peso - with interest rates ranging from 3.5% to 4.0% in June 30, 2011 and 4.5% to 5.6% in December 31, 2010	<b>137,500</b>	137,500
	<b>17,358,772</b>	14,672,646
	<b>₱17,358,772</b>	<b>₱15,352,046</b>

## Long-term Debt

Long-term debt (net of debt issuance costs) consists of:

	Maturities	Interest Rates	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
<b>Parent Company:</b>				
Bayerische HypoVereinsbank AG (HypoVereinsbank) loan				
	2011	3.72%	<b>₱185,532</b>	₱375,432
	2010	USD LIBOR + 0.625%	—	—
Fixed Rate Corporate Notes	2013	8.00%	<b>4,290,312</b>	4,286,316
Fixed Rate Retail Bonds	2014	8.25%	<b>8,923,125</b>	8,913,512
			<b>13,398,969</b>	13,575,260
<b>Subsidiaries:</b>				
Foreign currencies:				
JGSPL				
US\$300.0 million guaranteed term loan facility	2013	USD LIBOR + 2.45%	<b>9,267,943</b>	13,079,545
US\$300.0 million guaranteed notes	2013	8.00%	<b>11,072,263</b>	11,078,059
URCPL				
US\$200.0 million guaranteed notes	2012	8.25%	<b>8,129,155</b>	8,215,279
Digitel				
Zero-coupon convertible bonds	2013	12.00%	<b>₱2,359</b>	₱2,312
Term loan facilities	Various dates through 2015	USD LIBOR + 0.30% to 2.70%	<b>13,877,890</b>	15,261,864
CAI				
Commercial loan from foreign banks	Various dates through 2017	4.11% to 5.67% in 2009, 3.95% to 6.66% in 2008 and 4.89% to 5.83% in 2007	<b>2,438,362</b>	2,652,019
ECA loans (Note 17)	Various dates through 2018	3.37% to 5.83% in 2009, 3.78% to 5.83% in 2008 and 4.89% to 5.83% in 2007	<b>16,191,752</b>	15,780,690
			<b>60,979,724</b>	66,069,768
<b>Philippine Peso:</b>				
URC				
₱3.0 billion loan facility	2014	8.75%	<b>2,981,960</b>	2,977,964
Philippine Sugar Corporation restructured loan	2013	7.50%	<b>25,704</b>	33,106
Digitel				
Term loan facilities	2016	5.05% and 5.26%	<b>1,595,057</b>	-
RLC				
₱3.0 billion loan facility	2012	6.38%	<b>3,000,000</b>	3,000,000
₱2.0 billion bonds	2013	15.70% - PDST-F rate	<b>2,000,000</b>	2,000,000
₱5.0 billion loan facility	2014	8.50%	<b>5,000,000</b>	5,000,000
₱5.0 billion loan facility	2014	8.25%	<b>5,000,000</b>	5,000,000
			<b>19,602,721</b>	18,011,070
			<b>80,582,445</b>	84,080,838
			<b>93,981,414</b>	97,656,098
Less current portion			<b>13,267,914</b>	10,602,054
			<b>₱80,713,500</b>	₱87,054,044

Except for the balances of subsidiaries reporting at September 30 fiscal year end, the foreign exchanges rates used to revalue the foreign currency borrowings were ₱43.33 to US\$1.00 and ₱43.84 to US\$1.00 in June 30, 2011 and December 31, 2010, respectively. The foreign exchange rates used by the subsidiaries reporting at fiscal year end were ₱43.39 to US\$1.00 and ₱43.88 to US\$1.00 in March 31, 2011 and September 30, 2010, respectively.

#### *Digitel Zero Coupon Convertible Bonds*

On December 8, 2003, Digitel issued zero coupon convertible bonds due 2013 (Digitel Bonds) with face value of US\$31.1 million and issue price of US\$10.0 million. Unless previously converted, cancelled or redeemed, the bonds are convertible into Digitel's common shares at ₱1 par value at the end of the tenth year after the issue date and are redeemable at the option of Digitel, in whole or in part, at the end of each year starting one year after the issue date and every year thereafter at the following redemption dates and values:

<u>Redemption Date</u>	<u>Redemption Value<sup>(a)</sup></u>
End of 1st year from issue date	US\$35.29
End of 2nd year from issue date	38.75
End of 3rd year from issue date	42.63
End of 4th year from issue date	46.97
End of 5th year from issue date	51.83
End of 6th year from issue date	57.28
End of 7th year from issue date	63.38
End of 8th year from issue date	70.21
End of 9th year from issue date	77.87
End of 10th year from issue date	86.44

<sup>(a)</sup>Per US\$100 of face value

Alternately, the bondholders will have the right to convert the Digitel bonds into common shares of Digitel at redemption date. The number of conversion shares to be received by the bondholders upon exercise of the conversion right is equivalent to the total redemption value which the bondholders would have received if the Digitel bonds were redeemed multiplied by the exchange rate for the relevant date divided by the ₱1.0 par value. Unless previously converted, purchased or cancelled or redeemed, the Digitel bonds shall be converted into the common shares of Digitel at the end of the tenth year of the issue date. In January 2006, the conversion options expired due to an amendment on the bond agreement.

The Parent Company subscribed and paid a total of \$9,996,392 for the bonds ("JGSHI-subscribed Bonds"). On January 3, 2006, Digitel entered into a Memorandum of Agreement (MOA) with the Parent Company to amend the conversion options of JGSHI-subscribed Bonds. On the said MOA, the conversion rights provided for in the terms and conditions of the Bonds as contained in the Application to Purchase and in the Prospectus, the Parent Company agreed that any conversion of its JGSHI-subscribed Bonds into Digitel shares shall be subjected to the consent of Digitel.

The Digitel bonds constitute direct, unconditional, unsubordinated and unsecured obligations of Digitel and shall at all times rank *pari passu* and without preference among themselves and at least equally with all other present and future unsubordinated, unsecured obligations of Digitel, except as may be preferred by virtue of mandatory provision of law.

The bondholders have the option, through a resolution approved by 75.0% of the face value of the bonds then outstanding, to require a lien on unencumbered assets of Digitel not subject to a dispute, valued at approximately US\$200,000, subject to the limitations, conditions and restrictions of a Mortgage Trust Indenture (MTI). The MTI will be administered by a security trustee appointed in compliance with the MTI.

#### *DCPL Bonds Due 2014*

In November 2004, Digitel Capital Philippines Ltd (DCPL), a subsidiary of Digitel, issued bonds to JGSPL due 2014 with face value of US\$590.1 million and issue price of US\$190.0 million. The proceeds of the bonds were used for Digitel's expansion projects. The issuance of DCPL

Bonds was approved by Digitel's shareholders in its special stockholders' meeting held on May 28, 2001. The subscription of DCPL Bonds was also approved by the Parent Company's BOD on December 5, 2003, which was ratified by the Parent Company's shareholders in its meeting held on July 22, 2004. This transaction being among entities under common control has been agreed by the Parent Company, DCPL and JGSPL, as an equity transaction.

The DCPL Bonds bear a yield-to-maturity of 12%. The DCPL Bonds are exchangeable into shares of the Parent Company, and are redeemable at the option of DCPL, in whole or in part, starting one (1) year after the issue date and every year thereafter. Alternately, the bondholder will have the right to convert the DCPL Bonds into common shares of the Parent Company at redemption date. The number of conversion shares to be received by the bondholders upon exercise of the conversion right is equivalent to the total redemption value which the bondholders would have received if the DCPL Bonds were redeemed multiplied by the Philippine Peso-US Dollar exchange rate for the relevant date divided by the ₱1 par value.

In order to exercise the conversion or exchange, the holder must submit to DCPL, with a copy to the Parent Company, a duly completed and executed Exchange Notice. DCPL and the Parent Company shall respectively transmit in writing to the subscriber/holder their consent or objection, within three (3) days from their respective receipt of the Exchange Notice.

Certain loan agreements contain provisions which, among others, require the maintenance of specified financial ratios at certain levels and impose negative covenants which, among others, prohibit a merger or consolidation with other entities, dissolution, liquidation or winding-up except with any of its subsidiaries; and prohibit the purchase or redemption of any issued shares or reduction of registered and paid-up capital or distribution of assets resulting in capital base impairment.

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## 18. Other Noncurrent Liabilities

This account consists of:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 (Audited)
Accrued project costs	<b>₱10,875,060</b>	₱10,708,408
Deposits from real estate buyers and lessees	<b>2,152,140</b>	2,857,766
ARO	<b>2,707,219</b>	2,572,134
Deposit liabilities	<b>2,049,220</b>	1,187,555
Accrued maintenance cost	<b>923,451</b>	923,452
Due to related parties	<b>943,139</b>	920,295
Derivative liabilities	<b>393,187</b>	546,764
Pension liabilities	<b>707,414</b>	543,272
Others	<b>808,301</b>	745,817
	<b>₱21,559,131</b>	21,005,463

### Accrued Project Costs

Accrued project costs represent costs of unbilled materials, equipment and labor relating to telecommunications projects which are already eligible for capitalization. The determination of costs to be capitalized is based on the contract price multiplied by the percentage of shipped materials and/or delivered services.

#### Deposits from Real Estate Buyers and Lessees

Deposits from lessees represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of lease term.

In addition, 'Deposits from real estate buyers' represent cash received from buyers which shall be applied against the total contract price of the subdivision land, condominium and residential units that are for sale. The deposits from buyers are normally applied against the total contract price within a year from the date the deposits were made.

Included in 'Deposits from real estate buyers and lessees' account are cash collections in excess of the receivables recognized under the percentage-of-completion.

#### ARO

The Group is legally required under certain leased property and lease contracts to restore certain leased passenger aircraft and leased properties to stipulated return conditions and to bear the costs of restoration such as dismantling and deinstallation at the end of the contract period. These costs are accrued based on an internal estimate made by the work of both third party and Group's engineer which includes estimates of certain redelivery costs at the end of the operating lease.

#### Accrued Maintenance

This account pertains mostly to accrual of maintenance cost of aircraft based on the number of flying hours but will be settled beyond one year based on management's assessment.

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## 19. Equity

Details of the Group common stock follow:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 (Audited)
Authorized shares	<b>12,850,800,000</b>	12,850,800,000
Par value per share	<b>₱1.00</b>	₱1.00
Issued shares	<b>6,895,273,657</b>	6,895,273,657
Outstanding shares	<b>6,739,528,227</b>	6,739,528,227
Treasury shares	<b>155,745,430</b>	155,745,430

#### Increase in Authorized Capital Stock

On December 9, 2010, the following resolutions were passed by the Parent Company's BOD.

- Approval of the proposed equity fund raising of the Parent Company
- The BOD be authorized to determine the final terms and conditions and implement the placing and subscription transaction.
- Increase in authorized capital of the Parent Company from 14,850,800,000 divided into 12,850,800,000 common shares and 2,000,000,000 preferred shares, both with a par value of 1.0 per share to 14,890,800,000 divided into 12,850,800,000 common shares and 2,000,000,000 preferred shares (Preferred non-voting shares), both with a par value of 1.0 per share and 4,000,000,000 preferred shares voting shares (Preferred Voting shares) with a par value of one centavo per share.

- Approval of the creation of the Preferred Non-Voting shares referred to above which shall have preferences, privileges and voting power as set forth below
- Subject to the approval of the Securities and Exchange Commission, the amendment of the Articles of Incorporation to reflect the increase in authorized capital stock of the Parent Company and the creation of the Preferred Voting Shares and its preferences, privileges and voting powers
- The BOD is authorized to determine the final terms and conditions and implement any transaction in connection with the foregoing resolutions without the necessity of obtaining further approval from the stockholders.

The foregoing BOD resolutions were approved by the stockholders in its meeting held on January 27, 2011.

On July 26, 2011, the Securities and Exchange Commission (SEC) approved the Parent Company's increase in authorized capital stock.

#### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

The Group monitors its use of capital structure using a debt-to-capital ratio which is gross debt divided by total capital. The Group includes within gross debt all interest-bearing loans and borrowings and derivative liabilities, while capital represents total equity.

The Group's computation of debt-to-capital ratio follows:

	<b>June 30, 2011</b> <b>(Unaudited)</b>	December 31, 2010 (Audited)
(a) Gross debt		
Short-term debt (Note 24)	<b>₱17,358,772</b>	₱15,352,046
Long-term debt (Note 24)	<b>93,981,414</b>	97,656,098
Derivative liabilities (Note 8)	<b>646,054</b>	809,158
	<b>₱111,986,240</b>	₱113,817,302
(b) Capital	<b>₱159,612,748</b>	₱149,460,397
(c) Debt-to-capital ratio (a/b)	<b>0.70:1</b>	0.76:1

The Group's policy is to ensure that the debt-to-capital ratio would not exceed the 2:1 level.

#### **20. Earnings (Loss) Per Share**

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the year attributable to equity holders of the Parent Company divided by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

The following table reflects the net income (loss) and share data used in the basic/dilutive EPS computations:

	<b>June 30, 2011</b>	June 30, 2010
Net income (loss) applicable to equity holders of the Parent Company	<b>₱5,976,139</b>	₱8,102,882
Weighted average number of common shares	<b>6,739,528</b>	6,797,192
Basic/dilutive earnings (loss) per share	<b>₱0.89</b>	₱1.19

There were no potential dilutive common shares in 2011 and 2010.

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## 21. Related Party Transactions

The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries to the consolidated financial statements. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries. Certain advances are treated as loans and are charged with interest. The Group has entered into transactions with associates and other related parties principally consisting of sales, purchases, advances and reimbursement of expenses, regular banking transactions and management and administrative service agreements.

Most of the intercompany transactions between the Parent Company and its subsidiaries are eliminated in the accompanying consolidated financial statements.

Related party transactions which are not eliminated follow:

	<b>June 30, 2011</b>	December 31, 2010
	<b>(Unaudited)</b>	(Audited)
Due from related parties	<b>₱2,279,889</b>	₱2,226,814
Due to related parties	<b>1,303,220</b>	1,452,536

### *Terms and conditions of transactions with related parties*

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

### *Compensation of key management personnel*

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plans.

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## 22. Merger

- a. On May 27, 2011, the SEC approved the merger of LMI, JGCC and PPCI (Absorbed Corporations) with and into the Parent Company.

No Parent Company shares were issued in exchange for the net assets of the Absorbed Corporations considering that all of them are wholly owned subsidiaries of the Parent Company and any Parent Company shares will just be issued to the Parent Company itself and said shares will be considered as treasury shares.

- b. On May 25, 2011 the SEC approved the merger of RSBC and RBC. RBC, having the commercial banking license, is now the surviving entity.

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### 23. Sale of Digitel

- a. On March 29, 2011, the Parent Company and certain related parties executed a sale and purchase agreement with Philippine Long Distance Telephone Company (PLDT) under which PLDT has agreed to purchase all the rights, title and interest in the assets of DTPI as follows:
  - i. 3,277,135,882 common shares of DTPI, representing approximately 51.55% equity share in DTPI;
  - ii. zero coupon convertible bonds due 2013 and 2014 issued by DTPI and its subsidiary to the Parent Company and its offshore subsidiary which are convertible into approximately 18.6 billion shares of DTPI at June 30, 201; and
  - iii. intercompany advances of ₱34.1 billion made by the the Parent Company and an offshore subsidiary to DTPI and Subsidiaries.

The Group expects to receive 27,679,210 number of common shares of PLDT in exchange of the above assets.

The completion of the acquisition will be subject to the procurement of certain regulatory and other approvals, including; (i) the approval by the NTC of the sale or transfer of the Parent Company and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stock; (ii) the approval by the Philippine SEC of the valuation of the Assets; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to the Parent Company and the other seller-parties is exempt from the registration requirement of the SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the common stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the Assets and the Digitel shares which shall have been tendered pursuant to the tender offer. In addition, the sale of the Digitel shares owned by the seller-parties is subject to the consent of certain creditors of Digitel and DMPI.

The transaction which was initially intended to be completed by the end of the second quarter of 2011 was extended to August 26, 2011. The parties are still awaiting the approvals of various regulatory agencies.

The resulting gain from the transaction will be recorded as the difference of the fair value of the PLDT common shares and the carrying value of the DTPI assets on the closing date, which is expected to be on August 26, 2011.

Management is of the opinion that the financial effects of the transaction cannot be reasonably estimated as of the reporting date as necessary regulatory approvals are yet to be obtained.