

# COVER SHEET

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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)

<b>Constante T. Santos</b>
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(Contact Person)

<b>633-7631</b>
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(Company Telephone Number)

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Month    Day  
(Fiscal Year)

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(Form Type)

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Month    Day  
(Annual Meeting)

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

--

Total Amount of Borrowings

Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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File Number

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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 September 30, 2013
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

##### **Nine Months Ended September 30, 2013 vs. September 30, 2012**

JG Summit posted Core Earnings before tax of ₱17.79 billion for the nine months ended September 30, 2013, a 20.1% increase from ₱14.82 billion for the same period last year. The Group's EBITDA reached ₱25.89 billion, a 17.4% increase compared to the same period last year. Net income from equity holders of the parent for the third quarter of 2013, however, amounted to ₱3.24 billion bringing our net income for the nine-months ended September 30, 2013 to ₱8.41 billion from ₱10.76 billion for the same period in 2012. The 21.8% decrease is mainly due to the depreciation of peso during the period as the Company recorded a ₱2.85 billion foreign exchange loss compared to a foreign exchange gain of ₱1.22 billion for the same period last year. Likewise, market valuation gains this period have been minimal due to volatility in international capital markets.

Consolidated revenues were up 9.4% from ₱101.37 billion to ₱110.90 billion due to the strong performance of all business units, except for our Petrochemical business. Revenues from our core businesses and the consistent dividend income generated from our core investments were major contributors to the increased revenues for the nine-month period. There is also a significant increase in trading gain and slight growth in interest income that came from bank revenues. However, Petrochem's revenue dropped 76.1% from ₱4.06 billion for the nine months of fiscal 2012 to only ₱0.97 billion for the same period this year. This is due to the technical shutdown of production since the start of its fiscal year in October 2012 in preparation for the naphtha cracker operations expected to commence in April 2014. Equity in net earnings of associates increased from ₱1.35 billion for nine months of 2012 to ₱1.45 billion in nine months of 2013.

Consolidated cost of sales and services for the nine months of the year slightly increased 5.1% from ₱69.65 billion last year to ₱73.18 billion relatively lower than the revenue growth since (1) aviation fuel expenses incurred by our airline business increased 9.4% due to lower average fuel rate in 2013, (2) a 24% drop in the bank's interest expense due to lower average interest rates (3) lower production of Petrochem.

Consolidated operating expenses increased 18.6% as a result of higher selling and distribution expenses in our food business, particularly on advertising and promotions and freight and delivery charges. Operating expenses in the airline business also went up relative to its increased operations. Impairment losses increased from ₱31.13 million to ₱90.56 million as the bank provided higher impairment loss on its receivables during the period.

Mark-to-market gains recognized during the nine months of fiscal 2013 amounted to only ₱74.72 million, a 94.5% drop from last year's balance of ₱1.36 billion as market values of the Group's financial assets during the period declined significantly due to lower bond and equity prices caused by the volatility of the international financial markets.

The Group recognized a net foreign exchange loss of ₱2.85 billion for the nine months of the year, a complete turn-around from last year's net foreign exchange gain of ₱1.22 billion due mainly to higher translated value of the foreign currency denominated net liabilities as a result of continuous depreciation of Philippine Peso during the period.

Finance income for the nine-month period this year have declined from ₱1.96 billion to ₱1.43 billion due to low interest earned from our cash and other interest-bearing investments resulting from cuts in interest rates.

Financing costs and other charges recorded for the nine months of 2013 decreased 4.4% from ₱3.13 billion to only ₱2.99 billion as interest rates this year are lower as compared to last year. The impact of reduced interest rates, however, has been tempered due to increase in level of finance debt during the period.

Other income – net account consists of commission income, rental income and gain on sale of assets among others. The increase from ₱314 million last year to ₱668 million this year in the same period is brought about by higher commission income from our insurance brokering business plus higher rental income.

Provision for income tax for the nine months of 2013 decreased by 12.8% to ₱1.68 billion from last year's ₱1.93 billion. The provision for income tax pertaining to current income tax increased due to higher taxable income; however, this was offset by the benefit from deferred tax recognized.

## **FOODS**

**Universal Robina Corporation (URC)** generated a consolidated sale of goods and services of ₱60.09 billion for the nine months ended June 30, 2013, 13.3% sales growth over the same period last year. Sale of goods and services by business segment follows: (1) URC's BCFG (excluding packaging) increased by ₱6.52 billion or 16.2% to ₱46.81 billion for the nine months of fiscal 2013 from ₱40.29 billion registered in the same period last year. BCFG domestic operations posted a 22.4% increase in net sales from ₱25.22 billion for the nine months of fiscal 2012 to ₱30.87 billion in the same period this year due to strong performance of its beverage division which grew 69.8% on the back of sustained growth of the coffee business and a strong start of the RTD tea business for the current fiscal year. RTD tea growth was mainly due to URC's move to open up the 230ml SKU to the key accounts. BCFG international sales slightly increased to ₱15.94 billion for the nine months of fiscal 2013 against ₱15.07 billion in the same period last year. In US Dollar terms, sales registered an increase of 10.5% from US\$350 million to US\$387 million due to increase in sales volume by 13.2%. This was supported by higher revenues from Vietnam, Indonesia and China. Vietnam the biggest contributor, has contributed 44.7% of total international sales in dollar terms due to continued growth in RTD tea (C2) and energy drink (Rong Do) offerings. Indonesia also grew sales with its salty snacks and RTD beverage, which continuous to gain traction on the back of improved distribution structure. Sales in URC's packaging division went down by 40.1% to ₱841 million for the nine months of fiscal 2013 from ₱1.40 billion recorded in the same period last year due to decline in sales prices and volume. (2) URC's AIG recorded net sales of ₱5.58 billion for the nine months of fiscal 2013, a 2.1% increase from ₱5.46 billion in the same period last year. URC's feed business decreased by 16.9% to ₱2.28 billion due to decrease in sales volume as a result of relatively lower population from the backyard hog raisers as some of the exited during the time of low pork prices last year. Farms business increased by 21.4% to ₱3.30 billion due to increase in selling prices. (3) URC's CFG revenues amounted to ₱6.86 billion for the nine months of fiscal 2013, up by 16.5% from ₱5.89 billion reported in the same period last year primarily due to 42.2% growth in net sales of sugar business as a result of increase in sales volume as the milling season started early this year and volume contribution coming from the new mill, Tolong. Flour business declined by 5.8% due to lower sales volume brought about by increase in supply of imported low-cost flour in the market and calamities that affected Visayas and Mindanao regions.

URC's cost of sales increased by ₱3.39 billion or 8.6% to ₱42.81 billion for the nine months of fiscal

2013 from ₱39.42 billion recorded in the same period last year due to increase in sales volume. URC's gross profit for the nine months of fiscal 2013 amounted to ₱17.28 billion up by 26.8% from ₱13.63 billion reported in the same period last year. Gross profit margin increased by 307 basis points from 25.7% to 28.8% for the nine months of fiscal 2013. Operating expenses rose by ₱1.80 billion or 22.9% to ₱9.65 billion for the nine months of fiscal 2013 from ₱7.85 billion registered in the same period last year. The increase was due to the following factors: 26.6% increase in advertising and promotion costs to ₱3.68 billion for the nine months of fiscal 2013 from ₱2.91 billion in the same period last year to support the new SKUs launched and boost up sales of existing products; 22.8% increase in freight and delivery charges due to increase in trucking and shipping costs associated with increased volume; and 14.6% increase in compensation and benefits due to annual salary adjustments and accrual of personnel benefits. As a result of the above factors, operating income increased by 32.1% to ₱7.64 billion from ₱5.78 billion for the nine months of fiscal 2012.

Market valuation gain on financial instruments at FVPL decreased by 47.3% to ₱544 million for the nine months of fiscal 2013 from ₱1.03 billion in the same period last year due to decline in level of bond and equity investments as a result of disposals. Finance revenue decreased by 46.2% to ₱488 million for the nine months of fiscal 2013 from ₱908 million in the same period last year due to decrease in interest income from bond and equity investments. Finance costs decreased by ₱328 million to ₱224 million for the nine months of fiscal 2013 from ₱552 million recorded in the same period last year due to decline in level of short-term debts and settlement of long-term debt. Foreign exchange gain - net amounted to ₱102 million for the nine months of fiscal 2013, a complete turn around from foreign exchange loss – net of ₱425 million reported in the same period of fiscal 2012 due to unrealized foreign exchange gain on translation of foreign currency denominated net assets as a result of depreciation of Philippine peso vis-à-vis US dollar. Other income - net increased to ₱881 million for the nine months of fiscal 2013 as against ₱33 million in the same period last year due to gain on sale of investments this year.

URC's provision for income tax of ₱951 million for the nine months of fiscal 2013, a 56.7% increase from ₱607 million in the same period last year due to higher taxable income.

URC's net income attributable to equity holders of the parent increased by ₱2.70 billion to ₱8.44 billion for the nine months of fiscal 2013 from ₱5.75 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) for the nine months of fiscal 2013 amounted to ₱8.80 billion, an increase of 43.6% from ₱6.13 billion reported in the same period last year.

URC reported an EBITDA (operating income plus depreciation, amortization) of ₱10.20 billion for the nine months of fiscal 2013, 22.8% higher than ₱8.31 billion posted in the same period last year.

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 ₱3.65 billion for the nine months ended June 30, 2013, an 8.8% increase compared with the same period last year. Likewise, EBIT and EBITDA went up by 18.1% and 17.4% to ₱4.53 billion and ₱6.38 billion, respectively. Real estate revenues were up by 24.3% to ₱11.25 billion against last year's ₱9.05 billion while hotel revenues went up by 11.8% to ₱1.15 billion. Interest income decreased by ₱310.9 million or 73.9% due to lower cash levels, as RLC stepped up capital expenditures.

Commercial Centers Division contributed 44% or ₱5.47 billion of the gross revenues posting a 15.7% growth. Metro Manila malls led by Robinsons Galleria and Robinsons Place, Manila contributed to the growth while most provincial malls also posted decent growth in rental revenues. Amusement revenue went up by 28.9% to ₱782.7 million.

RLC's Residential Division contributed 38% or ₱4.71 billion of RLC's revenues up by 42.8% from last year's ₱3.30 billion. Its EBIT and EBITDA increased by 52.9% and 51.1%, respectively brought about by adopting a buyers' equity requirement closer to prevailing industry practice in recognizing realized sales based on percentage of construction completion.

The Office Buildings Division contributed 9% or ₱1.07 billion of RLC's revenues, up by 4.8% from last year's ₱1.02 billion. Lease income is derived from eight office buildings, Galleria Corporate Center, Robinsons Equitable Tower, Robinsons Summit Center, Robinsons Cybergate Centers Tower 1, 2 and 3, Cybergate Plaza and Cebu Cybergate.

The Hotels Division contributed 9% or ₱1.15 billion of RLC's revenues, up by 11.8% from last year due largely to a turnaround in Summit Circle Hotel's business.

Real Estate cost went up by 30.4% due to higher cost of realized real estate sales and film rentals, among others. Hotel expenses are up by 7.7% due to increase in utilities and depreciation. General and administrative expenses went up by 24.9% because of higher commissions, advertising and promotions, salaries and taxes.

#### **AIR TRANSPORTATION**

**Cebu Air, Inc. (Cebu Pacific)** registered revenues of ₱30.58 billion for the nine months ended September 30, 2013, 9.7% higher than last year's ₱27.87 billion primarily due to the 11.6% growth in passenger volume to 10.9 million from 9.8 million last year driven by the increased number of flights in 2013. Number of flights went up by 7.5% YOY primarily as a result of the increase in the number of aircraft operated to 47 aircraft as of September 30, 2013 from 39 aircraft as of September 30, 2012. Cargo revenues grew by 8.1% to ₱1.88 billion from last year's ₱1.74 billion following the increase in volume and average freight charges of cargo transported in 2013. Moreover, ancillary revenues went up by 18.0% to ₱5.12 billion for the nine months ended September 30, 2013 from ₱4.34 billion posted in the same period last year consequent to the increase in passenger volume in 2013. Improved online bookings also contributed to the increase. Online bookings accounted for 58.1% of the total sales in the nine months ended September 30, 2013 compared to 50.4% last year.

Costs and operating expenses increased 8.0%, from ₱26.31 billion last year to ₱28.41 billion for the nine months ended September 30, 2013. Growth can be attributed to higher flying operations expenses from ₱15.0 billion incurred in the nine months ended September 30, 2012 to ₱16.01 billion in 2013. Aviation fuel expenses grew by 9.4% to ₱14.36 billion from ₱13.12 billion in 2012 consequent to the increase in the volume of fuel consumed relative to the increased number of flights; however this was partially offset by (1) reduction in aviation fuel prices as referenced by the decrease in the average published fuel MOPS price of U.S.\$122.59 per barrel in the nine months ended September 30, 2013 from U.S.\$126.88 average per barrel in the same period last year and by the (2) higher weighted average exchange rate of the Philippine peso against the U.S. dollar from ₱42.56 in 2012 to an average of ₱42.07 per U.S. dollar for the nine months ended September 30, 2013. Increase in flying operations expenses was also partially offset by lower premiums for aviation insurance in 2013.

Moreover, aircraft and traffic servicing, sales and reservation expenses and repairs and maintenance increased as a result of the overall increase in number of flights flown in 2013. Higher expenses were particularly attributable to more international flights operated for which airport and ground handling charges were generally higher compared to domestic flights. International flights increased by 9.2% year on year.

Passenger service expenses went up by 3.2% to ₱645.01 million for the nine months ended September 30, 2013 from ₱624.80 million posted for the nine months ended September 30, 2012. Additional cabin crew hired for the additional Airbus A320 and A330 aircraft acquired during the last quarter of 2012 and in 2013 mainly caused the increase. Increase in expenses was partially offset by lower premiums for passenger liability insurance and the strengthening of the Philippine peso against the U.S. dollar in 2013.

Depreciation and amortization expenses grew by 25.0% to ₱2.52 billion for the nine months ended September 30, 2013 consequent to the arrival of two Airbus A320 aircraft during the last quarter of 2012 and four Airbus A320 aircraft in 2013.

Aircraft and engine lease expenses moved up by 1.9% to ₱1.59 billion in the nine months ended September 30, 2013. Increase in aircraft lease was due to the delivery of two Airbus 330 aircraft under operating lease in 2013. Increase was partly reduced by the return of two leased Airbus A320 aircraft in 2012 and the effect of the appreciation of the Philippine peso against the U.S. dollar during the current period.

Interest income dropped by 42.1% for the nine months ended September 30, 2013 due to decrease in the balance of cash in bank and short-term placements YOY and lower interest rates.

Fuel hedging gains dropped to ₱132.0 million for the nine months ended September 30, 2013 from ₱271.26 million as a result of lower mark-to-market valuation on fuel hedging positions consequent to the decrease in fuel prices in 2013.

Net foreign exchange losses of ₱1.53 billion for the nine months ended September 30, 2013 resulted from the depreciation of the Philippine peso against the U.S. dollar as referenced by the weakening of the Philippine peso to ₱43.54 per U.S. dollar for the nine months ended September 30, 2013 from ₱41.05 per U.S. dollar for the twelve months ended December 31, 2012 based on PDEX closing rates. Cebu Pacific's major exposure to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Benefit income tax for the nine months ended September 30, 2013 amounted to ₱251.49 million, of which, ₱32.50 million pertains to current income tax recognized as a result of the taxable income in 2013. Benefit from deferred income tax amounted to ₱283.99 million resulting from the recognition of deferred tax assets on future taxable amounts during the period.

Net income for the nine months ended September 30, 2013 amounted to ₱664.08 million, a decline of 70.8% from ₱2.27 billion for the same period last year.

#### **PETROCHEMICALS**

**JG Summit Petrochemicals Corporation's (JGSPC)** revenue for the first nine months of fiscal year 2013 amounted to ₱1.13 billion, a 73.0% decrease from last year's ₱4.20 billion as a result of the unavailability of goods to sell. This is due to the technical shutdown of the production since the start of the fiscal year in October 2012. The shutdown is necessary for the full implementation of the on-going PE Capacity Expansion and PP Rehabilitation Projects. The sales volume dropped from 67,125 MT last year to 18,088 MT this year. Costs and expenses for the period amounted to ₱1.87 billion, a 57.5% decrease from last year's ₱4.40 billion relative to non-production. A net foreign exchange gain of ₱5.18 million was recognized for the nine months of 2013, a decrease from last year's ₱68.69 million. All these contributed to the significant increase in net loss for the nine months of fiscal 2013, which amounted to ₱804.38 million.

#### **BANK**

**Robinsons Bank Corp.** recognized net income of ₱427.83 million for the first nine months ended September 30, 2013 a 21.0% increase from last year's ₱353.51 million for the same period last year. Growth in net income is mainly due to higher revenues recorded during the period combined with the



revenues contributed by Legazpi Savings Bank acquired by Robinsons Bank Corp last December 2012, from ₱1.85 billion for the nine months period last year to ₱2.14 billion for the same period this year. Increase in revenues is mainly due to higher trading gain recorded for the period from ₱377.74million in 2012 to ₱451.24 million this year.

### **EQUITY EARNINGS**

Equity earnings from associated companies and joint ventures slightly increased by 7.4% to ₱1.45 billion for the nine months period ending September 30, 2013 from ₱1.35 billion for the same period last year. This can be attributed to UIC, which recorded a net income before fair value gain on investment properties of SGD 122.02 million for the nine months of 2013 compared to last year's SGD 117.26 million. Cebu Air's equity earnings from its joint ventures also contributed to the increase as it recorded a 37% growth during the period.

### **Financial Position**

#### **September 30, 2013 vs. December 31, 2012**

As of September 30, 2013, the Company's balance sheet remains healthy, with consolidated assets of ₱387.47 billion from ₱340.30 billion as of December 31, 2012. Current ratio stood at 1.39. The Company's indebtedness remained manageable with a gearing ratio of 0.48:1 and net debt to equity of 0.29:1 as of September 30, 2013.

Cash and cash equivalents totaled ₱28.43 billion as of September 30, 2013 higher by 44.3% from ₱19.70 billion as of December 31, 2012. The principal source of cash is from the Group's financing activities amounting to ₱12.52 billion, particularly from bond issuance amounting to ₱30.41 billion (US\$750 Million) in January 2013, offset by settlement of our loans, particularly the pre-termination of the ₱4.31 billion and ₱3.0 billion fixed rate peso notes which were originally due in September 2013 and March 2014, respectively. RLC also availed of a ₱1.4 billion short term loan to settle its ₱2.0 billion notes in June 2013. As of September 30, 2013, net cash used in investing activities amounted to ₱32.06 billion mainly for the Company's capital expenditure program. The Group's cash from operating activities amounted to ₱28.27 billion. Our financial assets, including those held at FVPL and available for sale investments, increased 10.5% from ₱71.59 billion as of December 31, 2012 to ₱79.09 billion as of September 30, 2013 due to acquisitions of FVPL and AFS investments by bank and an offshore company during the period. This increase would have been higher if not for the lower market valuation of the investments during the period.

Receivables, including noncurrent portion, slightly went up 4.5% from ₱30.68 billion as of December 31, 2012 to ₱32.06 billion as of September 30, 2013 due to higher trade receivables by our food and real estate businesses.

Derivative assets dropped 75.8% from ₱302.75 million in December 2012 to ₱73.42 million as of September 30, 2013. The decrease is related to lower balance of derivative asset of Cebu Pacific on its fuel hedges. In addition to this, derivative asset of RLC related to its interest rate-swap has been realized upon settlement of the loan related to this.

Investment properties amounted to ₱51.23 billion as of September 30, 2013, from ₱45.42 billion in December 31, 2012, increase is due to land acquisition of the real estate business.

Property, plant and equipment rose to ₱115.99 billion as of September 30, 2013, from ₱101.13 billion in December 31, 2012 mainly due to the on-going construction of Olefins, the on-going expansion project of Petrochem and acquisition of four Airbus A320 aircraft during the period.

Other noncurrent assets increased from ₱5.21 billion in December 31, 2012 to ₱11.86 billion as of September 30, 2013 due to a deposit of ₱4.4 billion made in relation to the acquisition of Manila

Electric Company (Meralco) shares. Higher level of input tax from the ongoing construction of the JG Olefins naphtha cracker plant also contributed to the increase.

Accounts payable and accrued expenses increased 31.7% from ₱37.62 billion as of year-end 2012 to ₱49.53 billion mainly due to higher level of deposit liabilities of the bank business which increased by ₱10.63 billion. In addition, accrued expenses for the period is also higher mostly from accrual of advertising and promotions expense.

Short-term debt decreased 29.2% from ₱19.40 billion as of December 31, 2012 to ₱13.74 billion as of September 30, 2013 due to settlement of short-term loans of the food business and offshore companies.

No balance on derivative liability as of September 30, 2013 from ₱41.18 million as of December 31, 2012 after settlement of a certain offshore company's bonds with interest rate-swap feature.

Income tax payable increased 55.8% to ₱981.70 million as of September 30, 2013 from ₱630.20 million in December 31, 2012 mainly due to higher income tax payable recorded by the food business.

Other current liabilities dropped 9.1% to ₱7.69 billion in September 2013 due to return of deposit from foreign carriers of airline business in January 2013 and lower balance of unearned revenues of airlines because of decline in forward bookings during the period.

Long-term debt, including current portion, increased 44.0% from ₱61.68 billion as of December 31, 2012 to ₱88.79 billion as of September 30, 2013 due to availment of US\$250 million loan and issuance of US\$750 million bond by an offshore company, partially offset by early settlement of Parent Company and URC's ₱4.3B and ₱3B loans, respectively. RLC also settled its maturing ₱2B loan during the period.

Deferred income tax liabilities decreased 16.0% from ₱2.0 billion as of December 31, 2012 to ₱1.68 billion as of September 30, 2013 due to decline on the deferred tax on future taxable amount on unrealized foreign exchange gain of our airline business.

Equity attributable to equity holders of the parent grew to ₱169.83 billion as of September 30, 2013 from ₱155.27 billion at the end of 2012. Book value per share improved from ₱22.84 per share as of December 31, 2012 to ₱24.98 per share as of September 30, 2013.

### **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 September 30, 2013 and December 31, 2012 and for the nine months ended September 30, 2013 and 2012:

<b>Key Financial Indicators</b>	<b>2013</b>	<b>2012</b>
Revenues	P110,903 million	P101,373 million
EBIT	P18,690 million	P15,680 million
EBITDA	P25,887 million	P22,046 million
Core Earnings before tax	P17,792 million	P14,820 million

Liquidity ratio:		
Current ratio	1.39	1.10
Solvency ratios:		
Gearing ratio	0.48	0.41
Net debt to equity ratio	0.29	0.20
Asset-to-equity ratio	1.80	1.71
Interest rate coverage ratio	8.65	7.04
Profitability ratio:		
Operating margin	0.17	0.15
Book value per share	24.98	22.84

The manner by which the Company calculates the above key performance indicators for both period-end 2013 and 2012 is as follows:

Key Financial Indicators		
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
Core Earnings before tax	=	Operating income less financing costs and other charges plus finance income and other income
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
Asset-to-equity ratio	=	Total Assets over Total Equity
Interest rate coverage ratio	=	EBITDA over Interest Expense
Operating Margin	=	Operating Income over Revenue
Book value per share	=	Stockholders' Equity (Equity attributable to parent) over outstanding number of common shares

- 2.1 Any known trends or any known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.

The Company does not expect any liquidity problems and is not in default of any financial obligations.

- 2.2 Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:

The Company has agreed to purchase the entire stake of San Miguel Group in Manila Electric Company, which amounts to about 27% of the latter's outstanding shares for approximately ₱72 billion. The Company intends to finance the acquisition with a combination of debt and equity capital.

- 2.3 Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period:

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.

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

The Company's and its subsidiaries' performance will at all times be affected by the economic performance of the Philippines and other countries where its subsidiaries operate. Hence, the Group is always on guard and establishes controls to minimize such risks.

- 2.5 Any significant elements of income or loss that did not arise from the issuer's continuing operations:

None.

- 2.6 Any seasonal aspects that had a material effect on the financial condition or results of operations:

The peak season for the branded consumer food products is during the opening of classes in June and Christmas season; for sugar, it's during the crop season which normally starts in November and ends in April; for flour and pasta, it's before and during Christmas season.

The air transportation's peak season is during the summer and Christmas seasons.

Higher sales experienced by RLC's leasing portfolio from the mall and hotel operations during the holiday seasons. On the other hand, RLC's development operation has no seasonality. Its revenue depends on the real estate projects' completion and launching.

Petrochemicals has no significant seasonality that would affect their operations.

The banking operations have higher volume of transactions during the Christmas season.

For other supplementary businesses, there is no significant seasonality that would materially affect their operations.

**PART II – OTHER INFORMATION**

**Item 1. List of disclosure not made under SEC Form 17-C.**

None.

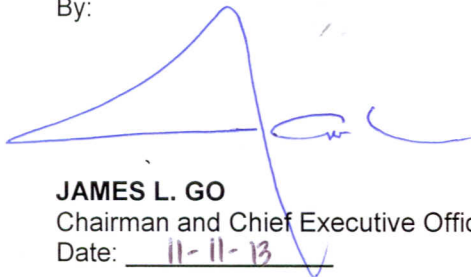
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**SIGNATURES**

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:



**JAMES L. GO**  
Chairman and Chief Executive Officer  
Date: 11-11-13



**LANCE Y. GOKONGWEI**  
President and Chief Operating Officer  
Date: 11-11-13



**CONSTANTE T. SANTOS**  
SVP - Corporate Controller  
Date: 11-11-13



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

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	P28,429,638	P19,698,073
Derivative assets (Note 8)	73,420	302,749
Financial assets at fair value through profit or loss (Note 9)	15,992,215	15,230,438
Available-for-sale investments (Note 10)	11,595,821	12,604,430
Receivables (Notes 4, 11 and 29)	18,399,632	16,320,725
Inventories (Note 12)	23,440,089	23,010,505
Biological assets	1,125,369	1,057,008
Other current assets (Note 13)	5,743,850	5,875,282
<b>Total Current Assets</b>	<b>104,800,034</b>	<b>94,099,210</b>
<b>Noncurrent Assets</b>		
Available-for-sale investments (Note 10)	51,505,931	43,757,558
Receivables (Notes 4 and 11)	13,656,472	14,362,509
Investments in associates and joint ventures (Note 14)	35,624,977	33,497,293
Property, plant and equipment	115,992,501	101,134,655
Investment properties	51,231,249	45,423,933
Goodwill	1,042,955	1,042,955
Biological assets	402,666	428,961
Intangible assets	1,352,258	1,341,023
Other noncurrent assets (Note 15)	11,860,348	5,210,269
<b>Total Noncurrent Assets</b>	<b>282,669,357</b>	<b>246,199,156</b>
	<b>P387,469,391</b>	<b>P340,298,366</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 16 and 29)	P49,530,953	P37,619,383
Short-term debt (Note 18)	13,739,597	19,397,080
Derivative liabilities (Note 8)	-	41,178
Income tax payable	981,702	630,203
Current portion of long-term debt (Note 18)	3,462,775	19,553,920
Redeemable preferred shares	30,700	30,700
Other current liabilities (Note 17)	7,691,517	8,458,376
<b>Total Current Liabilities</b>	<b>75,437,244</b>	<b>85,730,840</b>

(Forward)

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Note 18)	85,332,136	42,129,366
Deferred tax liabilities	1,681,552	2,002,180
Other noncurrent liabilities (Notes 8, 19 and 29)	10,007,227	11,509,065
Total Noncurrent Liabilities	97,020,915	55,640,611
Total Liabilities	172,458,159	141,371,451
<b>Equity</b>		
Equity attributable to equity holders of the Parent Company (Note 20):		
Paid-up capital	14,085,731	14,085,731
Retained earnings	129,555,121	122,375,153
Equity reserve	17,569,544	17,619,600
Other comprehensive income (loss)	9,343,889	1,906,843
Treasury shares	(721,848)	(721,848)
	169,832,437	155,265,479
Non-controlling interests	45,178,795	43,661,436
Total Equity	215,011,232	198,926,915
	<b>P387,469,391</b>	P340,298,366

*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 September 30		in Months Ended September 30	
	2013	2012	2013	2012
<b>REVENUE</b>				
Sale of goods and services:				
Foods	P19,774,847	P17,562,063	P60,091,943	P53,048,566
Air transportation	8,855,398	8,143,227	30,581,860	27,872,469
Real estate and hotels	4,472,681	3,301,129	12,392,330	10,063,058
Petrochemicals	155,257	960,754	967,735	4,055,365
Banking (Note 21)	545,610	604,716	2,135,747	1,847,277
Dividend income (Note 23)	1,149,960	1,090,684	3,284,001	3,136,099
Equity in net earnings of associates and joint ventures	548,723	477,980	1,449,639	1,350,193
	<b>35,502,476</b>	<b>32,140,553</b>	<b>110,903,255</b>	<b>101,373,027</b>
<b>COST OF SALES AND SERVICES (Note 25)</b>	<b>23,911,253</b>	<b>21,647,581</b>	<b>73,176,634</b>	<b>69,649,157</b>
<b>GROSS INCOME</b>	<b>11,591,223</b>	<b>10,492,972</b>	<b>37,726,621</b>	<b>31,723,870</b>
<b>OPERATING EXPENSES</b>				
Selling, general and administrative expenses (Note 26)	6,537,297	5,324,772	18,946,072	16,013,123
Impairment losses	32,929	23,974	90,559	31,126
	<b>6,570,226</b>	<b>5,348,746</b>	<b>19,036,631</b>	<b>16,044,249</b>
<b>OPERATING INCOME</b>	<b>5,020,997</b>	<b>5,144,226</b>	<b>18,689,990</b>	<b>15,679,621</b>
<b>OTHER INCOME (LOSSES)</b>				
Financing costs and other charges (Note 27)	(941,944)	(929,455)	(2,992,804)	(3,130,944)
Market valuation gains (losses) on financial assets at fair value through profit or loss	190,639	93,297	(4,540)	954,715
Market valuation gains (losses) on derivative financial instruments	39,448	279,116	79,255	409,776
Foreign exchange gains (losses)	117,977	(75,164)	(2,847,316)	1,220,407
Finance income (Note 22)	366,429	647,916	1,426,815	1,956,484
Others (Note 24)	350,660	87,419	668,322	314,390
<b>INCOME BEFORE INCOME TAX</b>	<b>5,144,206</b>	<b>5,247,355</b>	<b>15,019,722</b>	<b>17,404,449</b>
<b>PROVISION FOR INCOME TAX</b>	<b>447,194</b>	<b>558,672</b>	<b>1,685,174</b>	<b>1,932,544</b>
<b>NET INCOME</b>	<b>4,697,012</b>	<b>4,688,683</b>	<b>13,334,548</b>	<b>15,471,905</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Cumulative translation adjustments	208,024	(150,656)	209,203	(199,263)
Net gains (losses) on available-for-sale investments	823,441	2,412,259	6,840,895	4,760,220
Net gains (losses) from cash flow hedges	1,536	-	196,692	-
Net unrealized gains (losses) on available-for-sale investments of an associate	(5,672)	3,170	(12,105)	5,878
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	<b>1,027,329</b>	<b>2,264,773</b>	<b>7,234,685</b>	<b>4,566,835</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P5,724,341</b>	<b>P6,953,456</b>	<b>P20,569,233</b>	<b>P20,038,740</b>

(Forward)



	Quarters Ended September 30		ine Months Ended September 30	
	2013	2012	2013	2012
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	<b>3,236,858</b>	3,287,202	<b>P8,410,662</b>	P10,758,709
Non-controlling interests	<b>1,460,154</b>	1,401,481	<b>4,923,886</b>	4,713,196
	<b>P4,697,012</b>	P4,688,683	<b>P13,334,548</b>	P15,471,905
<b>TOTAL COMPREHENSIVE INCOME</b>				
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	<b>4,303,856</b>	5,600,460	<b>15,847,708</b>	15,316,310
Non-controlling interests	<b>1,420,485</b>	1,352,996	<b>4,721,525</b>	4,722,430
	<b>P5,724,341</b>	P6,953,456	<b>P20,569,233</b>	P20,038,740
<b>Earnings Per Share Attributable to Equity Holders of the</b>				
<b>Parent Company</b>				
Basic/diluted earnings per share (Note 28)	<b>P0.48</b>	P0.48	<b>P1.24</b>	P1.58

*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 Nine Months Ended September 30, 2013 and 2012

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY															
	Paid-up Capital						Other Comprehensive Income									
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Equity Reserve	Cumulative Translation Adjustments	Gains on Available-for-Sale Investments	Unrealized Gains (Losses)	Net Unrealized Losses on Cash Flow Hedge (Note 8)	Total Other Comprehensive Income	Treasury Shares	Controlling Interests	Non-Controlling Interests	Total Equity
Balance at January 1, 2013	P6,935,274	P7,150,457	P14,085,731	P63,314,824	P59,060,329	P122,375,153	P17,619,600	(P2,033,901)	P3,940,744	P-	P-	P1,906,843	(P721,848)	P155,265,479	P43,661,436	P198,926,915
Total comprehensive income (loss)	-	-	-	8,410,662	-	8,410,662	-	142,582	7,097,772	196,692	196,692	7,437,046	-	15,847,708	4,721,525	20,569,233
Cash dividends	-	-	-	(1,230,694)	-	(1,230,694)	-	-	-	-	-	-	-	(1,230,694)	-	(1,230,694)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,033,046)	(3,033,046)
Acquisition of non-controlling interest by a subsidiary	-	-	-	-	-	-	(50,056)	-	-	-	-	-	-	(50,056)	(147,542)	(197,598)
<b>Balance at Sept. 30, 2013</b>	<b>P6,935,274</b>	<b>P7,150,457</b>	<b>P14,085,731</b>	<b>P70,494,792</b>	<b>P59,060,329</b>	<b>P129,555,121</b>	<b>P17,569,544</b>	<b>(P1,891,319)</b>	<b>P11,038,516</b>	<b>P196,692</b>	<b>P9,343,889</b>	<b>(P721,848)</b>	<b>P169,832,437</b>	<b>P45,178,795</b>	<b>P215,011,232</b>	
Balance at January 1, 2012	P6,935,274	P5,961,714	P12,896,988	P51,359,142	P58,577,068	P109,936,210	P17,845,477	(P1,885,140)	P3,464,471	P-	P-	P1,579,331	(P974,691)	P141,283,315	P39,115,505	P180,398,820
Total comprehensive income (loss)	-	-	-	10,758,709	-	10,758,709	-	(131,947)	4,689,548	-	-	4,557,601	-	15,316,310	4,722,430	20,038,740
Cash dividends	-	-	-	(1,093,951)	-	(1,093,951)	-	-	-	-	-	-	-	(1,093,951)	-	(1,093,951)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,166,535)	(2,166,535)
Decrease in subsidiary's treasury shares	-	-	-	-	-	-	3,201,297	-	-	-	-	-	-	3,201,297	4,238,703	7,440,000
Acquisition of non-controlling interest by a subsidiary	-	-	-	-	-	-	(3,388,850)	-	-	-	-	-	-	(3,388,850)	(3,811,150)	(7,200,000)
Disposal of Parent Company shares by a subsidiary	-	1,188,743	1,188,743	-	-	-	-	-	-	-	-	-	252,843	1,441,586	-	1,441,586
Balance at Sept. 30, 2012	P6,935,274	P7,150,457	P14,085,731	P61,023,900	P58,577,068	P119,600,968	P17,657,924	(P2,017,087)	P8,154,019	P-	P6,136,932	(P721,848)	P156,759,707	P42,098,953	P198,858,660	

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>Nine Months Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	<b>P15,019,722</b>	P17,404,449
Adjustments for:		
Depreciation and amortization	<b>7,197,306</b>	6,366,315
Interest expense	<b>2,898,118</b>	2,994,541
Interest income	<b>(1,426,815)</b>	(1,956,484)
Dividend income	<b>(3,284,001)</b>	(3,136,099)
Equity in net income of associates and joint ventures	<b>(1,449,639)</b>	(1,350,193)
Provisions for impairment losses on receivables	<b>90,559</b>	31,126
Gains arising from changes in fair value less estimated costs to sell of swine stocks	<b>(103,560)</b>	(72,579)
Foreign exchange losses (gains)	<b>2,847,316</b>	(1,220,407)
Market valuation gains on derivative instruments	<b>(79,255)</b>	(409,776)
Market valuation gains on financial assets at fair value through profit or loss	<b>4,540</b>	(954,715)
Gains on sale of available-for-sale investments	<b>(17,958)</b>	707
Operating income before changes in working capital accounts	<b>21,696,333</b>	17,696,885
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit or loss	<b>(557,114)</b>	(1,937,477)
Derivative financial instruments	<b>464,097</b>	(29,624)
Receivables	<b>(1,562,976)</b>	(4,205,102)
Inventories	<b>(429,584)</b>	(2,240,694)
Biological assets	<b>61,494</b>	115,058
Other current assets	<b>131,433</b>	1,734,307
Increase (decrease) in the amounts of:		
Accounts payable and accrued expenses	<b>12,045,167</b>	1,202,097
Unearned revenue	<b>(275,263)</b>	353,145
Other current liabilities	<b>(491,595)</b>	728,175
Net cash generated from operations	<b>31,081,992</b>	13,416,770
Interest received	<b>1,526,364</b>	2,019,629
Interest paid	<b>(2,783,581)</b>	(2,945,539)
Income taxes paid	<b>(1,558,735)</b>	(1,128,132)
Net cash provided by operating activities	<b>28,266,040</b>	11,362,728

(Forward)

**Nine Months Ended September 30**

	2013	2012
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease (increase) in the amounts of:		
Available-for-sale investments	106,985	1,689,176
Other noncurrent assets	(6,650,079)	(786,997)
Investments in associates and joint ventures	(678,046)	542,919
Acquisitions of:		
Intangible assets	(13,177)	(9,148)
Property, plant and equipment	(20,665,016)	(17,676,204)
Investment properties	(7,443,646)	(5,404,816)
Dividends received	3,284,001	3,136,099
Net cash used in investing activities	(32,058,978)	(18,508,971)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Short-term debt	(5,657,484)	3,507,841
Long-term debt	24,264,309	(11,025,843)
Increase (decrease) in the amounts of:		
Other noncurrent liabilities	(1,597,406)	1,669,577
Non-controlling interests	(3,056,624)	(2,166,535)
Acquisition of non-controlling interest by a subsidiary	(197,598)	(7,223,515)
Proceeds from sale of Parent Company shares by a subsidiary	-	1,441,586
Proceeds from sale of treasury shares by a subsidiary	-	7,440,000
Dividends paid on:		
Common shares	(1,223,494)	(1,087,551)
Preferred shares	(7,200)	(6,400)
Net cash provided by financing activities	12,524,503	(7,450,840)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,731,565</b>	<b>(14,597,083)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>19,698,073</b>	<b>33,895,343</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P28,429,638</b>	<b>P19,298,260</b>

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

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In Thousands)**

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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, a holding company, is the ultimate parent of the JG Summit Group (the Group). The Group has business interests in branded consumer foods, agro-industrial and commodity food products, real property development, hotels, banking and financial services, 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 certain biological assets and agricultural produce that are measured at fair value less estimated costs to sell.

The consolidated financial statements of the Group are presented in Philippine peso (Php), the functional currency of the Parent Company. All values are rounded to the nearest thousand 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 (USD).

A summary of the functional currencies of certain foreign subsidiaries within the Group are as follows:

Subsidiaries	Country of Incorporation	Functional Currency
<b>Parent Company</b>		
JG Summit Cayman Limited	Cayman Islands	Philippine Peso
JG Summit Philippines, Ltd. and Subsidiaries		
JG Summit Philippines, Ltd.	-do-	-do-
JGSH Philippines, Limited	British Virgin Islands	-do-
Multinational Finance Group, Ltd.	-do-	-do-
Telegraph Development, Ltd.	-do-	-do-
Summit Top Investment, Ltd.	-do-	-do-
<b>URC Group</b>		
Universal Robina (Cayman), Limited	Cayman Islands	-do-
URC Philippines, Limited	British Virgin Islands	-do-
URC Asean Brands Co. Ltd.	-do-	-do-
Hong Kong China Foods Co. Ltd.	-do-	-do-
URC Internation Co., Ltd.	-do-	-do-
URC China Commercial Co. Ltd.	China	Chinese Renminbi
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-
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-
Guangzhou Peggy Foods Co., Ltd.	-do-	-do-
Advanson International Pte. Ltd. (Advanson) and Subsidiary	Singapore	Singapore Dollar
Jiangsu Acesfood Industrial Co.	China	Chinese Renminbi
Acesfood Network Pte. Ltd. (Acesfood) and Subsidiaries	Singapore	Singapore Dollar
Shantou SEZ Shanfu Foods Co., Ltd.	China	Chinese Renminbi
Acesfood Holdings Pte. Ltd. and Subsidiary	Singapore	Singapore Dollar
Acesfood Distributors Pte. Ltd.	-do-	-do-

#### 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	September 30	
		2013	2012
<b>Food</b>			
URC and Subsidiaries	Philippines*	<b>60.64</b>	60.64
<b>Air Transportation</b>			
CP Air Holdings, Inc. (CPAHI) and Subsidiaries	-do-	<b>100.00</b>	100.00
Cebu Air, Inc. (CAI) and Subsidiaries	-do-	<b>67.23</b>	67.23
Pacific Virgin Islands Holdings, Co., Ltd.	British Virgin Islands	<b>100.00</b>	100.00
<b>Real Estate and Hotels</b>			
Robinsons Land Corporation (RLC) and Subsidiaries	-do-	<b>60.97</b>	60.97
<b>Petrochemicals</b>			
JG Summit Petrochemical Corporation (JGSPC)	-do-	<b>100.00</b>	100.00
JG Summit Olefins Corporation (JGSOC)	-do-	<b>100.00</b>	100.00
<b>Banking</b>			
Robinsons Bank Corporation (RBC) and Subsidiary	-do-	<b>60.00</b>	60.00
Legazpi Savings Bank, Inc. (LSB)**	-do-	<b>60.00</b>	—
<b>Supplementary Businesses</b>			
Express Holdings, Inc. (EHI) and a Subsidiary	-do-	<b>100.00</b>	100.00
Summit Forex Brokers Corporation	-do-	<b>100.00</b>	100.00
JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries	-do-	<b>100.00</b>	100.00
JG Summit Capital Markets Corporation (JGSMC)	-do-	<b>100.00</b>	100.00
Summit Point Services Ltd.	-do-	<b>100.00</b>	100.00
Summit Internet Investments, Inc.	-do-	<b>100.00</b>	100.00
JG Summit (Cayman), Ltd. (JGSCL)	Cayman Islands	<b>100.00</b>	100.00
JG Summit Philippines Ltd. (JGSPL) and Subsidiaries	-do-	<b>100.00</b>	100.00
JGSH Philippines, Limited	British Virgin Islands	<b>100.00</b>	100.00
Telegraph Development, Ltd.	-do-	<b>100.00</b>	100.00
Summit Top Investment, Ltd.	-do-	<b>100.00</b>	100.00
JG Summit Limited (JGSL)	-do-	<b>100.00</b>	100.00
Unicon Insurance Brokers Corporation	Philippines	<b>100.00</b>	100.00
Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries	-do-	<b>100.00</b>	100.00
Fruits of the East, Inc.	-do-	<b>100.00</b>	100.00
Hometel Integrated Management Corporation	-do-	<b>100.00</b>	100.00
King Leader Philippines, Inc.	-do-	<b>100.00</b>	100.00
Samar Commodities Trading and Industrial Corporation	-do-	<b>100.00</b>	100.00
Tropical Aqua Resources	-do-	<b>100.00</b>	100.00
United Philippines Oil Trading, Inc.	-do-	<b>100.00</b>	100.00

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

\*\*\* In December 2012, RBC acquired 100.0% controlling interest in LSB.

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), Sharp Aircraft Leasing Limited (SALL), Vector Aircraft Leasing Limited (VALL) and Panatag One Aircraft Leasing Limited (POALL). SLL, CALL, ILL, BLL, SALL, VALL and POALL are SPEs in which the Group does not have equity interest. SLL, CALL, ILL, BLL, SALL, VALL and POALL acquired the passenger aircrafts for lease to CAI under finance lease arrangements 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 in line with those used by the Group.

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

Non-controlling interests 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 in the consolidated statement of comprehensive income.



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-
JGSOC	-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

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 acquiree. Acquisition-related costs are recognized in profit or loss in the consolidated statement of comprehensive income 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. 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 if 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 complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

If the business combination is achieved in stages, the 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 in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date

that have previously been recognized in other comprehensive income are reclassified to profit or loss in the consolidated statement of comprehensive income, where such treatment would be appropriate if 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 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 in the consolidated statement of comprehensive income 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.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the changes in the presentation of dividend income as part of operating income in the consolidated statements of comprehensive income.

The following amendments to PFRS did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)

#### **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 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 a 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 asking price for short positions), without any deduction for transaction costs. When current bid and asking 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 of 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 swaps and 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 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 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 profit or loss in the consolidated statement of comprehensive income.

#### *Hedge effectiveness testing*

To qualify for hedge accounting, the Group is required 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 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.

#### Current versus noncurrent classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent 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 noncurrent (or separated into current and noncurrent 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 noncurrent 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 before their maturity, the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is not permitted to classify any of its financial assets as HTM investments for two years.

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 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 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 profit or loss in the consolidated statement of comprehensive income. Gains and losses are recognized in 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 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' under other comprehensive income in 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 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 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 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 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 with 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 profit or loss in the consolidated statement of comprehensive income.

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).

#### 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 in the consolidated statement of comprehensive income.

#### 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 current or 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 current or 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 evaluates 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 intention 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 in the consolidated statement of comprehensive income over the remaining life of the investment using the effective interest method. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest method. 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 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 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 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 profit and loss in the consolidated statement comprehensive income, is removed from other comprehensive income and recognized in profit or loss in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through 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 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 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 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 100.0% 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 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 profit or loss in the consolidated statement of comprehensive income in the period the write-down or loss was incurred. The amount of 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.

#### Noncurrent Assets (Disposal Group) Held for Sale

The Group classifies noncurrent assets (disposal group) as held for sale 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 re-presented. Results of operations and cash flows of the disposal group that qualify as discontinued operations are presented in 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*

Immediately before the initial classification of the noncurrent asset (or disposal group) as held for sale, the carrying amount of the asset (or all the assets and liabilities of the disposal group) shall be measured in accordance with applicable standards.

Noncurrent assets (disposal group) 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 noncurrent assets (disposal group) 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 noncurrent assets (disposal group) 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 noncurrent assets held for sale are measured at their expected settlement amounts.

#### Investment 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 in 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 in the consolidated statement of comprehensive income.

#### 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 the 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 dacion 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 improvements	10 to 30 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 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 ‘Property, plant and equipment’ 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.

#### 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 in the consolidated statement of comprehensive income 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:

	<u>EUL</u>
Land and improvements	10 to 40 years
Buildings and improvements	10 to 50 years
Machinery and equipment	4 to 50 years
Leasehold improvements	15 years
Passenger aircraft*	15 years
Other flight equipment	5 years
<u>Transportation, furnishing and other equipment</u>	<u>3 to 5 years</u>

*\* With 15.0% 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 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 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 and ARO liability. 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 'Cost of sales and services' in profit or loss in the consolidated statement of comprehensive income) over the lease term. The ARO liability is included under 'Other noncurrent liabilities'.

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
  - Breeders (livestock bearer)
  - Sucklings (breeders' offspring)
  - Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners)
  - Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat)
- Poultry livestock
  - Breeders (livestock bearer)
  - Chicks (breeders' offspring intended to be sold as breeders)

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 biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less cost to sell shall be included in 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 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 livestock 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 and 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 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.

Bank Licenses

Bank licenses arise from the acquisition of branches of a local bank by the Group and commercial bank license. The Group's bank licenses have indefinite useful lives and are subject to annual individual impairment testing.

### 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 reporting date. 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 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 (which are not an integral part of its related hardware) and costs to 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 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

### 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'.

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 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 and intangible assets with definite useful lives*

For property, plant and equipment, investment properties and intangible assets with definite useful lives, 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 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. Impairment losses relating to goodwill cannot be reversed in future periods.

The Group performs its impairment test of goodwill every reporting date.

#### *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 the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount under 'Impairment losses and others' in 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 changes in equity.

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 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 profit or loss in the consolidated statement of comprehensive income, when the transportation service is rendered by the Group (i.e., 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 outright expense upon the receipt of payment from customers, and is included under 'Cost of sales and services' in profit or loss in the consolidated statement of comprehensive income.

#### *Ancillary revenue*

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

#### *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' which is shown as part of the 'Other current or noncurrent liabilities' in 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. Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, portfolio fees, credit-related fees and other service and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

*Trading and securities gain (loss)*

Represent results arising from disposal of AFS investments and trading activities including all gains and losses from changes in fair value of financial assets at FVPL of the Group's Banking segment.

*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.

*Amusement income*

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

*Gain from sale of properties, investments and other assets*

Gain from sale of properties, investments and other assets is recognized upon completion of the earning process and the collectibility 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 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 10.0% 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 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 substantively enacted as of 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.

Deferred tax assets are recognized for all deductible temporary differences, carryforward 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 carryforward 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 reporting 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 reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss in the consolidated statement of comprehensive income. 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' with the corresponding liability to the lessor included under 'Long-term debt'. 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 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' in 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 Per Share (EPS)

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

Diluted EPS amounts are calculated by dividing the net income 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 common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common 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.

### **Changes in Accounting Policies**

The Group has adopted the following standards and interpretations enumerated below effective 2013. The Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

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

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.

This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The Group does not present offsetting of financial assets and liabilities.

- *PFRS 10, Consolidated Financial Statements*  
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.
- *PFRS 11, Joint Arrangements*  
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The Group is already using the equity method in accounting for its joint venture transactions.

- *PFRS 12, Disclosure of Interests with Other Entities*  
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required but have no impact on the Group's financial position or performance.

The new standard affects disclosures only and has no impact on the Group's financial position or performance.

- *PFRS 13, Fair Value Measurement*  
The standard establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

No significant impact on the Group's financial position and performance.

- *PAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*  
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.
- *PAS 19, Employee Benefits (Revised)*  
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity

analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects as of September 30, 2013 as detailed below are to be considered in the year-end consolidated financial statements:

	As at 30 September 2013	As at 31 December 2012
Increase (decrease) in:		
<u>Consolidated statements of</u>		
<u>financial position</u>		
Pension liabilities	P630,040,513	P632,059,643
Deferred tax assets	189,012,154	189,617,893
Retained earnings	189,012,154	31,561,673
Other comprehensive income	(435,802,242)	(613,627,307)
	September 30, 2013	December 31, 2012
<u>Consolidated statements of</u>		
<u>comprehensive income</u>		
Pension expense	P-	(P47,652,480)
Provision for income tax	-	14,295,744
Net income		
Attributable to equity holders of the Parent Company	120,018,298	(20,454,347)
Attributable to non-controlling interests	68,993,856	(12,902,389)
Other comprehensive income		
Attributable to equity holders of the Parent Company	120,018,298	(188,416,620)
Attributable to non-controlling interests	68,993,856	(110,747,422)

- PAS 27, *Separate Financial Statements* (as revised in 2011)  
As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)  
As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Management assessed that the impact of the new standard is not significant to the Group's financial position or performance.

- *Annual Improvements to PFRSs (2009-2011 cycle)*  
The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.
- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*  
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment*  
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment did not have any significant impact on the Group's financial position or performance.
- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*  
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

## **Future Changes in Accounting Policies**

### *Effective 2014*

- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*  
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The

amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*Effective 2015*

- PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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 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. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The adoption of this Philippine Interpretation will be accounted for retrospectively and will result in the restatement of prior period consolidated financial statements. The adoption of this Philippine Interpretation may significantly affect the determination of the net income and the related statement of financial position accounts as follows: 'Installment contract receivables', 'Subdivision land, condominium and residential units for sale', 'Deposit from real estate buyers', 'Deferred tax liabilities' and 'Retained earnings'.

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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 on the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue their 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.

*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.

*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*

*Operating lease commitments - Group as lessee*

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 the ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

*Operating lease commitments - Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. Based on the evaluation of the terms and conditions of the arrangements, the Group has determined that it retains all significant risks and rewards of ownership of these properties. In determining significant risks and benefits of ownership, the Group considered, among others, the following: the 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. Accordingly, the Group accounted for the lease agreements as 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 is not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. 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. 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.

*h. Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, 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, each entity in 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 Company and performing the functions of the Parent Company - 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 Company; while in the latter case, the functional currency of the entity would be assessed separately.

*i. Significant subsequent events of fiscal year end subsidiaries*

The Group consolidates the balances of its fiscal year end 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.

*j. Significant influence over an associate with less than 20.0% ownership*

In determining whether the Group has significant influence over an investee requires significant judgment. Generally, a shareholding of 20.0% to 50.0% of the voting rights of an investee is presumed to give the Group a significant influence.

There are instances that an investor exercises significant influence even if its ownership is less than 20.0%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation on the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

k. *Noncurrent assets (disposal group) held for sale*

The Group classifies a subsidiary as a disposal group held for sale if it meets the following conditions at the reporting date:

- The entity is available for immediate sale and can be sold in its current condition;
- An active program to locate a buyer and complete the plan sale has been initiated; and
- The entity is to be genuinely sold, not abandoned.

l. *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.

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.

- **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 obligation of the Group to provide transportation service ceases, either: (a) when transportation services are already rendered; or (b) when the Group estimates that unused tickets are already expired. The value of unused tickets is included as 'Unearned transportation revenue' in the consolidated statements of financial position and recognized as 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 the estimates were made.

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

The carrying value of the Group's AFS debt investments is disclosed in Note 10 to the consolidated financial statements.

*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 20.0% 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.

The carrying value of the Group's AFS equity investments is disclosed in Note 10 to the consolidated financial statements.

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 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.

Provisions for impairment losses on receivables, included in 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income, is disclosed in Note 11 to the consolidated financial statements.

The carrying value of the Group's total receivables, net of allowance for impairment losses, is disclosed in Note 11 to the consolidated financial statements.

d. *Determination of NRV of inventories*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally providing a 100.0% 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.

Inventory obsolescence and market decline included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income is disclosed in Note 12 to the consolidated financial statements.

The carrying value of the Group's inventories, net of inventory obsolescence and market decline, is disclosed in Note 12 to the consolidated financial statements.

*e. Estimation of ARO*

The Group is legally required under various contracts to restore certain 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 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 carrying values of the Group's ARO (included under 'Other noncurrent liabilities' in the consolidated statements of financial position) is disclosed in Note 19 to the consolidated financial statements.

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

The fair values of swine 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 transportation 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.

*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.

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

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

The Group assesses impairment on its property, plant and equipment, investment properties, investments in associates and joint ventures, biological assets carried 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 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 swaps and options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures.

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

- 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 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 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.

*Collateral and other credit enhancements*

The Group holds collateral in the form of cash bonds, real estate and chattel mortgages and government securities. The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. It is the Group'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.

a. 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.

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	Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events.
<i>Risk rating 2</i>	Super Prime	Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events.

	<i>Risk rating 3</i>	Prime	Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business/economic conditions.
	<i>Risk rating 4</i>	Very Good	Moderately low probability of default; more than adequate capacity for payment of financial commitments; but adverse business/economic conditions are more likely to impair this capacity
	<i>Risk rating 5</i>	Good	More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes
Standard	<i>Risk rating 6</i>	Satisfactory	Material probability of default is present, but a margin of safety remains; financial commitments are currently being met although the capacity for continued payment is vulnerable to deterioration in the business/economic condition.
	<i>Risk rating 7</i>	Average	Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavorable economic period would create deterioration beyond acceptable levels.
Standard	<i>Risk rating 8</i>	Fair	Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavorable economic/market conditions would create an immediate deterioration of cash flow beyond acceptable levels.
Sub-standard grade	<i>Risk rating 9</i>	Marginal	Elevated level of probability of default, with limited margin; repayment source is adequate to marginal.
	<i>Risk rating 10</i>	Watchlist	Unfavorable industry or company specific risk factors represent a concern, financial strength may be marginal; will find it difficult to cope with significant downturn.
	<i>Risk rating 11</i>	Special mention	Loans have potential weaknesses that deserve close attention; borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardized due to evidence of weakness in the borrower's financial condition.
	<i>Risk rating 12</i>	Substandard	Substantial and unreasonable degree of risk to the institution because of unfavorable record or

Impaired		unsatisfactory characteristics; with well-defined weaknesses that jeopardize their liquidation. e.g. negative cash flow, case of fraud.
<i>Risk rating 13</i>	Doubtful	Weaknesses similar to “Substandard”, but with added characteristics that make liquidation highly improbable.
<i>Risk rating 14</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.

b. Aging analysis of receivables by class

The aging analysis of the Group’s receivables as of September 30, 2013 follows:

	<b>TOTAL</b>	<b>UP TO SIX MONTHS</b>	<b>OVER SIX MONTHS TO ONE YEAR</b>	<b>OVER ONE YEAR</b>
Trade Receivables	₱12,150,432	₱9,847,605	₱873,466	₱1,429,361
Less: Allowance for impairment loss	(540,623)	-	(315,912)	(224,711)
Net Trade Receivables	11,609,809	9,847,605	557,554	1,204,650
Non-trade Receivables				
Finance Receivables (including noncurrent portion)	17,533,772	5,306,661	-	12,227,111
Others	4,001,135	3,595,866	405,269	-
	21,534,907	8,902,527	405,269	12,227,111
Less: Allowance for impairment loss	(1,088,612)	(919,529)	(169,083)	-
Net Non-trade Receivables	20,446,295	7,982,998	236,186	12,227,111
	<b>₱32,056,104</b>	<b>₱17,830,603</b>	<b>₱793,740</b>	<b>₱13,431,761</b>

*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 (Note 8).

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

The Group does not expect the impact of the volatility on other currencies to be material.

#### *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.

#### *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 is 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 quoted debt securities and foreign exchange.

#### *VaR objectives and methodology*

VaR is used by RBC to measure market risk exposure from its trading and investment activities. 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.

RBC uses the historical simulation method in estimating VaR. The historical simulation method is a non-parametric approach to VaR calculation, in which asset returns are not subject to any functional distribution assumption. VaR is estimated directly from historical data without deriving parameters or making assumptions about the entire data distribution.

The historical data used by RBC covers the most recent 260 business days (approximately one year). RBC updates its dataset on a daily basis. Per RBC policy, VaR is based on a one day holding period and a confidence level of 99.5%.

#### *VaR methodology assumptions and assumptions*

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

- a. VaR is a statistical estimate and thus, does not give the precise amount of loss RBC may incur in the future;
- b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from RBC's exposure to market risk;
- c. Since VaR is computed from end-of-day positions and market factors, VaR does not capture intraday market risk.
- d. VaR systems depend on historical data. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Therefore, market shifts (i.e. an unexpected collapse of the market) will not be captured and may inflict losses larger than anything the VaR model may have calculated; and
- e. The limitation relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR with daily stress testing reported to RBC's Risk Management Committee, Asset-Liability Committee (ALCO) and the concerned risk-takers.

VaR backtesting is the process by which financial institutions periodically compare ex-post profit or loss with the ex-ante VaR figures to gauge the robustness of the VaR model. RBC performs quarterly backtesting.

On June 1, 2011, RBC began implementing an enhanced VaR model which calculates VaR on a daily rather than weekly basis. Additionally, the enhanced VaR includes foreign exchange risk VaR. However, the VaR methodology, assumptions and parameters did not change. The enhanced VaR model was approved by the BOD on May 31, 2011.

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

RBC's ALCO surveys the interest rate environment, adjusts the interest rates for the Parent Company's loans and deposits, assesses investment opportunities and reviews the structure of assets

and liabilities. RBC uses Earnings-at-Risk as a tool for measuring and managing interest rate risk in the banking book.

*Earnings-at-Risk objectives and methodology*

Earnings-at-Risk is a statistical measure of the likely impact of changes in interest rates to the RBC's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility. 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 RBC's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap implies that RBC'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 and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the Risk Management Committee quarterly.

*Foreign currency risk*

RBC seeks to maintain a square or minimal position on its foreign currency exposure. Foreign currency liabilities generally consist of foreign currency deposits in RBC's Foreign Currency Deposit Unit (FCDU). Foreign currency deposits are generally used to fund RBC'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. RBC uses VaR methodology for measuring foreign currency risk.

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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 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.

*Amounts due from and due to related parties*

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

*Deposit liabilities*

Fair values are estimated using the discounted cash flow methodology using RBC's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liabilities 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 long-term debt is based on the discounted value of future cash flows (interests and principal) using the applicable rates for similar types of loans.

*Derivative financial instruments*

The fair values of the interest rate swaps and commodity swaps and 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 cross currency swaps are based on the discounted cash flow swap valuation model of a third party provider.

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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:

- Foods, 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.

The peak season for the branded consumer food products is during the opening of classes in June



and Christmas season; for sugar, it's during the crop season which normally starts in November and ends in April; for flour and pasta, it's before and during Christmas season.

- Air transportation - air transport services, both domestic and international, for passengers and cargoes.

The air transportation peak season is during the summer and Christmas seasons.

- 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.

Higher sales experienced by RLC's leasing portfolio from the mall and hotel operations during the holiday seasons. On the other hand, RLC's development operation has no seasonality. Its revenue depends on the real estate projects' completion and launching.

- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.

There is no significant seasonality that would materially affect their operations.

- Banking - commercial banking operations, including deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing.

The banking operations have higher volume of transactions during the Christmas season.

- Other supplementary businesses - asset management, insurance brokering, foreign exchange and securities dealing. Beginning 2012, other supplementary businesses include dividend income from PLDT.

For other supplementary businesses, there is no significant seasonality that would materially affect their operations.

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 the consolidated operating income (loss) except that intersegment revenues are eliminated only at the consolidation level. Group financing (including finance cost and other charges), finance income, market valuation gains (losses) on financial assets at FVPL and derivatives, foreign exchange gains (losses), other operating income, 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 Executive Committee (Excom) is actively involved in planning, approving, reviewing, and assessing the performance of each of the Group's segments. The Excom oversees Group's decision making process. The Excom's functions are supported by the heads of each of the operating segments, which provide essential input and advice in the decision-making process.

The Group's operating segment information follows:

	September 30, 2013							
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	₱60,091,943	₱30,581,860	₱12,392,330	₱967,735	₱2,135,747	₱-	₱-	₱106,169,615
Intersegment revenue	-	-	-	165,355	-	-	(165,355)	-
Dividend income	60,091,943	30,581,860	12,392,330	1,133,090	2,135,747	-	(165,355)	106,169,615
Equity in net earnings of associates and joint ventures	100,809	14,349	-	-	-	3,169,757	(914)	3,284,001
	18,898	70,410	1,237,015	-	-	104,611	18,705	1,449,639
<b>Total revenue</b>	60,211,650	30,666,619	13,629,345	1,133,090	2,135,747	3,274,368	(147,564)	110,903,255
Cost of sales and services	42,808,640	22,213,571	6,209,482	1,699,150	478,586	-	(232,795)	73,176,634
<b>Gross income (loss)</b>	₱17,403,010	₱8,453,048	₱7,419,863	(₱566,060)	₱1,657,161	₱3,274,368	₱85,231	37,726,621
Selling, general and administrative expenses								18,946,072
Impairment losses and others								90,559
<b>Operating income</b>								18,689,990
Financing cost and other charges								(2,992,804)
Finance income								1,426,815
Other operating income								668,322
<b>Core earnings</b>								17,792,323
Market valuation gain on financial assets at FVPL and derivative financial instruments								74,715
Foreign exchange gains								(2,847,316)
<b>Income before income tax</b>								15,019,722
Provision for income tax								1,685,174
<b>Net income</b>								₱13,334,548
<b>Net income (loss) attributable to equity holders of the Parent Company</b>	₱5,118,430	₱446,480	₱3,461,397	(₱804,377)	₱256,698	₱323,823	(₱391,789)	₱8,410,662
<b>EBIT</b>	₱7,755,855	₱2,257,506	₱4,534,377	(₱736,621)	₱498,824	₱4,380,049	₱-	₱18,689,990
Depreciation and amortization	2,560,546	2,521,008	1,844,222	122,836	117,679	31,015	-	7,197,306
<b>EBITDA</b>	₱10,316,401	₱4,778,514	₱6,378,599	(₱613,785)	₱616,503	₱4,411,064	₱-	₱25,887,296
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization								
Impairment losses on receivables	₱-	₱16	₱-	₱-	₱90,543	₱-	₱-	₱90,559

September 30, 2012

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
Revenue								
Sale of goods and services:								
External customers	₱53,048,566	₱27,872,469	₱10,063,058	₱4,055,365	₱1,847,277	₱-	₱-	₱96,886,735
Intersegment revenue	-	-	-	146,300	-	-	(146,300)	-
Dividend income	53,048,566	27,872,469	10,063,058	4,201,665	1,847,277	-	(146,300)	96,886,735
Equity in net earnings of associates and joint ventures	165,093	4,356	-	-	-	2,966,650	-	3,136,099
Total revenue	23,395	51,400	1,198,225	-	-	83,659	(6,486)	1,350,193
Cost of sales and services	53,237,054	27,928,225	11,261,283	4,201,665	1,847,277	3,050,309	(152,786)	101,373,027
Gross income (loss)	39,417,805	20,714,985	4,910,731	4,210,278	615,062	-	(219,704)	69,649,157
Selling, general and administrative expenses	₱13,819,249	₱7,213,240	₱6,350,552	(₱8,613)	₱1,232,215	₱3,050,309	₱66,918	31,723,870
Impairment losses and others								16,013,123
Operating income								31,126
Financing cost and other charges								15,679,621
Finance income								(3,130,944)
Other operating income								1,956,484
Core earnings								314,390
Market valuation gain on financial assets at FVPL and derivative financial instruments								14,819,551
Foreign exchange gains								1,364,491
Income before income tax								1,220,407
Provision for income tax								17,404,449
Net income								1,932,544
Net income (loss) attributable to equity holders of the Parent Company	₱3,483,774	₱1,529,054	₱3,242,131	(₱209,616)	₱250,397	₱2,614,859	(₱151,890)	₱10,758,709
EBIT	₱5,968,582	₱1,615,137	₱3,839,396	(₱196,987)	₱372,159	₱4,081,334	₱-	₱15,679,621
Depreciation and amortization	2,525,059	2,017,279	1,595,065	116,192	82,957	29,762	-	6,366,314
EBITDA	₱8,493,641	₱3,632,416	₱5,434,461	(₱80,795)	₱455,116	₱4,111,096	₱-	₱22,045,935
Other information								
Non-cash expenses other than depreciation and amortization								
Impairment losses on receivables	₱-	₱357	₱-	₱-	₱30,769	₱-	₱-	₱31,126

Other information on the Group's operating segments follow:

		September 30, 2013												
		Foods, Agro-Industrial and Commodities			Air Transportation and Hotels		Real Estate and Hotels		Petrochemicals and Banking		Other Supplementary Businesses and Eliminations		Adjustments and Eliminations	Consolidated
Segment assets	₱61,581,762	₱65,801,954	₱73,283,601	₱32,395,170	₱41,781,280	₱188,024,095	₱75,398,471	₱387,469,391						
Segment liabilities	₱12,182,194	₱44,166,199	₱24,711,429	₱2,956,409	₱36,351,389	₱93,074,201	₱40,983,662	₱172,458,159						
Capital expenditures	₱4,430,649	₱9,996,745	₱8,047,893	₱5,054,109	₱101,521	₱477,745	₱-	₱28,108,662						

		September 30, 2012												
		Foods, Agro-Industrial and Commodities			Air Transportation and Hotels		Real Estate and Hotels		Petrochemicals and Banking		Other Supplementary Businesses and Eliminations		Adjustments and Eliminations	Consolidated
Segment assets	₱77,421,739	₱58,472,141	₱69,784,699	₱22,507,863	₱34,096,561	₱150,385,493	₱84,066,324	₱328,602,172						
Segment liabilities	₱25,702,996	₱38,398,774	₱24,098,985	₱4,784,342	₱28,420,129	₱60,549,451	₱52,217,564	₱129,737,113						
Capital expenditures	₱2,986,176	₱6,160,278	₱5,759,266	₱8,051,011	₱119,056	₱5,233	₱-	₱23,081,020						

### Intersegment Revenues

Intersegment revenues are eliminated at the consolidation level.

### Segment Results

Segment results pertain to the net income (loss) of each of 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 of the Group's operating segments. The Group defines each of the operating segment's 'Core earnings' as the total of the 'Operating income', 'Finance income' and 'Other operating income' deducted by the 'Financing cost and other charges'. EBIT is equivalent to the Group's operating income while EBITDA is computed by adding back to the EBIT the depreciation and amortization expenses during the period. Depreciation and amortization include only the depreciation and amortization of plant and equipment, investment properties, deferred subscriber acquisition and retention costs and intangible assets.

### Depreciation and amortization

The amount of reported depreciation and amortization includes depreciation for investment properties and property, plant and equipment, and amortization of intangible assets.

### 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, separately, 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, including those acquired through business combination.

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## 7. Cash and Cash Equivalents

This account consists of:

	<b>September 30, 2013</b> <b>(Unaudited)</b>	December 31, 2012 (Audited)
Cash on hand	<b>₱883,672</b>	₱1,109,974
Cash in banks	<b>11,149,388</b>	13,542,523
Cash equivalents	<b>16,396,578</b>	5,045,576
	<b>₱28,429,638</b>	₱19,698,073

Cash in banks 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, and earn annual interest.

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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 June 27, 2008, the Group entered into an interest rate swap option (swaption) with a notional amount of US\$100.0 million. Under the swaption, the Group provided an option to the counterparty to enter into a swap where the Group would pay a fixed rate of 3.7% and receive LIBOR every interest payment date (every June 16 and December 16). The option is exercisable on December 12, 2008. If the option is exercised, the first swap payment would cover the interest period December 16, 2008 to June 16, 2009.

On December 12, 2008, the option was exercised and the resulting interest rate swap was used to hedge the interest cash flow variability arising from the movements in the benchmark LIBOR of the remaining US\$100.0 million of the US\$300.0 million loan starting December 16, 2008. The notional amount of the interest rate swap is subject to semi-annual amortization of US\$20.0 million starting June 16, 2011 and was fully settled on June 16, 2013.

- Commodity derivatives

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.

- Currency options

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

- Currency swaps

On January 27, 2010, July 16, 2008 and June 11, 2008, the Group entered into a long-term currency swap agreements to hedge the foreign exchange risk on certain AFS investments.

The currency swap agreements matured on February 15, 2013 with maturity value amounting to ₱395.6 million.

### *Derivatives designated as accounting hedges*

As part of its asset and liability management, the Group uses derivatives, particularly 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 consolidated 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 US\$200.0 million of the US\$300.0 million Guaranteed Term Loan Facility due 2013 (Note 18). Under the swaps, the Group pays fixed and receives LIBOR every interest payment date (every June 16 and December 16). The notional amount of the interest rate swaps is subject to semi-annual amortization of US\$20.0 million starting June 16, 2011. 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. The Guaranteed Term Loan Facility has been settled in January 2013.

On December 18, 2012, the Group entered into an interest rate swap transaction with a notional amount of US\$250.0 million effective January 16, 2013. Under the swap transaction, the Group would pay a fixed rate quarterly on the 16<sup>th</sup> of April, July, October and January in each year commencing on April 16, 2013, up to and including the termination date, January 16, 2018, subject to adjustment in accordance with the Modified Following Business Day Convention.

#### 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.

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

These investments that are held for trading consist of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Debt securities:		
Private	₱9,994,462	₱9,490,640
Government	3,118,793	3,601,934
	<b>13,113,255</b>	13,092,574
Equity securities:		
Quoted	2,878,957	2,137,861
Unquoted	3	3
	<b>2,878,960</b>	2,137,864
	<b>₱15,992,215</b>	₱15,230,438

There were no issuance, repurchase and repayment of debt and equity shares.



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## 10. Available-for-Sale Investments

This account consists of investments in:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Debt securities:		
Government	₱7,019,681	₱8,038,973
Private	3,318,269	3,087,496
	<b>10,337,950</b>	11,126,469
Equity securities:		
Quoted	52,746,736	45,218,453
Unquoted	17,066	17,066
	<b>52,763,802</b>	45,235,519
	<b>₱63,101,752</b>	₱56,361,988

Breakdown of AFS investments as shown in the consolidated statements of financial position follows:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Current portion	₱11,595,821	₱12,604,430
Noncurrent portion	51,505,931	43,757,558
	<b>₱63,101,752</b>	₱56,361,988

There were no issuance, repurchase and repayment of debt and equity shares.

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## 11. Receivables

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Finance receivables	₱17,533,772	₱17,669,989
Trade receivables	12,150,432	10,587,166
Due from related parties (Note 29)	1,677,675	1,328,455
Interest receivable	511,072	610,620
Other receivables	1,812,388	1,651,623
	<b>33,685,339</b>	31,847,853
Less allowance for impairment losses	1,629,235	1,164,619
	<b>₱32,056,104</b>	₱30,683,234

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

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Current portion	₱18,399,632	₱16,320,725
Noncurrent portion	13,656,472	14,362,509
	<b>₱32,056,104</b>	₱30,683,234

Noncurrent receivables consist of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Trade receivables	₱1,429,361	₱1,125,871
Finance receivables	12,227,111	13,236,638
	<b>₱13,656,472</b>	<b>₱14,362,509</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 and earn annual interest computed on the diminishing balance of the principal. Revenue from real estate and hotels includes interest income earned from installment contract receivables.

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

#### Others

Other receivables include unquoted debt securities, claims receivables, creditable withholding tax and other receivables. Unquoted debt securities pertain to investments in private bonds with local companies and are presented net of unamortized discount.

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## 12. Inventories

This account consists of inventories held as follows:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
At cost:		
Raw materials	₱3,795,545	₱3,639,758
Finished goods	2,817,817	3,218,174
	<b>6,613,362</b>	<b>6,857,932</b>
At NRV:		
Subdivision land, condominium and residential units for sale	11,485,713	10,991,157
Spare parts, packaging materials and other supplies	3,677,034	3,106,211
Work-in-process	592,322	371,703
By-products	48,084	26,646
	<b>15,803,153</b>	<b>14,495,717</b>
Materials in-transit	1,023,574	1,656,856
	<b>₱23,440,089</b>	<b>₱23,010,505</b>

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### 13. Other Current Assets

This account consists of:

	<b>September 30, 2013</b> <b>(Unaudited)</b>	December 31, 2012 (Audited)
Input value-added tax (VAT)	<b>₱1,614,068</b>	₱2,025,480
Advances to suppliers	<b>1,010,833</b>	793,641
Funds under escrow	<b>1,650,265</b>	1,639,199
Prepaid expenses	<b>820,527</b>	505,045
Advances to lot owners	<b>178,119</b>	144,952
Utility deposits	<b>4,452</b>	4,065
Others	<b>465,586</b>	762,900
	<b>₱5,743,850</b>	₱5,875,282

#### Funds under Escrow

As part of the SPA entered into by the Parent Company and PLDT (the Parties), an Escrow Agreement was executed on November 10, 2011 by the Parties with a third party Bank (Escrow Agent) which states that upon exercise of the options by the Parties, the Parent Company will deliver an amount of ₱4.3 billion to the Escrow Agent. The Escrow account is interest bearing and has an original term of six months from the closing date of the SPA. Subject to the terms and conditions of the SPA, the funds will be released to the Parent Company if certain conditions on working capital and net debt of the Digitel Group are met. In May 2012, the Parent Company received part of the escrow fund amounting to ₱2.8 billion from the Escrow Agent.

#### Advances to Suppliers

Advances to suppliers include advance payments for the acquisition of raw materials, spare parts, packaging materials and other supplies. Also included in the account are advances made for the purchase of various aircraft parts and service maintenance. These are applied against progress billings which occur within one year from the date the advances arose.

#### Advances to Lot Owners

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired and intended to be classified as inventories in the Group's real estate business.

#### Others

Others include refundable deposit amounting to ₱500.0 million made by the Group in connection with a public auction of a certain property by the Government. The deposit is refundable 90 days from the bid submission date. The Group lost in the said auction and received the deposit in January 2013.

#### 14. Investments in Associates and Joint Ventures

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Acquisition cost:		
Balance at beginning of year	₱19,691,512	₱19,586,229
Additional investments	1,302,420	105,283
Balance at end of year	20,993,932	19,691,512
Accumulated equity in net earnings:		
Balance at beginning of year	14,045,215	12,684,264
Equity in net earnings	1,449,639	2,008,412
Cash dividends received	(651,246)	(647,461)
Balance at end of year	14,843,608	14,045,215
Share in net unrealized gain (loss) on AFS investments of an associate:		
Balance at beginning of year	16,145	6,045
Share in net changes in fair value of AFS investments of an associate	(12,105)	10,100
Balance at end of year	4,040	16,145
Cumulative translation adjustment	80,847	41,871
	35,922,427	33,794,743
Less allowance for impairment losses	297,450	297,450
	<b>₱35,624,977</b>	<b>₱33,497,293</b>

The Group's equity in the net assets of its associates and joint ventures and the related percentages of ownership are shown below:

	Percentage of Ownership		Equity in Net Assets	
	September 2013	December 2012	September 2013	December 2012
(In Million Pesos)				
<b>Associates</b>				
Foreign:				
United Industrial Corp., Limited (UICL)	37.00	36.08	₱34,339.3	₱32,321.7
Domestic:				
OPMC	19.40	19.40	518.6	439.1
Cebu Light Industrial Park, Inc. (CLUPI)	20.00	20.00	117.9	99.1
Jobstreet.com Philippines, Inc. (JPI)	40.00	40.00	30.1	29.5
Sterling Holdings and Security Corporation (SHSC)	49.00	49.00	-	-
Buang Private Power Corporation (BPPC)/First Private Power Corporation (FPPC)	18.66	18.66	-	-
			<b>35,005.9</b>	<b>32,889.4</b>

**Joint Ventures**

## Domestic:

SIA Engineering (Philippines) Corp. (SIAEP)	23.53	23.53	268.9	258.5
Aviation Partnership (Philippines) Corp. (APPC)	32.94	32.94	143.3	129.1
Hunt-Universal Robina Corporation (HURC)	30.32	30.32	85.0	96.1
Philippine Academy for Aviation Training (PAAT)	33.62	33.62	117.8	124.2
MPIC-JGS Airport Consortium, Inc.	33.00	-	4.1	-
			619.1	607.9
			<b>₱35,625.0</b>	<b>₱33,497.3</b>

Investment in MPIC-JGS Airport Consortium, Inc.

On February 22, 2013, Metro Pacific Investments Corporation (MPIC) and the Parent Company signed a memorandum of agreement to form an exclusive strategic partnership to jointly pursue and bid for the ₱17.5 billion Mactan-Cebu International Airport (MCIA) Passenger Terminal Project.

In March 2013, a joint venture, MPIC-JGS Airport Consortium, Inc. was incorporated by Metro Pacific Investments Corporation, the Parent Company and an airport operator partner to bid for the rehabilitation and expansion of the Mactan-Cebu International Airport and will also be exploring the other airport projects that may be rolled out by the government in the future.

**15. Other Noncurrent Assets**

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Advances to suppliers	₱2,994,666	₱2,015,980
Input VAT	2,000,671	1,662,032
Security and miscellaneous deposits	841,790	459,620
Utility deposits	311,912	284,792
Advances to lot owners	211,808	172,367
Derivative assets	196,692	-
Deferred tax assets	185,258	177,796
Others	5,117,551	437,682
	<b>₱11,860,348</b>	<b>₱5,210,269</b>

Advances to Suppliers

Advances to suppliers include advances made for the purchase of various aircraft parts, service maintenance, machineries and equipment. The account also includes advances to suppliers for the plant expansion and renovations of URC's plants located in Malaysia and Singapore.

Input VAT

Input VAT represents VAT paid in connection with the ongoing acquisition and construction of the Group's naphtha cracker plant.

#### Security and Miscellaneous Deposits

Security deposits pertain to deposits provided to lessor for aircraft under operating lease.

#### Utility Deposits

Utility deposits consist primarily of bid bonds and meter deposits.

#### Advances to Lot Owners

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired.

#### Others

Others include repossessed chattels held by the bank subsidiary and a deposit amounting to ₱4.4 billion related to the Parent Company's acquisition of the entire stake of San Miguel Group in Manila Electric Company, which amounts to about 27% of the latter's outstanding shares for approximately ₱72 billion. The transaction is still subject to the completion of certain mutually agreed conditions to closing.

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### 16. Accounts Payable and Accrued Expenses

This account consists of:

	<b>September 30, 2013</b> <b>(Unaudited)</b>	December 31, 2012 <b>(Audited)</b>
Deposit liabilities	<b>₱26,131,436</b>	₱15,499,123
Trade payables	<b>10,390,148</b>	10,295,094
Accrued expenses	<b>9,769,444</b>	8,890,668
Airport and other related fees payable	<b>552,550</b>	534,436
Due to related parties (Note 29)	<b>523,524</b>	691,152
Withholding taxes payable	<b>407,670</b>	149,295
Output VAT	<b>10,111</b>	16,462
Dividends payable	<b>10,039</b>	9,483
Other payables	<b>1,736,031</b>	1,533,670
	<b>₱49,530,953</b>	₱37,619,383

#### Accrued Expenses

Accrued expenses consists of accruals for:

	<b>September 30,</b> <b>2013</b> <b>(Unaudited)</b>	December 31, 2012 <b>(Audited)</b>
Advertising and promotions	<b>₱1,985,729</b>	₱1,298,057
Landing and take-off, navigational charges, and other aircraft-related expenses	<b>1,844,239</b>	1,847,498
Import bills payable	<b>1,356,531</b>	769,082
Accrued interest payable	<b>1,113,126</b>	998,589
Compensation and benefits	<b>1,066,555</b>	1,108,962

	<b>September 30, 2013 (Unaudited)</b>	December 31, 2012 (Audited)
Taxes and licenses	<b>754,994</b>	1,306,611
Rental expense	<b>444,999</b>	348,825
Contracted services	<b>246,816</b>	457,174
Utilities	<b>214,354</b>	208,420
Freight and handling costs	<b>112,737</b>	191,287
Insurance	<b>74,993</b>	77,014
Royalties	<b>9,349</b>	7,329
Other accrued expenses	<b>545,022</b>	271,820
	<b>₱9,769,444</b>	₱8,890,668

#### Deposit Liabilities

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

On March 29, 2012, the BSP issued Circular No. 753 mandating the unification of the statutory and liquidity reserve requirement on deposit liabilities and deposit substitutes. As such, effective the reserve week starting April 6, 2012, non-FCDU deposit liabilities of RBC and LSB are subject to required reserves equivalent to 18.00% and 6.00%, respectively. In compliance with this circular, government securities which are used as compliance with the liquidity reserve requirements shall continue to be eligible until they mature and cash in vault shall no longer be included as reserve. The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDAs) with the BSP. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest.

#### 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.

#### Airport and Other Related Fees Payable

Airport and other related fees payable are amounts payable to the Philippine Tourism Authority and Air Transportation Office on aviation security, terminal fees and travel taxes.

#### Other Payables

Other payables mostly consist of management bonus and royalty payables.

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## 17. Other Current Liabilities

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Unearned transportation revenue	₱5,705,933	₱5,981,196
Deposits from real estate buyers and lessees (Note 19)	1,514,732	1,539,826
Advances from agents and others	270,380	251,879
Customer's deposits	200,472	274,975
Deposit from foreign carrier	–	410,500
	<b>₱7,691,517</b>	<b>₱8,458,376</b>

### Unearned Transportation Revenue

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

### Deposit from Foreign Carrier

Deposit from foreign carrier represents advances received in 2012 which was subsequently returned in January 2013.

### Advances from Agents and Others

Advances from agents and others represent cash bonds required from major sales and ticket offices or agents.

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## 18. Short-term and Long-term Debts

### Short-term Debts

Short-term debts consist of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Parent Company:		
Philippine peso - with interest rates ranging 2% in 2013 and from 1.0% to 1.1% in 2012	₱4,400,000	₱958,928
Subsidiaries:		
Foreign currencies - with interest rates ranging from 0.4 to 4.8% in 2013 and 2012	7,939,597	16,031,471
Philippine Peso - with interest rates ranging from 2.4% to 3.8% in 2013 and 3.0% to 4.5% in 2012	1,400,000	2,406,681
	<b>9,339,597</b>	<b>18,438,152</b>
	<b>₱13,739,597</b>	<b>₱19,397,080</b>



## Long-term Debts

Long-term debts (net of debt issuance costs) consist of:

	Maturities	Interest Rates	September 30, 2013	December 31, 2012	Condition
Parent Company:					
Fixed Rate Retail Bonds	2014	8.25%	<b>₱8,971,735</b>	₱8,954,501	Unsecured
Fixed Rate Corporate Notes	2013	8.00%	–	4,303,315	- do -
			<b>8,971,735</b>	13,257,816	
Subsidiaries:					
Foreign currencies:					
JGSPL					
US\$750.0 million guaranteed notes	2023	4.38%	<b>31,129,988</b>	–	Unsecured
US\$250.0 million guaranteed notes	2018	US Dollar LIBOR 6 months + margin or 3 months + margin	<b>10,692,260</b>	–	- do -
US\$300.0 million guaranteed notes	2013	8.00%	–	10,510,655	- do -
CAI					
ECA loans	Various dates through 2023	2.51% to 5.83% in 2013 and 2012	<b>13,078,664</b>	13,725,647	Secured
		0.88% to 2.32% in 2013 and 0.95% to 2.32% in 2012 (US Dollar LIBOR 6 months + margin or 3 months + margin)	<b>7,351,570</b>	7,420,308	- do -
Commercial loan from foreign banks	Various dates through 2017	3.75% to 5.67% in 2013 and 4.11% to 5.67% in 2012	<b>7,497,157</b>	1,655,381	- do -
		1.76% to 1.98% in 2013 and 1.98% to 2.01% in 2012 (US Dollar LIBOR 6 months + margin)	<b>73,537</b>	123,023	- do -
			<b>69,823,176</b>	33,435,014	
Philippine Peso:					
URC					
₱3.0 billion loan facility	2014	8.75%	–	2,990,456	Unsecured
RLC					
₱5.0 billion loan facility	2014	8.50%	<b>5,000,000</b>	5,000,000	- do -
₱5.0 billion loan facility	2014	8.25%	<b>5,000,000</b>	5,000,000	- do -
₱2.0 billion bonds	2013	15.70% - PDST-F rate	–	2,000,000	- do -
			<b>10,000,000</b>	14,990,456	
			<b>79,823,176</b>	48,425,470	
			<b>88,794,911</b>	61,683,286	
Less current portion			<b>3,462,775</b>	19,553,920	
			<b>₱85,332,136</b>	₱42,129,366	

Except for the balances of subsidiaries reporting at September 30 fiscal year end, the foreign exchange rate used to revalue the foreign currency borrowings was ₱43.54 to US\$1.00 and ₱41.05 to US\$1.00 on September 30, 2013 and December 31, 2012, respectively. The foreign exchange rates used by the subsidiaries reporting at fiscal year end were ₱43.20 to US\$1.00 and ₱41.70 to US\$1.00 on June 30, 2013 and September 30, 2012, respectively.

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.

The following significant transactions affected the Group's long-term debt:

#### Parent Company ₱4.3 Billion Fixed Rate Corporate Notes

On September 10, 2008, the Parent Company issued an aggregate amount of ₱4.3 billion fixed rate corporate notes. The notes bear an annual interest of 8.0% payable semi-annually and maturity is on September 16, 2013.

On February 2013, the Parent Company fully settled the notes with a total payment of ₱4.3 billion, plus interest.

#### Parent Company ₱9.0 Billion Fixed Retail Bonds

On November 19, 2009, the Parent Company issued ₱9.0 billion retail bonds constituting direct, unconditional, unsubordinated, and unsecured obligations of the Parent Company ranking *pari passu* at all time times without preference with all outstanding unsubordinated debt and unsecured obligations of the Parent Company, except for any statutory preference or priority established under Philippine law. The Bonds bears fixed interest rate of 8.25% calculated based on 30/360 day count and payable semiannually every 20th of May and November until November 20, 2014.

The Bonds were used to finance the operations of the Air transportation and Telecommunications segment of the Group.

#### Subsidiaries' Foreign Currency Loans

##### *JGSPL 8.00% Guaranteed Notes Due 2013*

In January 2006, JGSPL issued US\$300.0 million 8.00% guaranteed notes due 2013 which are unconditionally and irrevocably guaranteed by the Parent Company. The 8.00% guaranteed notes were redeemed at their principal amount on January 18, 2013.

##### *JGSHPL \$250M Syndicated Loan Due 2018*

In December 17, 2012, JGSHPL entered a 5-year term loan facility amounting to \$250.0 million with interest of 3 or 6-month LIBOR + 220 bps. Drawdown date was January 16, 2013.

##### *JGSHPL 4.375% Guaranteed Notes Due 2023*

In January 23, 2013, JGSHPL issued US\$750.0 million 4.375% guaranteed notes due 2023, which are unconditionally and irrevocably guaranteed by the Parent Company.

##### *CAI Commercial Loan From Foreign Banks*

In 2007, CAI entered into a commercial loan facility to partially finance the purchase of two Airbus A320 aircraft, one CFM 565B4/P engine, two CFM 565B5/P engines and one QEC Kit. The security trustee of the commercial loan facility established ILL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to a: (a) 10-year finance lease arrangement for the aircraft, (b) six-year finance lease arrangement for the engines and (c) five-year finance lease arrangement for the

QEC Kit. The quarterly rental payments of CAI correspond to the principal and interest payments made by ILL to the commercial lenders and are guaranteed by the Parent Company. CAI has the option of purchasing the aircraft, the engines and the QEC Kit for a nominal amount at the end of such leases.

In 2008, CAI also entered into a commercial loan facility, in addition to ECA loans, to partially finance the purchase of six ATR 72-500 turboprop aircraft. The security trustee of the commercial loan facility established BLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI. The commercial loan facility is payable in 12 equal, consecutive, semi-annual installments starting six months after the utilization date.

The terms of the commercial loan from foreign banks follow:

- Term of 10 years starting from the delivery date of each Airbus A320 aircraft.
- Term of six and five years for the engines and QEC Kit, respectively.
- Term of six years starting from the delivery date of each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the two Airbus A320 aircraft and six ATR 72-500 turboprop aircraft, and equal principal repayments for the engines and the QEC Kit. Principal repayments shall be made on a quarterly and semi-annual basis for the two Airbus A320 aircraft, engines and the QEC Kit and six ATR 72-500 turboprop aircraft, respectively.
- Interest on the commercial loan facility for the two Airbus A320 aircraft shall be 3-month LIBOR plus margin. On February 29, 2009, the interest rates on the two Airbus A320 aircraft, engines and QEC Kit were fixed ranging from 4.11% to 5.67%.
- Interest on the commercial loan facility for the six ATR 72-500 turboprop aircraft shall be 6-month LIBOR plus margin.
- The commercial loan facility provides for material breach as an event of default.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose on secured assets, namely the aircraft.

#### *CAI's ECA Loans*

In 2005 and 2006, CAI entered into ECA-backed loan facilities to partially finance the purchase of ten Airbus A319 aircraft. The security trustee of the ECA loans established CALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 12-year finance lease agreements. The quarterly rental payments made by CAI to CALL correspond to the principal and interest payments made by CALL to the ECA-backed lenders. The quarterly lease rentals to CALL are guaranteed by CPAHI and the Parent Company. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2008, CAI entered into ECA loans to partially finance the purchase of six ATR 72-500 turboprop aircraft. The security trustee of the ECA loans established BLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 10-year finance lease agreements. The semi-annual rental payments made by CAI to BLL corresponds to the principal and interest payments made by BLL to the ECA-backed lenders. The semi-annual lease rentals to BLL are guaranteed by the Parent Company. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

The Company pre-terminated the lease agreement with BLL related to the disposal of one ATR 72-500 turboprop aircraft. The proceeds from the insurance claim on the related aircraft were used to

settle the loan and accrued interest. The Parent Company was released as guarantor on the related loans.

In 2009, CAI entered into ECA loans to partially finance the purchase of two ATR 72-500 turboprop aircraft. The security trustee of the ECA loans established SLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 10-year finance lease agreements. The semi-annual rental payments made by CAI to SLL corresponds to the principal and interest payments made by SLL to the ECA-backed lenders. The semi-annual lease rentals to SLL are guaranteed by the Parent Company. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2010, CAI entered into ECA-backed loan facilities to fully finance the purchase of four Airbus A320 aircraft. The security trustee of the ECA loans established SALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 12-year finance lease agreements. The quarterly rental payments made by CAI to SALL corresponds to the principal and interest payments made by SALL to the ECA-backed lenders. The quarterly lease rentals to SALL are guaranteed by the Parent Company. CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2011, CAI entered into ECA-backed loan facilities to fully finance the purchase of three Airbus A320 aircraft. The security trustee of the ECA loans established VALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 12-year finance lease agreements. The quarterly rental payments made by CAI to VALL corresponds to the principal and interest payments made by VALL to the ECA-backed lenders. The quarterly lease rentals to VALL are guaranteed by the Parent Company. CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2012, CAI entered into ECA-backed loan facilities to partially finance the purchase of three Airbus A320 aircraft. The security trustee of the ECA loans established POALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to twelve-year finance lease agreements. The quarterly rental payments made by CAI to POALL corresponds to the principal and interest payments made by POALL to the ECA-backed lenders. The quarterly lease rentals to POALL are guaranteed by the Parent Company. CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

The terms of the ECA-backed facilities, which are the same for each of the ten Airbus A319 aircraft, seven ATR 72-500 turboprop aircraft and ten Airbus A320 aircraft, follow:

- Term of 12 years starting from the delivery date of each Airbus A319 aircraft and Airbus A320, and ten years for each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the first four Airbus A319 aircraft, eight ATR 72-500 turboprop aircraft and seven Airbus A320 aircraft, and equal principal repayments for the last six Airbus A319 aircraft and last three Airbus A320 aircraft. Principal repayments shall be made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for Airbus A319 and A320 aircraft.
- Interest on loans from the ECA lenders related to CALL, BLL and SALL is at fixed rates, which range from 3.8% to 5.8%. Interest on loans from ECA lenders related to SLL is fixed at 3.4% for one aircraft and US dollar LIBOR 6 months plus margin for the other aircraft. Interest on loans

from the ECA lenders related to VALL is fixed at 2.6% for one Airbus A320 aircraft and US dollar LIBOR 3 months plus margin for two Airbus A320 aircraft. Interest on loans from ECA lenders related to POALL for the three A320 aircraft is US dollar LIBOR 3 months plus margin.

- As provided under the ECA-backed facility, CALL, BLL, SLL, SALL, VALL and POALL cannot create or allow to exist any security interest, other than what is permitted by the transaction documents or the ECA administrative parties. CALL, BLL, SLL, SALL, VALL and POALL must not allow impairment of first priority nature of the lenders' security interests.
- The ECA-backed facilities also provide for the following events of default: (a) nonpayment of the loan principal or interest or any other amount payable on the due date; (b) breach of negative pledge, covenant on preservation of transaction documents; (c) misrepresentation; (d) commencement of insolvency proceedings against CALL or BLL or SLL or SALL or VALL or POALL becomes insolvent; (e) failure to discharge any attachment or sequestration order against CALL's, BLL's, SLL's, SALL's, VALL's and POALL's assets; (f) entering into an undervalued transaction, obtaining preference or giving preference to any person, contrary to the laws of the Cayman Islands; (g) sale of any aircraft under ECA financing prior to discharge date; (h) cessation of business; (i) revocation or repudiation by CALL or BLL or SLL or SALL or VALL or POALL, CAI, the Parent Company or CPAHI of any transaction document or security interest; and (j) occurrence of an event of default under the lease agreement with CAI.
- Upon default, the outstanding amount of the loan will be payable, including interest accrued. The ECA lenders will foreclose on the secured assets, namely the aircraft.
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

#### Philippine Peso Loans

##### *URC ₱3.0 Billion 8.75% Fixed Corporate Notes Due 2014*

On March 24, 2009, URC issued fixed corporate notes amounting to ₱3.0 billion to various financial institutions for capital expenditures and general corporate purposes. The notes bear a fixed interest rate of 8.75%, payable semi-annually in arrears, and have a term of five years, maturing on March 27, 2014.

The notes contain negative covenants that, among others, prohibit merger or consolidation with other entities if it is not the surviving entity, nor shall it create or form another corporation or subsidiary when a material adverse effect will result. The notes also contain affirmative covenants which include among others maintenance of a debt-to-equity ratio of not greater than 2.0 to 1.0 and interest coverage ratio of not lesser than 2.0 to 1.0.

On February 28, 2013, URC fully settled the notes with a total payment of ₱3.1 billion, including interest

##### *RLC ₱2.0 Billion Loan Facility due in June 2013*

On June 4, 2008, RLC issued a ₱2.0 billion Inverse Floating Rate Note Facility constituting direct, unconditional, unsubordinated, general and unsecured obligations of RLC ranking at least *pari passu* in all respects and ratably without preference or priority (except for any statutory preference or priority applicable in the winding-up of RLC) with all other outstanding unsecured and unsubordinated obligations (contingent or otherwise, present and future) of RLC. The term of the bonds is five years and one day from issue date.

The interest rate is at 15.70% less the 3-month Benchmark Rate on an interest determination date rounded off to the nearest 1/100 or 1.00% per annum and shall be payable quarterly, computed based on the outstanding balance, with payments commencing on the issue date and ending on the maturity date.

RLC fully settled this loan on June 2013.

*RLC ₱5.0 Billion Retail Bonds due in July 2014*

On July 13, 2009, RLC issued ₱5.0 billion bonds constituting direct, unconditional, unsubordinated and unsecured obligations of RLC ranking *pari passu* in all respects and ratably without any preference or priority with all other outstanding unsecured and unsubordinated obligations of RLC. The bond is payable with a lump-sum payment on July 14, 2014 or shall be redeemable at par upon maturity or on a date which is five years and one day from issue date.

The interest rate is 8.50% per annum and shall be payable semi-annually, computed based on the outstanding balance, with payments commencing on the issue date and ending on the maturity date. The payment of the interest shall begin on January 14, 2010.

*RLC ₱5.0 Billion Retail Bonds due in August 2014*

On August 26, 2009, RLC issued ₱5.0 billion bonds constituting direct, unconditional, unsubordinated and unsecured obligations of RLC ranking *pari passu* in all respects and ratably without any preference or priority with all other outstanding unsecured and unsubordinated obligations of RLC. The bonds are payable with a lump-sum payment on August 27, 2014 or shall be redeemable at par upon maturity or on a date which is five years and one day from issue date.

The interest rate is 8.25% per annum and shall be payable semi-annually, computed based on the outstanding balance with payments commencing on the issue date and ending on the maturity date. The payment of the interest shall begin on February 27, 2010.

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**19. Other Noncurrent Liabilities**

This account consists of:

	<b>September 30, 2013</b>	December 31, 2012
	<b>(Unaudited)</b>	(Audited)
Deposits from real estate buyers and lessees	<b>₱2,680,760</b>	₱2,574,510
Deposit liabilities	<b>1,949,891</b>	3,962,810
ARO	<b>1,799,506</b>	1,351,931
Accrued rent expense	<b>1,181,403</b>	1,181,403
Due to related parties (Note 29)	<b>1,043,627</b>	1,039,490
Accrued maintenance cost	<b>424,277</b>	424,277
Pension liabilities	<b>211,661</b>	406,589
Others	<b>716,102</b>	568,055
	<b>₱10,007,227</b>	₱11,509,065

### Deposit Liabilities

Deposit liabilities represent time deposit liabilities of RBC and LSB with maturities of beyond 12 months from reporting date.

### Deposits from Lessees

Deposits from lessees (including the current portion shown in Note 17) represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of lease term. These are initially recorded at fair value, which is obtained by discounting its future cash flows using the applicable rates of similar types of instruments. The deposits from lessees were discounted using PDST-F rate plus 2.0% spread.

### ARO

The Group is legally required under certain leased property and lease contracts to restore certain leased passenger aircraft to stipulated return conditions and to bear the costs of restoration 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 the Group's engineer which includes estimates of certain redelivery costs at the end of the operating lease.

### Deposits from Real Estate Buyers

Deposits from real estate buyers (including the current portion shown in Note 17) represent cash received in advance from buyers which shall be applied against the total contract price of the subdivision land, condominium and residential units that are for sale as soon as the contractual obligation of the real estate buyer has begun. The deposits from buyers which are expected to be applied to the contract price within one year are classified as current (Note 17).

Deposits from real estate buyers also include cash collections in excess of the installment contract receivables recognized under the percentage-of-completion.

### Accrued Maintenance Cost

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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## 20. Equity

Details of the Parent Company's authorized capital stock as of June 30, 2013 and December 31, 2012 follow:

	Par Value	Shares	Amount
Common shares	₱1.00	12,850,800,000	₱12,850,800,000
Preferred voting shares	0.01	4,000,000,000	40,000,000
Preferred non-voting shares	1.00	2,000,000,000	2,000,000,000
		18,850,800,000	₱14,890,800,000

Details of issued and fully paid, outstanding and acquired shares follow:

	<b>September 30, 2013</b>		December 31, 2012	
	<b>Shares</b>	<b>Paid-up Capital</b>	Shares	Paid-up Capital
Common shares				
Issued and fully paid	<b>6,895,273,657</b>	<b>₱14,045,731,314</b>	6,895,273,657	₱14,045,731,314
Less treasury shares	<b>98,082,000</b>	<b>721,848,289</b>	98,082,000	721,848,289
Total issued and outstanding	<b>6,797,191,657</b>	<b>₱13,323,883,025</b>	6,797,191,657	₱13,323,883,025
Preferred voting shares				
Issued and outstanding	<b>4,000,000,000</b>	<b>₱40,000,000</b>	4,000,000,000	₱40,000,000

#### Issuance of Preferred Voting Shares

On July 26, 2011, the SEC approved the Parent Company's increase in authorized capital stock. Subsequently, all of the 4.0 billion preferred voting shares were fully subscribed and paid for at its par value of one centavo per share (total proceeds of ₱40.0 million).

#### *Preferred voting shares*

The preferred voting shares have, among others, the following rights, privileges and preferences:

- Entitled to vote on all matters involving the affairs of the Parent Company requiring the approval of the stockholders. Each share shall have the same voting rights as a common share.
- The shares shall be non-redeemable.
- Entitled to dividends at the rate of 1/100 of common shares, such dividends shall be payable out of the surplus profits of the Parent Company so long as such shares are outstanding.
- In the event of liquidation, dissolution, receivership or winding up of affairs of the Parent Company, holders shall be entitled to be paid in full at par, or ratably, in so far as the assets of the Parent Company will permit, for each share held before any distribution is made to holders of the common shares.

#### *Preferred non-voting shares*

The preferences, privileges and voting powers of the preferred non-voting shares shall be as follows:

- May be issued by the BOD of the Parent Company for such amount (not less than par), in such series, and purpose or purposes as shall be determined by the BOD of the Parent Company.
- The shares shall be non-convertible, non-voting, cumulative and non-participating.
- May be redeemable at the option of the Parent Company at any time, upon payment of their aggregate par or issue value, plus all accrued and unpaid dividends, on such terms as the BOD of the Parent Company may determine at the time of issuance. Shares so redeemed may be reissued by the Parent Company upon such terms and conditions as the BOD of the Parent Company may determine.
- The holders of shares will have preference over holders of common stock in the payment of dividends and in the distribution of corporate assets in the event of dissolution, liquidation or winding up of the Parent Company, whether voluntary or involuntary. In such an event, the holders of the shares shall be paid in full or ratably, insofar as the assets of the Parent Company will permit, the par or issue value of each share held by them, as the BOD of the Parent Company may determine upon their issuance, plus unpaid cumulated dividends up to the current period, before any assets of the Parent Company shall be paid or distributed to the holders of the common shares.



- e. The holders of shares shall be entitled to the payment of current as well as any accrued or unpaid dividends on the shares before any dividends can be paid to the holders of common shares.
- f. The holders of shares shall not be entitled to any other or further dividends beyond that specifically payable on the preferred non-voting shares.
- g. The holders of shares shall not be entitled to vote (except in those cases specifically provided by law) or be voted for.
- h. The holders of shares shall have no pre-emptive rights, options or any other similar rights to subscribe or receive or purchase any or all issues or other disposition of common or other preferred shares of the Parent Company.
- i. The shares shall be entitled to receive dividends at a rate or rates to be determined by the Parent Company's BOD upon their issuance.

#### 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>September 30, 2013</b> (Unaudited)	December 31, 2012 (Audited)
(a) Gross debt		
Short-term debt (Note 18)	<b>₱13,739,597</b>	₱19,397,080
Long-term debt (Note 18)	<b>88,794,911</b>	61,683,286
Derivative liabilities (Note 8)	-	41,178
Redeemable preferred shares	<b>30,700</b>	30,700
	<b>₱102,565,208</b>	₱81,152,244
(b) Capital	<b>₱215,011,232</b>	₱198,926,915
(c) Debt-to-capital ratio (a/b)	<b>0.48:1</b>	0.41:1

The Group's policy is to ensure that the debt-to-capital ratio would not exceed the 2.0:1.0 level.

#### Regulatory Capital

The BSP, under BSP Circular 538 dated August 4, 2006, has prescribed guidelines in implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform with Basel II Accord recommendations. The new BSP guidelines took effect on July 1, 2007.

RBC's regulatory capital consists of Tier 1 (core) capital, which comprises share capital and retained earnings including current year profit less required deductions such as deferred income tax and

unsecured credit accommodations to directors, officers, stockholders and related interest (DOSRI). Certain adjustments are made to PFRS-based results and reserves as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes, among others, general loan loss provision. The risk based capital ratio of RBC is expressed as a percentage of qualifying capital to risk weighted assets, which are computed based on BSP regulations.

Under existing BSP regulations, the determination of RBC's compliance with the regulatory requirements and ratios is based on the amount of RBC's "unimpaired capital" (regulatory net worth) as reported to BSP, which is determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects. The combined capital accounts of RBC should not be less than an amount equal to 10.0% of its risk assets.

As approved, the BSP decided to maintain the present minimum overall capital adequacy ratio (CAR) of banks and quasi-banks at 10.0%. However, consistent with Basel II recommendations, it approved major methodological revisions to the calculation of minimum capital that universal banks, commercial banks and their subsidiary banks and quasi-banks should hold against actual credit risk exposures.

The guidelines for allocating minimum capital to cover market risk was also amended to some extent, primarily to align specific market risk charges on trading book assets with the revised credit risk exposure guidelines. A completely new feature is the introduction of bank capital charge for operational risk. The required disclosures to the public of bank capital structure and risk exposures are also enhanced to promote greater market discipline in line with the so-called Pillar 3 of the Basel II recommendations.

#### Cash Dividends

On June 27, 2013, the Parent Company declared cash dividends of ₱0.18 a share on its common stock payable on August 12, 2013. On the same date, the Board of Directors of the Parent Company also declared cash dividends of ₱0.0018 per preferred shares payable on August 12, 2013.

#### Treasury Shares

The Group has outstanding 98.1 million treasury shares amounting to ₱721.8 million as of March 31, 2013 and December 31, 2012.

#### Equity Reserve

In August 2012, the Group acquired the remaining 23.0% ownership on URC International Co. Ltd. from the non-controlling interest for ₱7.2 billion. The excess of consideration as against the carrying value of the net assets of the non-controlling interest amounting to ₱3.4 billion is charged to 'Equity reserve' in the consolidated statement of changes in equity.

On June 14, 2012, the BOD of URC approved the sale of 120.0 million of its treasury shares through a placement to institutional investors at ₱62.0 per share or a total consideration of ₱7.4 billion. The sale decreased the outstanding treasury shares of URC to 46.1 million, equivalent to 5.8% of its outstanding shares prior to the sale. As a result of the reissuance of treasury shares by URC, the Parent Company and the non-controlling interests recognized gain amounting to ₱3.2 billion and ₱2.2 billion in 2012, respectively, which are charged directly to 'Equity reserve' account attributable to the equity holders of the Parent Company and the non-controlling interests.

On October 26, 2010, CAI had an IPO which include issuance of Primary shares and Secondary shares. The Secondary shares that were sold were owned by CPAHI, a wholly owned subsidiary of the Parent Company.

As a result of the IPO, the Group's remaining ownership over CAI is 65.5%. The Group recognized net gain from CAI's IPO amounting to ₱18.6 billion included in 'Equity reserve' in the consolidated statements of changes in equity.

#### Non-controlling Interests

Below is the rollforward of non-controlling interests:

	<b>September 30, 2013 (Unaudited)</b>	December 31, 2012 (Audited)
Beginning balance	<b>₱43,661,436</b>	₱39,115,505
Total comprehensive income:		
Net income attributable to non-controlling interests	<b>4,923,886</b>	6,371,265
Other comprehensive income attributable to non-controlling interests:		
Net gain (loss) on AFS investments	<b>(268,982)</b>	152,992
Cumulative translation adjustments	<b>66,621</b>	(73,331)
	<b>4,721,525</b>	6,450,926
Cash dividends paid to non-controlling interests	<b>(3,033,046)</b>	(₱ 2,268,172)
Decrease (increase) in subsidiaries' treasury shares	<b>(23,578)</b>	4,201,219
Acquisition of non-controlling interest by a subsidiary	<b>(147,542)</b>	(3,838,042)
Additional non-controlling interests in subsidiaries	-	-
	<b>₱45,178,795</b>	₱43,661,436

#### 21. **Banking Revenue**

This account consists of:

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Interest income (Note 22)	<b>₱1,496,436</b>	₱1,382,210
Trading and securities gains	<b>451,236</b>	377,739
Service fees and commission income	<b>188,075</b>	87,328
	<b>₱2,135,747</b>	₱1,847,277

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## 22. Interest Income

This account consists of:

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Interest income from:		
Cash and cash equivalents	<b>₱544,321</b>	₱1,095,532
Finance receivables, unquoted debt securities and sales contract receivable	<b>1,149,022</b>	963,975
AFS debt investments	<b>503,962</b>	578,999
Investments in financial assets at FVPL	<b>724,149</b>	560,387
Installment contract receivables	-	133,285
Others	<b>1,797</b>	6,516
	<b>₱2,923,251</b>	₱3,338,694

Interest income is included in the following accounts in the consolidated statements of comprehensive income as follows:

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Finance income	<b>₱1,426,815</b>	₱1,956,484
Banking revenue (Note 21)	<b>1,496,436</b>	1,382,210
	<b>₱2,923,251</b>	₱3,338,694

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## 23. Dividend Income

As a holding company, the Parent Company receives dividends from its strategic investments in companies that are neither consolidated nor equity-accounted in the group accounts.

Beginning 2012, management voluntarily changed its presentation of dividend income and included the same under 'Revenue'. Management believes that this presentation is more appropriate as it accurately reflects the underlying business, will further improve comparability of its results to those of other holding companies and will allow readers to make a more accurate assessment of the sustainable earnings capacity of the Group. Previously, dividend income was presented under 'Other income'. Refer to Note 2 to the consolidated financial statements for details of the effect of the presentational change.

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## 24. Other Operating Income

This account consists of:

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Realized gain on sale of AFS investments	<b>₱17,958</b>	(₱707)
Commission income from insurance brokerage business	<b>115,318</b>	109,910
Others	<b>535,046</b>	205,187
	<b>₱668,322</b>	₱314,390

Others include rent income and gain (loss) on sale of PPE.

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## 25. Cost of Sales and Services

Cost of sales and services is broken down as follows:

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Foods, agro-industrial and commodities	<b>₱42,575,845</b>	₱39,198,100
Air transportation	<b>22,213,571</b>	20,714,986
Real estate and hotels	<b>6,209,482</b>	4,910,731
Petrochemicals	<b>1,699,150</b>	4,210,278
Banking	<b>478,586</b>	615,062
	<b>₱73,176,634</b>	₱69,649,157

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## 26. Selling, General and Administrative Expenses

This account consists of:

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Advertising and promotions	<b>₱4,406,186</b>	₱3,619,268
Outside services	<b>3,453,188</b>	2,875,114
Depreciation and amortization	<b>2,834,794</b>	2,330,940
Personnel	<b>2,810,992</b>	2,346,948
Aircraft and engine lease	<b>1,593,621</b>	1,563,410
Taxes, licenses and fees	<b>583,211</b>	403,754
Travel and transportation	<b>563,625</b>	524,687
Rental	<b>466,069</b>	410,541
Sales commission	<b>364,891</b>	260,388

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Utilities and supplies	<b>360,895</b>	323,048
Insurance	<b>314,733</b>	345,905
Repairs and maintenance	<b>235,268</b>	210,607
Communication	<b>116,396</b>	104,437
Entertainment, amusement and recreation	<b>108,069</b>	77,282
Others	<b>734,134</b>	616,794
	<b>₱18,946,072</b>	₱16,013,123

Others

Other expenses include royalties, donation and contribution, and membership and subscription dues.

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## 27. Financing Costs and Other Charges

This account consists of:

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Interest expense	<b>₱2,898,118</b>	₱2,994,540
Bank charges and others	<b>94,686</b>	136,404
	<b>₱2,992,804</b>	₱3,130,944

The Group's interest expense is incurred from the following:

	<b>September 30, 2013 (Unaudited)</b>	September 30, 2012 (Unaudited)
Long-term debt (Note 18)	<b>₱2,585,955</b>	₱2,436,543
Short-term debt (Note 18)	<b>267,063</b>	467,457
Advances from affiliates	<b>33,648</b>	59,148
Others	<b>11,452</b>	31,392
	<b>₱2,898,118</b>	₱2,994,540

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## 28. Earnings Per Share

Basic earnings per share is calculated by dividing the net income 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 tables reflect the net income and share data used in the basic/dilutive EPS computations:

Earnings per share attributable to equity holders of the Parent Company

	<b>September 30, 2013</b>	September 30, 2012
Income attributable to equity holders of common shares of the Parent Company	<b>₱8,410,662</b>	₱10,758,709
Weighted average number of common shares	<b>6,797,192</b>	6,797,192
<b>Basic/dilutive earnings per share</b>	<b>₱1.24</b>	₱1.58

There were no potential dilutive common shares in September 30, 2013 and 2012.

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**29. Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties. Due from and due to related parties are collectible/payable on demand.

The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries as discussed in Note 18 to the consolidated financial statements. No fees are charged for these guarantee agreements. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries.

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

*Transactions with the retirement plan*

The retirement fund of the Group's employees is being managed by JG Summit Multi-Employer Retirement Plan, a corporation created for the purpose of managing the funds of the Group, with RBC as the trustee.

*Related party transactions which are not eliminated follow:*

	<b>September 30, 2013 (Unaudited)</b>	December 31, 2012 (Audited)
Due from related parties	<b>₱1,677,675</b>	₱1,328,455
Due to related parties		
Current	<b>523,524</b>	691,152
Noncurrent	<b>1,043,627</b>	1,039,490

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### **30. Registration with Government Authorities/Franchise**

Certain operations of consolidated subsidiaries are registered with the BOI as preferred pioneer and non-pioneer activities, and are granted various authorizations from certain government authorities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

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### **31. Contingent Liabilities**

The Group has various contingent liabilities arising in the ordinary conduct of business from legal proceedings which are either pending decision by the courts, under arbitration or being contested, the outcomes of which are not presently determinable. In the opinion of management and its legal counsels, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the ground that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.

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### **32. Subsequent Events**

On October 3, 2013, the Parent Company sold 105,000,000 Universal Robina Corporation (the "Issuer") ordinary shares via an accelerated overnight equity placement at a price of ₱115 per share, representing a 6.5% discount to the previous closing price.

After the sale, the Parent Company will continue to hold 55.7% in the Issuer.