

**COVER SHEET**

SEC Registration Number

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Company Name

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Principal Office (No./Street/Barangay/City/Town/Province)

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
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Department requiring the report

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Secondary License Type, If Applicable

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**COMPANY INFORMATION**

Company's Email Address

|                               |
|-------------------------------|
| Michele.Abellanosa@urc.com.ph |
|-------------------------------|

Company's Telephone Number/s

|          |
|----------|
| 633-7631 |
|----------|

Mobile Number

|  |
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No. of Stockholders

|  |
|--|
|  |
|--|

Annual Meeting Month/Day

|  |
|--|
|  |
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Fiscal Year Month/Day

|             |
|-------------|
| December 31 |
|-------------|

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person

|                       |
|-----------------------|
| Michele F. Abellanosa |
|-----------------------|

Email Address

|                               |
|-------------------------------|
| Michele.Abellanosa@urc.com.ph |
|-------------------------------|

Telephone Number/s

|          |
|----------|
| 633-7631 |
|----------|

Mobile Number

|               |
|---------------|
| 0998-840-0423 |
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Contact Person's Address

|  |
|--|
| 43 <sup>rd</sup> Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City |
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**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2015
2. SEC 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. Pasig City, Philippines  
Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. 43<sup>rd</sup> Floor, Robinsons-Equitable Tower ADB Ave. corner Poveda Road, Pasig City 1600  
Address of principal office Postal Code
8. (632) 633-7631  
Registrant's telephone number, including area code
9. Not Applicable  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the RSC, or Sec. 4 and 8 of the RSA

| Title of Each Class   | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|-----------------------|--|
| <b>Common Stock</b>   | <b>7,162,841,657</b>   |
| <b>Long-term Debt</b> | <b>30,000,000,000</b>  |

11. Are any or all of these securities listed on a Stock Exchange.  
  
Yes [ / ]                      No [ ]  
If yes, state the name of such stock exchange and the classes of securities listed herein:  
  
Philippine Stock Exchange  
Common Stock

12. Check whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);  
  
Yes [ / ]                      No [ ]
  - (b) has been subject to such filing requirements for the past 90 days.  
  
Yes [ / ]                      No [ ]

## **PART I - BUSINESS AND GENERAL 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.**

#### **Alignment of Accounting Period**

In previous years, the Group consolidated the financial statements of their fiscal year end subsidiaries using their September 30 fiscal year end financial statements as allowed under PFRS 10. In accordance with PFRS 10, management exercised 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 September 30 and the date of the Parent Company's financial statements.

In 2014, management of the Group deemed that it is now practicable to prepare consolidated financial statements incorporating the financial statements of the Group's fiscal yearend subsidiaries as of the same date as the Parent Company's financial statements which is December 31. Accordingly, the Group restated the financial statements for the six months ended June 30, 2014 to reflect the effect of the alignment of the accounting periods.

#### **Results of Operations**

##### **Six Months Ended June 30, 2015 vs June 30, 2014**

##### **JG Summit's Core Net Income increased 33% for the First Half of 2015**

JG Summit Holdings Inc.'s core net income after taxes excluding nonrecurring items increased 33.0% from ₱10.60 billion for the first half of 2014 to ₱14.09 billion for the first half of 2015. It posted a consolidated net income from equity holders of the parent of ₱7.44 billion for the second quarter of 2015, bringing half year net income to ₱13.43 billion, a 4.4% increase from the same period last year. The smaller increase in accounting net income was mainly due to last year's one-time gain on sale of Jobstreet to ₱1.45 billion. The increase in core earnings is due to the double-digit income growth in our core operating businesses particularly Cebu Air, which benefited significantly from the substantial reduction in fuel prices and our Petrochemical business which resumed commercial operations last November 2014. Consolidated EBITDA reached ₱32.0 billion, a 29.1% increase compared to last year.

Consolidated revenues grew 26.7% from ₱89.88 billion to ₱113.84 billion due to the strong performance of the following core subsidiaries:

- URC's total revenues increased by 18.0% from ₱46.53 billion to ₱54.93 billion for the first half of 2015 with sales contribution from Griffin's NZ which was consolidated starting mid-November of 2014 upon closing of the acquisition.
- Cebu Air's total revenues went up by 10.4% from ₱26.72 billion to ₱29.51 billion for the 1<sup>st</sup> half of 2015 due to higher passenger volume.
- RLC's total revenues also increased by 12.9% from ₱8.67 billion in 2014 to ₱9.79 billion in 2015. This was brought about by the revenue contributed by the seven newest malls, two office buildings (Cyberscape Alpha and Beta) and 3 new hotels (Go Hotels Iloilo, Go Hotels Ortigas and Summit Magnolia Hotel).

- JG Petrochem's revenue, including that from Olefins, significantly increased from ₱530.53 million for the 1<sup>st</sup> half of 2014 to ₱12.15 billion for the same period this year as they commenced operations in November 2014.

Revenues from our core investments, however, declined this period compared to same period last year as dividend income received by the Group dropped 22.5% from ₱2.09 billion last year to ₱1.62 billion for the 1<sup>st</sup> half of the year mainly due to lower dividends declared by PLDT for the period. Equity in net earnings of associates, primarily from investments in UIC and Meralco, increased from ₱3.80 billion for the 1<sup>st</sup> half of 2014 to ₱4.17 billion in the 1<sup>st</sup> half of 2015.

Consolidated cost of sales and services for the first half of 2015 increased 27.0% from ₱55.09 billion last year to ₱69.97 billion relative to higher revenues.

The Group's operating expenses increased by 20.5% from ₱15.55 billion last year to ₱18.74 billion in the same period this year due to higher selling, general and administrative expenses in the airline and food business units. As a result, Operating Income or EBIT went up 30.6% from ₱19.25 billion to ₱25.13 billion.

The Group's financing costs and other charges net of interest income, increased by 38.5% to ₱2.73 billion from last year's ₱1.97 billion because of the increase in long-term debt relative to the recent acquisition of the Griffin's NZ business by URC.

Market valuation gain recognized from our financial assets and derivative instruments during the first half of 2015 amounted to ₱29.08 million from ₱385.07 million. This is attributable mainly to lower market valuation gain recognized from our FVPL investments from offshore subsidiaries.

The Group recognized net foreign exchange loss of ₱836.56 million from a net foreign exchange gain of ₱1.04 billion reported last year due to the depreciation of Philippine Peso and other ASEAN regional currencies vs US Dollar.

Other income (expense) – net account, which represents miscellaneous income and expenses, netted a gain of ₱93.17 million, from last year's ₱1.06 billion which includes a one-time gain on sale of Jobstreet.

Provision for income tax increased by 12.1% to ₱2.53 billion for the first half of 2015 due to higher taxable income for the period.

## **FOOD**

**Universal Robina Corporation (URC)** generated a consolidated sale of goods and services of ₱54.93 billion for the first half of 2015, an 18.0% sales growth over the same period last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods segment, excluding packaging division, increased 19.2%, to ₱45.54 billion for the first half of 2015 from ₱38.20 billion registered in the same period last year. Domestic operations posted an 8.1% increase in net sales from ₱26.19 billion for the first half of 2014 to ₱28.30 billion for the first half of 2015 due to strong performance of its beverage division from the continued growth of powdered beverage business, mainly coming from coffee, partly offset by slower growth in RTD beverages due to capacity constraint. Sale for snack foods division also increased due to growth across salty snacks, bakery and chocolate segments. BCFG international operations reported a 43.5% increase in net sales

from ₱12.02 billion for the first half of 2014 to ₱17.24 billion for the first half of 2015. In US dollar (US\$) terms, sales increased by 43.8% to US\$388 million for the first half of 2015 against the same period last year. Top-line growth came from Thailand, Indonesia and Vietnam, with sales contribution from New Zealand. Thailand grew by 8.4% despite a relatively weak macro environment and consumer sentiment backed by core brands, new products launches and continuous promotional activities. Indonesia posted a 29.8% growth on the back of robust sales of RTD beverages, C2 and Rong Do. The Group started consolidating Griffin's into URC International starting mid-November upon closing of the acquisition. Sale of goods and services in URC's packaging division increased by 2.8% to ₱556 million for the first half of 2015 from ₱541 million recorded in the same period last year due to increase in sales volume. (2) Agro-Industrial segment (AIG) amounted to ₱4.41 billion for the first half of 2015, a 6.7% increase from ₱4.13 billion recorded in the same period last year. Feeds business increased by 17.6% due to increase in sales volume as a result of effective sales strategy while farms business remained flat. (3) Sale of goods and services in commodity foods segment amounted to ₱4.42 billion for the first half of 2015, a 20.9% increase from ₱3.66 billion reported in the same period last year. Sugar business increased by 43.7% due to higher sales of raw and refined sugar as a result of higher production and addition of distillery operations while flour business remained flat as the increase in volume for both flour and pasta was reduced by decline in average selling price of flour due to influx of imported flour.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by 18.0%, to ₱37.53 billion for the first half of 2015 from ₱31.82 billion recorded in the same period last year due to increase in sales volume.

URC's gross profit for the first half of 2015 amounted to ₱17.39 billion up by 18.2% from ₱17.72 billion reported in the same period last year. Gross profit margin slightly increased from 31.6% for the first half of 2014 to 31.7% for the first half of 2015. Selling and distribution costs, and general and administrative expenses rose by 16.4% to ₱8.77 billion for the first half of 2015 from ₱7.53 billion registered for the first half of 2014. This increase resulted primarily from the following factors: (a) 40.3% increase in compensation and benefits to ₱2.03 billion for the first half of 2015 from ₱1.45 billion in the same period last year due to annual salary adjustments and increase in personnel as a result of business acquisition; (b) 16.4% increase in freight and delivery charges to ₱2.37 billion for the first half of 2015 from ₱2.04 billion in the same period last year due to increase in trucking and shipping costs as a result of increased volume; and (c) 229.2% increase in rent expense to ₱274 million for the first half of 2015 from ₱83 million in the same period last year as a result of consolidating Griffin's operations this year.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue increased by 24.3% to ₱132 million for the first half of 2015 from ₱106 million in the same period last year due to increase in level of financial assets and higher dividend income received.

URC's finance costs consist mainly of interest expense which increased by ₱662 million to ₱723 million for the first half of 2015 from ₱60 million recorded in the same period last year due to increase in level of financial debt resulting from avilment of long-term debt to finance the acquisition of Griffin's.

Foreign exchange loss – net decreased to ₱122 million for the first half of 2015 from ₱136 million reported in the same period last year due to currency translation adjustment on foreign currency denominated accounts.

Market valuation gain on financial instruments at fair value through profit of loss decreased to ₱3 million for the first half of 2015 from ₱24 million in the same period last year due to decline in market values of equity investments.

Equity in net loss of joint ventures amounted to ₱142 million for the first half of 2015 as against ₱8 million equity income in the same period last year due to pre-operating expenses of Danone Universal Robina Beverages, Inc. (DURBI) and Calbee-Universal Robina Corporation (CURC).

Other income (expenses) - net consists of gain (loss) on sale of fixed assets and investments, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other income - net increased to ₱146 million for the first half of 2015 from ₱34 million in the same period last year due to increase in scrap sales and income recognized from sale of poultry farm.

URC recognized provision for income tax of ₱1.55 billion for the first half of 2015, a 9.7% increase from ₱1.41 billion for the first half of 2014 due to higher taxable income, net of increase in deferred tax asset recognized this year.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other expenses - net) for the first half of 2015 amounted to ₱8.04 billion, an increase of 10.6% from ₱7.27 billion recorded in the same period last year.

Net income attributable to equity holders of the parent increased by 10.9% to ₱6.31 billion for the first half of 2015 from ₱5.69 billion for the first half of 2014 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱10.83 billion for the first half of 2015, 18.9% higher than ₱9.10 billion posted for the first half of 2014.

## **REAL ESTATE AND HOTELS**

**Robinsons Land Corporation (RLC)** consolidated net income attributable to equity holders of the Parent company for the period ended June 30 amounted to ₱2.96 billion, up by 17.3%. EBIT and EBITDA rose by 22.4% and 18.5% to ₱3.80 billion and ₱5.35 billion, respectively for the six months ended June 30, 2015.

Total real estate revenues were up by 12.8% to ₱8.93 billion against last year's ₱7.92 billion, while hotel revenues amounted to ₱867.2 million. The Commercial Centers Division contributed 46% or ₱4.55 billion of RLC's gross revenues, posting an 11.1% growth. The seven newest malls contributed to the growth while most provincial malls also posted decent growth in rental revenues. Amusement revenue went up by 17.5% to ₱804.9 million. RLC's Residential Division contributed 34% or ₱3.29 billion, a growth of 7.3%. The Office Buildings Division contributed 11% or ₱1.08 billion of RLC's revenues, up by 44.7% from last year's ₱749.9 million. Such growth is largely due to the new office buildings Cyberscape Alpha and Beta. Also, the eight existing office buildings posted growth in rental revenues. The Hotels Division contributed 9% or ₱867.2 million to RLC's revenues, up by 14.0% due to the new Go Hotels Iloilo, Go Hotels Ortigas and Summit Magnolia Hotel, among others.

Real estate cost went up by 8.0% to ₱3.94 billion due to higher cost of rental service brought about by higher depreciation, among others. Hotel expenses are up by 8.7% to ₱663.7 million due to the expenses of the new hotels. General and administrative expenses went up by 5.9% to ₱1.40 million because of higher commissions, and advertising, among others.

### **AIR TRANSPORTATION**

**Cebu Air, Inc. (Cebu Pacific)** generated gross revenues of ₱29.51 billion six months ended June 30, 2015, 10.4% higher than the ₱26.72 billion revenues earned in the same period last year mainly attributed to the increase in passenger revenues by 9.4% to ₱22.82 billion in the six months ended June 30, 2015 from ₱20.85 billion posted in the six months ended June 30, 2014. This increase was mainly attributable to the 8.2% increase in passenger volume to 9.2 million from 8.5 million in 2014 driven by the increased number of flights in 2015. Number of flights went up by 10.7% year on year as the Group added more aircraft to its fleet, particularly, its acquisition of wide-body Airbus A330 aircraft with a configuration of more than 400 all-economy class seats. The number of aircraft increased from 52 aircraft as of June 30, 2014 to 55 aircraft as of June 30, 2015, which includes 2 brand new Airbus A330 aircraft delivered in 2014 and in 2015. Increase in average fares by 1.1% to ₱2,474 for the six months ended June 30, 2015 from ₱2,446 for the same period last year also contributed to the growth revenues. Cargo revenues grew by 11.4% to ₱1.60 billion for the six months ended June 30, 2015 from ₱1.44 billion for the six months ended June 30, 2014 following the increase in the volume of cargo transported in 2015. Ancillary revenues went up by 15.0% to ₱5.09 billion in the six months ended June 30, 2015 from ₱4.43 billion registered in the same period last year consequent to the 8.2% increase in passenger traffic and 6.3% increase in average ancillary revenue per passenger. Improved online bookings, together with a wider range of ancillary revenue products and services, also contributed to the increase.

Cebu Pacific incurred operating expenses of ₱23.47 billion for the six months ended June 30, 2015, slightly lower by 1.2% than the ₱23.76 billion operating expenses recorded for the six months ended June 30, 2014. The decrease is attributable to the substantial reduction in fuel costs incurred for the six months ended June 30, 2015 compared to the same period last year due to the sharp decline in global jet fuel prices. The drop in fuel costs, however, was offset by the increase in majority of the Group's operating expenses driven by its expanded long haul operations, growth in seat capacity from the acquisition of new aircraft and the weakening of the Philippine peso against the U.S. dollar. Flying operations expenses decreased by 17.5% to ₱10.81 billion for the six months ended June 30, 2015 from ₱13.10 billion incurred in the same period last year. This is primarily attributable to the 21.5% decline in aviation fuel expenses to ₱9.16 billion for the six months ended June 30, 2015 from ₱11.67 billion for the same period last year consequent to the significant drop in jet fuel prices as referenced by the reduction in the average published fuel MOPS price of U.S. \$71.87 per barrel in the six months ended June 30, 2015 from U.S. \$120.93 per barrel in 2014. Aircraft and traffic servicing expenses increased by 19.3% to ₱2.78 billion for the six months ended June 30, 2015 from ₱2.33 billion registered in the same period in 2014 as a result of the overall increase in the number of flights flown in 2015. 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 6.2% year on year with the launch of long haul operations to Kuwait, Sydney and Riyadh in the latter part of 2014 and to Doha in June 2015. Depreciation and amortization expenses increased by 20.4% to ₱2.47 billion for the six months ended June 30, 2015 from ₱2.05 billion for the six months ended June 30, 2014 consequent to the arrival

of three Airbus A320 aircraft during the last quarter of 2014 and two Airbus A320 aircraft in 2015. Repairs and Maintenance expenses went up by 11.4% to ₱2.54 billion for the six months ended June 30, 2015 from ₱2.28 billion posted in the six months ended June 30, 2014. Increase was driven by the overall increase in the number of flights and the delivery of two Airbus A320 and one Airbus A330 aircraft in the second half of 2014 and two Airbus A320 and one Airbus A330 aircraft in 2015 partially offset by the return of three leased Airbus A320 aircraft in the latter part of 2014. Aircraft and engine lease expenses moved up by 11.9% to ₱1.94 billion in the six months ended June 30, 2015 from ₱1.74 billion charged for the six months ended June 30, 2014. Increase in aircraft lease was due to the delivery of two Airbus A330 aircraft under operating lease in the next half of 2014 and 2015. This was partially offset by the return of three leased Airbus A320 aircraft in the latter part of 2014. Reservation and sales expenses increased by 26.3% to ₱1.37 billion for the six months ended June 30, 2015 from ₱1.08 billion for the six months ended June 30, 2014. This was primarily attributable to the increase in commission expenses and online bookings relative to the overall growth in passenger volume year on year. General and administrative expenses grew by 35.0% to ₱828.39 million for the six months ended June 30, 2015 from ₱613.63 million incurred in the six months ended June 30, 2014 primarily attributable to the increased flight and passenger activity in 2015. Passenger service expenses went up by 29.7% to ₱733.44 million for the six months ended June 30, 2015 from ₱565.51 million posted for the six months ended June 30, 2014 primarily caused by additional cabin crew hired for the Airbus A320 and A330 aircraft acquired during the second half of 2014 and in 2015 and the increase in passenger food and supplies from pre-ordered meals being offered in international flights.

Cebu Pacific recognized lower interest income for the six months ended June 30, 2015 amounting to ₱47.69 million from ₱53.03 million earned in the same period last year due to the decrease in the balance of cash in bank and short-term placements year on year and lower interest rates for US dollar short-term placements.

Cebu Pacific incurred a hedging gain of ₱20.52 million the six months ended June 30, 2015, a decrease of 42.6% from hedging gain of ₱35.74 million in the same period last year as a result of lower mark-to-market valuation on fuel hedging positions consequent to the material decline in fuel prices in 2015.

A net foreign exchange loss of ₱359.79 million was recorded for the six months ended June 30, 2015 resulted from the weakening of the Philippine peso against the U.S. dollar as referenced by the depreciation of the Philippine peso to ₱45.09 per U.S. dollar for the six months ended June 30, 2015 from ₱44.72 per U.S. dollar for the twelve months ended December 31, 2014 based on PDEX closing rates. The Group'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.

Equity in net loss of joint venture amounted to ₱11.67 million for the six months ended June 30, 2015 ₱88.22 million or 115.2% lower than the ₱76.54 million equity in net income of joint venture earned in the same period last year. The decrease was primarily due to the net loss from current operations incurred by Philippine Academy for Aviation Training, Inc. (PAAT) and SIA Engineering (Philippines) Corporation (SIAEP) in 2015. Interest expense increased by 1.4% to ₱517.31 million for the six months ended June 30, 2015 from ₱510.22 million in the six months ended June 30, 2014. Increase was due to higher interest expense incurred brought by the additional loans availed to finance the acquisition of two Airbus A320 aircraft during the last quarter of 2014 and two Airbus A320 aircraft in 2015 coupled with the effect of the weakening of the Philippine peso against the U.S. dollar during the current period.



As a result of the foregoing, net income for the six months ended June 30, 2015 significantly increased to ₱5.20 billion, an increase of 63.6% from the ₱3.18 billion net income earned in the same period last year.

## **PETROCHEMICALS**

**JG Summit Petrochemicals Corporation and JG Summit Olefins Corporation (JGSPC and JGSOC)** gross revenues reached ₱12.15 billion for the six months ended June 30, 2015 as compared to last year's ₱530.53 million as JGSPC resumed its commercial operations after the completion of its polymer plant expansion and rehabilitation projects in March 2014 and the naphtha cracker in November 2014. Sales volume for PE and PP increased significantly from 9,529 MT in 2014 to 171.0 thousand MT in 2015 while sales volume for C2 and pygas (olefins), reached 104.2 thousand MT in 2015. Costs and expenses, consequently increased from ₱847.49 million in 2014 to ₱11.87 billion in 2015 relative to the resumption and commencement of commercial operations for JGSPC and JGSOC, respectively.. Interest expense also reached ₱33.46 million for the six months ended June 30, 2015 from ₱6.61 million in 2014 due to higher level of trust receipts for both Petrochem and Olefins for the first half of 2015 compared to the same period last year. Net foreign exchange loss increased to ₱166.11 million for the six months ended June 30, 2015 from ₱17.38 million for the same period last year. All these factors contributed to the net income of ₱490.41 million recorded for the six months ended June 30, 2015 from a net loss of ₱216.91 million for the same period last year

## **BANKING**

**Robinsons Bank Corporation**, generated banking revenue of ₱1.41 billion for the first half of 2015, a 6.7% increase from last year's ₱1.32 billion. This increase was brought about by higher interest income, commission income and trading gain for the period. However, cost and expenses also increased, higher than the revenue growth as the bank continued its expansion. Impairment loss for the period increased to ₱82.67 million from ₱56.37 million during the period. All these factors contributed to lower net earnings of ₱64.72 million for the six months ended June 30, 2015, from last year's ₱125.62 million.

## **EQUITY EARNINGS**

**Equity in net earnings of associates companies and joint ventures** amounted to ₱4.17 billion for the first six months of 2015 a 9.7% increase from last year's ₱3.80 billion. The equity earnings from Meralco increased 17.8% from ₱2.61 billion last year to ₱3.08 billion in the same period this year. Equity income from UIC, increased 13.5% from ₱1.09 billion last year to ₱1.24 billion for the first half of 2015. UIC recorded a 20% growth in its net income from operations from S\$97.91 million for the first half of 2014 to S\$117.13 million for the same period in 2015. The increase in net income is mainly due to higher trading property sales with progressive sales recognition on percentage of completion basis for V on Sheraton, Mon Jervois, Alex Residences and Pollen & Bleu and increased share of Singapore Land's operating profit partially offset by lower contribution from the Archipelago joint venture residential project. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

## **FINANCIAL RESOURCES AND LIQUIDITY**

### **June 30, 2015 vs December 31, 2014**

As of June 30, 2015, the Company's balance sheet remains healthy, with consolidated assets of ₱576.37 billion from ₱558.8 billion as of December 31, 2014. Current ratio stood at 1.36. The Company's indebtedness remained manageable with a gearing ratio of 0.65 and net debt to equity of 0.48 as of June 30, 2015.

Cash & cash equivalents increased to ₱44.04 billion as of June 30, 2015, from ₱37.47 billion as of December 31, 2014. Cash provided by operating activities amounted to ₱22.30 billion. As of June 30, 2015, net cash used in investing activities amounted to ₱12.54 billion mainly for the Company's capital expenditure program. The Group's cash used in financing activities amounted to ₱3.19 billion particularly from settlement of the Group's short term loans offset by the ₱12 billion bond issuance of RLC during the period net of prepayment of P1.5B term loan of Parent Company and the ₱8.74 billion proceeds from the issuance of new shares of the Parent Company, which was used to pay off of its short-term borrowings. Our financial assets, including those held at fair value through profit and loss, available for sale investments and held to maturity amounted to ₱77.51 billion a slight decrease from ₱79.1 billion as of December 31, 2014 due to lower market valuation during the period.

Derivative assets, including noncurrent portion decreased 81.1% from ₱154.61 million as of December 31, 2014 to ₱29.18 million in June 2015 due to market valuation loss recognized from interest rate swap transaction of an offshore company.

Other current assets increased 11.2% from ₱12.30 billion in December 2014 to ₱13.67 billion as of June 30, 2015 due to higher balance of advances to suppliers from ongoing construction of malls and offices of the real estate business and advances to suppliers for purchase of Airbus A330 aircraft spare engine of our airline business. Aside from this, increase is also due to bid deposits for certain land acquisitions.

Investment properties increased 11.2% from ₱56.98 billion as of December 31, 2014 to ₱63.37 billion as of June 30, 2015 due to completion of construction of Cyberscape Alpha, Go Hotel Ortigas and Go Hotel Butuan and ongoing constructions at Tera Tower, Bonifacio Summit Center and Go Hotel Davao. Aside from this, there is an ongoing expansion for the following malls: Ortigas, Novaliches and Cebu and land acquisition in Cainta, Rizal for the 2<sup>nd</sup> quarter of 2015.

Property, plant and equipment increased 3.1% from ₱147.49 billion to ₱152.0 billion due to the several plant expansion projects of our branded consumer foods, completion of construction of the naphtha cracking facility and petrochemical's plant rehabilitation and acquisition of two Airbus A320 by Cebu Air.

Accounts payable and accrued expenses increased from ₱67.40 billion as of December 31, 2014 to ₱72.20 billion as of June 30, 2015 mainly from higher level of trade payables, accrued expenses and dividends payable.

Short term debt dropped 53.8% to ₱20.44 billion as of June 30, 2015 from ₱44.3 billion as of December 31, 2014 due to settlement of Parent Company and a portion of RLC's of short term loans. Petrochem and Olefins also settled a big portion of its trust receipts during the period.

Derivative liabilities, including noncurrent portion, totaling ₱1.36 billion is mainly from fuel hedging of our airline business, decrease from year end is mainly because of settlement of certain fuel derivative contracts with counterparties.

Income tax payable decreased 10.0% due to lower level of tax payable of the food and real estate businesses.

Long-term debt, including current portion, increased 5.4% from ₱157.6 billion as of December 31, 2014 to ₱166.12 billion as of June 30, 2015 due to bond issuance of RLC during the period, partially offset by prepayment of P1.5B term loan of the Parent Company.

Other noncurrent liabilities increased 24.9% to ₱12.10 billion as of June 30, 2015 due to higher level of deposit liabilities by our banking business.

Stockholders' equity, excluding minority interest, stood at ₱227.86 billion as of June 30, 2015 from ₱207.6 billion as of December 31, 2014.

Book value per share stood at ₱31.81 as of June 30, 2015.

### KEY FINANCIAL INDICATORS

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements on a consolidated basis based on the financial data as of June 30, 2015 and December 31, 2014 and for the six months ended June 30, 2015 and 2014.

| <b>Key Financial Indicators</b>                                 | <b>2015</b>      | <b>2014</b>     |
|---|------------------|-----------------|
| Revenues  | ₱113,837 million | ₱89,882 million |
| EBIT  | ₱25,130 million  | ₱19,246 million |
| EBITDA  | ₱32,004 million  | ₱24,790 million |
| Core net income after taxes                                     | ₱14,092 million  | ₱10,595 million |
| Net income attributable to equity holders of the Parent Company | ₱13,429 million  | ₱12,863 million |
| Liquidity Ratio:  |                  |                 |
| Current ratio   | 1.36             | 1.10            |
| Solvency ratios:  |                  |                 |
| Gearing ratio   | 0.65             | 0.77            |
| Net debt to equity ratio  | 0.48             | 0.59            |
| Asset-to-equity ratio   | 2.00             | 2.14            |
| Interest rate coverage ratio                                    | 9.41             | 9.31            |
| Profitability ratio:  |                  |                 |
| Operating margin  | 0.22             | 0.21            |
| Book value per share  | 31.81            | 29.59           |

The manner in which the Company calculates the above key performance indicators for both period-end 2015 and 2014 is as follows:

| <b>Key Financial Indicators</b> |   |   |
|---------------------------------|---|---|
| Revenues                        | = | Total of sales and services, income from banking business, dividend income and equity in net earnings   |
| EBIT                            | = | Operating income  |
| EBITDA                          | = | Operating income add back depreciation and amortization expense.  |
| Core net income after taxes     | = | Net income attributable to equity holders of Parent company as adjusted for the net effect of gains/losses on foreign exchange, market valuations and derivative transactions |
| 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 RBC Cash, Financial assets at FVPL 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:

None

- 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:

**PART II – OTHER INFORMATION**

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

None.

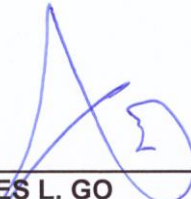
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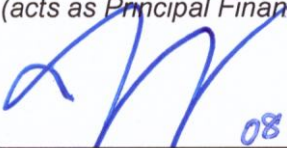
**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation 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:

  
08-13-15  
**JAMES L. GO**  
Chairman of the Board and  
Chief Executive Officer  
(acts as *Principal Financial Officer*)

  
08-13-15  
**LANCE Y. GOKONGWEI**  
President and  
Chief Operating Officer

  
08-13-15  
**CONSTANTE T. SANTOS**  
Senior Vice President  
Corporate Controller

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

|  | <b>June 30,<br/>2015</b> | December 31,<br>2014 |
|--|--------------------------|----------------------|
|  | <b>(Unaudited)</b>       | <b>(Audited)</b>     |
| <b>ASSETS</b>  |                          |                      |
| <b>Current Assets</b>  |                          |                      |
| Cash and cash equivalents (Note 7)                             | <b>P44,043,585</b>       | P37,474,642          |
| Financial assets at fair value through profit or loss (Note 9) | <b>15,834,009</b>        | 15,273,969           |
| Derivative asset under hedged accounting (Note 8)              | -                        | 28,424               |
| Available-for-sale investments (Note 10)                       | <b>11,374,470</b>        | 11,789,036           |
| Receivables (Note 11)  | <b>23,569,999</b>        | 24,765,869           |
| Inventories (Note 12)  | <b>39,772,937</b>        | 40,132,767           |
| Biological assets  | <b>1,174,991</b>         | 1,234,575            |
| Other current assets (Note 13)                                 | <b>13,673,037</b>        | 12,297,848           |
| <b>Total Current Assets</b>                                    | <b>149,443,028</b>       | 142,997,130          |
| <b>Noncurrent Assets</b>                                       |                          |                      |
| Available-for-sale investments (Note 10)                       | <b>48,600,290</b>        | 50,260,656           |
| Derivative asset under hedged accounting (Note 8)              | <b>29,183</b>            | 126,184              |
| Receivables (Note 11)  | <b>19,261,438</b>        | 19,000,582           |
| Held-to-maturity investment (Note 10)                          | <b>1,699,149</b>         | 1,768,603            |
| Investments in associates and joint ventures (Note 14)         | <b>113,800,234</b>       | 112,109,686          |
| Property, plant and equipment                                  | <b>151,996,711</b>       | 147,486,411          |
| Investment properties  | <b>63,372,824</b>        | 56,982,695           |
| Goodwill   | <b>16,878,004</b>        | 16,878,004           |
| Biological assets  | <b>470,470</b>           | 476,438              |
| Intangible assets  | <b>7,184,784</b>         | 7,178,004            |
| Other noncurrent assets (Note 15)                              | <b>3,636,973</b>         | 3,514,395            |
| <b>Total Noncurrent Assets</b>                                 | <b>426,930,060</b>       | 415,781,658          |
|  | <b>P576,373,088</b>      | P558,778,788         |
| <b>LIABILITIES AND EQUITY</b>                                  |                          |                      |
| <b>Current Liabilities</b>                                     |                          |                      |
| Accounts payable and accrued expenses (Note 16)                | <b>P72,196,905</b>       | P67,397,212          |
| Short-term debts (Note 18)                                     | <b>20,443,992</b>        | 44,286,734           |
| Derivative liabilities (Note 8)                                | <b>1,356,991</b>         | 1,762,811            |
| Income tax payable   | <b>2,077,127</b>         | 2,307,669            |
| Current portion of long-term debts (Note 18)                   | <b>4,829,530</b>         | 4,475,008            |
| Other current liabilities (Note 17)                            | <b>9,333,052</b>         | 9,577,276            |
| <b>Total Current Liabilities</b>                               | <b>110,237,597</b>       | 129,806,710          |

(Forward)

|  | <b>June 30,<br/>2015</b> | December 31,<br>2014 |
|--|--------------------------|----------------------|
|  | <b>(Unaudited)</b>       | (Audited)            |
| <b>Noncurrent Liabilities</b>                                |                          |                      |
| Long-term debts - net of current portion (Note 18)           | <b>161,289,931</b>       | 153,079,728          |
| Deferred tax liabilities                                     | <b>4,560,107</b>         | 4,594,920            |
| Other noncurrent liabilities (Note 19)                       | <b>12,096,496</b>        | 9,686,976            |
| Total Noncurrent Liabilities                                 | <b>177,946,534</b>       | 167,361,624          |
| Total Liabilities  | <b>288,184,131</b>       | 297,168,334          |
| <b>Equity</b>  |                          |                      |
| Equity attributable to equity holders of the Parent Company: |                          |                      |
| Paid-up capital (Note 20)                                    | <b>30,755,867</b>        | 22,015,338           |
| Retained earnings (Note 20)                                  | <b>162,071,446</b>       | 150,226,755          |
| Equity reserve (Note 20)                                     | <b>27,546,248</b>        | 27,546,248           |
| Other comprehensive income                                   | <b>7,485,359</b>         | 7,827,996            |
|  | <b>227,858,920</b>       | 207,616,337          |
| Non-controlling interests                                    | <b>60,330,037</b>        | 53,994,117           |
| Total Equity   | <b>288,188,957</b>       | 261,610,454          |
|  | <b>₱576,373,088</b>      | ₱558,778,788         |

*See accompanying Notes to Consolidated Financial Statements.*



## JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

### UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands Except Per Share Amounts)

|   | Quarters Ended June 30 |                       | Six Months Ended June 30 |                       |
|---|------------------------|-----------------------|--------------------------|-----------------------|
|   | 2015                   | 2014<br>(As Restated) | 2015                     | 2014<br>(As Restated) |
| <b>REVENUE</b>  |                        |                       |                          |                       |
| Sale of goods and services:   |                        |                       |                          |                       |
| Foods   | <b>₱26,279,305</b>     | ₱23,495,762           | <b>₱54,926,591</b>       | ₱46,533,834           |
| Air transportation  | <b>15,307,656</b>      | 14,952,645            | <b>29,506,011</b>        | 26,717,061            |
| Real estate and hotels  | <b>4,902,077</b>       | 4,602,668             | <b>9,785,356</b>         | 8,670,518             |
| Petrochemicals  | <b>6,914,091</b>       | 328,059               | <b>12,146,914</b>        | 530,528               |
| Banking   | <b>691,064</b>         | 720,429               | <b>1,412,283</b>         | 1,323,258             |
| Dividend income   | <b>43,736</b>          | 35,436                | <b>1,617,291</b>         | 2,087,521             |
| Equity in net earnings of<br>associates and joint ventures                            | <b>2,493,098</b>       | 2,203,803             | <b>4,168,862</b>         | 3,798,844             |
| Supplementary businesses  | <b>153,592</b>         | 124,787               | <b>273,944</b>           | 220,316               |
|   | <b>56,784,619</b>      | 46,463,589            | <b>113,837,252</b>       | 89,881,880            |
| <b>COST OF SALES AND SERVICES</b>   | <b>33,925,672</b>      | 28,620,469            | <b>69,969,277</b>        | 55,089,869            |
| <b>GROSS INCOME</b>   | <b>22,858,947</b>      | 17,843,120            | <b>43,867,975</b>        | 34,792,011            |
| <b>OTHER OPERATING EXPENSES</b>   |                        |                       |                          |                       |
| General and administrative expenses   | <b>9,379,319</b>       | 7,883,715             | <b>18,655,556</b>        | 15,489,863            |
| Impairment losses and others  | <b>36,811</b>          | 23,796                | <b>82,717</b>            | 56,366                |
|   | <b>9,416,130</b>       | 7,907,511             | <b>18,738,273</b>        | 15,546,229            |
| <b>OPERATING INCOME</b>   | <b>13,442,817</b>      | 9,935,609             | <b>25,129,702</b>        | 19,245,782            |
| <b>OTHER INCOME (LOSSES)</b>  |                        |                       |                          |                       |
| Financing costs and other charges   | <b>(1,671,128)</b>     | (1,441,184)           | <b>(3,401,613)</b>       | (2,662,086)           |
| Market valuation losses on derivative<br>financial instruments                        | <b>381,082</b>         | 80,824                | <b>20,516</b>            | 35,735                |
| Finance income  | <b>348,564</b>         | 339,223               | <b>675,921</b>           | 693,449               |
| Foreign exchange losses   | <b>(640,909)</b>       | 1,202,274             | <b>(836,559)</b>         | 1,038,582             |
| Market valuation gains on financial<br>assets at fair value through profit or<br>loss | <b>(173,409)</b>       | 341,013               | <b>8,564</b>             | 349,332               |
| Others  | <b>66,680</b>          | 1,051,234             | <b>93,169</b>            | 1,061,002             |
| <b>INCOME BEFORE INCOME TAX</b>   | <b>11,753,697</b>      | 11,508,993            | <b>21,689,700</b>        | 19,761,796            |
| <b>PROVISION FOR INCOME TAX</b>   | <b>1,300,930</b>       | 1,381,121             | <b>2,528,067</b>         | 2,255,744             |
| <b>NET INCOME</b>   | <b>₱10,452,767</b>     | ₱10,127,872           | <b>₱19,161,633</b>       | ₱17,506,052           |
| <b>NET INCOME ATTRIBUTABLE TO</b>   |                        |                       |                          |                       |
| Equity holders of the Parent Company  | <b>₱7,444,969</b>      | ₱7,481,989            | <b>₱13,429,316</b>       | ₱12,863,250           |
| Non-controlling interests   | <b>3,007,798</b>       | 2,645,883             | <b>5,732,317</b>         | 4,642,802             |
|   | <b>₱10,452,767</b>     | ₱10,127,872           | <b>₱19,161,633</b>       | ₱17,506,052           |

|  | <b>Quarters Ended June 30</b> |               | <b>Six Months Ended June 30</b> |               |
|--|-------------------------------|---------------|---------------------------------|---------------|
|  | <b>2015</b>                   | 2014          | <b>2015</b>                     | 2014          |
|  | (As Restated)                 | (As Restated) | (As Restated)                   | (As Restated) |
| <b>NET INCOME</b>  | <b>₱10,452,767</b>            | ₱10,127,872   | <b>₱19,161,633</b>              | ₱17,506,052   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>                           |                               |               |                                 |               |
| Item that may be reclassified subsequently to profit or loss:                  |                               |               |                                 |               |
| Cumulative translation adjustments   | <b>₱1,532,495</b>             | (₱241,803)    | <b>₱2,536,340</b>               | (₱263,539)    |
| Net gains (losses) on available-for-sale investments                           | <b>(915,204)</b>              | 4,709,737     | <b>(1,675,822)</b>              | 6,130,212     |
| Net gains (losses) from cash flow hedges                                       | <b>(21,399)</b>               | (96,558)      | <b>(112,271)</b>                | (90,170)      |
| Net unrealized gains on available-for-sale investments of an associate         | <b>4,116</b>                  | (3,626)       | <b>4,116</b>                    | (3,259)       |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>₱11,052,775</b>            | ₱14,495,622   | <b>₱19,913,996</b>              | ₱23,279,296   |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>                              |                               |               |                                 |               |
| Equity holders of the Parent Company   | <b>₱7,406,628</b>             | ₱11,896,088   | <b>₱13,086,679</b>              | ₱18,394,525   |
| Non-controlling interests  | <b>3,646,147</b>              | 2,599,534     | <b>6,827,317</b>                | 4,884,771     |
|  | <b>₱11,052,775</b>            | ₱14,495,622   | <b>₱19,913,996</b>              | ₱23,279,296   |
| <b>Earnings Per Share Attributable to Equity Holders of the Parent Company</b> |                               |               |                                 |               |
| Basic/diluted earnings per share (Note 22)                                     | <b>₱1.04</b>                  | ₱1.07         | <b>₱1.87</b>                    | ₱1.83         |

*See accompanying Notes to Consolidated Financial Statements.*

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

(In Thousands)

For the Six Months Ended June 30, 2015 and 2014

|  | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY |                            |                       |                                |                              |                         |                            |                                    |  |  |   |   |                     | NON-CONTROLLING INTERESTS | TOTAL EQUITY        |
|--|--|----------------------------|-----------------------|--------------------------------|------------------------------|-------------------------|----------------------------|------------------------------------|--|--|---|---|---------------------|---------------------------|---------------------|
|  | Paid-up Capital (Note 20)                            |                            |                       | Retained Earnings              |                              |                         | Other Comprehensive Income |                                    |  |  |   |   | Total               |                           |                     |
|  | Capital Stock  | Additional Paid-in Capital | Total Paid-up Capital | Unrestricted Retained Earnings | Restricted Retained Earnings | Total Retained Earnings | Equity Reserve             | Cumulative Translation Adjustments | Net Unrealized Gains on Available-for-Sale Investments | Net Unrealized Losses on Cash Flow Hedge | Remeasurements of Defined Benefit Liability | Total Other Comprehensive Income (Loss) |                     |                           |                     |
| Balance at January 1, 2015                                   | P7,057,192   | P14,958,146                | P22,015,338           | P52,166,426                    | P98,060,329                  | P150,226,755            | P27,546,248                | (P1,708,290)                       | P9,855,437   | P127,905                                 | (P447,056)                                  | P7,827,996                              | P207,616,337        | P53,994,117               | P261,610,454        |
| Total comprehensive income (loss)                            | -  | -                          | -                     | 13,429,316                     | -                            | 13,429,316              | -                          | 1,418,515                          | (1,655,627)  | (105,525)                                | -   | (342,637)                               | 13,086,679          | 6,827,317                 | 19,913,996          |
| Cash dividends   | -  | -                          | -                     | (1,584,625)                    | -                            | (1,584,625)             | -                          | -                                  | -  | -  | -   | -                                       | (1,584,625)         | -                         | (1,584,625)         |
| Change in non-controlling interest                           | -  | -                          | -                     | -                              | -                            | -                       | -                          | -                                  | -  | -  | -   | -                                       | -                   | (491,397)                 | (491,397)           |
| Issuance of new shares                                       | 145,650  | 8,594,879                  | 8,740,529             | -                              | -                            | -                       | -                          | -                                  | -  | -  | -   | -                                       | 8,740,529           | -                         | 8,740,529           |
| <b>Balance at June 30, 2015</b>                              | <b>P7,202,842</b>                                    | <b>P23,553,025</b>         | <b>P30,755,867</b>    | <b>P64,011,117</b>             | <b>P98,060,329</b>           | <b>P162,071,446</b>     | <b>P27,546,248</b>         | <b>(P289,775)</b>                  | <b>P8,199,810</b>                                      | <b>P22,380</b>                           | <b>(P447,056)</b>                           | <b>P7,485,359</b>                       | <b>P227,858,920</b> | <b>P60,330,037</b>        | <b>P288,188,957</b> |
| Balance at January 1, 2014, as previously reported           | P7,057,192   | P14,958,146                | P22,015,338           | P72,185,697                    | P59,060,329                  | P131,246,026            | P27,306,459                | (P1,787,689)                       | P5,617,663   | P171,850                                 | (P593,000)                                  | P3,408,824                              | P183,976,647        | P47,827,101               | P231,803,748        |
| Effect of the adoption of uniform accounting period (Note 2) | -  | -                          | -                     | 2,147,018                      | -                            | 2,147,018               | -                          | 52,539                             | -  | -  | -   | 52,539                                  | 2,199,557           | 1,863,742                 | 4,063,299           |
| Balance at January 1, 2013, as restated                      | 7,057,192  | 14,958,146                 | 22,015,338            | 74,332,715                     | 59,060,329                   | 133,393,044             | 27,306,459                 | (1,735,150)                        | 5,617,663  | 171,850                                  | (593,000)                                   | 3,461,363                               | 186,176,204         | 49,690,843                | 235,867,047         |
| Total comprehensive income (loss)                            | -  | -                          | -                     | 12,863,250                     | -                            | 12,863,250              | -                          | (152,729)                          | 5,774,174  | (90,170)                                 | -   | 5,531,275                               | 18,394,525          | 4,884,771                 | 23,279,296          |
| Cash dividends   | -  | -                          | -                     | (1,403,438)                    | -                            | (1,403,438)             | -                          | -                                  | -  | -  | -   | -                                       | (1,403,438)         | -                         | (1,403,438)         |
| Change in non-controlling interest                           | -  | -                          | -                     | -                              | -                            | -                       | -                          | -                                  | -  | -  | -   | -                                       | -                   | (3,849,455)               | (3,849,455)         |
| <b>Balance at June 30, 2014</b>                              | <b>P7,057,192</b>                                    | <b>P14,958,146</b>         | <b>P22,015,338</b>    | <b>P85,792,527</b>             | <b>P59,060,329</b>           | <b>P144,852,856</b>     | <b>P27,306,459</b>         | <b>(P1,887,879)</b>                | <b>P11,391,837</b>                                     | <b>P81,680</b>                           | <b>(P593,000)</b>                           | <b>P8,992,638</b>                       | <b>P203,167,291</b> | <b>P50,726,159</b>        | <b>P253,893,450</b> |

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

(In Thousands)

|  | <b>Six Months Ended June 30</b> |                       |
|--|---------------------------------|-----------------------|
|  | <b>2015</b>                     | 2014<br>(As Restated) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                                 |                       |
| Income before income tax   | <b>₱21,689,700</b>              | ₱19,761,796           |
| Adjustments for:   |                                 |                       |
| Depreciation and amortization  | <b>6,873,801</b>                | 5,544,466             |
| Market valuation losses (gains) on:  |                                 |                       |
| Financial assets at fair value through profit or loss                                | <b>(8,564)</b>                  | (349,332)             |
| Derivative instruments   | <b>(20,516)</b>                 | (35,735)              |
| Interest expense   | <b>3,331,993</b>                | 2,613,473             |
| Dividend income  | <b>(1,617,291)</b>              | (2,087,521)           |
| Interest income  | <b>(675,921)</b>                | (693,449)             |
| Equity in net earnings of associates and joint ventures                              | <b>(4,168,862)</b>              | (3,798,844)           |
| Foreign exchange gain (losses)   | <b>836,559</b>                  | (1,038,582)           |
| Provision for impairment losses on receivables                                       | <b>70,814</b>                   | 56,366                |
| Provision for impairment loss on repossessed chattels                                | <b>11,903</b>                   | -                     |
| Gain arising from changes in fair value less estimated costs to sell of swine stocks | <b>(43,623)</b>                 | (185,285)             |
| Gain on sale of Available-for-sale investments                                       | <b>(10,808)</b>                 | (17)                  |
| Operating income before changes in working capital accounts                          | <b>26,269,185</b>               | 19,787,336            |
| Changes in operating assets and liabilities:   |                                 |                       |
| Decrease (increase) in the amounts of:   |                                 |                       |
| Derivative financial instruments   | <b>(462,767)</b>                | (16,035)              |
| Financial assets at fair value through profit or loss                                | <b>(447,341)</b>                | (1,693,313)           |
| Receivables  | <b>847,053</b>                  | (2,924,078)           |
| Inventories  | <b>(337,042)</b>                | (6,255,223)           |
| Biological assets  | <b>109,174</b>                  | 174,331               |
| Other current assets   | <b>(1,375,189)</b>              | (121,409)             |
| Increase (decrease) in the amounts of:   |                                 |                       |
| Accounts payable and accrued expenses  | <b>3,086,740</b>                | (23,436,879)          |
| Unearned revenue   | <b>(619,506)</b>                | 730,403               |
| Other current liabilities  | <b>375,282</b>                  | 176,316               |
| Net cash generated from (used in) operations   | <b>27,445,589</b>               | (13,578,551)          |
| Interest paid  | <b>(3,127,627)</b>              | (2,137,468)           |
| Interest received  | <b>693,069</b>                  | 665,885               |
| Income taxes paid  | <b>(2,707,280)</b>              | (2,398,416)           |
| Net cash provided by (used in) operating activities                                  | <b>22,303,751</b>               | (17,448,550)          |

(Forward)

**Six Months Ended June 30**

|  | 2015                | 2014<br>(As Restated) |
|--|---------------------|-----------------------|
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES</b>              |                     |                       |
| Acquisitions of:   |                     |                       |
| Property, plant and equipment                                | <b>(9,970,713)</b>  | (14,966,988)          |
| Investment properties  | <b>(7,080,810)</b>  | (3,358,867)           |
| Intangible assets  | <b>(32,614)</b>     | (502,666)             |
| Net decrease (increase) in the amounts of:                   |                     |                       |
| Held-to-maturity investments (Note 10)                       | <b>69,454</b>       | (905,508)             |
| Other noncurrent assets (Note 15)                            | <b>(37,481)</b>     | 912,247               |
| Investments in associates and joint ventures<br>(Note 14)    | <b>2,478,315</b>    | 1,990,250             |
| Available-for-sale investments (Note 10)                     | <b>414,034</b>      | 681,779               |
| Dividends received   | <b>1,617,291</b>    | 2,087,521             |
| Net cash used in investing activities                        | <b>(12,542,524)</b> | (14,062,232)          |
| <b>CASH FLOWS FROM FINANCING<br/>ACTIVITIES</b>              |                     |                       |
| Net availments (payments) of:                                |                     |                       |
| Short-term debts   | <b>(23,842,741)</b> | 9,257,838             |
| Long-term debts  | <b>10,077,947</b>   | 32,402,702            |
| Proceeds from issuance of new shares                         | <b>8,740,529</b>    | –                     |
| Increase (decrease) in the amounts of:                       |                     |                       |
| Other noncurrent liabilities (Note 19)                       | <b>2,323,378</b>    | (634,861)             |
| Non-controlling interests in subsidiaries                    | <b>(491,397)</b>    | (3,849,455)           |
| Net cash provided by (used in) financing<br>activities       | <b>(3,192,284)</b>  | 37,176,224            |
| <b>NET INCREASE IN CASH<br/>AND CASH EQUIVALENTS</b>         | <b>6,568,943</b>    | 5,665,442             |
| <b>CASH AND CASH EQUIVALENTS AT<br/>BEGINNING OF YEAR</b>    | <b>37,474,642</b>   | 34,996,008            |
| <b>CASH AND CASH EQUIVALENTS AT<br/>END OF YEAR (Note 7)</b> | <b>P44,043,585</b>  | P40,661,450           |

*See accompanying Notes to 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. On May 8, 2014, the Board of Directors (BOD) of the Parent Company approved its amendment of Article Third of the Amended Articles of Incorporation to change the principal office address of the Parent Company from “Metro Manila, Philippines” to “43rd Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City” in accordance with Security and Exchange Commission Memorandum Circular No.6, Series of 2014.

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, telecommunications, petrochemicals, air transportation and power distribution.

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 peso except when otherwise stated.

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

The accompanying financial statements provide comparative information in respect of the previous years. An additional statement of financial position at the beginning of the earliest year presented is included when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

A summary of the functional currencies of certain foreign subsidiaries within the Group 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-                |
| Telegraph Development, Ltd.                                | -do-                     | -do-                |
| Summit Top Investment, Ltd.                                | -do-                     | -do-                |
| JG Summit Capital Markets Corporation. and a Subsidiary    |                          |                     |
| Multinational Finance Group, 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-                |
| URC Oceania Company, Ltd.                                  | New Zealand              | New Zealand Dollar  |
| URC New Zealand Holding Company, Ltd.                      | -do-                     | -do-                |
| URC New Zealand Holding Finance Company, Ltd.              | -do-                     | -do-                |
| Griffin's Foods Limited                                    | -do-                     | -do-                |
| Nice&Natural Foods Limited                                 | -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 | Principal place of business  | Effective Percentage of Ownership |        |
|---|--------------------------|--|-----------------------------------|--------|
|   |                          |  | June 30                           |        |
|   |                          |  | 2015                              | 2014   |
| <b>Food</b>   |                          |  |                                   |        |
| Universal Robina Corporation (URC) and Subsidiaries       | Philippines*             | 110 E. Rodriguez Avenue, Bagumbayan, Quezon City, Philippines  | <b>55.83</b>                      | 55.83  |
| CFC Clubhouse Property, Inc (CCPI).                       | -do-                     | CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City  | <b>55.83</b>                      | 55.83  |
| CFC Corporation   | -do-                     | -do-   | <b>55.83</b>                      | 55.83  |
| Bio-Resource Power Generation Corporation                 | -do-                     | Manjuyod, Negros Oriental  | <b>55.83</b>                      | 55.83  |
| Southern Negros Development Corporation (SONEDCO)         | -do-                     | Kabankalan City, Negros Occidental   | <b>53.48</b>                      | 53.48  |
| Nissin-URC  | -do-                     | CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City  | <b>28.47</b>                      | 9.17   |
| URC Philippines, Limited (URCPL)                          | British Virgin Islands   | Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands | <b>55.83</b>                      | 55.83  |
| URC International Co. Ltd. (URCICL) and Subsidiaries      | -do-                     | -do-   | <b>55.83</b>                      | 55.83  |
| Universal Robina (Cayman), Ltd. (URCL)                    | Cayman Islands           | Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands, British West Indies    | <b>55.83</b>                      | 55.83  |
| URC China Commercial Co., Ltd.                            | China                    | 318 Shangcheng Road, Room 1417 Lian You Bldg., Pudong, Shanghai, China   | <b>55.83</b>                      | 55.83  |
| <b>Air Transportation</b>                                 |                          |  |                                   |        |
| CP Air Holdings, Inc. (CPAHI) and Subsidiaries            | Philippines              | 2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City  | <b>100.00</b>                     | 100.00 |
| Cebu Air, Inc. (CAI) and Subsidiaries                     | -do-                     | -do-   | <b>67.23</b>                      | 67.23  |
| Pacific Virgin Islands Holdings, Co., Ltd.                | British Virgin Islands   | Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands | <b>100.00</b>                     | 100.00 |
| <b>Real Estate and Hotels</b>                             |                          |  |                                   |        |
| Robinsons Land Corporation (RLC) and Subsidiaries         | Philippines              | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | <b>60.97</b>                      | 60.97  |
| Robinson's Inn, Inc.                                      | -do-                     | -do-   | <b>60.97</b>                      | 60.97  |
| Robinsons Realty and Management Corporation               | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | <b>60.97</b>                      | 60.97  |
| Robinsons (Cayman) Limited                                | Cayman Islands           | Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands                         | <b>60.97</b>                      | 60.97  |
| Robinsons Properties Marketing and Management Corporation | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | <b>60.97</b>                      | 60.97  |
| Altus Angeles, Inc.                                       | -do-                     | McArthur Highway, Balibago, Angeles City, Pampanga   | <b>31.09</b>                      | 31.09  |
| Altus San Nicolas Corporation                             | -do-                     | Brgy. 1 San Francisco, San Nicolas, Ilocos Norte   | <b>60.97</b>                      | 60.97  |
| GoHotels Davao, Inc.                                      | -do-                     | Lanang, Davao City   | <b>31.09</b>                      | 31.09  |

(Forward)



| Subsidiaries   | Country of Incorporation | Principal place of business  | Effective Percentage of Ownership |              |
|--|--------------------------|--|-----------------------------------|--------------|
|  |                          |  | 2015                              | June 30 2014 |
| <b>Petrochemicals</b>  |                          |  |                                   |              |
| JG Summit Petrochemical Corporation (JGSPC)                              | Philippines              | Ground Floor, Cybergate Tower 1, EDSA corner, Pioneer Street, Mandaluyong City   | <b>100.00</b>                     | 100.00       |
| JG Summit Olefins Corporation (JGSOC)                                    | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | <b>100.00</b>                     | 100.00       |
| <b>Banking</b>   |                          |  |                                   |              |
| Robinsons Bank Corporation (RBC) and a Subsidiary                        | -do-                     | 17th floor, Galleria Corporate Center EDSA corner Ortigas Avenue, Quezon City  | <b>60.00</b>                      | 60.00        |
| Legazpi Savings Bank, Inc. (LSB)   | -do-                     | Rizal Street, Barangay Sagpon, Albay, Legazpi City   | <b>60.00</b>                      | 60.00        |
| <b>Supplementary Businesses</b>  |                          |  |                                   |              |
| Express Holdings, Inc. (EHI) and a Subsidiary                            | -do-                     | 29th Floor, Galleria Corporate Center, EDSA, Quezon City   | <b>100.00</b>                     | 100.00       |
| Summit Forex Brokers Corporation   | -do-                     | 41st Floor, Robinsons-Equitable Tower, ADB Avenue, Corner Poveda Road, Pasig City  | <b>100.00</b>                     | 100.00       |
| JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries               | -do-                     | 40th Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City                         | <b>100.00</b>                     | 100.00       |
| JG Summit Capital Markets Corporation (JGSMC)                            | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| Summit Point Services Ltd.   | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| Summit Internet Investments, Inc.  | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| JG Summit Cayman, Ltd. (JGSCL)   | Cayman Islands           | Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands                          | <b>100.00</b>                     | 100.00       |
| JG Summit Philippines Ltd. (JGSPL) and Subsidiaries                      | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| JGSH Philippines, Limited  | British Virgin Islands   | Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands | <b>100.00</b>                     | 100.00       |
| Multinational Finance Group, Ltd.  | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| Telegraph Development, Ltd.  | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| Summit Top Investment, Ltd.  | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| JG Summit Limited (JGSL)   | -do-                     | -do-   | -                                 | -            |
| Unicon Insurance Brokers Corporation (UIBC)                              | Philippines              | CFC Bldg., E. Rodriguez Avenue, Bagong Ilog, Pasig City  | <b>100.00</b>                     | 100.00       |
| Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries | -do-                     | 5th Floor Citibank Center, Makati  | <b>100.00</b>                     | 100.00       |
| Fruits of the East, Inc.   | -do-                     | Citibank Center, Paseo de Roxas, Makati  | <b>100.00</b>                     | 100.00       |
| Hometel Integrated Management Corporation                                | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| King Leader Philippines, Inc.  | -do-                     | 5th Floor Citibank Center, Makati  | <b>100.00</b>                     | 100.00       |
| Samar Commodities Trading and Industrial Corporation                     | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| Tropical Aqua Resources  | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |
| United Philippines Oil Trading, Inc.                                     | -do-                     | -do-   | <b>100.00</b>                     | 100.00       |

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

PFRS 10, prescribes guidance on the consolidation of SPE. Under PFRS 10, special purpose entities (SPE) should be consolidated when the substance of the relationship between the company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist when one entity is exposed, or has the rights to variable returns from its involvement with the SPE and has the ability to affect those returns through its power over the SPE. In accordance with PFRS 10, 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.

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.

#### 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 PFRS. 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 period 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 Group applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group. Except for these standards and amended PFRS which were adopted as of January 1, 2014, the accounting policies adopted are consistent with those of the previous financial year.

#### *Alignment of accounting periods*

In previous years, the Group consolidated the non-coterminous financial statements of the following fiscal year end subsidiaries using their September 30 fiscal year end financial statements of such subsidiaries since it is impracticable for the said subsidiaries to prepare financial statements as of the same date as the reporting date of the Parent Company:

| <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-               |

Management exercised 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 September 30 and the date of the Parent Company's financial statements.

In 2014, the management of the Group embarked on a process of aligning the yearend reporting date of the fiscal year-end subsidiaries in order to achieve a coterminous reporting date at the Group level in consideration of certain transactions at the subsidiaries such as mergers, acquisitions and capital raising activities in 2014. Accordingly, since the subsidiaries previously consolidated using non-coterminous financial statements are now consolidated using coterminous financial statements (i.e., the subsidiary changed the end of its reporting period for purposes of the consolidated financial statements), comparative information were restated so that the financial

information of the subsidiaries were included in the consolidated financial statements for an equivalent period in each period presented. The Group restated statement of comprehensive income, changes in equity and statements of cash flows for the six months ended June 30, 2014.

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

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)  
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Group, since none of the entities within the Group qualifies to be an investment entity under PFRS 10.
- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)  
These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The Group is currently assessing impact of the amendments to PAS 32.
- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)  
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.
- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.
- Philippine Interpretation IFRIC 21, *Levies*  
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact to the Group it has applied the recognition principle under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in the prior year.

The following new and amended PFRS, Philippine Interpretations and PAS did not have any impact on the financial position or performance of the Group:

- *Annual Improvements to PFRS (2010-2012 cycle)*  
In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.
- *Annual Improvements to PFRS (2011-2013 cycle)*  
In the 2011- 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

### **Significant Accounting Policies**

#### Fair Value Measurement

For measurement and disclosure purposes, the Group determines the fair value of an asset or liability at initial measurement or at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

#### 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.

### 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.

#### *'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 unless it qualifies for recognition as some other type of asset. In cases where variables used are made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss 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 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 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.

Amounts accumulated in other comprehensive income are recycled to profit or loss 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.

#### *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.

### *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 the next two fiscal years after the year of reclassification.

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 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.

### *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. 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 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.

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 carrying value of the related 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.

#### 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 ability and intention 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 to maturity.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized 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 profit or loss.

#### 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 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 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, is removed from other comprehensive income and recognized in profit or loss. 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. 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, the impairment loss is reversed through the profit or loss.

## 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.

## 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 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 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.

#### Investments in Associates and Joint Ventures

Associates pertain to all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting.

The Group also has interests in joint ventures. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

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. 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.

#### 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 dation in payment (*dacion en pago*).

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

|                            |                |
|----------------------------|----------------|
| Land improvements          | 10 years       |
| Buildings and 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:

|  | EUL            |
|--|----------------|
| 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        |
| Transportation, furnishing and other equipment | 3 to 5 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 event that gives rise to the obligation is the actual flying hours of the asset as used, as the usage determines the timing and nature of the entity completes the overhaul and restoration. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis.

If there is a commitment related to maintenance of aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is made based on historical experience, manufacturers' advice and if relevant, contractual obligations, to determine the present value of the estimated future major airframe inspections cost and engine overhauls. Advance payment for materials for the restoration of the aircraft is initially recorded as Advances to Supplier. This is recouped when the expenses for restoration of aircraft have been incurred.

The Group recognizes the present value of these costs as ARO asset and ARO 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 a biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less costs 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 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 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 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 follows:

|                                  | Technology Licenses  | Licenses        | Product Formulation and Brands | 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', 'Goodwill' and 'Deferred subscriber acquisition and retention costs'.

Except for goodwill and intangible assets with indefinite lives which are tested for impairment annually, the Group assesses at each reporting date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

Impairment losses from continuing operations are recognized under 'Impairment losses and others' in profit or loss.

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

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

For property, plant and equipment, investment properties, 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.

#### *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.

#### Equity

Common and preferred 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.

Retained earnings represent the cumulative balance of periodic net income/loss, dividend distributions, prior period adjustments and effect of changes in accounting policy and capital adjustments.

#### 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 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 Parent Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Parent Company has concluded that it is acting as principal in all of its revenue arrangements. 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. Revenue from food and

beverage are recognized when these are served. Other income from transport, laundry, valet and other related hotel services are recognized when services are rendered.

#### *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)*

This 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 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

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized

immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

#### *Termination benefit*

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

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

#### *Employee leave entitlement*

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

### 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 future 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 future 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 future 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 future 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 of the 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.

### Standards Issued but not yet Effective

Standards and Interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This is the list of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS, and Philippine Interpretations to have significant impact on its financial statements. The Group will assess the impact of these amendments on its financial position or performance when they become effective.

#### *Effective 2015*

- *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*  
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since none has defined benefit plans with contributions from employees or third parties.
- *Annual Improvements to PFRSs (2010-2012 cycle)*  
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:
  - *PFRS 2, Share-based Payment - Definition of Vesting Condition*  
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
    - A performance condition must contain a service condition
    - A performance target must be met while the counterparty is rendering service
    - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
    - A performance condition may be a market or non-market condition
    - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
 The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*  
 The amendments are applied retrospectively and clarify that:  
 An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method –Proportionate Restatement of Accumulated Depreciation and Amortization*  
 The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- PAS 24, *Related Party Disclosures - Key Management Personnel*  
 The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- Annual Improvements to PFRSs (2011-2013 cycle)  
 The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company. They include:

  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*  
 The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

    - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
    - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
  - PFRS 13, *Fair Value Measurement - Portfolio Exception*  
 The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).
  - PAS 40, *Investment Property*  
 The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only



differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

*Effective 2016*

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)  
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)  
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)  
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.
- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*  
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- PFRS 14, *Regulatory Deferral Accounts*  
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.
- Annual Improvements to PFRSs (2012-2014 cycle)  
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*  
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*  
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*  
 This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *PAS 19, Employee Benefits - regional market issue regarding discount rate*  
 This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*  
 The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

*Effective 2018*

- *PFRS 9, Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*  
 PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the impact of adopting this standard.

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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*

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*

Starting October 1, 2012, the Group decided to change its basis of estimating on when the buyers' investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group and warrant revenue recognition. Marketing and selling statistics and experiences over the past several years which include, among others, buyers' credit standings and sales returns prompted the Group to revisit and accordingly revise the basis of the level of buyers' payments that is highly probable that the buyer will commit to the sale transaction, and thus, it is probable that economic benefits will flow to the Group. The effect of this change in the future periods is not disclosed because it cannot be estimated as it is dependent on future sales transactions.

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.

The related balances from real estate sales transactions follow:

|                   | <b>June 30, 2015</b><br><b>(Unaudited)</b> | June 30, 2014<br>(Unaudited) |
|-------------------|--|------------------------------|
| Revenue           | <b>₱9,799,295</b>                          | ₱8,679,228                   |
| Cost and expenses | <b>4,603,975</b>                           | 4,257,381                    |

*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 (Note 25).

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.

The balances of the Group's 'Unearned transportation revenue' is disclosed in Note 22 to the consolidated financial statements. Ticket sales that are not expected to be used for transportation are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends.

*b. Impairment of AFS investments*

*AFS debt investments*

The Group classifies certain financial assets as AFS 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.

In 2014 and 2013, the Group did not recognize impairment losses on its AFS debt investments.

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. Impairment of goodwill and intangible assets*

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of reporting date. The recoverable amounts of the intangible assets were determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections range from 9.05% to 10.00%. The following assumptions were also used in computing value in use:



*Growth rate estimates* - growth rates were based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates.

*Discount rates* - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

Value-in-use is the most sensitive to changes in discount rate and growth rate,

d. *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, are 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.

e. *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 are 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.

*f. 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.

*g. 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.

*h. 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.

*i. 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 and salary increase rates (Note 37). 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.

*j. 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.

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

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

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

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

#### *Corporate Governance Compliance Officer*

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

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

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

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

#### *Enterprise Resource Management (ERM) Framework*

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

The ERM framework revolves around the following eight 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.

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.

*Classification of Financial Assets by Class used by the Group except for the Banking Segment*

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top 10 banks in the Philippines in terms of resources and profitability.

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

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

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

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

For loans and receivables from customers, the Banking Segment's internal credit rating system was approved in 2007 and improved in 2011 in accordance with the Bangko Sentral ng Pilipinas (BSP) requirement, to cover corporate credit exposures, which is defined by the BSP as exposures to companies with assets of more than ₱15.0 million. Approximately ₱5.0 billion of loans and receivables from customers do not have available credit ratings, including microfinance, automobile and real estate loans.

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. |
| 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   |



| <b>Grades</b>         | <b>Categories</b> | <b>Description</b>   |
|-----------------------|-------------------|--|
|                       |                   | 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 unsatisfactory characteristics; with well-defined weaknesses that jeopardize their liquidation. e.g. negative cash flow, case of fraud.  |
| <b>Impaired</b>       |                   |  |
| <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.

#### Aging analysis of receivables by class

The aging analysis of the Group's receivables as of June 30, 2015 follow:

|  | <b>TOTAL</b>       | <b>UP TO SIX MONTHS</b> | <b>OVER SIX MONTHS TO ONE YEAR</b> | <b>OVER ONE YEAR</b> |
|--|--------------------|-------------------------|------------------------------------|----------------------|
| Trade Receivables                                  | ₱17,950,712        | ₱13,869,271             | ₱1,038,494                         | ₱3,042,947           |
| Less: Allowance for impairment loss                | (573,659)          | –                       | (273,297)                          | (300,362)            |
| <b>Net Trade Receivables</b>                       | <b>17,377,053</b>  | <b>13,869,271</b>       | <b>765,197</b>                     | <b>2,742,585</b>     |
| Non-trade Receivables                              |                    |                         |                                    |                      |
| Finance Receivables (including noncurrent portion) | 22,952,679         | 6,734,188               | –                                  | 16,218,491           |
| Others   | 3,429,827          | 3,184,236               | 245,591                            | –                    |
|  | 26,382,506         | 9,918,424               | 245,591                            | 16,218,491           |
| Less: Allowance for impairment loss                | (928,122)          | (739,393)               | (188,729)                          | –                    |
| <b>Net Non-trade Receivables</b>                   | <b>25,454,384</b>  | <b>9,179,031</b>        | <b>56,862</b>                      | <b>16,218,491</b>    |
|  | <b>₱42,831,437</b> | <b>₱23,048,302</b>      | <b>₱822,059</b>                    | <b>₱18,961,076</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.

The Group has currently enforceable legal right to offset the recognized amounts of derivative assets and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### *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.

#### *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.

Except for RBC, which uses Earnings-at-Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book, the tables below show the impact on income before income tax and equity of the estimated future yield of the related market indices of the Group's FVPL and AFS investments using a sensitivity approach.

#### *Commodity price risk*

The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity

derivative positions are offset by higher or lower purchase costs on fuel.

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

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

Market risk 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 limitations 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.

#### *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 Measurement**

The following methods and assumptions were used to estimate the fair value of each asset and liability 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.

*Noninterest-bearing refundable security deposits*

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

*Biological assets*

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, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

*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.

*Investment properties*

The carrying amount of the investment properties approximates its fair value as of reporting date. Fair value of investment properties are based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Group's investment properties have been determined by appraisers, including independent external appraisers, in the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made.

The Group has determined that the highest and best use of the property used for the land and building is its current use.

*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.

#### *Customers' deposits*

The fair value of customers' deposits is based on the discounted value of future cash flows using the applicable rates for similar types of loans and receivables as of reporting date.

#### *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.

#### *Fair Value Hierarchy Assets and Liabilities*

Assets and liabilities carried at fair value are those whose fair values are required to be disclosed.

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

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## **6. Segment Information**

### Operating Segments

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

The industry segments where the Group operates are as follows:

- 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.
- Air transportation - air transport services, both domestic and international, for passengers and cargoes.
- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.
- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.
- Banking - commercial banking operations, including deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing.
- Other supplementary businesses - asset management, insurance brokering, foreign exchange and securities dealing. Other supplementary businesses include dividend income from PLDT and equity in the net earnings of Meralco (see Note 14).

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

The Group does not have a single external major customer (which represents 10.0% of Group's revenues).

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 following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', EBIT' and EBITDA' as of and for the six months ended June 30, 2015 and 2014. Core earnings pertain to income before income tax excluding market valuation gains (losses) on financial assets at FVPL, market valuation gains on derivative financial instruments and foreign exchange gains (losses).

The Group's operating segment information follows:

|  | June 30, 2015                                |                       |                           |                   |                   |                                      |                                    |                     |
|--|--|-----------------------|---------------------------|-------------------|-------------------|--------------------------------------|------------------------------------|---------------------|
|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals    | Banking           | Other<br>Supplementary<br>Businesses | Adjustments<br>and<br>Eliminations | TOTAL<br>OPERATIONS |
| <b>Revenue</b>   |  |                       |                           |                   |                   |                                      |                                    |                     |
| Sale of goods and services:  |  |                       |                           |                   |                   |                                      |                                    |                     |
| External customers   | P54,926,591                                  | P29,506,011           | P9,785,356                | P12,146,914       | P1,412,283        | P273,944                             | P-                                 | P108,051,099        |
| Intersegment revenue   | -  | -                     | -                         | 5,928,848         | -                 | -                                    | (5,928,848)                        | -                   |
|  | 54,926,591                                   | 29,506,011            | 9,785,356                 | 18,075,762        | 1,412,283         | 273,944                              | (5,928,848)                        | 108,051,099         |
| Dividend income  | 16,151                                       | -                     | -                         | -                 | 94                | 1,602,188                            | (1,142)                            | 1,617,291           |
| Equity in net earnings of associates and joint ventures<br>(Note 14)       | (142,191)                                    | (11,671)              | 1,236,710                 | -                 | -                 | 3,084,128                            | 1,886                              | 4,168,862           |
| <b>Total revenue</b>   | <b>54,800,551</b>                            | <b>29,494,340</b>     | <b>11,022,066</b>         | <b>18,075,762</b> | <b>1,412,377</b>  | <b>4,960,260</b>                     | <b>(5,928,104)</b>                 | <b>113,837,252</b>  |
| Cost of sales and services   | 37,532,569                                   | 16,738,275            | 4,603,975                 | 16,791,379        | 301,429           | -                                    | (5,998,350)                        | 69,969,277          |
| <b>Gross income (loss)</b>   | <b>P17,267,982</b>                           | <b>P12,756,065</b>    | <b>P6,418,091</b>         | <b>P1,284,383</b> | <b>P1,110,948</b> | <b>P4,960,260</b>                    | <b>P70,246</b>                     | <b>P43,867,975</b>  |
| General and administrative expenses  |  |                       |                           |                   |                   |                                      |                                    | 18,655,556          |
| Impairment losses and others   |  |                       |                           |                   |                   |                                      |                                    | 82,717              |
| <b>Operating income</b>  |  |                       |                           |                   |                   |                                      |                                    | <b>25,129,702</b>   |
| Financing cost and other charges   |  |                       |                           |                   |                   |                                      |                                    | (3,401,613)         |
| Finance income   |  |                       |                           |                   |                   |                                      |                                    | 675,921             |
| Other operating income   |  |                       |                           |                   |                   |                                      |                                    | 93,169              |
| <b>Core earnings</b>   |  |                       |                           |                   |                   |                                      |                                    | <b>22,497,179</b>   |
| Market valuation gain on financial assets                                  |  |                       |                           |                   |                   |                                      |                                    | 29,080              |
| Foreign exchange gains   |  |                       |                           |                   |                   |                                      |                                    | (836,559)           |
| <b>Income before income tax</b>  |  |                       |                           |                   |                   |                                      |                                    | <b>21,689,700</b>   |
| Provision for income tax   |  |                       |                           |                   |                   |                                      |                                    | 2,528,067           |
| <b>Net income</b>  |  |                       |                           |                   |                   |                                      |                                    | <b>P19,161,633</b>  |
| <b>Net income attributable to equity holders of the<br/>Parent Company</b> | <b>P3,523,365</b>                            | <b>P3,496,443</b>     | <b>P3,038,662</b>         | <b>P490,405</b>   | <b>P38,833</b>    | <b>P2,844,054</b>                    | <b>(P2,446)</b>                    | <b>P13,429,316</b>  |
| <b>EBIT</b>  | <b>P8,502,837</b>                            | <b>P6,025,430</b>     | <b>P3,702,554</b>         | <b>P693,152</b>   | <b>P134,311</b>   | <b>P6,071,418</b>                    | <b>P-</b>                          | <b>P25,129,702</b>  |
| Depreciation and amortization  | 2,197,191                                    | 2,469,434             | 1,515,344                 | 544,950           | 126,065           | 20,817                               | -                                  | 6,873,801           |
| <b>EBITDA</b>  | <b>P10,700,028</b>                           | <b>P8,494,864</b>     | <b>P5,217,898</b>         | <b>P1,238,102</b> | <b>P260,376</b>   | <b>P6,092,235</b>                    | <b>P-</b>                          | <b>P32,003,503</b>  |
| <b>Other information</b>   |  |                       |                           |                   |                   |                                      |                                    |                     |
| Non-cash expenses other than depreciation and<br>amortization              |  |                       |                           |                   |                   |                                      |                                    |                     |
| Impairment losses:   |  |                       |                           |                   |                   |                                      |                                    |                     |
| Receivables  | P-   | P-                    | P50                       | P-                | P70,764           | P-                                   | P-                                 | P70,814             |
| Other assets   | P-   | P-                    | P-                        | P-                | P11,904           | P-                                   | P-                                 | P11,904             |



June 30, 2014

|   | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals    | Banking           | Other<br>Supplementary<br>Businesses | Adjustments<br>and<br>Eliminations | TOTAL<br>OPERATIONS |
|---|--|-----------------------|---------------------------|-------------------|-------------------|--------------------------------------|------------------------------------|---------------------|
| <b>Revenue</b>  |  |                       |                           |                   |                   |                                      |                                    |                     |
| Sale of goods and services:                                       |  |                       |                           |                   |                   |                                      |                                    |                     |
| External customers  | ₱46,533,834                                  | ₱26,717,061           | ₱8,670,518                | ₱530,528          | ₱1,323,258        | ₱220,316                             | ₱-                                 | ₱83,995,515         |
| Intersegment revenue  | -  | -                     | -                         | -                 | -                 | -                                    | -                                  | -                   |
| Dividend income   | 46,533,834                                   | 26,717,061            | 8,670,518                 | 530,528           | 1,323,258         | 220,316                              | -                                  | 83,995,515          |
| Equity in net earnings of associates and joint ventures (Note 14) | 7,913  | 76,544                | 1,089,084                 | -                 | 5                 | 2,088,658                            | (1,142)                            | 2,087,521           |
| <b>Total revenue</b>  | <b>46,541,747</b>                            | <b>26,793,605</b>     | <b>9,759,602</b>          | <b>530,528</b>    | <b>1,323,263</b>  | <b>4,946,464</b>                     | <b>(13,329)</b>                    | <b>89,881,880</b>   |
| Cost of sales and services  | 31,819,002                                   | 18,302,824            | 4,257,381                 | 688,008           | 268,112           | -                                    | (245,458)                          | 55,089,869          |
| <b>Gross income</b>   | <b>₱14,722,745</b>                           | <b>₱8,490,781</b>     | <b>₱5,502,221</b>         | <b>(₱157,480)</b> | <b>₱1,055,151</b> | <b>₱4,946,464</b>                    | <b>₱232,129</b>                    | <b>₱34,792,011</b>  |
| General and administrative expenses                               |  |                       |                           |                   |                   |                                      |                                    | 15,489,863          |
| Impairment losses and others                                      |  |                       |                           |                   |                   |                                      |                                    | 56,366              |
| <b>Operating income</b>   |  |                       |                           |                   |                   |                                      |                                    | 19,245,782          |
| Financing cost and other charges                                  |  |                       |                           |                   |                   |                                      |                                    | (2,662,086)         |
| Finance income  |  |                       |                           |                   |                   |                                      |                                    | 693,449             |
| Other operating income  |  |                       |                           |                   |                   |                                      |                                    | 1,061,002           |
| <b>Core earnings</b>  |  |                       |                           |                   |                   |                                      |                                    | 18,338,147          |
| Market valuation gain on financial assets                         |  |                       |                           |                   |                   |                                      |                                    | 385,067             |
| Foreign exchange gains  |  |                       |                           |                   |                   |                                      |                                    | 1,038,582           |
| <b>Income before income tax</b>                                   |  |                       |                           |                   |                   |                                      |                                    | 19,761,796          |
| Provision for income tax  |  |                       |                           |                   |                   |                                      |                                    | 2,255,744           |
| <b>Net income</b>   |  |                       |                           |                   |                   |                                      |                                    | ₱17,506,052         |
| <b>Net income attributable to equity holders of the Parent</b>    |  |                       |                           |                   |                   |                                      |                                    |                     |
| <b>Company</b>  | ₱3,178,173                                   | ₱2,136,590            | ₱2,625,357                | (₱216,907)        | ₱75,370           | ₱5,108,821                           | (₱44,154)                          | ₱12,863,250         |
| <b>EBIT</b>   | ₱7,190,463                                   | ₱3,038,341            | ₱3,101,601                | (₱139,071)        | ₱140,662          | ₱5,913,786                           | ₱-                                 | ₱19,245,782         |
| Depreciation and amortization                                     | 1,920,675                                    | 2,051,082             | 1,372,893                 | 87,685            | 93,048            | 19,082                               | -                                  | 5,544,465           |
| <b>EBITDA</b>   | ₱9,111,138                                   | ₱5,089,423            | ₱4,474,494                | (₱51,386)         | ₱233,710          | ₱5,932,868                           | ₱-                                 | ₱24,790,247         |
| <b>Other information</b>  |  |                       |                           |                   |                   |                                      |                                    |                     |
| Non-cash expenses other than depreciation and amortization        |  |                       |                           |                   |                   |                                      |                                    |                     |
| Impairment losses on receivables                                  | ₱-   | ₱-                    | ₱-                        | ₱-                | ₱56,366           | ₱-                                   | ₱-                                 | ₱56,366             |

Other information on the Group's operating segments follow:

| June 30, 2015        |  |                       |                           |                    |                    |                                      |                                 |                     |
|----------------------|--|-----------------------|---------------------------|--------------------|--------------------|--------------------------------------|---------------------------------|---------------------|
|                      | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals     | Banking            | Other<br>Supplementary<br>Businesses | Adjustments<br>and Eliminations | Consolidated        |
| Segment assets       | <b>₱107,628,063</b>                          | <b>₱82,285,448</b>    | <b>₱95,660,544</b>        | <b>₱58,570,562</b> | <b>₱53,845,316</b> | <b>₱259,127,614</b>                  | <b>(₱80,744,459)</b>            | <b>₱576,373,088</b> |
| Segment liabilities  | <b>₱45,718,254</b>                           | <b>₱55,490,124</b>    | <b>₱40,209,482</b>        | <b>₱14,114,451</b> | <b>₱44,613,585</b> | <b>₱138,486,557</b>                  | <b>(₱50,448,322)</b>            | <b>₱288,184,131</b> |
| Capital expenditures | <b>₱2,434,272</b>                            | <b>₱5,436,582</b>     | <b>₱7,465,823</b>         | <b>₱1,618,102</b>  | <b>₱90,616</b>     | <b>₱6,128</b>                        | <b>₱-</b>                       | <b>₱17,051,523</b>  |

| June 30, 2014        |  |                       |                           |                |             |                                      |                                 |              |
|----------------------|--|-----------------------|---------------------------|----------------|-------------|--------------------------------------|---------------------------------|--------------|
|                      | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals | Banking     | Other<br>Supplementary<br>Businesses | Adjustments<br>and Eliminations | Consolidated |
| Segment assets       | ₱70,381,766                                  | ₱74,516,064           | ₱82,684,759               | ₱45,232,043    | ₱49,239,062 | ₱259,000,848                         | (₱78,284,080)                   | ₱502,770,462 |
| Segment liabilities  | ₱17,681,796                                  | ₱50,207,912           | ₱30,883,857               | ₱7,575,449     | ₱43,689,922 | ₱140,204,341                         | (₱44,058,349)                   | ₱246,184,928 |
| Capital expenditures | ₱3,170,288                                   | ₱7,041,443            | ₱3,703,011                | ₱4,279,513     | ₱129,082    | ₱2,518                               | ₱-                              | ₱18,325,855  |

### 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 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.

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## 7. Cash and Cash Equivalents

This account consists of:

|                  | <b>June 30, 2015</b><br><b>(Unaudited)</b> | December 31, 2014<br>(Audited) |
|------------------|--|--------------------------------|
| Cash on hand     | <b>₱989,664</b>                            | ₱1,682,183                     |
| Cash in banks    | <b>22,919,273</b>                          | 17,013,262                     |
| Cash equivalents | <b>20,134,648</b>                          | 18,779,197                     |
|                  | <b>₱44,043,585</b>                         | ₱37,474,642                    |

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.

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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.

- **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 charge against credit to profit or loss. As of June 30, 2015 and December 31, 2014, the Group has outstanding fuel hedging transactions. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the fair value of the derivatives are measured. The options can be exercised at various calculation dates with specified quantities on each calculation date. The options have various maturity dates through December 31, 2016.

- **Foreign currency forwards**

In 2014, the Group entered into foreign currency hedging arrangements with various counterparties to manage its exposure to foreign currency fluctuations. Such derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a charge against or credit to profit or loss. During the year, the Group pre-terminated all foreign currency derivative contracts, where the Group recognized realized gain of ₪109.8 million from the transaction.

### *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 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. The swap is intended to hedge the interest rate exposure due to the movements in the benchmark LIBOR on the US\$ 250.0 million JGSPL 5-year Guaranteed Notes (see Note 18). Under the swap transaction, the Group would pay a fixed rate quarterly on the 16th 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.

- **Foreign currency forwards**

The Group's short-term forwards have varying tenors ranging from one to eight months and have a total notional amount of NZD 19.81m in December 31, 2014. The positive and negative fair values amounted to +NZD 1.04m and -NZD 0.56m as of December 31, 2014.

- Currency options  
The Group entered into currency options and have total notional amount of NZD 4.20m in December 31, 2014. The positive fair value amounted to +NZD 0.16m as of December 31, 2014.

#### Hedge Effectiveness Results

As of June 30, 2015, the positive fair value of the swap amounted to P29.2 million with an outstanding notional amount of US\$250 million.

#### Fair value changes in derivatives

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

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

These investments that are held for trading consist of:

|                    | <b>June 30,<br/>2015<br/>(Unaudited)</b> | December 31,<br>2014<br>(Audited) |
|--------------------|--|-----------------------------------|
| Debt securities:   |  |                                   |
| Private            | <b>P9,682,369</b>                        | P9,521,127                        |
| Government         | <b>3,306,814</b>                         | 2,852,472                         |
|                    | <b>12,989,183</b>                        | 12,373,599                        |
| Equity securities: |  |                                   |
| Quoted             | <b>2,844,823</b>                         | 2,900,367                         |
| Unquoted           | <b>3</b>                                 | 3                                 |
|                    | <b>2,844,826</b>                         | 2,900,370                         |
|                    | <b>P15,834,009</b>                       | P15,273,969                       |

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## 10. Available-for-Sale and Held-to-Maturity Investments

### Available-for-Sale Investments

This account consists of investments in:

|                    | <b>June 30,<br/>2015</b> | December 31,<br>2014 |
|--------------------|--------------------------|----------------------|
|                    | <b>(Unaudited)</b>       | (Audited)            |
| Debt securities:   |                          |                      |
| Government         | <b>₱7,551,435</b>        | ₱7,817,195           |
| Private            | <b>2,553,519</b>         | 2,674,606            |
|                    | <b>10,104,954</b>        | 10,491,801           |
| Equity securities: |                          |                      |
| Quoted             | <b>49,845,513</b>        | 51,533,598           |
| Unquoted           | <b>24,293</b>            | 24,293               |
|                    | <b>49,869,806</b>        | 51,557,891           |
|                    | <b>₱59,974,760</b>       | ₱62,049,692          |

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

|                    | <b>June 30,<br/>2015</b> | December 31,<br>2014 |
|--------------------|--------------------------|----------------------|
|                    | <b>(Unaudited)</b>       | (Audited)            |
| Current portion    | <b>₱11,374,470</b>       | ₱11,789,036          |
| Noncurrent portion | <b>48,600,290</b>        | 50,260,656           |
|                    | <b>₱59,974,760</b>       | ₱62,049,692          |

### Held-to-Maturity Investment

The HTM investment of the Group consists of investment in private debt security with interest range of 2.88% - 8.64% and 5.07% - 8.64%, respectively, which will mature on various dates from April 2, 2015 to May 18, 2015.

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## 11. Receivables

This account consists of:

|                                      | <b>June 30,<br/>2015</b> | December 31,<br>2014 |
|--------------------------------------|--------------------------|----------------------|
|                                      | <b>(Unaudited)</b>       | (Audited)            |
| Finance receivables                  | <b>₱22,952,679</b>       | ₱22,618,883          |
| Trade receivables                    | <b>17,950,712</b>        | 18,698,280           |
| Due from related parties             | <b>1,222,415</b>         | 1,173,282            |
| Interest receivable                  | <b>565,552</b>           | 582,700              |
| Other receivables                    | <b>1,641,860</b>         | 2,065,990            |
|                                      | <b>44,333,218</b>        | 45,139,135           |
| Less allowance for impairment losses | <b>1,501,781</b>         | 1,372,684            |
|                                      | <b>₱42,831,437</b>       | ₱43,766,451          |

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

|                    | <b>June 30,<br/>2015<br/>(Unaudited)</b> | December 31,<br>2014<br>(Audited) |
|--------------------|--|-----------------------------------|
| Current portion    | <b>₱23,569,999</b>                       | ₱24,765,869                       |
| Noncurrent portion | <b>19,261,438</b>                        | 19,000,582                        |
|                    | <b>₱42,831,437</b>                       | ₱43,766,451                       |

Noncurrent receivables consist of:

|                     | <b>June 30,<br/>2015<br/>(Unaudited)</b> | December 31,<br>2014<br>(Audited) |
|---------------------|--|-----------------------------------|
| Trade receivables   | <b>₱3,042,947</b>                        | ₱3,134,496                        |
| Finance receivables | <b>16,218,491</b>                        | 15,866,086                        |
|                     | <b>₱19,261,438</b>                       | ₱19,000,582                       |

Restructured receivables which do not meet the requirements to be treated as performing receivables are considered as nonperforming loans.

#### 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, and other receivables. Unquoted debt securities pertain to investments in private bonds with local companies. Unquoted debt securities earn interest at annual fixed rates.

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## 12. Inventories

This account consists of inventories held as follows:

|   | <b>June 30,<br/>2015<br/>(Unaudited)</b> | December 31,<br>2014<br>(Audited) |
|---|--|-----------------------------------|
| At cost:  |  |                                   |
| Raw materials   | <b>₱7,374,073</b>                        | ₱7,000,655                        |
| Finished goods  | <b>7,539,508</b>                         | 7,341,431                         |
| <b>Total</b>  | <b>14,913,581</b>                        | 14,342,086                        |
| At NRV:   |  |                                   |
| Subdivision land, condominium and<br>residential units for sale | <b>15,306,598</b>                        | 15,624,283                        |
| Spare parts, packaging materials and<br>other supplies          | <b>5,846,462</b>                         | 5,008,323                         |
| Work-in-process   | <b>1,066,727</b>                         | 2,005,442                         |
| By-products   | <b>30,857</b>                            | 16,189                            |
|   | <b>22,250,644</b>                        | 22,654,237                        |
| Materials in-transit  | <b>2,608,712</b>                         | 3,136,444                         |
|   | <b>₱39,772,937</b>                       | ₱40,132,767                       |

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## 13. Other Current Assets

This account consists of:

|   | <b>June 30,<br/>2015<br/>(Unaudited)</b> | December 31,<br>2014<br>(Audited) |
|---|--|-----------------------------------|
| Input value-added tax (VAT)                 | <b>₱5,040,912</b>                        | ₱5,180,805                        |
| Advances to suppliers                       | <b>4,553,395</b>                         | 3,595,834                         |
| Prepaid expenses                            | <b>1,295,375</b>                         | 928,442                           |
| Advances to lot owners and joint operations | <b>888,278</b>                           | 1,033,643                         |
| Deposit to counterparties                   | <b>433,637</b>                           | 841,439                           |
| Bid deposit                                 | <b>421,092</b>                           | -                                 |
| Restricted cash                             | <b>175,050</b>                           | 217,836                           |
| Utility deposits                            | <b>5,691</b>                             | 5,294                             |
| Others                                      | <b>859,607</b>                           | 494,555                           |
|   | <b>₱13,673,037</b>                       | ₱12,297,848                       |

### Input VAT

The Group believes that the amount of input VAT is fully realizable in the future.

### 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 service maintenance. These are applied against progress billings which occur within one year from the date the advances arose.



#### Advances to Lot Owners and joint operations

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. The application is expected to be within twelve (12) months after the reporting date. This also includes deposit to various joint operations partners representing share in an ongoing real estate development which will be liquidated at the end of the joint venture agreement. This deposit will be realized through RLC's share in the completed units or share in the sales proceeds of the units, depending on the agreement with the other party.

#### Deposit to Counterparties

Deposit to counterparties pertains to collateral deposits provided to counterparties for fuel hedging transactions.

#### Restricted cash

RLC has restricted cash - escrow which pertains to cash placed in escrow funds earmarked for the acquisition of parcels of land, pursuant to the memorandum of agreement (MOA) with various sellers. Said amount shall be released to the sellers upon fulfillment of certain conditions set forth in MOA.

#### Bid deposit

Bid deposit pertains to the deposit provided to participate in the public bidding of certain government properties.

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### 14. Investments in Associates and Joint Ventures

Details of this account follow:

|   | <b>June 30, 2015</b> | December 31, 2014 |
|---|----------------------|-------------------|
|   | <b>(Unaudited)</b>   | (Audited)         |
| Acquisition cost:   |                      |                   |
| Balance at beginning of year  | <b>₱93,853,195</b>   | ₱92,854,141       |
| Additional investments  | <b>638,971</b>       | 1,049,700         |
| Return of investment from an associate  | <b>(5,000)</b>       | (45,000)          |
| Disposal of investment  | -                    | (5,646)           |
| Balance at end of year  | <b>94,487,166</b>    | 93,853,195        |
| Accumulated equity in net earnings:   |                      |                   |
| Balance at beginning of year, as restated                                       | <b>18,455,083</b>    | 15,666,846        |
| Equity in net earnings  | <b>4,168,862</b>     | 7,247,680         |
| Dividends received  | <b>(3,122,273)</b>   | (4,454,790)       |
| Accumulated equity in net earnings of disposed investment                       | -                    | (4,653)           |
| Balance at end of year  | <b>19,501,672</b>    | 18,455,083        |
| Share in net unrealized gain on AFS investments of an associate:                |                      |                   |
| Balance at beginning of year  | <b>3,222</b>         | 4,548             |
| Share in net changes in fair value of AFS investments of an associate (Note 10) | <b>4,116</b>         | (1,326)           |
| Balance at end of year  | <b>7,338</b>         | 3,222             |
| Share in remeasurements of the net defined benefit liability of an associate    | <b>1,433</b>         | 1,433             |
| Cumulative translation adjustment   | <b>100,075</b>       | 94,203            |
|   | <b>114,097,684</b>   | 112,407,136       |
| Less allowance for impairment losses  | <b>297,450</b>       | 297,450           |
|   | <b>₱113,800,234</b>  | ₱112,109,686      |

The composition of the carrying value of the Group's investments in associates and joint ventures and the related percentages of ownership interest are shown below:

|  | Percentage of Ownership         |                                   | Carrying Value                  |                                   |
|--|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
|  | June 30,<br>2015<br>(Unaudited) | December 31,<br>2014<br>(Audited) | June 30,<br>2015<br>(Unaudited) | December 31,<br>2014<br>(Audited) |
| (In Million Pesos)   |                                 |                                   |                                 |                                   |
| <b>Associates</b>  |                                 |                                   |                                 |                                   |
| Foreign:   |                                 |                                   |                                 |                                   |
| United Industrial Corp., Limited (UICL)  | 37.00                           | 36.99                             | ₱38,552.6                       | ₱37,315.9                         |
| Domestic:  |                                 |                                   |                                 |                                   |
| Manila Electric Company (Meralco)  | 27.10                           | 27.10                             | 73,505.9                        | 73,025.8                          |
| OPMC   | 19.40                           | 19.40                             | 596.5                           | 575.9                             |
| Cebu Light Industrial Park, Inc. (CLIP)  | 20.0                            | 20.0                              | 78.0                            | 83.0                              |
| Sterling Holdings and Security Corporation (SHSC)                              | 49.00                           | 49.00                             | –                               | –                                 |
| Bauang Private Power Corporation (BPPC)/First Private Power Corporation (FPPC) | 18.66                           | 18.66                             | –                               | –                                 |
|  |                                 |                                   | <b>112,733.0</b>                | <b>111,000.6</b>                  |
| <b>Joint Ventures</b>  |                                 |                                   |                                 |                                   |
| Domestic:  |                                 |                                   |                                 |                                   |
| SIA Engineering (Philippines) Corp. (SIAEP)                                    | 23.53                           | 23.53                             | 184.0                           | 245.7                             |
| Aviation Partnership (Philippines) Corp. (APPC)                                | 32.95                           | 32.95                             | 243.6                           | 191.9                             |
| Hunt-Universal Robina Corporation (HURC)                                       | 27.91                           | 27.91                             | 84.9                            | 95.2                              |
| Philippine Academy for Aviation Training (PAAT)                                | 33.62                           | 33.62                             | 152.0                           | 153.8                             |
| MPIC-JGS Airport Holdings, Inc.  | 41.25                           | 41.25                             | 3.8                             | 3.8                               |
| Foreign:   |                                 |                                   |                                 |                                   |
| Calbee- URC, Inc. (CURCI)  | 27.91                           | 27.91                             | 287.0                           | 325.5                             |
| Danone Universal Robina Beverages, Inc. (DURBI)                                | 27.91                           | 27.91                             | 111.9                           | 93.2                              |
|  |                                 |                                   | <b>1,067.2</b>                  | <b>1,109.1</b>                    |
|  |                                 |                                   | <b>₱113,800.2</b>               | <b>₱112,109.7</b>                 |

#### Investment in Meralco

On December 11, 2013, the Parent Company completed the acquisition of 305,689,397 common shares of Manila Electric Company (Meralco) from San Miguel Corporation, San Miguel Purefoods Company, Inc., and SMC Global Power Holdings, Inc. (collectively referred to as "Sellers") for a total cost of ₱71.9 billion. As of December 31, 2013, the Parent Company has paid ₱40.4 billion to the Sellers and the balance amounting to ₱31.4 billion was reported under 'Accounts payable' and was fully paid on of March 25, 2014. This acquisition represents 27.1% of Meralco's total outstanding common shares.

In 2014, the Parent Company engaged the services of a third party valuer to perform a purchase price allocation of the purchase price of the Parent Company's investment in Meralco among the identifiable assets and liabilities based on fair values. Based on the final purchase price allocation, the difference of ₱51.4 billion between the Parent Company's share in the carrying values of Meralco's specific identifiable assets and liabilities and total cost of the Parent Company's investment was allocated to the Parent Company's share in the difference between the fair value and carrying value of Meralco's specific and identifiable assets and liabilities as follows: ₱4.6 billion for utility and others; ₱0.1 billion for investment properties; ₱1.7 billion for intangible assets particularly for franchise; ₱0.4 billion for long term debt and the remaining balance of ₱45.4 billion for goodwill.

#### Investment in UICL

UICL follows the fair value model in measuring investment properties while the Group follows the cost model in measuring investment properties. The financial information of UICL below represents the adjusted amounts after reversal of the effect of revaluation and depreciation on the said assets.

On June 25, 2014, the Group elected to receive 4,828,816 ordinary shares under the UIC Scrip Dividend Scheme in lieu of cash dividend at the issue price of \$3.17 per share.

#### Investment in OPMC

The Group accounts for its investment in OPMC as an associate although the Group holds less than 20.0% of the issued share capital, as the Group has the ability to exercise significant influence over the investment, due to the Group's voting power (both through its equity holding and its representation in key decision-making committees) and the nature of the commercial relationships with OPMC.

#### Investment in CLIPI

In 1995 and 1998, CLIPI's BOD and stockholders approved the additional capital infusion of ₱299.90 million and ₱60.00 million, respectively. These are equivalent to 2,999,000 common shares and 600,000 convertible and redeemable preferred shares, respectively.

In 1995 and 1998, the Company invested ₱60.00 million and ₱12.00 million, respectively, to CLIPI representing deposits for future stock subscription for common shares and preferred shares.

As of December 31, 2012, the said application was not yet approved by the SEC.

Hence, in 2014 and 2013, CLIPI discontinued the application and returned the Company's deposits for future stock subscription amounting to ₱45.00 million and ₱12.00 million for common and preferred shares, respectively.

#### Investment in Jobstreet.com Philippines, Inc. (JPI)

As of December 31, 2013, the Group had 40.0% interest in JPI amounting to ₱5.7 million.

On February 19, 2014, Jobstreet.com Pte Ltd. (JSS) ("the Purchaser") entered into a conditional share sale agreement with the Group. The agreement provides for JSS' acquisition of 5,645,600 ordinary shares of JobStreet.com Philippines Inc. (JSP) representing the remaining 40.0% of the total issued and paid-up share capital of JSP for a consideration of MYR120.5 million or ₱1.6 billion payable entirely via issuance of 49,400,000 share of Jobstreet Corporation Berhad (JCB) at an issue price of MYR2.44 per share.

As a result of the transaction, the Group obtained 6.99% of JCB's outstanding common stock. The Group recognized its investment in JCB shares at its fair value of ₱1.6 billion and classified it as a financial asset at fair value through profit or loss. The Group recognized the difference between the fair value of the JCB shares and the carrying value of the JSP shares amounting to ₱1.6 billion as 'Other income' in the statement of comprehensive income.

#### Investment in SHSC

The investment in SHSC is fully provided with allowance amounting to ₱113.4 million as of June 30, 2015.

## Investment in Joint Ventures

### *APPC and SIAEP*

APPC and SIAEP are a jointly controlled entities which were established for the purpose of providing line and light maintenance services to foreign and local airlines, utilizing the facilities and services at airports in the Philippines, as well as aircraft maintenance and repair organizations.

A-plus was incorporated on May 24, 2005 and started commercial operations on July 1, 2005 while SIAEP was incorporated on July 27, 2008 and started commercial operations on August 17, 2009.

### *PAAT*

Investment in PAAT pertains to the Group's 60.0% investment in shares of the joint venture. However, the joint venture agreement between the Group and CAE International Holdings Limited (CAE) states that the Group is entitled to 50.0% share on the net income/loss of PAAT. As such, the Group recognizes equivalent 50.0% share in net income and net assets of the joint venture.

CAI entered into a joint venture agreement with CAE on December 13, 2011. PAAT was created to address the Group's training requirements and to pursue business opportunities for training third parties in the commercial fixed wing aviation industry, including other local and international airline companies. On December 19, 2011, the Parent Company paid P33.8 million representing 25% payment for the 135,000,000 Class A subscribed shares at P1.0 par value. PAAT was formally incorporated on January 27, 2012 and started commercial operations in December 2012.

### *HURC*

URC has an equity interest in HURC, a domestic joint venture which is a jointly controlled entity. HURC manufactures and distributes food products under the "Hunt's" brand name, which is under exclusive license to HURC in the Philippines.

### *CURCI*

On January 17, 2014, URC entered into a joint venture agreement with Calbee, Inc., a corporation duly organized in Japan to form CURCI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "Calbee Jack 'n Jill" brand name, which is under exclusive license to CURCI in the Philippines.

### *DURBI*

On May 23, 2014, URC entered into a joint venture agreement with Danone Asia Holdings, Pte. Ltd., a corporation duly organized in the Republic of Singapore to form DURBI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "B'lue" brand name, which is under exclusive license to DURBI in the Philippines.

## 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 Mactan-Cebu International Airport (MCIA) Passenger Terminal Project. In March 2013, a joint venture, MPIC-JGS Airport Consortium, Inc. was incorporated by MPIC, the Parent Company and an airport operator partner to bid for the rehabilitation and expansion of the Mactan-Cebu International Airport and to explore the other airport projects that may be rolled out by the government in the future. On December 13, 2013, the MCIA Passenger Terminal Project was awarded to another bidder.

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## 15. Other Noncurrent Assets

This account consists of:

|                                     | <b>June 30,<br/>2015<br/>(Unaudited)</b> | December 31,<br>2014<br>(Audited) |
|-------------------------------------|--|-----------------------------------|
| Security and miscellaneous deposits | <b>₱886,232</b>                          | ₱671,278                          |
| Deferred tax assets                 | <b>785,337</b>                           | 677,727                           |
| Utility deposits                    | <b>494,656</b>                           | 460,111                           |
| Advances to suppliers               | <b>228,142</b>                           | 489,143                           |
| Advances to lot owners              | <b>190,079</b>                           | 190,079                           |
| Others                              | <b>1,052,527</b>                         | 1,026,057                         |
|                                     | <b>₱3,636,973</b>                        | ₱3,514,395                        |

### Security Deposits

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

### 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.

### Utility Deposits

Utility deposits consist primarily of bid bonds and meter deposits.

### Input VAT

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

### 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 deposit to joint venture, prepaid rent and repossessed chattels

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## 16. Accounts Payable and Accrued Expenses

This account consists of:

|  | <b>June 30,<br/>2015<br/>(Unaudited)</b> | December 31,<br>2014<br>(Audited) |
|--|--|-----------------------------------|
| Deposit liabilities                    | <b>₱34,639,980</b>                       | ₱35,767,539                       |
| Trade payables                         | <b>16,688,809</b>                        | 13,959,305                        |
| Accrued expenses                       | <b>14,238,266</b>                        | 13,201,059                        |
| Airport and other related fees payable | <b>1,632,763</b>                         | 1,211,267                         |
| Dividends payable                      | <b>1,598,774</b>                         | 12,889                            |
| Due to related parties (Note 23)       | <b>536,725</b>                           | 548,148                           |
| Withholding taxes payable              | <b>291,744</b>                           | 188,372                           |
| Output VAT                             | <b>281,493</b>                           | 399,486                           |
| Other payables                         | <b>2,288,351</b>                         | 2,109,147                         |
|  | <b>₱72,196,905</b>                       | ₱67,397,212                       |

### Deposit Liabilities

Deposit liabilities represent the savings, demand and time deposit liabilities of RBC and LSB. Of the total deposit liabilities of the RBC and LSB as of December 31, 2014 61.61% is subject to periodic interest repricing. Remaining deposit liabilities of the RBC and LBC incur interest at annual fixed rates of up to 2.8% .

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 consist of management bonus and non-trade payables.

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## 17. Other Current Liabilities

This account consists of:

|  | <b>June 30,<br/>2015</b> | December 31,<br>2014 |
|--|--------------------------|----------------------|
|  | <b>(Unaudited)</b>       | (Audited)            |
| Unearned transportation revenue            | <b>₱5,754,239</b>        | ₱6,373,745           |
| Deposit from lessees (Note 19)             | <b>1,768,019</b>         | 1,638,267            |
| Deposits from real estate buyers (Note 19) | <b>936,753</b>           | 868,007              |
| Advances from agents and others            | <b>636,536</b>           | 554,620              |
| Customer's deposits                        | <b>235,805</b>           | 140,937              |
| Redeemable preference shares               | <b>1,700</b>             | 1,700                |
|  | <b>₱9,333,052</b>        | ₱9,577,276           |

### 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).

### 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:

|   | <b>June 30,<br/>2015</b> | December 31,<br>2014 |
|---|--------------------------|----------------------|
|   | <b>(Unaudited)</b>       | (Audited)            |
| Parent Company:   |                          |                      |
| Philippine Peso - with interest rates of 1.6% to 2.8% in 2014                       | <b>₱421,100</b>          | ₱14,349,800          |
|   | <b>421,100</b>           | 14,349,800           |
| Subsidiaries:   |                          |                      |
| Foreign currencies - with interest rates ranging from 0.4% to 4.8% in 2015 and 2014 | <b>19,324,992</b>        | 21,494,684           |
| Philippine Peso - with interest rates of 1.423% in 2015 and 2014                    | <b>697,900</b>           | 8,442,250            |
|   | <b>20,022,892</b>        | 29,936,934           |
|   | <b>₱20,443,992</b>       | ₱44,286,734          |

## Long-term Debts

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

|                                       | Maturities | Interest Rates              | June 30, 2015<br>(Unaudited) | December 31, 2014<br>(Audited) | Condition  |
|---------------------------------------|------------|-----------------------------|------------------------------|--------------------------------|------------|
| Parent Company:                       |            |                             |                              |                                |            |
| Fixed Rate Retail Bonds:              |            |                             |                              |                                |            |
| P30.0 billion Fixed Rate Retail Bonds |            |                             |                              |                                |            |
| P24.5 billion bonds                   | 2019       | 5.23%                       | <b>P24,337,726</b>           | P24,316,681                    | Unsecured  |
| P5.3 billion bonds                    | 2021       | 5.22%                       | <b>5,271,810</b>             | 5,268,728                      | Unsecured  |
| P0.2 billion bonds                    | 2024       | 5.30%                       | <b>174,873</b>               | 174,807                        | Unsecured  |
| Term Loans                            |            |                             |                              |                                |            |
| P9.0 billion Term Loan                | 2019       | 4.50%                       | <b>8,947,078</b>             | 8,941,749                      | Unsecured  |
| P7.5 billion Term Loan                | 2016       | PDST-R1+0.75%               | <b>7,472,646</b>             | 7,463,549                      | Unsecured  |
| P1.5 billion Term Loan                | 2016       | PDST-R1+0.75%               | -                            | 1,492,710                      | Unsecured  |
|                                       |            |                             | <b>46,204,133</b>            | 47,658,224                     |            |
| Subsidiaries:                         |            |                             |                              |                                |            |
| Foreign currencies:                   |            |                             |                              |                                |            |
| JGSPL                                 |            |                             |                              |                                |            |
| US\$750.0 million guaranteed notes    | 2023       | 4.375%                      | <b>29,794,248</b>            | 29,630,633                     | Guaranteed |
| US\$250.0 million guaranteed notes    | 2018       | US\$ LIBOR plus 2.2% margin | <b>11,147,784</b>            | 11,034,105                     | Guaranteed |
| CAI                                   |            |                             |                              |                                |            |
| ECA loans                             | 2024       | Libor + 3bps                | <b>16,372,128</b>            | 17,626,805                     | Secured    |
| Commercial loan from foreign banks    | 2023       | Libor + 1.15% to 1.25%      | <b>18,485,412</b>            | 16,222,858                     | - do -     |
| URC                                   |            |                             |                              |                                |            |
| US\$420.0 million term loan           | 2019       | 5.72%                       | <b>9,678,126</b>             | 14,402,492                     | Unsecured  |
| US\$322.3 million term loan           | 2019       | 5.72%                       | <b>12,611,707</b>            | 11,052,949                     | Unsecured  |
|                                       |            |                             | <b>98,089,405</b>            | 99,969,842                     |            |
| Philippine Peso:                      |            |                             |                              |                                |            |
| RLC                                   |            |                             |                              |                                |            |
| P9.0 billion loan facility            | 2019       | 5.04%                       | <b>8,937,538</b>             | 8,932,698                      | Unsecured  |
| P1.0 billion loan facility            | 2019       | 5.04%                       | <b>994,559</b>               | 993,972                        | Unsecured  |
| P10.6 billion loan facility           | 2025       | 4.80%                       | <b>10,541,689</b>            | -                              | Unsecured  |
| P1.4 billion loan facility            | 2025       | 4.934%                      | <b>1,352,137</b>             | -                              | Unsecured  |
|                                       |            |                             | <b>21,825,923</b>            | 9,926,670                      |            |
|                                       |            |                             | <b>166,119,461</b>           | 157,554,736                    |            |
| Less current portion                  |            |                             | <b>4,829,530</b>             | 4,475,008                      |            |
|                                       |            |                             | <b>P161,289,931</b>          | P153,079,728                   |            |

Long-term debt to foreign banks is shown net of unamortized debt issuance costs.

The details of the Group's long-term debt follow:

### Subsidiaries' Foreign Currency Loans

#### JGSPL 4.375% Senior Unsecured Notes Due 2023

On January 24, 2013, JGSHPL issued US\$750.0 million, 4.375% senior unsecured notes due 2023. The notes are unconditionally and irrevocably guaranteed by the Parent Company.

#### JGSPL 5-year Guaranteed Notes

On January 16, 2013, JGSHPL, a wholly owned subsidiary of JGSPL, issued US\$250.0 million, US\$ LIBOR plus 2.2% margin, 5-year guaranteed notes. The notes are unconditionally and irrevocably guaranteed by the Parent Company. These notes are hedged items in a cash flow hedge (see Note 8).

#### 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 CAI. 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.

In 2012, CAI entered into a commercial loan facility to partially finance the purchase of four Airbus A320 aircraft. The security trustee of the commercial loan facility established PTALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to ten-year finance lease arrangement for the aircraft. The semiannual rental payments of CAI correspond to the principal and interest payments made by PTALL to the commercial lenders. CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2013, CAI entered into a commercial loan facility to partially finance the purchase of two Airbus A320 aircraft. The security trustee of the commercial loan facility established PTHALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the CAI pursuant to ten-year finance lease arrangement for the aircraft. The quarterly rental payments of the CAI correspond to the principal and interest payments made by PTHALL to the commercial lenders. The CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2014, CAI entered into a commercial loan facility to partially finance the purchase of five Airbus A320 aircraft. The security trustee of the commercial loan facility established SAALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to the Parent Company pursuant to ten-year finance lease arrangement for the aircraft. The quarterly rental payments of the CAI correspond to the principal and interest payments made by SAALL to the commercial lenders. CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

The terms of the CAI 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 CAI. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2008, CAI entered into ECA-backed loan facilities 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 the Parent Company pursuant to ten-year finance lease agreements. The semi-annual rental payments made by the Parent Company 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. The Parent Company has the option to purchase the aircraft for a nominal amount at the end of such leases. On November 30, 2010, the Parent Company pre-terminated the lease agreement with BLL related to the disposal of one ATR 72-500 turboprop aircraft. The outstanding balance of the related loans and accrued interests were also pre-terminated. 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.

*URC NZ Finance Company Limited NZD420 Million Term Loan due 2019*

On November 13, 2014, URC New Zealand Holding Finance Company, Ltd. (URCNZH Fin Co) entered into a secured term loan facility agreement payable in five (5) years, amounting to NZD420M (¥14.7 billion), with various banks for payment of acquisition costs and refinancing certain indebtedness of an acquired company, NZ Snack Foods Holdings Limited. The loan obtained bears a floating rate, margin rate + base BKBM rate, payable quarterly, and have a term of five (5) years, maturing on November 13, 2019. The loan facility bears an average effective variable interest rate of 5.72%.

*URC Oceania Company Limited NZD322 Million Term Loan due 2019*

On November 13, 2014, URCNZH FinCo entered into a secured term loan facility agreement payable in five (5) years, amounting to NZD322M (₱11.2 billion), with various banks for payment of acquisition costs and refinancing certain indebtedness of an acquired company, NZ Snack Foods Holdings Limited. The loan obtained bears a floating rate, margin rate + base BKBM rate, payable quarterly, and have a term of five (5) years, maturing on November 13, 2019. The loan facility bears an average effective variable interest rate of 5.72%.

Philippine Peso Loans

*Parent Company ₱9.0 Billion Fixed Retail Bonds*

On November 19, 2009, the Parent Company issued ₱9.0 billion retail bonds (the Bonds) constituting direct, unconditional, unsubordinated and unsecured obligations of the Parent Company ranking *pari passu* at all 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 bear fixed interest rate of 8.3% calculated based on 30/360 day count and are payable semiannually every 20th of May and November until November 20, 2014. On November 20, 2014, the Parent Company settled the said ₱9.0 billion fixed rate retail bonds.

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

The capitalized transaction costs related to the issuance of the retail bonds amounted to ₱106.5 million.

*Parent Company ₱30.0 Billion Fixed Rate Retail Bonds*

On February 28, 2014, the Parent Company issued a ₱30.0 billion fixed rate retail bond. The bond was issued in three series: (1) Five-year bond amounting to ₱24.5 billion fixed at 5.2317% due 2019; (2) Seven-year bond amounting to ₱5.3 billion fixed at 5.2242% due 2021; and (3) Ten year bond amounting to ₱176.3 million fixed at 5.3% due 2024. Interest is calculated on a 30/360-day count basis and are payable semi-annually starting August 27, 2014 and the 27th day of February and August of each year thereafter. Net proceeds from the bond issuance were used to partially finance its acquisition of Meralco shares and for general corporate purposes.

*Parent Company ₱7.5 Billion and ₱1.5 Billion Term Loan Facilities*

On December 10 and 11, 2014, the Parent Company entered into a ₱7.5 billion and a ₱1.5 billion term loan facility, respectively. The loans bear a floating interest rate based on the applicable three (3)-month PDST-R1 plus 0.75% spread. The interest is calculated based on the actual number of days lapsed over a 365-day calendar year count and are payable quarterly starting December 10, 2015 until December 10, 2016, the maturity of the loans.

On June 10, 2015, the Parent Company partially prepaid the ₱1.5 billion loan facility. Per Term Loan Facility Agreement dated December 5, 2014, the loan may be partially prepaid, without prepayment penalty, upon giving of irrevocable prior written notice not later than 10 days prior to proposed prepayment date.

*Parent Company ₱9.0 Billion Term Loan Facility*

On November 20, 2014, the Parent Company entered into a ₱9.0 billion term loan facility. The loan bears a fixed rate of 4.5% calculated based on the actual number of days lapsed over a 365-day calendar year count and is payable quarterly starting November 20, 2014 until November 20, 2019, the maturity of the loans.

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

On July 13, 2009, the Group issued ₱5.0 billion bonds constituting direct, unconditional, unsubordinated and unsecured obligations of the Group ranking pari-passu in all respects and ratably without any preference or priority with all other outstanding unsecured and unsubordinated obligations of the Group. The proceeds were used for general corporate purposes, such as, but not limited to the financing various capital expenditures. The bond was paid with a lump sum payment last July 14, 2014.

The interest rate was at 8.5% per annum and paid semi-annually, computed based on the outstanding balance with payments commenced on the issue date and ended on the maturity date. The payment of the interest began on January 14, 2010.

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

On August 26, 2009, the Group issued ₱5.0 billion bonds constituting direct, unconditional, unsubordinated and unsecured obligations of the Group ranking pari-passu in all respects and ratably without any preference or priority with all other outstanding unsecured and unsubordinated obligations of the Group. The proceeds were used for general corporate purposes, such as, but not limited to the financing various capital expenditures. The bond was paid with a lump-sum payment last August 27, 2014.

The interest rate was at 8.25% per annum and paid semi-annually, computed based on the outstanding balance with payments commenced on the issue date and ended on the maturity date. The payment of the interest began on February 27, 2010.

*RLC ₱10.0 Billion Term Loan due in July 2019*

On July 8, 2014, RLC borrowed ₱9.0 billion and ₱1.0 billion under a Term Loan Facility Agreement with BDO Unibank, Inc. and BDO Leasing and Finance, Inc., respectively.

The ₱9.0 billion loan was released in two tranches amounting to ₱5.0 billion and ₱4.0 billion on July 14, 2014 and August 27, 2014, respectively. The interest rate is at 5.0438% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

The ₱1.0 billion loan was released on July 14, 2014 with interest rate at 5.0438% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

The interest rate for both loans was fixed based on the applicable five (5) - year PDSTF plus 1% spread determined one (1) banking day prior to the initial borrowing and inclusive of gross receipts tax, but subject to a floor rate of 4.5% per annum. The market rate at the date of inception is above the floor rate of 4.5% and management assessed that the interest rate floor is clearly and closely related to the host contract and is not required to be separately valued.

RLC may, subject to the penalty of one percent (1%), prepay the loan in part or in full together with accrued interest thereof to prepayment date. RLC has assessed that the embedded derivative related to this prepayment option is clearly and closely related to the host contract thus was not separately valued.

*RLC Seven-year bonds due in February 2022*

On February 23, 2015, RLC issued ₱10.6 billion bonds from BDO, HSBC, SB Capital, Standard Chartered, DBP and East West maturing on February 23, 2022. The interest rate is at 4.8% per annum and shall be payable semi-annually.

*RLC Ten-year bonds due in February 2025*

On February 23, 2015, RLC issued ₱1.4 billion bonds from BDO and Standard Chartered maturing on February 23, 2025. The interest rate is at 4.9344% per annum and shall be payable semi-annually.

Debt Covenants

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.

For the Parent Company's ₱9.0 Billion, ₱7.5 Billion and ₱1.5 Billion Term Loan Facilities, the Group is required to maintain a financial ratio of Group's total borrowings to Group's shareholders' equity not exceeding 2.0:1.0.

For the Parent Company's ₱30.0 Billion Fixed Rate Retail Bonds, the Group is required to maintain the following financial ratios:

- the Group's current ratio of not less than 0.5:1.0;
- the Group's debt-to-equity ratio of not greater than 2.0:1.0

For the RLC's ₱10.0 Billion Term Loan due in July 2019, the Group is required to maintain a debt to equity ratio not exceeding 1.5:1 and interest coverage ratio of not less than 1.5:1. These loans were not guaranteed by the Parent Company.

For the ECA loans, the Group is required to maintain the following financial ratios:

- Consolidated EBITDA to consolidated interest payable ratio should not be less than 3:1 ratio;
- Consolidated total borrowings to consolidated equity should not exceed 2:1 ratio; and
- Consolidated current liabilities should not exceed consolidated current assets.

The agreements for the ECA loans also include conditions that has to be met prior to declaring CAI or the Parent Company in default or in breach of the related debt covenants, such as but not limited to, written notice of default and lapse of the relevant grace period.

For the NZ Term loans, these loans contain negative covenants which include, among others, maintenance of a debt to equity ratio of not greater than 2.5 to 1.0.

The Group has complied with all of its debt covenants as of June 30, 2015 and December 31, 2014.

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## 19. Other Noncurrent Liabilities

This account consists of:

|                                  | <b>June 30,<br/>2015<br/>(Unaudited)</b> | December 31,<br>2014<br>(Audited) |
|----------------------------------|--|-----------------------------------|
| Deposit liabilities              | <b>₱3,973,357</b>                        | ₱1,474,269                        |
| Deposit from lessees             | <b>1,801,355</b>                         | 1,669,157                         |
| Due to related parties (Note 23) | <b>1,613,110</b>                         | 1,619,940                         |
| Accrued rent expense             | <b>1,312,553</b>                         | 1,312,553                         |
| Pension liabilities (Note 21)    | <b>1,136,812</b>                         | 1,001,111                         |
| Deposits from real estate buyers | <b>809,240</b>                           | 749,851                           |
| ARO                              | <b>625,684</b>                           | 586,069                           |
| Accrued maintenance cost         | <b>224,414</b>                           | 224,414                           |
| Derivative liabilities           | –  | 508,216                           |
| Others                           | <b>599,971</b>                           | 541,396                           |
|                                  | <b>₱12,096,496</b>                       | ₱9,686,976                        |

### 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.

### Deposit Liabilities

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

### ARO

The Group is legally required under certain 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 engineers in 2010, which includes estimates of certain redelivery costs at the end of the operating aircraft 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).

### Accrued Maintenance Cost

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

## 20. Equity

Details of the Parent Company's authorized capital stock as of June 30, 2015 and December 31, 2014 follow:

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

As of June 30, 2015 and December 31, 2014, the paid-up capital of the Group consists of the following:

Capital stock:

|   |                    |             |
|---|--------------------|-------------|
| Common shares - ₱1 par value              | <b>₱7,162,842</b>  | ₱7,017,192  |
| Preferred voting shares - ₱0.01 par value | <b>40,000</b>      | 40,000      |
|   | <b>7,202,842</b>   | 7,057,192   |
| Additional paid-in capital                | <b>23,553,025</b>  | 14,958,146  |
| Total paid-up capital                     | <b>₱30,755,867</b> | ₱22,015,338 |

### Issuance of Common Shares Through Top-Up Placement

On November 25, 2013, the Parent Company issued additional 121,918,000 common shares via an accelerated overnight equity placement at a price of ₱40.0 per share. The issuance of 121,918,000 common shares and reissuance of 98,082,000 treasury shares raised total proceeds of ₱8.7 billion, net of transaction cost of ₱148.5 million.

On January 21, 2015, shares of the Parent Company were sold via an accelerated overnight equity placement at a price of ₱61.0 per share through a top-up placement of 145,650,000 common shares from a selling shareholder, raising a total of approximately ₱8.8 billion. The proceeds from the placement will be used for general corporate purposes.

### 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:

- a. 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.
- b. The shares shall be non-convertible, non-voting, cumulative and non-participating.
- c. 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.
- d. 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.

### Record of Registration of Securities with the SEC

Summarized below is the Parent Company's track record of registration of securities under the Securities Regulation Code.

| <u>Date of offering</u> | <u>Type of offering</u>                            | <u>No. of shares offered</u> | <u>Par value</u> | <u>Offer price</u> | <u>Authorized number of shares</u>   | <u>Issued and outstanding shares</u> |
|-------------------------|--|------------------------------|------------------|--------------------|--|--------------------------------------|
| June 30, 1993           | Registration of authorized capital stock           | –                            | ₱1.00            | ₱–                 | 12,850,800,000 common shares and 2,000,000,000 preferred non-voting shares | –                                    |
| June 30, 1993           | Initial public offering (IPO)                      | 1,428,175 common shares      | 1.00             | 4.40               | –  | 1,428,175 common shares              |
| June 30, 1994           | Conversion of convertible bonds into common shares | 428,175 common shares        | 1.00             | 13.75              | –  | 3,725 common shares                  |
| July 3, 1998            | Stock rights offering (1:2)                        | 2,060,922 common shares      | 1.00             | 2.00               | –  | 2,060,9212 common shares             |

### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group

manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

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

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

|   | <b>June 30, 2015</b><br><b>(Unaudited)</b> | December 31, 2014<br>(Audited) |
|---|--|--------------------------------|
| (a) Gross debt                                      |  |                                |
| Short-term debt (Note 18)                           | <b>₱20,443,992</b>                         | ₱44,286,734                    |
| Current portion of long-term debt (Note 18)         | <b>4,829,530</b>                           | 4,475,008                      |
| Long-term debt, net of current portion<br>(Note 18) | <b>161,289,931</b>                         | 153,079,728                    |
| Derivative liabilities (Note 8)                     | <b>1,356,991</b>                           | 2,271,027                      |
| Redeemable preferred shares (Note 20)               | <b>1,700</b>                               | 1,700                          |
|   | <b>₱187,922,144</b>                        | ₱204,114,197                   |
| (b) Capital   | <b>₱288,188,957</b>                        | ₱261,610,454                   |
| (c) Debt-to-capital ratio (a/b)                     | <b>0.65:1</b>                              | 0.78:1                         |

The Group's policy is to ensure that the debt-to-capital ratio would not exceed the 2.5:1.0 level.

#### Regulatory Qualifying Capital

Under existing BSP regulations, the determination of RBC's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of RBC consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary nonfinancial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 125.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures

being subjected further to credit conversion factors. Following is a summary of risk weights and selected exposure types:

| Risk weight | Exposure/Asset type*   |
|-------------|--|
| 0%          | Cash on hand; claims collateralized by securities issued by the non-government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation   |
| 20%         | COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation |
| 50%         | Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation  |
| 75%         | Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage  |
| 100%        | All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred tax)   |
| 125%        | All NPLs (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities  |

\* *Not all inclusive*

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For CLNs and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

As of June 30, 2015, the RBC was in compliance with the required capital adequacy ratio (CAR).

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of

BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.0% CET1 capital ratio and 10% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25% on the Group's real estate exposure. These limits shall be complied with at all times.

RBC has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

#### Restricted Retained Earnings

##### *Parent Company*

In April 2003, the Parent Company's BOD approved the appropriation of retained earnings amounting to ₱8.0 billion. On December 29, 2014, December 30, 2010 and December 28, 2009, the Parent Company's BOD approved the additional appropriation of retained earnings amounting to ₱39.0 billion, ₱19.0 billion and ₱15.0 billion, respectively.

The ₱81.0 billion total appropriations of the Parent Company's retained earnings are earmarked for the following: (a) settlement of a certain subsidiary's loan obligations guaranteed by the Parent Company; (b) funding of capital expenditure commitments of certain wholly owned subsidiaries; (c) and general corporate purposes.

The details of the loan obligations and capital expenditure commitments follow:

|   | <b>Subsidiary</b>         | <b>Amount</b>     | <b>Settlement</b>           |
|---|---------------------------|-------------------|-----------------------------|
| <b>Loan Obligations</b>                               |                           |                   |                             |
| US\$ LIBOR plus 2.20% margin, 5-year guaranteed notes | JGSH Philippines, Limited | US\$250.0 million | 5 years maturing in 2018    |
| 4.38% senior unsecured notes                          | JGSH Philippines, Limited | US\$750.0 million | 10 years maturing in 2023   |
| <b>Capital Expenditure Commitments</b>                |                           |                   |                             |
| Expansion of polyethylene and polypropylene plants    | JGSPC                     | US\$300.0 million | Expected completion in 2015 |
| Construction of naphtha cracker plant                 | JGSOC                     | US\$800.0 million | Expected completion in 2015 |

As part of its debt covenant, the Parent Company has to maintain certain financial ratios such as: (a) the Group's current ratio of not lesser than 1.0:1.0; and (b) the Group's debt-to-equity ratio of not greater than 2.0:1.0. A certain portion of retained earnings unrestricted to maintain these financial ratios.

##### *URC*

In 2003, URC's BOD approved the appropriation of retained earnings amounting to ₱3.0 billion for URC's expansion plans.

In April 2011, as approved by the BOD, URC has appropriated retained earnings amounting to ₱5.0 billion for URC's expansion plans. On the same date, URC's BOD also approved the reversal of the previously appropriated retained earnings amounting to ₱3.0 billion.

URC's expansion plans include investments and capital expenditures for existing and on-going projects. Out of the ₱5.0 billion, around ₱4.3 billion was allocated to branded consumer foods

group for Polyethylene terephthalate bottle projects and snack food facilities in the Philippines; expansion of chocolates, biscuits and wafer lines in Thailand and Malaysia; and expansion of beverage, biscuits, cake and candy lines in Vietnam, which are all expected to be completed within the first half of fiscal year 2013. The rest of the appropriation will be used for farm expansion, handling facilities of the feeds division and maintenance capital expenditures of the commodity group, which are expected to be disbursed in the first half of fiscal year 2013.

On February 11, 2013, the BOD approved the reversal of the previously appropriated retained earnings amounting to ₱5.0 billion. On the same date, the BOD approved the appropriation of retained earnings amounting to ₱6.0 billion for the purposes of the Group's plant expansion. On September 18, 2013, the BOD approved the reversal of the previously appropriated retained earnings amounting to ₱6.0 billion.

#### *RLC*

On September 18, 2014, the BOD approved the reversal of the retained earnings it has appropriated in 2013 amounting to ₱11.2 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of the Group for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

On the same date, the BOD also approved the appropriation of ₱17.0 billion, out of the unappropriated retained earnings, to support the capital expenditure requirements of the Group for various projects approved by the Executive Committee during meetings held in September 2014. These projects and acquisitions are expected to be completed in various dates in FY 2015 to FY 2017.

On November 27, 2014, March 8, 2013 and April 19, 2012, the RLC's BOD appropriated ₱3.0 billion, ₱2.5 billion and ₱483.3 million, respectively, from its unrestricted retained earnings as of December 31, 2014 for purposes of the Group's re-fleeting program. The appropriated amount was used for the settlement of pre delivery payments and aircraft lease commitments in 2013 and 2014. Planned re-fleeting program amount to an estimated ₱70.07 billion which will be spent over the next five years of the Group for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

#### *CAI*

On November 27, 2014, March 8, 2013 and April 19, 2012, the CAI's BOD appropriated ₱3.0 billion, ₱2.5 billion and ₱483.3 million, respectively, from its unrestricted retained earnings as of December 31, 2014 for purposes of the Group's re-fleeting program. The appropriated amount was used for the settlement of pre delivery payments and aircraft lease commitments in 2013 and 2014. Planned re-fleeting program amount to an estimated ₱70.07 billion which will be spent over the next five years.

#### *EHI*

On August 31, 2002, the Company's BOD approved the appropriation of retained earnings amounting to ₱35.0 million to be used for investment purposes. On December 29, 2011, the Company's BOD reiterated the appropriation of retained earnings to be used for strategic investments in companies that are consolidated in the Group accounts. These investments are expected to be realized within the next 2 years. Accordingly, on December 28, 2013, EHI's BOD approved the reversal of the appropriated retained earnings amounting to ₱35.0 million.

#### *Accumulated equity in net earnings of the subsidiaries and associates*

A portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates and joint ventures amounting to

₱56.3 billion as of December 31, 2014 is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

#### Equity Reserve

In December 2014, URC entered into a share purchase agreement with Nissin to sell 14.0% of its equity interest in NURC. As a result of the sale, the equity interest of URC changed from 65% to 51%. The gain from the sale amounting to ₱239.8 million is included under “Equity Reserve” in the 2014 consolidated statements of changes in equity.

On October 3, 2013, the Parent Company sold 105,000,000 URC ordinary shares via an accelerated overnight equity placement at a price of ₱115.0 per share. After the sale, the Parent Company holds 55.7% of URC’s ordinary shares. As a result of the sale, the Parent Company recognized a gain amounting to ₱11.9 billion. In the consolidated financial statements, the excess of the consideration over the Parent’s equity in net asset of URC amounting to ₱9.7 billion was credited directly to ‘Equity reserve’ in the consolidated statement of changes in equity.

On March 6, 2013, RLC acquired the remaining 20.0% non-controlling interest in ASNC, increasing its ownership from 80.0% to 100.0%. Cash consideration of ₱197.6 million was paid to the non-controlling shareholders. The total carrying value of the net assets of ASNC at the date of acquisition was ₱577.5 million and the 20.0% equivalent of the carrying value of the non-controlling interest acquired was ₱115.5 million. The difference of ₱50.1 million between the consideration and the carrying value of the interest acquired is recognized in “Equity Reserve” account within equity.

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## **21. Employee Benefits**

#### Pension Plans

The Group has funded, noncontributory, defined benefit pension plans covering substantially all of their regular employees, except for JGSPC that has an unfunded, noncontributory defined benefit pension plan.

The pension funds are being administered and managed through JG Summit Multi-Employer Retirement Plan (the “Plan”), with RBC as Trustee. The plans provide for retirement, separation, disability and death benefits to their members. The Group, however, reserves the right to discontinue, suspend or change the rates and amounts of their contributions at any time on account of business necessity or adverse economic conditions. The retirement plan has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the Plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. Robinsons Bank Corporation manages the plan based on the mandate as defined in the trust agreement.

The overall expected rates of return on assets are based on the market expectations prevailing as at the reporting date, applicable to the period over which the obligation is settled.

The Group expects to contribute ₱82.4 million into the pension fund for the year ending 2015.

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## 22. 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>June 30, 2015</b><br><b>(Unaudited)</b> | June 30, 2014<br>(Unaudited) |
|---|--|------------------------------|
| Income attributable to equity holders of the Parent Company           | <b>₱13,429,316</b>                         | ₱12,863,250                  |
| Less: Dividends on preferred shares                                   | –  | –                            |
| Income attributable to holders of common shares of the Parent Company | <b>₱13,429,316</b>                         | ₱12,863,250                  |
| Weighted average number of common shares                              | <b>7,162,842</b>                           | 7,017,192                    |
| Basic/diluted earnings per share                                      | <b>₱1.87</b>                               | ₱1.83                        |

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## 23. 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. 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 is being managed by JG Summit Multi-Employer Retirement Plan (MERP), a corporation created for the purpose of managing the funds of the Group, with RBC as the trustee.

The retirement plan under the MERP has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

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**24. 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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**25. Contingent Liabilities****Contingencies**

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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**26. Subsequent Events**

No material subsequent events to the end of the interim period have occurred that would require recognition disclosure in the consolidated financial statements for the interim period.



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES****FINANCIAL RATIOS****AS OF JUNE 30, 2015 AND DECEMBER 31, 2014 AND FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

The following are the financial ratios that the Group monitors in measuring and analyzing its financial soundness:

| <b>Financial Ratios:</b>         | <b>2015</b> | <b>2014</b> |
|----------------------------------|-------------|-------------|
| <b>Profitability Ratio:</b>      |             |             |
| Operating Margin                 | 22%         | 21%         |
| <b>Liquidity Ratio:</b>          |             |             |
| Current ratio                    | 1.36        | 1.10        |
| <b>Capital Structure Ratios:</b> |             |             |
| Gearing ratio                    | 0.65        | 0.77        |
| Net debt to equity ratio         | 0.48        | 0.59        |
| Asset to equity ratio            | 2.00        | 2.14        |
| Interest rate coverage ratio     | 9.41        | 9.31        |