



**JG SUMMIT  
HOLDINGS, INC.**

43<sup>rd</sup> FLOOR ROBINSONS EQUITABLE TOWER ADB AVE. COR. POVEDA RD. ORTIGAS CENTER, PASIG CITY  
TEL. NO.: 633-7631 to 40, 240-8801 FAX NO.: 633-9207, 240-9106

May 8, 2013

**PHILIPPINE STOCK EXCHANGE, INC.**

3<sup>rd</sup> Floor, Philippine Stock Exchange  
Ayala Triangle, Ayala Avenue  
Makati City

Attention: Ms. Janet A. Encarnacion  
Head, Disclosure Department

**PHILIPPINE DEALING AND EXCHANGE CORP.**

37/F, Tower 1, The Enterprise Center  
6766 Ayala Avenue corner Paseo de Roxas, Makati City

Attention: Ms. Ma. Concepcion M. Magdaraog  
Head-Issuer Compliance and Disclosure Department

Gentlemen:

Please find attached a copy of SEC Form 20-IS (Preliminary Information Statement) of JG Summit Holdings, Inc. for the annual stockholders' meeting to be held on June 27, 2013 which we have filed with the Securities and Exchange Commission.

Thank you.

Very truly yours,

ROSALINDA F. RIVERA  
Corporate Secretary

/lbo

**COVER SHEET**

SEC Registration Number

184044

J G S U M M I T H O L D I N G S , I N C .

(Company's Full Name)

43rd Floor, Robinsons Equitable Tower, AD B Avenue corner Poveda Road, Ortigas Center, Pasig City

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

**Atty. Rosalinda F. Rivera**  
**Corporate Secretary**

(Contact Person)

633-7631 to 40

(Company Telephone Number)

1 2 3 1

Month Day  
(Fiscal Year)

20 - I S

(Form Type)

Second Thursday of June

Month Day  
(Annual Meeting)

**PRELIMINARY INFORMATION STATEMENT**

N/A

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.



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

43<sup>rd</sup> FLOOR ROBINSONS EQUITABLE TOWER ADB AVE. COR. POVEDA RD ORTIGAS CENTER, PASIG CITY  
TEL NO.: 633-7631 to 40, 240-8801 FAX NO.: 633-9207 OR 240-9106

### **NOTICE OF ANNUAL MEETING OF STOCKHOLDERS June 27, 2013**

Notice is hereby given that the Annual Meeting of the Stockholders of JG SUMMIT HOLDINGS, INC. will be held on June 27, 2013 at 4:00 p.m. at Ruby Ballroom of Crowne Plaza Manila Galleria, ADB Avenue corner Ortigas Avenue, Quezon City.

The Agenda for the meeting is as follows:

1. Proof of notice of the meeting and existence of a quorum.
2. Reading and approval of the Minutes of the Annual Meeting of the Stockholders held on June 28, 2012.
3. Presentation of Annual Report and approval of Financial Statements for the preceding year.
4. Election of Board of Directors.
5. Election of External Auditor.
6. Ratification of all acts of the Board of Directors and Management since the last annual meeting.
7. Consideration of such other matters as may properly come during the meeting.
8. Adjournment.

For convenience in registering your attendance, please have available some form of identification such as Voter's I.D. or Driver's License.

Pursuant to Section 9, Article II of the Amended By-Laws of JG Summit Holdings, Inc. proxies must be received by the Corporate Secretary for inspection and recording not later than five (5) working days before the time set for the meeting, or not later than June 20, 2013. We are not, however, soliciting proxies.

Registration starts at 3:00 p.m. and will close at exactly 4:15 p.m. Only stockholders of record as of May 23, 2013 shall be entitled to vote.

By Authority of the Chairman:

**ROSALINDA F. RIVERA**  
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 20-IS  
Information Statement Pursuant to Section 20  
of the Securities Regulation Code**



1. Check the appropriate box:
- Preliminary Information Statement
- Definitive Information Statement
2. Name of Registrant as specified in its charter : **JG SUMMIT HOLDINGS, INC.  
(the "Corporation")**
3. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**
4. SEC Identification Number : **SEC Registration No. 184044**
5. BIR Tax Identification Code : **TIN No. 000-775-860**
6. Address of principal office : **43/F Robinsons Equitable Tower  
ADB Ave., corner Poveda St.  
Ortigas Center, Pasig City  
Metro Manila 1605**
7. Registrant's telephone number, including area code : **(632) 633-7631 to 40**
8. Date, time and place of the meeting of security holders : **June 27, 2013  
4:00 P.M.  
Ruby Ballroom  
Crowne Plaza Manila Galleria  
ADB Avenue corner Ortigas Avenue,  
Quezon City**
9. Approximate date on which copies of the Information Statement are first to be sent or given to security holders : **June 5, 2013**
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):
- | Title of Each Class   | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (as of March 31, 2013) |
|-----------------------|--|
| <b>Common Stock</b>   | <b>6,797,191,657</b>   |
| <b>Long Term Debt</b> | <b>9,000,000,000</b>   |
11. Are any or all of registrant's securities listed on a Stock Exchange?
- Yes  No

The common shares of the Corporation are listed on the Philippine Stock Exchange.

Date, Time and Place of Meeting of Security Holders

Date, Time, and Place of Meeting : **June 27, 2013  
4:00 P.M.  
Ruby Ballroom  
Crowne Plaza Manila Galleria  
ADB Avenue corner Ortigas Avenue,  
Quezon City**

Complete Mailing Address of Principal Office: **43/F Robinsons Equitable Tower  
ADB Ave., corner Poveda St.  
Ortigas Center, Pasig City  
Metro Manila, 1605**

Approximate date on which copies of the  
Information Statement are first to be sent or  
given to security holders : **June 5, 2013**

Dissenters' Right of Appraisal

**Any stockholder of the Corporation may exercise his appraisal against the proposed actions which qualify as instances giving rise to the exercise of such right pursuant to and subject to the compliance with the requirements and procedure set forth under Title X of the Corporation Code of the Philippines.**

**There are no matters to be acted upon by the stockholders at the Annual Meeting of the Stockholders to be held on June 27, 2013 which would require the exercise of the appraisal right.**

Interest of Certain Persons in or Opposition to Matters to be acted upon

**None of the following persons have any substantial interest, direct or indirect, in any matter to be acted upon other than election to office:**

- 1. Directors or officers of the Corporation at any time since the beginning of the last fiscal year;**
- 2. Nominees for election as directors of the Corporation;**
- 3. Associate of any of the foregoing persons.**

Voting Securities and Principal Holders Thereof

- (a) The Corporation has 6,797,191,657 outstanding common shares as of March 31, 2013. Every stockholder shall be entitled to one vote for each share of stock held as of the established record date.**
- (b) All stockholders of record as of May 23, 2013 are entitled to notice and to vote at the Corporation's Annual Meeting of the Stockholders.**
- (c) Pursuant to Section 10, Article II of the By-Laws of the Corporation, the Board of Directors may fix in advance a date as the record date for any such determination of stockholders. For purposes of determining the stockholders entitled to notice of, or to vote or be voted at any meeting of stockholders or any adjournments thereof, or entitled to receive payment of any dividends or other distribution or allotment of any rights, or for the purpose of any other lawful action, or for making any other proper determination of stockholders, the Board of Directors may provide that the stock and transfer books be closed for a stated period, which shall not be more than sixty (60) days nor less than thirty (30) days before the date of such meeting. In lieu of closing the stock and transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of stockholders. A determination of stockholders of record entitled to notice of or to vote or be voted at a meeting of stockholders shall apply to any adjournment of**

the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

**(d) Cumulative Voting for Directors**

Article II, Section 8 of the By-Laws provides that the directors of the Corporation shall be elected by plurality vote at the annual meeting of the stockholders for the year at which a quorum is present. At each election for directors, every stockholder shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or by distributing such votes as the same principle among any number of candidates.

The report attached to this SEC Form 20-IS is the management report to stockholders required under SRC Rule 20 to accompany the SEC Form 20-IS and is hereinafter referred to as the “Management Report”.

**Security Ownership of Certain Record and Beneficial Owners and Management**

Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Corporation’s voting securities as of March 31, 2013

<b>Title of Class</b>	<b>Names and Addresses of record owners and relationship with the Corporation</b>	<b>Names of beneficial owner and relationship with record owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>% to Total Outstanding</b>
Common	Gokongwei Brothers Foundation, Inc. 43/F Robinsons Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder)	same as record owner (see note 1)	Filipino	1,997,076,451	29.38%
Common	PCD Nominee Corporation (Filipino) GF MKSE Building 6767 Ayala Avenue, Makati City (stockholder)	PCD Participants and their clients (see note 2)	Filipino	1,355,004,372	19.93%
Common	Robinsons Savings Bank – Trust & Investment Group No. 030-46-000001-9 17/F Galleria Corporate Center Edsa Cor. Ortigas Ave., Quezon City (stockholder)	Trustee’s designated Officers (see note 3)	Filipino	1,033,319,225	15.20%
Common	John Gokongwei, Jr. 43/F Robinsons Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder and Chairman Emeritus)	same as record owner (see note 4)	Filipino	1,007,539,915	14.82%
Common	PCD Nominee Corporation (Non-Filipino) GF MKSE Building 6767 Ayala Avenue, Makati City (stockholder)	PCD Participants and their clients (see note 2)	Non- Filipino	476,947,558	7.02%

Notes:

1. Gokongwei Brothers Foundation, Inc. (the “Foundation”) is a non-stock, non-profit corporation organized by the irrevocable donation by the incorporators, who are also Trustees of the Foundation, of shares of JG Summit Holdings, Inc. Under the Articles of Incorporation and By-Laws of the Foundation, except for salaries of employees and honoraria of consultants and similar expenses for actual services rendered to the Foundation or its projects, no part of the corpus or its income and increments shall benefit or be used for the private gain of any member, trustee, officer or any juridical or natural person whatsoever. The Chairman of the Board of Trustees shall exercise exclusive power and authority to represent and vote for any shares of stock owned by the Foundation in other corporate entities. The incumbent Chairman of the Board of Trustees of the Foundation is Mr. John L. Gokongwei, Jr.

2. PCD Nominee Corporation is the registered owner of the shares in the books of the Corporation's transfer agent. PCD Nominee Corporation is a corporation wholly-owned by Philippine Depository and Trust Corporation, Inc. (formerly the Philippine Central Depository) ("PDTC"), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. PDTC is a private corporation organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. Under the current PDTC system, only participants (brokers and custodians) will be recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participant will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. Out of the PCD Nominee Corporation (Filipino) account, "BPI Securities Corporation" holds for various trust accounts the following shares of the Corporation as of March 31, 2013:

	<u>No. of shares held</u>	<u>% to total outstanding</u>
BPI Securities Corporation	641,231,026	9.43%

The securities are voted by the trustee's designated officers who are not known to the Corporation.

3. Robinsons Savings Bank – Trust & Investment Group is the trustee of this trust account.

The securities are voted by the trustee's designated officers who are not known to the Corporation.

4. Sum of shares in the name of "John Gokongwei, Jr." and "John Gokongwei, Jr. and/or Lance Gokongwei" for 866,509,465 and 141,030,450 shares, respectively.

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

Title of Class	Names of beneficial owner	Amount & nature of beneficial ownership (Direct)	Citizenship	% to Total Outstanding
<b>A. Named Executive Officers<sup>1</sup></b>				
Common	1. John L. Gokongwei, Jr.	1,007,539,915 <sup>2</sup>	Filipino	14.82%
Common	2. James L. Go	148,679,656	Filipino	2.19%
Common	3. Lance Y. Gokongwei	235,513,855 <sup>3</sup>	Filipino	3.46%
Common	4. Patrick Henry C. Go	93,500	Filipino	*
Common	5. Gabriel C. Singson	<u>1</u>	Filipino	*
	<i>Sub-Total</i>	<u>1,391,826,927</u>		<u>20.47%</u>
<b>B. Other directors, executive officers and nominees</b>				
Common	6. Lily G. Ngochua	74,591,775	Filipino	1.10%
Common	7. Johnson Robert G. Go, Jr.	1	Filipino	*
Common	8. Ricardo J. Romulo	1	Filipino	*
Common	9. Cornelio T. Peralta	11,000	Filipino	*
Common	10. Jose T. Pardo	1	Filipino	*
Common	11. Robina Y. Gokongwei-Pe	74,145,278 <sup>4</sup>	Filipino	1.09%
Common	12. Aldrich T. Javellana	0	Filipino	*
	13. Constante T. Santos	0	Filipino	*
	14. Bach Johann M. Sebastian	0	Filipino	*
	15. Nicasio L. Lim	0	Filipino	*
	16. Chona R. Ferrer	0	Filipino	*
	17. Rosalinda F. Rivera	0	Filipino	*
	<i>Sub-Total</i>	<u>148,748,056</u>		<u>2.19%</u>
<b>C. All directors, executive officers &amp; nominees as a group unnamed</b>		<u>1,540,574,983</u>		<u>22.66%</u>

Notes:

1. Chief Executive Officer and four (4) most highly compensated executive officers as of March 31, 2013.

2. Sum of shares in the name of "John Gokongwei, Jr. " and "John Gokongwei, Jr. and/or Lance Gokongwei" for 866,509,465 and 141,030,450 shares, respectively.

3. Sum of shares in the name of "Lance Gokongwei, " and " Lance Y. Gokongwei &/or Elizabeth Gokongwei" for 668,575 and 234,845,280 shares respectively.

4. Held in the name of "Robina Y. Gokongwei-Pe &/or Elizabeth Gokongwei".

\* less than 0.01%.

Voting Trust Holders of 5% or More – as of March 31, 2013.

**There are no persons holding more than 5% of a class under a voting trust or similar agreement.**

## Changes in Control

**There has been no change in the control of the Corporation since the beginning of its last fiscal year.**

**The information as of March 31, 2013 on the section “Security Ownership of Certain Record and Beneficial Owners and Management” are found in Item 12, pages 56 to 57 of the Management Report.**

## Directors and Executive Officers

**Information required hereunder is incorporated by reference to the section entitled “Directors and Executive Officers of the Registrant” on Item 10, pages 50 to 54 of the Management Report.**

**The incumbent directors of the Corporation are expected to be nominated for re-election this year.**

**The By-Laws of the Corporation was amended on June 16, 2006 to include the provisions of SRC Rule 38, as amended.**

**The members of the Nomination Committee of the Corporation are the following:**

- 1) **John L. Gokongwei, Jr.**
- 2) **James L. Go - Chairman**
- 3) **Lance Y. Gokongwei**
- 4) **Johnson Robert G. Go, Jr.**
- 5) **Jose T. Pardo (Independent Director)**

**Information required by the SEC under SRC Rule 38 on the nomination and election of Independent Directors.**

The following criteria and guidelines shall be observed in the pre-screening, short listing, and nomination of Independent Directors:

### **A. Definition**

1. An independent director is a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the corporation and includes, among others, any person who:
  - 1.1 Is not a director or officer or substantial stockholder of the corporation or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing;
  - 1.2 Does not own more than two percent (2%) of the shares of the corporation and/or its related companies or any of its substantial shareholders;
  - 1.3 Is not a relative of any director, officer or substantial shareholder of the corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
  - 1.4 Is not acting as a nominee or representative of any director or substantial shareholder of the corporation, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
  - 1.5 Has not been employed in any executive capacity by the corporation, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;
  - 1.6 Is not retained, either personally or through his firm or any similar entity, as professional adviser, by the corporation, any of its related companies and/or any of its substantial shareholders, within the last two (2) years; or



- 1.7 Has not engaged and does not engage in any transaction with the corporation and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.
2. No person convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of this Code, committed within five (5) years prior to the date of his election, shall qualify as an independent director. This is without prejudice to other disqualifications which the corporation's Manual on Corporate Governance provides.
3. Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the Commission by appointing independent directors from the list of nominees submitted by the stockholders.
4. When used in relation to a company subject to the requirements above:
  - 4.1 Related company means another company which is: (a) its holding company, (b) its subsidiary, or (c) a subsidiary of its holding company; and
  - 4.2 Substantial shareholder means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

**B. Qualifications and Disqualifications of Independent Directors**

1. An independent director shall have the following qualifications:
  - 1.1 He shall have at least one (1) share of stock of the corporation;
  - 1.2 He shall be at least a college graduate or he has sufficient management experience to substitute for such formal education or he shall have been engaged or exposed to the business of the corporation for at least five (5) years;
  - 1.3 He shall be twenty one (21) years old up to seventy (70) years old, however, due consideration shall be given to qualified independent directors up to the age of eighty (80);
  - 1.4 He shall have been proven to possess integrity and probity; and
  - 1.5 He shall be assiduous.
2. No person enumerated under Section II (5) of the Code of Corporate Governance shall qualify as an independent director. He shall likewise be disqualified during his tenure under the following instances or causes:
  - 2.1 He becomes an officer or employee of the corporation where he is such member of the board of directors/trustees, or becomes any of the persons enumerated under letter (A) hereof;
  - 2.2 His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the corporation where he is such director;
  - 2.3 Fails, without any justifiable cause, to attend at least 50% of the total number of Board meetings during his incumbency unless such absences are due to grave illness or death of an immediate family;
  - 2.4 Such other disqualifications that the Corporate Governance Manual provides.

**C. Number of Independent Directors**

All companies are encouraged to have independent directors. However, issuers of registered securities and public companies are required to have at least two (2) independent directors or at least twenty percent (20%) of its board size.

**D. Nomination and Election of Independent Directors**

1. The Nomination Committee (the “Committee”) shall have at least three (3) members, one of whom is an independent director. It shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the corporation’s information or proxy statement or such other reports required to be submitted to the Commission.
2. Nomination of independent director/s shall be conducted by the Committee prior to a stockholders’ meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.
3. The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.
4. After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, as required under Part IV (A) and (C) of Annex "C" of SRC Rule 12, which list, shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the Corporation is required to submit to the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.
5. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as independent director/s. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained nor allowed on the floor during the actual annual stockholders' meeting.
6. Election of Independent Director/s
  - 6.1 Except as those required under this Rule and subject to pertinent existing laws, rules and regulations of the Commission, the conduct of the election of independent director/s shall be made in accordance with the standard election procedures of the company or its by-laws.
  - 6.2 It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent director/s. He shall ensure that an independent director/s are elected during the stockholders’ meeting.
  - 6.3 Specific slot/s for independent directors shall not be filled-up by unqualified nominees.
  - 6.4 In case of failure of election for independent director/s, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

#### **E. Termination/Cessation of Independent Directorship**

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Committee otherwise, said vacancies shall be filled by the stockholders in a regular or special meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

**The procedure for the “Nomination and Election of Independent Directors pursuant to SRC Rule 38” are set out in the By-Laws of the Corporation. However, any further amendments or updating of such procedure can be implemented upon approval of the Board of Directors. There is no need to seek further approval of the stockholders because under the By-Laws of the Corporation, the stockholders representing at least two-thirds of the outstanding capital stock have delegated to the Board of Directors the power to amend the By-Laws.**

**Presented below is the Final List of Candidates for Independent Directors:**

1. **Cornelio T. Peralta**, 79, was elected as a director of JGSHI on July 26, 2000. He is a director of Philippine Stock Exchange, University of the East, UERM Medical Center, Inc., Makati Commercial Estate Association, Inc., Capital Market Integrity Corporation, Securities Clearing Corporation of the Philippines, Wan Hai Lines, Inc., and Grow Holdings Phils., Inc. He was formerly Chairman, CEO and President of Kimberly Clark Philippines, Inc. (1971-1998) and former President of P.T. Kimsari Paper Indonesia (1985-1998) and Chairman & CEO of University of the East (1982-1984). He finished Bachelor of Arts, cum laude, and Bachelor of Laws, degrees from the University of the Philippines and took up Advanced Management Program at Harvard Graduate School of Business.

2. **Jose T. Pardo**, 73, was elected as an independent director of JGSHI on August 6, 2003. He is presently the Chairman of the Philippine Stock Exchange, Securities Clearing Corporation of the Philippines, Philippine Savings Bank, Bank of Commerce, and Electronic Commerce Payment Networks, Inc. (ECPay). He is also a director of National GRID Corporation of the Philippines, and ZNN Radio Veritas. He also held positions in government as former Secretary of the Department of Finance and former Secretary of the Department of Trade and Industry. He obtained his Bachelor of Science in Commerce, Major in Accounting and his Masters Degree in Business Administration from the De La Salle University.

**The Certification of Independent Directors executed by the aforementioned independent directors of the Corporation are attached hereto as Annex "A" (Cornelio T. Peralta) and Annex "B" (Jose T. Pardo).**

**The name of the person who recommended the nomination of the foregoing candidates for independent directors is Express Holdings, Inc.**

**None of the candidates for independent directors of the Corporation are related to Express Holdings, Inc.**

Significant Employees

**There are no persons who are not executive officers of the Corporation who are expected by the Corporation to make a significant contribution to the business.**

Family Relationships

1. **Mr. James L. Go is the brother of Mr. John L. Gokongwei, Jr.**
2. **Ms. Lily G. Ngochua is the sister of Mr. John L. Gokongwei, Jr.**
3. **Mr. Lance Y. Gokongwei is the son of Mr. John L. Gokongwei, Jr.**
4. **Ms. Robina Y. Gokongwei-Pe is the daughter of Mr. John L. Gokongwei, Jr.**
5. **Mr. Patrick Henry C. Go and Mr. Johnson Robert G. Go, Jr. are the nephews of Mr. John L. Gokongwei, Jr.**

Involvement in Certain Legal Proceedings of Directors and Executive Officers

**None of the members of the Board of Directors and Executive Officers of the Corporation are involved in any of the following events for the past five (5) years and up to the date of this SEC Form 20-IS:**

1. **Any bankruptcy petition filed by or against any business of which such director or executive officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;**
2. **Any conviction by final judgment;**
3. **Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and**

4. Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Certain Relationships and Related transactions

The Corporation in the regular conduct of its business has entered into transactions with related parties principally consisting of sales, purchases at market prices, advances and reimbursement of expenses. Under the policy of the Corporation and its subsidiaries, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. (See Note 40 of the Consolidated Financial Statements as of and for the fiscal year ended December 31, 2012).

Compensation of Directors and Executive Officers

**Summary Compensation Table**

The following tables list the names of the Corporation's Chief Executive Officer and the five (5) most highly compensated executive officers and summarizes their aggregate compensation for the two most recent fiscal years and the ensuing year.

Name	Position	Projected - Fiscal Year 2013			
		Salary	Bonus	Others	Total
A. CEO and Five (5) most highly compensated executive officers		P77,858,466	P1,500,000	P420,000	P79,778,466
1. John Gokongwei, Jr.	Chairman Emeritus				
2. James L. Go	Director, Chairman & Chief Executive Officer				
3. Lance Y. Gokongwei	Director, President & Chief Operating Officer				
4. Patrick Henry C. Go	Director				
5. Gabriel C. Singson	Director				
B. All other officers and directors as a group unnamed		P131,187,903	P4,200,000	P990,000	P136,377,903

Name	Position	Actual - Fiscal Year 2012				Actual-Fiscal Year 2011
		Salary	Bonus	Others	Total	Total
A. CEO and Five (5) most highly compensated executive officers		P71,225,159	P1,500,000	P455,000	P73,180,159	P60,594,995
1. John Gokongwei, Jr.	Chairman Emeritus					
2. James L. Go	Director, Chairman & Chief Executive Officer					
3. Lance Y. Gokongwei	Director, President & Chief Operating Officer					
4. Patrick Henry C. Go	Director					
5. Gabriel C. Singson	Director					
B. All other officers and directors as a group unnamed		P125,786,835	P4,200,000	P1,155,000	P131,141,835	P120,201,777

Standard arrangements or other arrangements pursuant to which directors of the Corporation are compensated

#### Standard Arrangement

**Other than payment of reasonable per diem, there are no standard arrangements pursuant to which directors of the Corporation are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed fiscal year and the ensuing year.**

#### Other Arrangements

**There are no other arrangements pursuant to which any director of the Corporation was compensated, or is to be compensated, directly or indirectly, during the Corporation's last completed fiscal year, and the ensuing year, for any service provided as a director.**

**The members of the Remuneration and Compensation Committee of the Corporation are the following:**

- 1) **John L. Gokongwei, Jr.**
- 2) **James L. Go**
- 3) **Lance Y. Gokongwei**
- 4) **Johnson Robert G. Go, Jr.**
- 5) **Cornelio T. Peralta (Independent Director)**

#### Employment Contracts and Termination of Employment and Change-in-Control Arrangement

**There are no special employment contracts between the Corporation and the named executive officers.**

**There are no compensatory plan or arrangement with respect to a named executive officer.**

#### Warrants and Options Outstanding

**There are no outstanding warrants or options held by the Corporation's Chief Executive Officer, the named executive officers, and all officers and directors as a group.**

#### Appointment of Independent Public Accountants

**The Corporation's independent public accountant is the accounting firm of SyCip, Gorres, Velayo & Co. (SGV & Co.). The same accounting firm is tabled for reappointment for the current year at the annual meeting of stockholders. The representatives of the principal accountant have always been present at prior years' meetings and are expected to be present at the current year's annual meeting of stockholders and may also make a statement and respond to appropriate questions with respect to matters for which their services were engaged.**

**The current handling partner of SGV & Co. has been engaged by the Corporation as of the fiscal year 2012 and is expected to be rotated every five (5) years in accordance with SRC Rule 68, as amended.**

**The members of the Audit Committee of the Corporation are the following:**

- 1) **John L. Gokongwei, Jr.**
- 2) **James L. Go**
- 3) **Lance Y. Gokongwei**
- 4) **Johnson Robert G. Go, Jr.**
- 5) **Cornelio T. Peralta (Independent Director) - Chairman**
- 6) **Jose T. Pardo (Independent Director)**

Action with respect to reports

The following are included in the agenda of the annual meeting of the stockholders for approval of the stockholders:

1. Reading and approval of the Minutes of the Annual Meeting of the Stockholders held on June 28, 2012.
2. Presentation of Annual Report and approval of Financial Statements for the preceding year.
3. Election of Board of Directors.
4. Election of External Auditors.
5. Ratification of all acts of the Board of Directors and Management since the last annual meeting.

The summary of the matters approved and recorded in the Annual Meeting of the Stockholders last June 28, 2012 are as follows: a) reading and approval of the minutes of the annual meeting of the stockholders held on July 7, 2011; b) presentation of Annual Report and approval of Financial Statements for the preceding year; d) election of Board of Directors e) election of External Auditors; and f) ratification of all acts of the Board of Directors and Management since the last annual meeting.

**Brief description of material matters approved by the Board of Directors and Management and disclosed to the SEC and PSE since the last annual meeting of the stockholders held on June 28, 2012 for ratification by the stockholders:**

Date of Board Approval

Description

June 28, 2012  
of Directors.

Results of the Organizational Meeting of the Board

Voting Procedures

The vote required for approval or election:

**Pursuant to Section 6, Article II of the By-Laws of the Corporation, a majority of the subscribed capital, present in person or by proxy, shall be sufficient in a stockholders' meeting to constitute a quorum for the election of directors and for the transaction of any business whatsoever, except in those cases where the Corporation Code requires the affirmative vote of a greater proportion.**

**Article VII of the By-Laws also provides that the By-Laws may be amended or repealed by stockholders owning or representing a majority of the outstanding capital stock and by a majority of the Board of Directors at any regular meeting, or at any special meeting called for the purpose, or the Board of Directors may, in any regular or special meeting thereof amend or repeal these By-Laws or adopt new By-Laws, provided, however, that this power delegated to the Board of Directors, to amend or repeal these By-Laws or adopt new By-Laws shall be considered as revoked whenever stockholders representing majority of the outstanding capital stock of the Corporation shall so vote at a regular or special meeting called for the purpose.**

The method by which votes will be counted:

**In accordance with Article II, Section 7 of the By-Laws, every stockholder shall be entitled to vote, in person or by proxy, for each share of stock held by him which has voting power upon the matter in questions. The votes for the election of directors, and except upon demand by any stockholder, the votes upon any question before the meeting, except with respect to procedural questions determined by the Chairman of the meeting, shall be by viva voce or show of hands.**

Article II, Section 8 of the By-Laws also provides that the directors of the Corporation shall be elected by plurality vote at the annual meeting of the stockholders for that year at which a quorum is present. At each election for directors, every stockholder shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or by distributing such votes as the same principle among any number of candidates.

The Secretary shall record all the votes and proceedings of the stockholders and of the Directors in a book kept for that purpose.

Additional Information Required by the SEC Pursuant to paragraph (4) of SRC Rule 20 (Disclosures to Stockholders Prior to Meeting)

Market Price for the Corporation's Common Equity and Related Stockholder Matters

**Market Price**

<u>Fiscal Year 2013</u>	<u>High</u>	<u>Low</u>
First Quarter (January to March 2013)	P43.50	P37.00

The market price of the Corporation's common equity as of May 2, 2013 is P47.70

The number of shareholders of record as of March 31, 2013 was 1,106.

Common shares outstanding as of March 31, 2013 were 6,797,191,657 shares with a par value of P1.00 per share.

Restriction that Limits the Payment of Dividends on Common Shares

None

Discussion on compliance with leading practices on corporate governance

The Corporation adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual, Code of Business Conduct and related SEC Circulars. In March 17, 2010, the Board of Directors approved the adoption of a revised Corporate Governance Manual, in accordance with SEC Memorandum Circular No. 6 (Series of 2009) dated June 22, 2009. Continuous improvement and monitoring of governance and management policies have been undertaken to ensure that the Corporation observes good governance and management practices. This is to assure the shareholders that the Corporation conducts its business with the highest level of integrity, transparency and accountability. A Certification of Compliance with the Manual on Corporate Governance is submitted by the Corporation every year to the SEC and PSE. Beginning January 30, 2011, the Corporation likewise submitted a Corporate Governance Disclosure Report to the PSE.

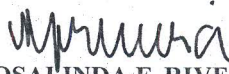
The Corporation likewise consistently strives to raise its financial reporting standards by adopting and implementing prescribed Philippine Financial Reporting Standards.

**JG SUMMIT HOLDINGS, INC., AS REGISTRANT, WILL PROVIDE WITHOUT CHARGE, UPON WRITTEN REQUEST, A COPY OF THE REGISTRANT'S ANNUAL REPORT ON SEC FORM 17-A. SUCH WRITTEN REQUESTS SHOULD BE DIRECTED TO THE OFFICE OF THE CORPORATE SECRETARY, 40/F ROBINSONS EQUITABLE TOWER, ADB AVENUE CORNER POVEDA ST., ORTIGAS CENTER, PASIG CITY, METRO MANILA, PHILIPPINES.**

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct in all material respects. This statement is signed in the City of Pasig on May 6, 2013.

**JG SUMMIT HOLDINGS, INC.**

  
**ROSALINDA F. RIVERA**  
Corporate Secretary



### CERTIFICATION OF INDEPENDENT DIRECTORS

I, **CORNELIO T. PERALTA**, Filipino, of legal age and a resident of No. 19 Oliva St., Valle Verde IV, Pasig City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of JG Summit Holdings, Inc.
2. I am affiliated with the following companies or organizations:

Company/ Organization	Position/ Relationship	Period of Service
University of the East	Director	1974 - Present
UE Ramon Magsaysay Memorial Medical Center	Director	1974 - Present
Makati Commercial Estate Association, Inc.	Director	1990 - Present
Wan Hai Lines, Inc.	Director	2001 - Present
Grow Holdings Philippines, Inc.	Director	2003 - Present
Philippine Stock Exchange, Inc.	Director	2004 - Present
Securities Clearing Corporation of the Philippines	Director	2005 - Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of JG Summit Holdings, Inc., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

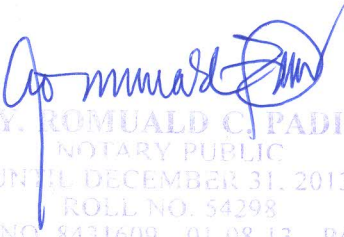
5. I shall inform the corporate secretary of JG Summit Holdings, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this \_\_\_\_\_ at \_\_\_\_\_.

  
**CORNELIO T. PERALTA**  
 Affiant

SUBSCRIBED AND SWORN to before me this MAY 06 2013, at PASIG CITY, affiant personally appeared before me and exhibited to me his Tax Identification No. 115-365-627.

Doc No. 90 ;  
 Page No. 19 ;  
 Book No. IX ;  
 Series of 2013.

  
**ATTY. ROMUALD C. PADILLA**  
 NOTARY PUBLIC  
 UNTIL DECEMBER 31, 2013  
 ROLL NO: 54298  
 PTR NO: 8431609 - 01-08-13 - PASIG  
 IBP NO: 923035 - 01-08-13 - RSM  
 TIN 170-266-059  
 40<sup>th</sup> Robinsons-Equitable Tower  
 ADB Ave. cor. Poveda Road  
 Ortigas Center, Pasig City (02-3952581)

## CERTIFICATION OF INDEPENDENT DIRECTORS

I, **JOSE T. PARDO**, Filipino, of legal age and a resident of 704 Acacia St., Ayala Alabang Village, Muntinlupa City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of JG Summit Holdings, Inc.
2. I am affiliated with the following companies or organizations:

Company/ Organization	Position/ Relationship	Period of Service
Philippine Savings Bank	Chairman	2002 to present
Electronic Commerce Payment Networks, Inc. (ECPay)	Chairman	2003 to present
Philippine Stock Exchange	Chairman	2011 to present
Securities Clearing Corporation of the Philippines	Chairman	2011 to present
Bank of Commerce	Chairman	2011 to present
ZNN Radio Veritas	Director	2006 to present
National GRID Corporation of the Philippines	Director	2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of JG Summit Holdings, Inc., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

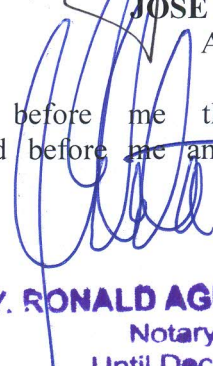
5. I shall inform the corporate secretary of JG Summit Holdings, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this **MAY 03 2013** at **QUEZON CITY**

  
**JOSE T. PARDO**  
Affiant

SUBSCRIBED AND SWORN to before me this **MAY 03 2013**, at **QUEZON CITY**, affiant personally appeared before me and exhibited to me his Tax Identification No. 116-203-611.

Doc No. 253 ;  
Page No. 51 ;  
Book No. 5 ;  
Series of 2013.

  
**ATTY. RONALD AGUSTIN R. ESTRADA**  
Notary Public  
Until Dec. 31, 2014  
IRP No. 842626 / 1-4-13 Q.C.  
PTR. No. 7552158 / 1-7-13 Q.C.  
Roll No. 43961

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

### **Item 1. Description of Business**

#### **(A) Business Development**

JG Summit Holdings, Inc. (the Company), which is controlled by the Gokongwei Family, was incorporated in November 1990 as the holding company for a group of companies with substantial business interests in branded consumer foods, agro-industrial and commodity food products, property development and hotel management, telecommunications, air transportation, petrochemicals and international capital and financial services. In addition, the Company has business interests in other sectors, including power generation and insurance.

The Company is one of the largest and most diversified conglomerates within the Philippines. The Company was listed on the PSE in 1993.

The Company and its subsidiaries (the Group), conduct business throughout the Philippines, but primarily in and around Metro Manila (where it is based) and in the regions of Visayas and Mindanao.

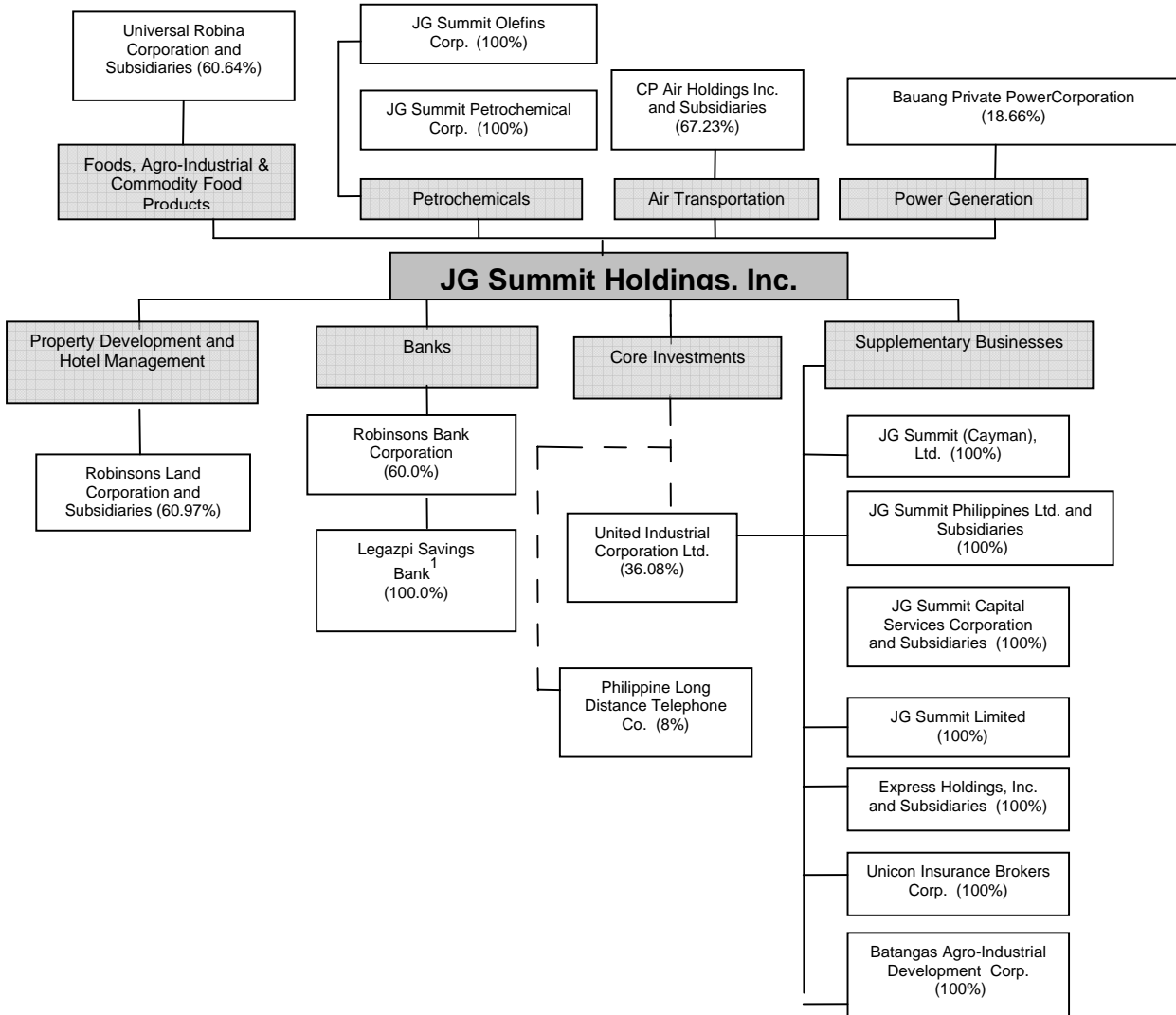
The Group also has a branded foods business in the People's Republic of China (PRC) and the ASEAN region and an interest in a property development company in Singapore.

The Company has not been into any bankruptcy, receivership or similar proceedings for the past two years.

The Gokongwei Family beneficially owns approximately 25.15% of the outstanding share capital of the Company. In addition, certain members of the Gokongwei Family are trustees of the Gokongwei Brothers Foundation, which holds interest in approximately 29.38% of the existing outstanding share capital of the Company.

**(B) Business of Issuer**

The industry segments where the Company and its subsidiaries and affiliates operate are summarized below:



<sup>1</sup> On June 27, 2012, Robinsons Bank Corp's Board of Directors approved the acquisition of Legazpi Savings Bank. The acquisition was approved by the Bangko Sentral ng Pilipinas on December 26, 2012.

The following table shows the breakdown of the Company's revenues and net profits from continuing operations by business areas (in millions except % amounts):

	REVENUES						Net Income attributable to Parent Co.					
	2010		2011		2012		2010		2011		2012	
	Peso	%	Peso	%	Peso	%	Peso	%	Peso	%	Peso	%
Food, Agro-Industrial and Commodity Food Products	57,936	55	67,404	55	71,438	53	5,014	32	2,975	35	4,691	35
Air Transportation	29,114	28	34,008	28	37,963	28	6,556	42	2,436	29	2,400	18
Real estate and hotels	13,456	12	14,828	12	15,292	11	4,819	31	4,461	53	4,380	32
Petrochemicals	3,872	4	5,773	4	5,098	4	(102)	(1)	(384)	(5)	(524)	(4)
Banks	1,735	2	2,360	2	2,533	2	298	2	272	3	234	2
Other Supplementary Businesses	72	-	121	-	3,120	2	(89)	-	722	9	2,491	18
Adjustments/elim	(566)	(1)	(997)	(1)	(192)	-	(921)	(6)	(2,005)	(24)	(139)	(1)
Total from Continuing Operations	105,619	100	123,497	100	135,252	100	15,575	100	8,477	100	13,533	100

Information as to domestic and foreign revenues, including foreign currency denominated revenues and dollar linked revenues, and their contributions to total revenues follow (in millions except % amounts):

	2010		2011		2012	
	Amount	%	Amount	%	Amount	%
Domestic	73,587	70	83,689	68	92,306	68
Foreign	32,031	30	39,808	32	42,947	32
	105,618	100	123,497	100	135,253	100

#### **a) BRANDED CONSUMER FOODS, AGRO-INDUSTRIAL AND COMMODITY FOOD PRODUCTS**

##### ***Business Development***

The Company operates its food business through Universal Robina Corporation (URC), which is one of the largest branded food product companies in the Philippines, with the distinction of being called the country's first "Philippine Multinational", and has a growing presence in other Asian markets. URC was founded in 1954 when Mr. John Gokongwei, Jr. established Universal Corn Products, Inc., a cornstarch manufacturing plant in Pasig. URC is involved in a wide range of food-related businesses, including the manufacture and distribution of branded consumer foods, production of hogs and day-old chicks, manufacture of animal and fish feeds, glucose and veterinary compounds, flour milling and sugar milling and refining. URC is a dominant player with leading market shares in Savory Snacks, Candies and Chocolates, and is a significant player in Biscuits, with leading positions in Cookies and Pretzels. URC is also the largest player in the RTD Tea market, and is a respectable 2<sup>nd</sup> player in the Noodles and 3<sup>rd</sup> in Coffee businesses.

##### ***Principal Products or Services***

URC operates its food business through operating divisions and wholly owned or majority-owned subsidiaries that are organized into three core business segments: branded consumer foods, agro-industrial products and commodity food products.

Branded consumer foods (BCF), including URC's packaging division, is the largest segment contributing about 79.0% of revenues for the fiscal year ended September 30, 2012. Established in the 1960s, URC's BCF division manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, bakery products, beverages, instant noodles and pasta and tomato based-products. The manufacture, distribution, sales and marketing activities for URC's consumer food products are carried out mainly through the branded consumer foods group consisting of snack foods, beverage and grocery groups, although URC conducts some of its branded consumer foods operations through its majority-owned subsidiaries and joint venture companies (e.g. Hunt-URC and Nissin-URC). URC established Packaging division to engage in the manufacture of bi-axially oriented polypropylene (BOPP) films for packaging companies. The BOPP plant, located in Batangas, began commercial operations in June 1998 and holds the distinction of being the only Integrated Management System ISO-Certified BOPP plant in the country today, with its Quality ISO 9001:2008 and Environmental ISO 14001:2004 Standards. URC also formed the Food Service and Industrial Division that supply BCF products in bulk to certain institutions like hotels, restaurants and schools.

In 2004, URC introduced and manufactured ready to drink tea in PET bottles, C2. URC expanded the beverage product line to include functional beverages such as fitness and energy drinks. In 2006, URC supplied certain flexible packaging materials to BCF through its wholly-owned subsidiary, CFC Clubhouse Property, Inc. In 2008, URC acquired General Milling Corp.'s (GMC) Granny Goose brand and snacks line which further expanded its snacks product lines. In December 2009, URC likewise, acquired the coffee plant facilities of GMC to add capacities to its existing coffee business. In 2012, URC has finalized the acquisition of sugar mill located in Negros Oriental (formerly known as Tolong sugar mill) from Herminio Teves & Co. Inc. (HTCI) to further expand its sugar milling business.

In 2000, URC expanded its BCF business more aggressively into other Asian markets primarily through its subsidiary, URC International and its subsidiaries in China: Shanghai Peggy Foods Co. Ltd., Guangzhou Peggy Foods Co. Ltd. and URC Hongkong Co. Ltd.; in Malaysia: URC Snack Foods (Malaysia) Sdn. Bhd. and Ricellent Sdn. Bhd.; in Thailand: URC (Thailand) Co. Ltd.; in Singapore: URC Foods (Singapore) Pte. Ltd.; Acesfood Network Pte, Ltd. in 2007 and Advanson International Pte, Ltd in 2008; in Indonesia: PT URC Indonesia. In 2006, URC started operations in Vietnam through its subsidiary URC Vietnam Company Ltd. and URC Hanoi Company, Ltd. in 2009. In August 2012, URC acquired the remaining 23% non-controlling interest of URC International making it a wholly owned subsidiary. The Asian operations contributed about 28.3% of URC's revenues for the fiscal year ended September 30, 2012.

URC has a strong brand portfolio created and supported through continuous product innovation, extensive marketing and experienced management. Its brands are household names in the Philippines and a growing number of consumers across Asia are purchasing URC's branded consumer food products.

URC's agro-industrial products segment operates three divisions, which engage in hog and poultry farming (Robina Farms or "RF"), the manufacture and distribution of animal feeds, glucose and soya products (Universal Corn Products or "UCP"), and the production and distribution of animal health products (Robichem). This segment contributed approximately 10.4% of the sale of goods and services in fiscal 2012.

URC's commodity food products segment engages in sugar milling and refining through its Sugar divisions URSUMCO, CARSUMCO, SONEDCO and PASSI and flour milling and pasta manufacturing through URC Flour division. In fiscal 2012, the segment contributed approximately 10.6% of aggregate sale of goods and services.

The percentage contribution to URC's revenues for the three years ended September 30, 2010, 2011 and 2012 by each of URC's principal business segments is as follows:

	For the fiscal years ended September 30		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Branded Consumer Foods	77.6%	74.9%	75.3%
Agro-Industrial Products	11.6	12.4	10.5
Commodity Food Products	<u>10.8</u>	<u>12.7</u>	<u>14.2</u>
	<u>100.0</u>	<u>100.0%</u>	<u>100.0%</u>

The geographic percentage distribution of the Company's revenues for the period ended September 30, 2010, 2011 and 2012 is as follows:

	For the fiscal years ended September 30		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Philippines	74.7%	71.4%	71.7%
ASEAN	23.6	26.6	26.4
China	<u>1.7</u>	<u>2.0</u>	<u>1.9</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

#### **Customers**

URC's businesses are not dependent upon a single customer or a few customers that a loss of anyone of them would have a material adverse effect on the Company. URC has no single customer that, based upon existing orders, will account for 20.0% or more of its total sale of goods and services.

#### **Distribution, Sales and Marketing**

URC has developed an effective nationwide distribution chain and sales network that it believes provide its competitive advantage. URC sells its branded food products primarily to supermarkets, as well as directly to top wholesalers, large convenience stores, large scale trading companies and regional distributors, which in turn sell its products to other small retailers and down line markets. URC's branded consumer food products are distributed to approximately 120,000 outlets in the Philippines and sold through its direct sales force and regional distributors. URC intends to enlarge its distribution network coverage in the Philippines by increasing the number of retail outlets that its sales force and distributors directly service.

The branded consumer food products are generally sold by URC from salesmen to wholesalers or supermarkets, and regional distributors to small retail outlets. 15 to 30 day credit terms are extended to wholesalers, supermarkets and regional distributors.

URC believes that its emphasis on marketing, product innovation and quality, and strong brand equity has played a key role in its success in achieving leading market shares in the different categories where it competes. In particular, URC launched "Jack n' Jill" as a master umbrella brand for all its snack food products in order to enhance customer recognition. URC devotes significant expenditures to support advertising and branding to differentiate its products and further expand market share both in the Philippines and its overseas markets, including funding for advertising campaigns, such as television commercials and radio and print advertisements, as well as promotions for new product launches by spending on average 5% of its branded consumer food division's net sales this year.



### **Competition**

The BCF business is highly competitive and competition varies by country and category. URC believes that the principal competitive factors include price, taste, quality, convenience, brand recognition and awareness, advertising and marketing, availability of products and ability to get its product widely distributed.

Generally, URC faces competition from both local and multinational companies in all of its markets. In the Philippines, major competitors in the market segments in which it competes include, Liwayway Manufacturing Corp., Columbia Foods International, Republic Biscuit Corporation, Suncrest Foods Inc., Del Monte Phil. Inc., Monde Nissin Corporation, Nestle Philippines Inc., San Miguel Pure Foods Company Inc. and Kraft Foods Inc. Internationally, major competitors include Procter & Gamble, Effem Foods/Mars Inc., Lotte Group, Perfetti Van Melle Group, Mayora Inda PT, Calbee Group, Apollo Food, Frito-Lay, Nestle S.A., Cadbury Schweppes Plc, Groupe Danone S.A. and Kraft Foods International.

The day-old chicks market is cyclical, very competitive and principally domestic. URC believes that the principal competitive factors are chick quality, supply dependability, price, and breeder performance for broiler chicks. For layer chicks, competitive factors are egg productivity and disease resistance. Principal competitors are Danway Processing Corp., RFM Corp. and Math Agro for broiler chicks and Bounty Farms, Inc., Brookdale Farms and Heritage Vet Corp. for layer chicks.

The live hog market is highly fragmented, competitive and principally domestic. URC believes that the principal competitive factors are quality, reliability of supply, price and proximity to market. URC's principal competitors are San Miguel Corp. (Monterey) and Foremost Farms, Inc. The main competition is from backyard raisers who supply 62%-65% of the total pork requirement in the country. In 2012, the hog population decreased by 9% because of disease outbreaks and farm closure(s) due to high cost of inputs (Feeds) and lower live weight prices (due to lower consumer spending). It is expected that live weight prices will relatively be higher in 2013 that will encourage raisers, both backyard and commercial farms to start and expand their operations with the anticipated improvement in profitability.

The commercial animal feed market is highly fragmented and its products compete primarily with domestic feed producers. As of September 30, 2012, there were 150 registered feed mills in the Philippines, 25% of which sell commercial feeds. URC believes the principal competitive factors are quality, brand equity, credit term and price. URC's principal competitors are B-Meg and UNAHCO (Sarimanok & Thunderbird). A number of multinationals including Cargil Purina Phils. Inc., CJ and Sun Jun of Korea, and New Hope of China are also key players in the market.

The animal health products market is highly competitive. The market is dominated by multinationals and URC is one of only a few Philippine companies in this market. Its principal competitors are Pfizer, Inc., UNAHCO (Univet), and Merial Limited, a company jointly owned by Merck and Co., Inc. and Aventis S. A. URC believes that the principal competitive factors are brand equity, price, product effectiveness and credit terms.

### **Enhancement and development of New Products**

URC intends to continuously introduce innovative new products, product variants and line extensions in the snackfoods (snacks, biscuits, candies, chocolates and bakery), beverage and grocery (instant noodles and tomato-based) products. This fiscal year alone, URC's Philippines Branded Consumer Foods has introduced 55 new products, which contributed to 2% of its sales.

URC has selectively entered and expanded its presence in segments of the Philippine beverage market through the addition of branded beverage products designed to capture market share in niches that complement its existing branded snack food product lines. In 2004, URC introduced and manufactured ready to drink tea in PET bottles, C2. URC continues to expand the beverage product line to include functional beverages such as fitness and energy drinks. Over the last couple of years, URC has also acquired water manufacturing facilities from Nestle Water Philippines, Inc. and entered into licensing agreements to manufacture and sell bottled water carrying the "Nestle Pure Life" and "Hidden Spring" trademark in the Philippines. In December 2010, the licensing contract to carry the "Nestle Pure Life"



trademark was rescinded. In December 2009, URC likewise, acquired the coffee plant facilities of GMC to add capacities to its existing coffee business.

### **Raw Materials/Suppliers**

A wide variety of raw materials are required in the manufacture of URC's food products, including corn, wheat, flour, sugar, robusta coffee beans, palm oil and cocoa powder. Some of which are purchased domestically and others URC imports. URC also obtains a major portion of its raw materials from its agro-industrial and commodity food products divisions, such as flour and sugar and pet bottles and flexible packaging materials from wholly owned subsidiary CFC Clubhouse Property, Inc. A portion of flexible packaging material requirement is also purchased both locally and from abroad (Vietnam and Indonesia), while Tetra-pak packaging is purchased from Singapore.

For its day-old chicks business, URC requires a number of raw materials, including parent stock for its layer chicks, grandparent stock for its broiler chicks and medicines and other nutritional products. URC purchases the parent stock for its layer chicks from Hendrix Genetics of France. URC purchases the grandparent stock for its broiler chicks from Cobb in the USA. URC obtains a significant amount of the vitamins, minerals, antibiotics and other medications and nutritional products used for its day-old chicks business from its Robichem division. URC purchases vaccines from various suppliers, including Merial, Intervet Philippines, Inc. (through authorized local distributor Castle Marketing and Vetaide Inc.) and Boehringer Ingelheim GmbH and Ceva.

For its live hog business, URC requires a variety of raw materials, primarily imported breeding stocks or semen. URC obtains all of the feeds it requires from its Universal Corn Products division and substantially all of the minerals and antibiotics for its hogs from its Robichem division. URC purchases vaccines, medications and nutritional products from a variety of suppliers based on the strengths of their products. Ample water supply is also available in its locations. URC maintains approximately one month of inventory of its key raw materials.

For its animal health products, URC requires a variety of antibiotics and vitamins, which it acquires from suppliers in Europe and Asia. For its commercial animal feed products, URC requires a variety of raw materials, including corn grains, soya beans and meals, feed-wheat grains, wheat bran, wheat pollard, rice bran, copra meal and fish meal. Tapioca starch and soya bean seeds, on the other hand, are required for its liquid glucose and soya bean products, respectively. Corn is generally sourced from local corn traders and imports feed-wheat from suppliers in China, North America and Europe. Likewise, soya seeds are imported from the USA. URC imports tapioca starch from a number of suppliers, primarily in Vietnam and Thailand. URC purchases solvents locally from Shell Chemicals Philippines through authorized local distributor Chemisol Inc. for use in the extraction of soya oil and other soya-products from soya beans. URC maintains approximately two months physical inventory and one month in-transit inventory for its imported raw materials.

URC obtains sugar cane from local farmers. Competition for sugar cane supply is very intense and is a critical success factor for its sugar business. Additional material requirements for the sugar cane milling process are either purchased locally or imported.

Wheat, the principal raw materials for flour milling and pasta business, is generally purchased from suppliers in the United States, Canada and Australia.

URC's policy is to maintain a number of suppliers for its raw and packaging materials to ensure a steady supply of quality materials at competitive prices. However, the prices paid for raw materials generally reflect external factors such as weather conditions, commodity market fluctuations, currency fluctuations and the effects of government agricultural programs. URC believes that alternative sources of supplies of the raw materials that it uses are readily available. The Company's policy is to maintain approximately 30 to 90 days of inventory.

### ***Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract***

URC owns a substantial number of trademarks registered with the Bureau of Trademarks of the Philippine Intellectual Property Office. In addition, certain of its trademarks have been registered in other Asian countries in which it operates. These trademarks are important in the aggregate because brand name recognition is a key factor in the success of many of URC's product lines. In the Philippines, URC's licensing agreements are registered with the Philippine Intellectual Property Office. The former Technology Transfer Registry of the Bureau of Patents, Trademarks and Technology Transfer Office issued the relevant certificates of registration for licensing agreements entered into by URC prior to January 1998. These certificates are valid for a 10-year period from the time of issuance which period may be terminated earlier or renewed for 10-year periods thereafter. After the Intellectual Property Code of the Philippines (R.A. No. 8293) became effective in January 1998, technology transfer agreements, as a general rule, are no longer required to be registered with the Documentation, Information and Technology Transfer Bureau of the Intellectual Property Office, but the licensee may apply to the Intellectual Property Office for a certificate of compliance with the Intellectual Property Code to confirm that the licensing agreement is consistent with the provisions of the Intellectual Property Code. In the event that the licensing agreement is found by the Intellectual Property Office to be not in compliance with the Intellectual Property Code, the licensor may obtain from the Intellectual Property Office a certificate of exemption from compliance with the cited provision.

URC also uses brand names under licenses from third parties. These licensing arrangements are generally renewable based on mutual agreement. URC's licensed brands include:

Nissin's Cup Noodles, Nissin's Yakisoba instant noodles and Nissin's Pasta Express for sale in the Philippines; and  
Hunt's tomato and pork and bean products for sale in the Philippines

URC has obtained from the Intellectual Property Office certificates of registration for its licensing agreements with Nissin-URC and Hunt-URC. URC was also able to renew its licenses with Nissin-URC and Hunt-URC for another term.

### ***Regulatory Overview***

As a manufacturer of consumer food and commodity food products, URC is required to guarantee that the products are pure and safe for human consumption, and that URC conforms to standards and quality measures prescribed by the Bureau of Food and Drugs.

URC's sugar mills are licensed to operate by the Sugar Regulatory Administration. The Company renews its sugar milling licenses at the start of every crop year.

All of URC's livestock and feed products have been registered with and approved by the Bureau of Animal Industry, an agency of the Department of Agriculture which prescribes standards, conducts quality control tests of feed samples, and provides technical assistance to farmers and feed millers.

Some of URC's projects, such as the sugar mill and refinery and poultry and hog farm operations, certain snacks products, BOPP packaging, flexible packaging and PET bottle manufacturing, are registered with the Board of Investments (BOI), which allows URC certain fiscal and non-fiscal incentives.

### ***Effects of Existing or Probable Governmental Regulations on the Business***

URC operates its businesses in a highly regulated environment. These businesses depend upon licenses issued by government authorities or agencies for their operations. The suspension or revocation of such licenses could materially and adversely affect the operation of these businesses.

### ***Research and Development***

URC develops new products and variants of existing product lines, researches new processes and tests new equipment on a regular basis in order to maintain and improve the quality of its food products. In Philippine operations alone, about ₱43 million was spent for research and development activities for fiscal year 2012 and approximately ₱28 million and ₱40 million for fiscal years 2011 and 2010, respectively.

URC has research and development staff for its branded consumer foods and packaging divisions of approximately 81 people located in its research and development facility in Metro Manila. URC conducts extensive research and development for new products, line extensions for existing products and for improved production, quality control and packaging as well as customising products to meet the local needs and tastes in the international markets. URC's commodity foods division also utilizes this research and development facility to improve their production and quality control. URC also strives to capitalize on its existing joint ventures to effect technology transfers.

URC has dedicated research and development staff for its agro-industrial business of approximately 41 persons. Its researchers are continually exploring advancements in breeding and farming technology.

URC also has a diagnostic laboratory that enables it to perform its own serology tests and offers its laboratory services directly to other commercial farms and some of its customers as a service at a minimal cost.

#### ***Transactions with Related Parties***

URC, in its regular conduct of business, has engaged in transactions with the Company and the latter's affiliates. The Company provides URC Group with certain corporate center services including corporate finance, corporate planning, procurement, human resources, legal and corporate communications. The Company also provides URC with valuable market expertise in the Philippines as well as intra-group synergies.

#### ***Costs and Effects of Compliance with Environmental Laws***

The operations of URC is subject to various laws enacted for the protection of the environment, including the Pollution Control Law (R.A. No. 3931 as amended by P.D. 984), the Solid Waste Management Act (R.A. No. 9003), the Clean Air Act (R.A. No. 8749), the Environmental Impact Statement System (P.D. 1586) and the Laguna Lake Development Authority (LLDA) Act of 1966 (R.A. No. 4850). URC believes that it has complied with all applicable environmental laws and regulations, an example of which is the installation of wastewater treatments in its various facilities. Compliance with such laws does not have, and in URC's opinion, is not expected to have, a material effect upon URC's capital expenditures, earnings or competitive position. As of September 30, 2012, URC has invested about P185 million in wastewater treatment in its facilities in the Philippines.

### **b) REAL ESTATE DEVELOPMENT AND MANAGEMENT**

#### ***Business Development***

The Company, through Robinsons Land Corporation (RLC), which is one of the Philippines' leading real estate developers in terms of revenues, number of projects and total project size, has adopted a diversified business model, with both an "investment" component, in which it develops, owns and operates commercial real estate projects (principally shopping malls, office buildings and hotels) and a "development" component, in which it develops residential real estate projects for sale (principally residential condominiums, upper-middle to high-end residential developments and low-and-middle cost lots and houses in its subdivision developments).

RLC was incorporated on June 4, 1980 and its shares were offered to the public in an initial public offering and were subsequently listed in the Manila Stock Exchange and the Makati Stock Exchange (predecessors of the Philippine Stock Exchange) on October 16, 1989. RLC had successful follow-on offering of primary and secondary shares in October 2006 where a total of 932.8 million shares were offered to domestic and international investors generating US\$223 million or P10.87 billion in proceeds. Of this amount, approximately P5.3 billion was raised from the primary portion, intended to fund its capital expenditure programs for fiscal 2007. The additional shares were listed on October 4, 2006.

On November 19, 2010, the Board of Directors approved the increase in the authorized capital stock of RLC from three billion common shares into eight billion two hundred million commons shares, with a par value of one peso per share.

In line with the foregoing, the Board of Directors also approved on February 16, 2011 a 1:2 stock rights offering to stockholders of record as of March 30, 2011 (ex – date March 25, 2011). Accordingly, RLC received subscriptions for 1,364,610,228 shares at an offer price of ₱10 per share on April 11-15, 2011. The subscription receivables were fully collected in October 2011.

The SEC approved the increase in capital stock on May 17, 2011.

### **Principal Products or Services**

RLC has four business divisions: a) Commercial Centers, b) Residential, c) Office Buildings, and d) Hotels.

#### **a.) Commercial Centers**

RLC's Commercial Center Division develops, leases and manages shopping malls throughout the Philippines. As of September 30, 2012, it operated 32 shopping malls, comprising 7 malls in Metro Manila and 25 malls in other urban areas throughout the Philippines, and had another 7 new malls and 2 expansion projects in the planning and development stage for completion in the next two years.

#### **b.) Residential**

As of September 30, 2012, this division had completed 34 residential projects, 53 ongoing projects, and 4 projects awaiting the receipt of License to Sell (LS). It currently has several projects in various stages for future development that are scheduled for completion in the next one to five years.

The Residential Division is now categorized into four brands. The different brands differ in terms of target market, location, type of development and price ranges to allow clear differentiation among markets. These four brands are:

- **Luxuria** - sells and develops prestigious residential developments in prime locations. Currently, there are nine (9) residential projects under the Luxuria portfolio, of which three (3) had been completed and six (6) projects are under various stages of development.
- **Robinsons Residences** - are strategically located within business districts and emerging cities and mostly are mixed-use developments. As of September 30, 2012, Robinsons Residences segment had a portfolio of 24 residential projects, of which 16 had been completed and 8 projects are under various stages of development.
- **Robinsons Communities** - is the residential brand of RLC which caters to the needs of early nesters, young people achievers and families coming from B to BB segment who wish to live independently and comfortably close to places of work, study and recreation. It provides convenient community living via its quality, affordable condo homes that offer open spaces, functional amenities and complementing commercial spaces. As of September 30, 2012, Robinsons Communities had completed thirteen (13) residential condominium projects and two (2) subdivision projects. It has various projects on-going in different stages that are scheduled for completion in the next one to four years.
- **Robinsons Homes** - offers choice lots in master planned, gated subdivisions with option for house construction to satisfy every Filipino's dream of owning his own home. As of September 30, 2012, Robinsons Homes has 32 projects in its portfolio. Twenty eight (28) of these projects are on-going, while four (4) are awaiting for the receipt of License to Sell (LS) to launch. Among the on-going projects, twenty (20) have been substantially completed and sold.

#### **c.) Office Building**

This division develops office buildings for lease. As of September 30, 2012, this division has completed eight office buildings, located in Metro Manila and Cebu City. These offices projects are primarily developed as investment properties, to be leased to tenants by the Company.

#### **d.) Hotels**

RLC's Hotels division owns and operates hotels within Metro Manila and other urban areas throughout the Philippines. RLC's hotels division currently has a portfolio of nine hotel properties under the three brand segments, namely the Crowne Plaza Manila Galleria, Holiday Inn Manila Galleria both managed by the Intercontinental Hotels Group, Summit Circle Cebu (formerly Cebu Midtown Hotel), Tagaytay Summit

Ridge Hotel both under the Summit brand, and a network of five Go Hotels, with the flagship in Mandaluyong and four (4) new Go Hotels branches in Palawan, Dumaguete, Tacloban and Bacolod.

The percentage contribution to RLC's revenues for the three years ended September 30, 2010, 2011 and 2012 by each of business segment is as follows:

	<u>For the fiscal years ended September 30</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Commercial Centers	49.1%	45.0%	47.6%
Residential Buildings	29.4%	35.2%	31.8%
Office Buildings	10.9%	10.4%	10.4%
Hotels	<u>10.6%</u>	<u>9.4%</u>	<u>10.2%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

## **Competition**

### **Commercial Centers Division**

RLC has two major competitors in its commercial centers division – SM Prime Holdings, Inc. (SM and Ayala Land Inc. (ALI). Each of these companies has certain distinct advantages over RLC, including SM's considerably larger mall portfolio and ALI's access to prime real estate in the heart of Metro Manila. In terms of total assets and equity accounts as of September 30, 2012, SM has ₱142.8 billion and ₱67.7 billion while ALI has ₱207.0 billion and ₱89.8 billion, respectively. There are a number of other players in the shopping mall business in the Philippines, but they are significantly smaller and, because of the high barriers to entry into the business (which include cost, branding, reputation, scale and access to prime real estate), RLC expects that it will continue to compete principally with these two major companies in this market sector for the foreseeable future.

### **Residential Division**

- **Luxuria**

The Luxuria segment continues to develop projects that caters to the high-end market. It strives to compete with developers who have already established their names in tapping this slice of the market. RLC, being new in this segment of the market, continues to learn from the strong players. ALI and Megaworld Corporation (Megaworld) compete primarily with RLC under this market segment.

- **Robinsons Residences**

RLC's close competitors (ALI and Megaworld) under this segment target the same market and offers similar products. There are also small players who try to compete for this segment of the market but because of the significant barriers to entry into the business, such as requirements for industry-specific technological know-how, the considerable capital expenditure required for the acquisition and development of land, the reputation needed to be able to adopt a pre-sale model and the requirement of a large and experienced sales and distribution network, RLC continues to be one of the leading choices of potential buyers.

- **Robinsons Communities**

RLC Robinsons Communities in particular, has numerous competitors in the middle income segment. This is in part a function of the fact that as compared to other business areas, RLC does not enjoy the same "early mover" advantage. Currently, Robinsons Communities' competitors include companies like Avida Land (AL), Filinvest Land (FL), SM Development Corporation (SMDC) and DMCI Homes. Based on public records and independent industry reports and its own market knowledge, the RLC believes that it is among the top five middle-ranged condominium developers in the Philippines in terms of revenues from sales.

- **Robinsons Homes**

Robinsons Homes stands in close competition with ALI, FL and Vista Land (VL). It competes on the basis of location. It is a nationwide residential subdivision developer with projects in Laoag, Tarlac, Pampanga, Antipolo, Cavite, Batangas, Cebu, Cagayan de Oro, Davao and General Santos. Robinsons Homes is creating not just subdivisions but is forming nurturing communities with lifestyle amenities and support developments in response to the changing lifestyle of Filipinos. In order to cater to varying market profiles, Robinsons Homes launched its three sub-brands namely: *Springdale* for start-up families, *Brighton* for growing families and *Bloomfields* for full nesters.

### **Office Buildings Division**

RLC believes that competition for office space is principally on the basis of location, availability of space and quality of office space. The biggest competitors of RLC under this segment are ALI and Megaworld. It competes in this market on the basis of the strategic locations of its buildings, including their proximity to the Company's malls and residences as part of mixed-use developments, and has also begun to design its office space with BPO and call center-specific requirements in mind, in order to better serve that market and make its office buildings more attractive to those potential tenants.

### **Hotel**

Hotel occupancy trends in the Philippines are affected by a variety of factors, including the general levels of business and tourist travel to the Philippines, which are in turn influenced by general political and economic conditions within the country. Year 2012 to-date poses a 9.18% growth in tourism arrival, still driven by key feeder markets from Korea, US and Japan. Major competitors within Ortigas area, where RLC's two hotels are situated, are Edsa Plaza Shangro-la Hotel, Oakwood Premier, Linden Suites and Discovery Suites, with Marco Polo Hotel expected to open in Q4 2013. In the past year, a number of local and foreign chains have entered or signified interest to enter the country's budget hotel sector. These chains, considered competitors of the Go Hotels, include Tune Hotels of Malaysia, Fave Hotels of Indonesia, Park Inn by Radisson, Remington Hotel and the local Islands Stay Hotels.

### **Raw Materials/Suppliers**

Construction and development of malls, high-rise office and condominium units as well as land and housing construction are awarded to various reputable construction firms subject to a bidding process and management's evaluation of the price and qualifications of and its relationship with the relevant contractor. Most of the materials used for the construction are provided by the contractors themselves in accordance with the underlying agreements, although sometimes RLC will undertake to procure the construction materials when it believes that it has an advantage in doing so. RLC typically will require the contractor to bid for a project on an itemized basis, including separating the costs for project materials that it intends to charge. If RLC believes that it is able to acquire any of these materials (such as cement or steel) at a more competitive cost than is being quoted to it, it may remove these materials from the project bid and enter into a separate purchase order for the materials itself, to reduce project costs.

### **Customers**

RLC has a broad market base. The loss of any one customer would not have a materially adverse effect upon the Company.

### **Related Party Transactions**

RLC leases significant portions of its commercial centers and office buildings to various subsidiaries and affiliates. Anchor tenants of the shopping malls are generally composed of affiliates in the retail trade business, namely Robinsons Department Store, Robinsons Supermarket and Handyman. Other affiliates include Top Shop, Robinsons Savings Bank and Cebu Pacific. RLC's lease contracts and/or supply services with these affiliate companies are under commercial terms at least as favorable as the terms available to non-affiliated parties.

## **Regulatory Overview**

### **Shopping Malls**

Shopping mall centers are regulated by the local government unit of the city or municipality where the establishment is located. In line with this, mall operators must secure the required mayor's permit or municipal license before operating. In addition, no mall shall be made operational without complying first with the provisions of the fire code and other applicable local ordinances. Furthermore, shopping malls with food establishments must obtain a sanitary permit from the Department of Health. It is also compulsory for shopping malls discharging commercial wastewater to apply for a wastewater discharge permit from the DENR and to pay the fee incidental to the permit.

### **Residential Condominium and Housing and Land Projects**

Presidential Decree No. 957 as amended, is the principal statute which regulates the development and sale of real property as part of a condominium project or subdivision. Presidential Decree No. 957 covers subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes as well as condominium projects for residential or commercial purposes. The HLURB is the administrative agency of the Government which, together with local government units, enforces this decree and has jurisdiction to regulate the real estate trade and business. All subdivision and condominium plans for residential, commercial, industrial and other development projects are subject to approval by the relevant local government unit in which the project is situated. The development of subdivision and condominium projects can commence only after the relevant government body has issued the development permit.

There are essentially two different types of residential subdivision developments, which are distinguished by different development standards issued by the HLURB. The first type of subdivision, aimed at low-cost housing, must comply with Batas Pambansa Blg. 220, which allows for a higher density of building and relaxes some construction standards. Other subdivisions must comply with Presidential Decree 957, which set out standards for lower density developments.

Under current regulations, a developer of a residential subdivision is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads and recreational facilities. A developer of a commercial subdivision is required to reserve at least 3.5% of the gross project area for parking and pedestrian malls. Further, Republic Act No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same or adjacent regions, whenever feasible, and in accordance with the standards set by the HLURB. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with other developers engaged in socialized housing development. Under current law, income derived by domestic corporations from the development and sale of socialized housing which currently, among other things, must have a basic selling price of no more than ₱300,000, is exempt from project related income taxes. Under the current Investment Priorities Plan issued by the Board of Investments, mass housing projects including development and fabrication of housing components, are eligible for government incentives subject to certain policies and guidelines. In the future, since the sale of socialized housing units comprise a portion of homes sold by RLC, any changes in the tax treatment of income derived from the sale of socialized housing units may affect the effective rate of taxation of the latter.

### **Hotels**

The Philippine Department of Tourism promulgated the Hotel Code of 1987 (the "Hotel Code") in order to govern the business and operation of all hotels in the Philippines. Investors that wish to operate a hotel must first register and apply for a license with the local government of the city or municipality where the hotel is located. For purposes of registration and licensing, hotels are classified into four groups: De Luxe Class, First Class, Standard Class and Economy Class. The Hotel Code provides minimum standards for the establishment, operation and maintenance of hotels depending on the hotel's classification.

### **Zoning and Land Use**

Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the DAR, land classified for agricultural purposes as of or after 15 June 1988, cannot be converted to non-agricultural use without the prior approval of DAR.

### **Special Economic Zone**

The Philippine Economic Zone Authority (PEZA) is a government corporation that operates, administers and manages designated special economic zones (Ecozones) around the country. PEZA registered enterprises locating in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation equipment, machinery and raw materials. Information technology (IT) enterprises offering IT services (such as call centers and business process outsourcing using electronic commerce) are entitled to fiscal and non-fiscal incentives if they are PEZA-registered locators. RLC actively seeks PEZA registration of its buildings, as this provides significant benefits to its tenants. As of fiscal year 2012, the Pioneer mixed-use complex is in a PEZA Ecozone, the Robinsons Equitable Tower and Robinsons Summit Center are PEZA-registered buildings. A number of malls are also PEZA-registered.

### **United Industrial Corporation Limited**

In May 1999, the Company, through a subsidiary, acquired a 23% stake in a Singapore listed company, United Industrial Corporation Limited (UIC) which is one of the largest property developers in Singapore owning various office buildings that are located in prime locations in Singapore and China. In December 2012, the Company's indirect interest in the shares of UIC increased to 36.08%. Other than the Company, the only significant stockholder in UIC is the United Overseas Bank Group of Singapore.

## **c) TELECOMMUNICATIONS**

### ***Business Development***

The Company, through its subsidiary Digital Telecommunications Phils, Inc. (DIGITEL), provides voice and data services through wireless and wireline technology in the Philippine telecommunications industry. Digitel has expanded its interests in wireline services in recent years and currently provides wireless/mobile telecommunication services, wireline telecommunications, hi-speed data transmission and internet services and call cards. As of December 31, 2010, Digitel has approximately 14.03 million wireless subscribers (across its prepaid and postpaid options and its 2G and 3G networks) and over 450,000 subscribers across its data and wireline segments.

**Wireless telecommunication services:** In September 2001, Digitel established a wholly owned subsidiary, Digitel Mobile Phils.,Inc.(DMPI), to provide wireless telecommunication services in the Philippines. DMPI is one of the Philippines' leading mobile telecommunications companies. DMPI has operated its wireless mobile services under the 'Sun Cellular' brand since 2003. Sun Cellular uses Global Service for Mobile (GSM) technology to provide voice services (local, national, international calling), messaging services (short text or multimedia messaging), outbound and inbound international roaming, broadband wireless technology, and various value-added services.

**Data transmission and internet services:** Digitel's data division, the Enterprise Business Unit, offers consumer and corporate customers' access to high-speed data transmission and internet services through domestic and international leased line services, frame relay, and dedicated internet lines. Digitel provides enterprise grade services and solutions to some of the top enterprise customers in the Philippines, with customer relationships in the banking, manufacturing, logistics, utilities, trading, business process outsourcing (BPO) companies, hospitality and real estate sectors,

**Wireline telecommunication services:** Digitel is one of the major providers of wireline communication systems in Luzon Island. Through over 600 regional and local exchanges, DIGITEL telephones are now available in 281 towns and cities throughout Luzon. As of December 31, 2010, the Group had a total of almost 600,000 installed lines and over 450,000 working lines. Digitel's voice products and value-added services include local call, national, and international toll services, payphones and prepaid phone cards.

Digitel has recently introduced the SunTel Wireless Landline to extend its landline coverage by employing GSM technology using Sun Cellular's network to provide an alternative last mile solution to traditional copper cable facilities.



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

The acquisition was completed on October 26, 2011 following the issuance by the Securities and Exchange Commission (SEC) on July 29, 2011 of the confirmations of the valuation of the Assets and that the issuance of the PLDT common shares to the Company and the other seller-parties is exempt from the registration requirement of the SRC.

#### **d) AIR TRANSPORTATION**

##### ***Business Development***

Cebu Air, Inc. (CEB) was incorporated on August 26, 1988. With the liberalization of the airline industry in 1995, JG Summit acquired 49% of Cebu Air's outstanding capital stock to undertake domestic and international flights to and from major cities in the Philippines and around the world. In September 2001, the Company, through a subsidiary, acquired the remaining 51% of Cebu Air's capital stock, thus making it a wholly owned subsidiary as of year end 2001. In May 2006, CEB was acquired by CP Air Holdings Inc. (CPAir) through a deed of assignment by the Company, which resulted in the 100% ownership by CPAir of Cebu Air. CPAir is a wholly owned subsidiary of the Company.

Cebu Air operates under the trade name "Cebu Pacific Air" and is the leading low-cost carrier in the Philippines. It pioneered the "low fare, great value" strategy in the local aviation industry by providing scheduled air travel services targeted to passengers who are willing to forego extras for fares that are typically lower than those offered by traditional full-service airlines while offering reliable services and providing passengers with a fun travel experience.

In 2005, CEB adopted the low cost carrier (LCC) business model. The core element of the LCC strategy is to offer affordable air services to passengers. This is achieved by having: high-load, high-frequency flights; high aircraft utilization; a young and simple fleet composition; and low distribution costs.

CEB operates an extensive route network serving 60 domestic routes and 31 international routes with a total of 2,288 scheduled weekly flights. It operates from six hubs, including the Ninoy Aquino International Airport (NAIA) Terminal 3 located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport located in Clark, Pampanga; and Davao International Airport located in Davao City, Davao del Sur; Ilo-ilo International Airport located in Ilo-ilo City, regional center of the western Visayas region; and Kalibo International Airport in Kalibo, Aklan.

As of December 31, 2012, CEB operates a fleet of 41 aircraft which comprises of ten Airbus A319, twenty-three Airbus A320, and eight ATR 72-500 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of the CEB's fleet is approximately 3.87 years as of December 31, 2012.

Cebu Air has three principal distribution channels: the internet; direct sales through booking sales offices, call centers and government/corporate client accounts; and third-party sales outlets. Aside from passenger service, it also provides airport-to-airport cargo services on its domestic and international routes. In addition, it offers ancillary services such as cancellation and rebooking options, in-flight merchandising such as sale of duty-free products on international flights, excess baggage and travel-related products and services.

The percentage contributions to the Cebu Air's revenues of its principal business activities are as follows:

<u>For the years ended December 31</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Passenger Services	84.8%	80.2%	78.0%
Cargo Services	7.2%	6.5%	6.3%
Ancillary Services	<u>8.0%</u>	<u>13.3%</u>	<u>15.7%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

No material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business was made in the past three years. Cebu Air has not been subjected to any bankruptcy, receivership or similar proceeding in the said period.

***Distribution Methods of Products or Services***

Cebu Air has four principal distribution channels: the internet, direct sales through booking sales offices, call centers and government/corporate client accounts, and third-party sales outlets.

- **Internet**  
In January 2006, CEB introduced its internet booking system. Through [www.cebupacificair.com](http://www.cebupacificair.com), passengers can book flights and purchase services online. The system also provides passengers with real time access to the CEB's flight schedules and fare options.
- **Booking Offices and Call Centers**  
As of December 31, 2012, CEB has a network of seven booking offices located throughout the Philippines and one booking office located in Hong Kong. It directly operates these booking offices, which also handle customer service issues, such as customer requests for change of itinerary. In addition, it operates two in-house call centers, one in Manila and the other in Cebu. It also uses a third-party call centre outsourcing service to help accommodate heavy call traffic. Its employees who work as reservation agents are also trained to handle customer service inquiries and to convert inbound calls into sales. Purchases made through call centers can be settled through various modes, such as credit cards, payment centers and authorized agents.
- **Government/Corporate Client Accounts**  
As of December 31, 2012, Cebu Air had government and corporate accounts for passenger sales. It provides these accounts with direct access to its reservation system and seat inventory as well as credit lines and certain incentives. Further, clients may choose to settle their accounts by post-transaction remittance or by using pre-enrolled credit cards.
- **Third Party Sales Outlets**  
As of December 31, 2012, CEB had a network of distributors in the Philippines selling its domestic and international air services within an agreed territory or geographical coverage. Each distributor maintains and grows its own client base and can impose on their clients a service or transaction fee. Typically, a distributor's client base would include agents, travel agents or end customers. It also has a network of foreign general sales agents, wholesalers, and preferred sales agents who market, sell and distribute its air services in other countries.

***Competition***

The Philippine aviation authorities deregulated the airline industry in 1995 eliminating certain restrictions on domestic routes and frequencies which resulted in fewer regulatory barriers to entry into the Philippine domestic aviation market. On the international market, although the Philippines currently operates under a bilateral framework, whereby foreign carriers are granted landing rights in the Philippines on the basis of reciprocity as set forth in the relevant bilateral agreements between the Philippine government and foreign nations, in March 2011, the Philippine government issued EO 29 which authorizes the Civil Aeronautics Board (CAB) and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location.

Currently, Cebu Air faces intense competition on both its domestic and international routes. The level and intensity of competition varies from route to route based on a number of factors. Principally, it competes with other airlines that service the routes it flies. However, on certain domestic routes, CEB also considers alternative modes of transportation, particularly sea and land transport, to be competitors for its services. Substitutes to its services also include video conferencing and other modes of communication.

Cebu Air's main competitor in the Philippines is Philippine Airlines ("PAL"), a full-service Philippine flag carrier. Most of its domestic and international destinations are also serviced by PAL. It also competes in the Philippines with Air Philippines Express, a domestic operator with relations to PAL. Certain smaller airlines, including Zest Air and South East Asian Airlines (Seair) also compete with the Company domestically. According to CAB data, Cebu Air is the leading domestic airline in the Philippines by passengers carried, with a market share of 46.1% for the year ended December 31, 2012.

CEB is the leading regional low-cost airline offering services to more destinations and serving more routes with a higher frequency between the Philippines and other ASEAN countries than any other airline in the Philippines. Currently, it competes with the following LCC's and full-service airlines in its international operations: AirAsia, Tiger Airways (Tiger), Jetstar Airways, PAL, Cathay Pacific, Singapore Airlines, Thai Airways, among others.

#### **Raw Materials**

Fuel is a major cost component for airlines. CEB's fuel requirements are classified by location and sourced from various suppliers.

Cebu Air's fuel suppliers at its international stations include PTT-Bangkok Aviation, Petronas-Kuala Lumpur, Shell-Singapore, SK Corp-Korea and Kuwait Aviation-Hongkong, among others. It also purchases fuel from PTT Philippines and Phoenix Petroleum. CEB purchases fuel stocks on a per parcel basis, in such quantities as are sufficient to meet its monthly operational requirements. Most of its contracts with fuel suppliers are on a yearly basis and may be renewed for subsequent one-year periods.

#### **Customers**

CEB Company's business is not dependent upon a single customer or a few customers that a loss of anyone of which would have a material adverse effect on CEB.

#### **Regulatory Overview**

Cebu Air operates its business in highly regulated environment. The business depends upon the permits and licenses issued by the government authorities or agencies for its operations which include the following:

- Legislative Franchise to Operate a Public Utility
- Certificate of Public Convenience and Necessity
- Letter of Authority
- Air Operator Certificate
- Certificate of Registration
- Certificate of Airworthiness

CEB also has to seek approval from the relevant airport authorities to secure airport slots for its operations.

#### **Publicly-Announced New Product or Service**

Cebu Air continues to analyze its route network. It can opt to increase frequencies on existing routes or add new routes/destinations. It can also opt to eliminate unprofitable routes and redeploy capacity.

CEB plans to expand its fleet over the course of the next three years to 57 aircraft by the end of 2015 (net of redelivery of six leased aircraft). The additional aircraft will support Cebu Air's plans to increase frequency on current routes and to add new city pairs and destinations. It has increased frequencies on

domestic routes such as Manila to Tuguegarao; Cebu to Bacolod, Butuan, Cagayan de Oro, Siargao, Caticlan and Pagadian; and international routes such as Manila to Singapore. A total of 10 domestic routes were also launched, paving the way for more air travel in various parts of the Philippines. This includes flights from Davao to Dipolog and from Zamboanga to Cagayan de Oro, routes which were previously served by buses plying 12-14 hour rides. It also launched direct flights from Manila to Hanoi, Siem Reap and Xiamen as well as from Cebu to Bangkok and Kuala Lumpur. CEB also pioneered direct flights from Iloilo to Hongkong and Singapore. It is slated to launch twice weekly Manila-Bali (Denpasar) flights in March 16, 2013. It will also launch its long-haul operations with its first Manila to Dubai flight on October 7, 2013. The Manila-Dubai will be operated on the Airbus A330-300 aircraft with a configuration of more than 400 all-economy class seats. Cebu Air will lease up to eight Airbus A330-300 aircraft for its long-haul operations. It will take delivery of two Airbus A330-300 aircraft this year, and an additional two in 2014. The Airbus A330-300 has a range of up to 11 hours which means the Company could serve markets such as Australia, Middle East, parts of Europe and the US.

Further, CEB has turned into firm orders its existing options for seven Airbus A320 aircraft for delivery between 2015 to 2016. It has also placed a new firm order for 30 Airbus A321neo (New Engine Option) aircraft with options for a further ten Airbus A321neos. Airbus A321neos will be a first of its type to operate in the Philippines, being a larger and longer-haul version of the familiar Airbus A320. These 220-seater aircraft will have a much longer range which will enable Cebu Air to serve cities in Australia, India and Northern Japan, places the A320 cannot reach. This order for A321neo aircraft will be delivered between 2017 and 2021.

Cebu Air has also signed a joint venture agreement with CAE, world leader in aviation training, to establish an aviation training center for airlines in the Asia Pacific region. The joint venture is known as the Philippine Academy for Aviation Training, Inc. (PAAT) and is located in Clark Freeport Zone, northwest of Manila. On January 24, 2012, Cebu Air broke ground in Clark, Pampanga and the facility was formally inaugurated on December 3, 2012. The new training center will be a world-class, one-stop training center for CEB and a hub for training services for other airlines. The facility will initially cater to Airbus A319/320/321 series pilot type-rating training requirements, among others. It will be initially equipped with two Airbus A320 Full Flight Simulators with the capability to expand by two additional simulators. Training is also expected to be added for other aviation personnel in the future, such as cabin crew, dispatch, ground handling personnel and cadets. Each simulator can train/certify approximately 300-700 pilots per simulator per year.

### ***Effects of Existing or Probable Government Regulations on the Business***

#### Civil Aeronautics Administration and Civil Aviation Authority of the Philippines (CAAP)

Policy-making for the Philippine civil aviation industry started with RA 776, known as the Civil Aeronautics Act of the Philippines (the "Act"), passed in 1952. The Act established the policies and laws governing the economic and technical regulation of civil aeronautics in the country. It established the guidelines for the operation of two regulatory organizations, CAB for the regulation of the economic activities of airline industry participants and the Air Transportation Office, which was later transformed into the CAAP, created pursuant to RA 9497, otherwise known as the Civil Aviation Authority Act of 2008.

The CAB is authorized to regulate the economic aspects of air transportation, to issue general rules and regulations to carry out the provisions of RA 776, and to approve or disapprove the conditions of carriage or tariff which an airline desires to adopt. It has general supervision and regulation over air carriers, general sales agents, cargo sales agents, and airfreight forwarders, as well as their property, property rights, equipment, facilities and franchises.

The CAAP, a government agency under the supervision of the Department of Transportation and Communications for purposes of policy coordination, regulates the technical and operational aspects of air transportation in the Philippines, ensuring safe, economic and efficient air travel. In particular, it establishes the rules and regulations for the inspection and registrations of all aircraft and facilities owned and operated in the Philippines, determines the charges and/or rates pertinent to the operation of public

air utility facilities and services, and coordinates with the relevant government agencies in relation to airport security. Moreover, CAAP is likewise tasked to operate and maintain domestic airports, air navigation and other similar facilities in compliance with the International Civil Aviation Organization (ICAO), the specialized agency of the United Nations whose mandate is to ensure the safe, efficient and orderly evolution of international civil aviation.

Cebu Air complies with and adheres to existing government regulations.

### Category 2 Rating

In early January 2008, the Federal Aviation Administration (FAA) of the United States downgraded the aviation safety ranking of the Philippines to Category 2 from the previous Category 1 rating. The FAA assesses the civil aviation authorities of all countries with air carriers that operate to the U.S. to determine whether or not foreign civil aviation authorities are meeting the safety standards set by the ICAO. The lower Category 2 rating means a country either lacks laws or regulations necessary to oversee airlines in accordance with minimum international standards, or its civil aviation authority is deficient in one or more areas, such as technical expertise, trained personnel, recordkeeping or inspection procedures. Further, it means Philippine carriers can continue flying to the U.S. but only under heightened FAA surveillance or limitations. In addition, the Philippines has been included in the "Significant Safety Concerns" posting by the ICAO as a result of an unaddressed safety concern highlighted in the recent ICAO audit. As a result of this unaddressed safety concern, Air Safety Committee (ASC) of the European Union banned all Philippine commercial air carriers from operating flights to and from Europe. The ASC based its decision on the absence of sufficient oversight by the CAAP.

Although CEB does not currently operate flights to the U.S. and Europe, the foregoing may adversely affect its ability to establish new routes to other countries that base their decision on flight access on the FAA and ASC's evaluation.

### EO 28 and 29

In March 2011, the Government issued EO 28 which provides for the reconstitution and reorganization of the existing Single Negotiating Panel into the Philippine Air Negotiating Panel (PANP) and Philippine Air Consultation Panel (PACP) (collectively, the Philippine Air Panels). The PANP shall be responsible for the initial negotiations leading to the conclusion of the relevant Air Services Agreements (ASAs) while the PACP shall be responsible for the succeeding negotiations of such ASAs or similar arrangements.

Also in March 2011, the government issued EO 29 which authorizes the CAB and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location. Among others, EO 29 provides the following:

- In the negotiation of the ASAs, the Philippine Air Panels may offer and promote third, fourth and fifth freedom rights to the country's airports other than the NAIA without restriction as to frequency, capacity and type of aircraft, and other arrangements that will serve the national interest as may be determined by the CAB; and
- Notwithstanding the provisions of the relevant ASAs, the CAB may grant any foreign air carriers increases in frequencies and/or capacities in the country's airports other than the NAIA, subject to conditions required by existing laws, rules and regulations. All grants of frequencies and/or capacities which shall be subject to the approval of the President shall operate as a waiver by the Philippines of the restrictions on frequencies and capacities under the relevant ASAs.

The issuance of the foregoing EOs may significantly increase competition.

### Air Passenger Bill of Rights

The Air Passenger Bill of Rights (the "Bill"), which was formed under a joint administrative order of the Department of Transportation and Communications, the CAB and the Department of Trade and Industry, was signed and published by the Government on 11 December 2012 and came into effect on 21

December 2012. The Bill sets the guidelines on several airline practices such as overbooking, rebooking, ticket refunds, cancellations, delayed flights, lost luggage and misleading advertisement on fares.

## **e) PETROCHEMICALS**

### ***Business Development***

The JG Summit Petrochemical Corporation (JGSPC) was incorporated in the Philippines on February 24, 1994 and is 100% owned by the Company.

Its primary purpose is to engage in, operate, conduct, maintain, manage and carry on the business of manufacturing, dealing and marketing of polyethylene and polypropylene and related petrochemical products or by-products, in all their forms, varieties and stages of production and preparation, or of any article or commodity consisting of, or partly consisting of petrochemicals. JGSPC constructed the Philippines' first integrated polypropylene and polyethylene complex on a site at Bgy. Simlong, Batangas City. The total project cost amounted to US\$300 million and the plant has the capacity to produce 180,000 tons of polypropylene and 175,000 tons of polyethylene annually.

### ***Principal Products or Services***

JGSPC manufactures polypropylene and polyethylene.

The percentage contribution to JGSPC's revenues for the three years ended September 30, 2010, 2011 and 2012 by each of its principal product categories is as follows:

	<u>For the years ended September 30</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Polypropylene	58.1%	55.8%	18.1%
Polyethylene	41.9%	44.2%	81.9%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

JGSPC products are sold under the EVALENE brand name and are manufactured under strict compliance with a Quality Management System based on ISO 9002 certified standards.

### ***Distribution, Sales and Marketing***

JGSPC has a rated capacity of 175,000 MT per year for polyethylene (PE) and 180,000 MT for Polypropylene (PP). JGSPC manufactures High Density and Linear Low Density polyethylene (HDPE and LLDPE) as well as Random Copolymer and Homopolymer polypropylene (PP) using the industry-renowned Unipol technology from Union Carbide Corporation. JGSPC sells directly to small, medium and large plastic converters in the Philippines through its sales group. It has taken a leading role in the markets it serves, providing 55% of total market requirements. Product distribution is handled directly by JGSPC in coordination with third party trucking services.

### ***Competition***

To be highly competitive, JGSPC commits to produce consistently good quality products using world-class technology and by employing highly competent plastics processing personnel. Continuous research and development is conducted in-house by the Product R&D and Technical Services Department, with the assistance of Univation, formerly a Union Carbide Corporation Company. Importation and smuggling of PE and PP resin goods are currently JGSPC's primary competition. Although there are two other local polyolefin plants only the PE plant of NPC Alliance Corp. formerly Bataan Polyethylene Corp., is currently operational and whose production is largely exported. Philippine Polypropylene Inc.'s PP plant formerly owned by Petrochemical Corp. of Asia and the Pacific (PetroCorp), has been decommissioned since 2003. And in 2010, Petron Corporation acquired a 40% stake in Petrochemical Asia (HK) Ltd. (PAHL), owner of Philippine Polypropylene Inc. (PPI) (formerly Petro Corp). Petron Corp. has entered into a technical services agreement with IRPC, an affiliate of PTT Thailand, for the rehabilitation, commissioning and start-up of the PP plant. JGSPC now produces some 7 to 8 kt monthly of PP yarn, injection and BOPP film grades using C3 from Petron's FCC and also from imports. They currently sell wholly into the domestic market through direct sales and also through local traders.

### **Raw Materials/Suppliers**

The principal raw materials used by JGSPC in the production of its products, namely olefins, are purchased internationally. Suppliers include Marubeni Corporation and Mitsui & Co. Ltd.

### **Customers**

JGSPC aims to supply the majority of manufacturers of plastic-based products in the Philippines. It sells its products to internal and external parties. Internal parties include the Packaging Division of URC while some of our top external customers are Calypso Plastic, Chemvision Inc., Cofta Mouldings, Anson/Astrobag Group, Basic Packaging and Rolex Mfg. Loss of any one customer would not have a materially adverse effect upon JGSPC.

### **Related Party Transactions**

JGSPC, in its regular conduct of business, has engaged in transactions with the Company and its affiliates. These transactions principally consist of sales, advances to and from these affiliated companies. JGSPC has also dollar advances from the Company that were used to finance the construction of its plant in Batangas, Philippines. These advances were converted into equity in 2003. Also, it obtains other advances for its operations from the Company.

### **Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract**

JGSPC has existing technology and licensing agreements (Agreement) with a foreign company covering the construction, manufacture, use and sale of its PP and PE lines. In further consideration for the rights granted to JGSPC pursuant to the Agreement, JGSPC shall pay the foreign company a royalty fee equivalent to a certain percentage of net peso sales value of high-density PE and low-density PE and a certain percentage of net sales value based on Platts rate per metric ton of licensed homopolymer PP and random copolymer PP up to the end of the royalty terms. The contract was bought on July 7, 2011 for US\$14 million. As a result, accrual/payment for royalty was discontinued.

### **Regulatory Overview**

The BOI implements policies which directly affect the petrochemical industry. Under the Philippine Investment Priorities Plan, the BOI also has the power to grant incentives to manufacturers establishing new plants or undertaking rehabilitation or expansion programs such as tax holidays and duty free importation of capital equipment, as well as tax credits on locally purchased equipment.

### **Costs and Effects of Compliance with Environmental Laws**

JGSPC takes pride in consistently making efforts to preserve the environment. The safety of employees and the community is never compromised. JGSPC complies with all applicable laws on the environment and is committed to be environmentally responsible by having an effective Environmental Management System based on the requirements of ISO 14001:2004 certified by Certification International which is our accredited third party certifying body.

## **f) OLEFINS**

**JG SUMMIT OLEFINS CORP (JGSOC)** is a company wholly-owned by JG Summit Holdings and is set-up to operate the Naphtha Cracker Project.

The naphtha cracker project is a back integration for the existing Polyethylene and Polypropylene plants of JG Summit Petrochemical Corporation (JGSPC). It will be constructed in Barangay Simlong, Batangas City, adjacent to the existing Polyethylene (PE) / Polypropylene (PP) Plant of JGSPC. The main feedstock, naphtha, will be sourced from local as well as overseas sources, with condensate as an alternative feedstock.

### **Principal Products or Services**

The cracker will use the CB&I-Lummus (USA) technology and will be a simple cracker, to produce ethylene and propylene, and by-products. The project will be implemented basically via a cost-plus,

turnkey project. Construction is currently in progress and commercial operation is expected to commence in January 2014.

The Plant will produce the following per annum:

Ethylene	:	320,000 MT
Propylene	:	190,000 MT
PyGas	:	216,000 MT

Ethylene (C<sub>2</sub>H<sub>4</sub>) is a colorless gas derived from the thermal cracking of hydrocarbon gases or naphtha. Freezing Point: -169 deg C; boiling point : -103.9 deg C. This will be the main feedstock for Polyethylene Production.

The existing downstream Polyethylene plant of JG Summit Petrochemical Corporation with a combined capacity of 200,000mty will also be de-bottlenecked/expanded using technology from Univation of the USA to be able to absorb all the ethylene production from JGSOC. As economics may dictate, ethylene will be directly exported rather than converted to PE.

Propylene (C<sub>3</sub>H<sub>6</sub>) - A colorless gas, freezing point: -185.2 deg C; boiling point: -47.7 deg C. Propylene is derived from the catalytic and thermal cracking of naphtha. Propylene is the primary feedstock for Polypropylene production

Production of propylene will be for local consumption.

The technology selected for the naphtha cracking facility is licensed by CB&I Lummus (formerly ABB Lummus Global), an experienced licensor and world wide supplier of ethylene technology with over 23 million tonnes of annual capacity currently licensed. The cracker will be the first of its kind in the Philippines. The Government is aware of the importance of petrochemicals in the development of the Philippine economy and has granted this project generous fiscal incentives. Capital expenditure on the naphtha cracking facility, together with the expansion of JGSPC's existing PE and PP plant, is estimated to be U.S.\$800 million

Pyrolysis gasoline (Pygas) is a by-product that will be partially hydrogenated (treated with hydrogen) to make it relatively more stable, and then exported. Its use is as a feed to aromatics extraction units which produce toluene, benzene and xylene.

Other by-products of the Naphtha Cracker Plant are:

- Methane , CH<sub>4</sub> . It is an odorless, tasteless gas and in our case is a by-product of the cracking process. It is a severe fire and explosion hazard, and forms an explosive mixture with air. We will not be selling this product but instead will use it as part of our fuel gas system, together with LPG, to fire up our heaters.

- Pyrolysis Fuel Oil (PFO) represents the heavier fraction of the cracked materials from naphtha. It will not be sold, and instead will be used to fuel our boilers.

- Acid gases are waste gases and contain carbon dioxide and sulfides. They are caustic-washed to remove acidity and are exhausted. These are separated from the cracked gas and do not go back to the cracking process.

Methane, PFO and acid gases are either internally utilized or exhausted.

### **Customers**

The ethylene and propylene output will be primarily sold / transferred to JGSPC's existing polyethylene and polypropylene plants. It is projected that the naphtha cracker will operate between 90% to 100% of capacity. Depending on the relative economics at various times of the petrochemical cycle, the Naphtha Cracker Plant will have the option of exporting ethylene and/or propylene if the netbacks are better by doing so.



Pyrolysis gasoline will be partially hydrogenated and sold to the export market, primarily as a feedstock for the production of benzene, toluene and xylene. It is expected that the Naphtha Cracker Plant will have product offtake agreements with one or more traders to ensure regular offtake of the product.

Pyrolysis fuel oil will be partially consumed by the existing power plant of JGSPC, with the bulk either sold off to local refinery operations for blending and subsequent sale as bunker fuel, or exported.

#### ***Registration with the Board of Investments (BOI)***

The Company is registered with the BOI under the Omnibus Investments Code of 1987 (E.O. 226) on December 15, 2010 as a new producer of ethylene, propylene, py gas and other by-products produced by the Naphtha cracker project on a Pioneer status. Under its certificate of registration, the Company shall be entitled to certain tax and nontax incentives such as: (a) income tax holiday (ITH) for six (6) years from January 2014 or from actual start of commercial operations whichever comes first; only income generated from the registered activity shall be entitled to ITH incentives; additional deduction for from taxable income of fifty percent (50%) of wages corresponding to the increment of direct labor; (c) employment of foreign nationals, (d) tax credit for taxes and duties on raw materials and supplies and semi-manufactured products used on its export products and forming part thereof, among others; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to Customs Bonded Manufacturing Warehouse (CBMW); (g) exemption from wharfage dues, export taxes, duties, imposts and fees on export products; (h) importation of consigned equipment.

#### **g) BANKING SERVICES**

Robinsons Bank Corp. (RobinsonsBank), a commercial bank, is the surviving entity between the merger of Robinsons Savings Bank and Robinsons Bank Corp. (formerly known as The Royal Bank of Scotland (Phils.)) as approved by the BSP in December 2010 and by the SEC in May 2011. 60% of the common stocks are owned by JG Capital Services Corp., while Robinsons Holdings Inc. owns the remaining 40%.

Robinsons Savings Bank started its operations in November 1997, and was a wholly-owned subsidiary of JG Summit Capital Services at that time.

In the second quarter of 2010, JG Capital Services (100%-owned subsidiary of the Company) and Robinsons Holdings Inc. (RHI) bought 100% of the shares of The Royal Bank of Scotland (Phils.). Then with the approval of the BSP and SEC in December 2010 and May 2011, respectively, RobinsonsBank was made officially a commercial bank; with JG Capital Services owning 60% of RobinsonsBank's common stocks.

#### ***Principal Products or Services***

As of December 2012, RobinsonsBank has a network of sixty (65) branches; twenty-eight (28) of which are strategically located in Metro Manila and thirty-seven (37) others are situated in Luzon, Visayas and Mindanao. Moreover, thirty-two (32) of its branches are located inside malls, mostly in Robinsons' Malls, that are easily accessible and available six (6) to seven (7) days a week. RobinsonsBank also has one hundred and thirty (130) ATMs, which are part of the Bancnet consortium, all of which are within reach and available 24 hours a day 7 days a week. To date, the Bank now has sixty-six (66) branches and a total one hundred and thirty-three (133) ATMs.

Having a proven track record in the banking industry and as JG Summit Group's major financial service arm, RobinsonsBank continuously strives to carry on its vision of leading the country to global-competitiveness through quality and innovative banking products and services. It provides a broad range of traditional banking services such as savings, current and time deposits, treasury products, unit investment trust funds and other trust products, and foreign-currency denominated deposits. It also offers commercial loans, consumer loans such as housing, car and personal loans, secured personal loans (against Jewelry or Diamond), motorcycle loans, micro financing, and other products or services such as cash management, trade financing and remittance, among others. And with the license upgrade, the Bank intends to offer a wider range of products and services that are permissible to a commercial bank.

Through the years, RobinsonsBank is committed to position itself for further business growth and is on the look-out for viable opportunities in the market. Last December 2012, the BSP approved the Bank's move to acquire Legazpi Savings Bank. With the acquisition, Legazpi Savings Bank becomes a wholly owned subsidiary of the Bank. RobinsonsBank intends to utilize the capacity and branch network of Legazpi Savings as its vehicle to engage in countryside banking and microfinance lending.

RobinsonBank aims to be among the top big banks in the country and continues to be a strategic player in the industry. The Bank prides itself with a business portfolio of market leaders, a solid financial position, and a formidable management team which steers the bank ahead of changing times and through the challenges that come along with it. Thus, RobinsonsBank is positioned not only to be more responsive in meeting the banking requirements of its retail customers and business partners, but also to fully serve the general banking public.

**Strong Investor Base**

RobinsonsBank is part of the JG Summit Holdings conglomerate. It maintains good patronage of the concessionaires, contractors and suppliers of the JG Group of Companies; exhibiting strong deposit and loan acquisitions. It being owned by JG Summit Capital Services Corp. and Robinsons Holdings Inc., RobinsonsBank is in the company of leading and established corporations in the country today.

**Regulatory Overview**

The earnings of banks are affected not only by general economic conditions, but also by the policies of various governmental and regulatory authorities in the country and abroad. The establishment and operation of banking institution in the Philippines is governed by the General Banking Act. The Central Bank acting through the Monetary Board, exercises overall supervision of, and regulates the industry.

**h) OTHER BUSINESS INTERESTS**

The Company has an interest in insurance brokering and securities investments. The Company also holds interest in power generation, through its 20% ownership in First Private Power Corporation (FPPC).

On October 14, 2010, the BOD and stockholders of Bauang Private Power Corporation (BPPC), which used to be a 93.25%-owned subsidiary by FPPC, and FPPC approved a Plan of Merger where FPPC shall be merged into and be part of BPPC, and its separate corporate existence shall cease by operation of law. Subsequently, on December 13, 2010, the Philippine SEC approved the Certificate of Filing of the Articles and Plan of Merger. On December 15, 2010, the effective date of the Merger, FPPC transferred its assets and liabilities at their carrying values to BPPC. BPPC owns and operates a 215 MW diesel-fired power plant in Bauang, La Union.

The Company also entered into other IT related services with the formation of Summit Internet Investments, Inc. in September 2000.

**Competition**

Many of the Group's activities are carried on in highly competitive industries. Given the Group's diversity, the Group competes with different companies domestically and internationally, depending on the product, service or geographic area. While the Group is one of the largest conglomerates in the Philippines, its subsidiaries compete in different sectors against a number of companies with greater manufacturing, financial, research and development and market resources than the Group.

The following table sets out the Group's principal competitors in each of the principal industry segments in which it operates:

Industry Segment	Principal Competitors
Branded Consumer Foods, Agro-Industrial and Commodity Food Products	Liwayway, Rebisco, Nissin Monde, Storck, Van Melle, Hersheys, Best Chemicals and Plastics, Vitarich Corp., Tyson Agro-Ventures, San Miguel Corporation, Central Azucarera de Bais and RFM Corporation

Telecommunications	Wireline: PLDT, InnoVe and Bayantel
	Wireless: Smart, Piltel and Globe
Banking and Financial Services	BDO, BPI, MetroBank, EastWest Bank, UnionBank, RCBC and PSBank
Petrochemicals	Imports
Air Transportation	Philippine Airlines, Air Philippines Express, Zest Air and Southeast Asian Airlines for Domestic flights. Air Asia, Tiger Airways, Jetstar Airways, Cathay Pacific, Singapore Airlines and Thai Airways, among others for International flights
Property Development and Hotel Management	SM Prime/Shoemart and Ayala Land Inc.

**Publicly-Announced New Product or Service**

The Company and its subsidiaries have no publicly-announced new product or service as of the date of the report.

**Patents, Trademarks, Licenses, Franchises Concessions, Royalty Agreements**

The Company has trademarks registered with the Bureau of Patents, Trademarks and Technology Transfer. Unless terminated earlier or renewed, patent registration of materials is protected for a period of 17 years, while trademarks and brand name registration have a protected period of 20 years.

The Company also has various licenses and franchises issued by the government to enable the Company to operate its diverse businesses including food, real estate, banking and financial services, telecommunications, air transportation and power generation.

**Effect of Existing or Probable Governmental Regulations on the Business**

The Company operates the majority of its businesses, including food, real estate, banking and financial services, telecommunications, air transportation and power generation activities, in a highly regulated environment. Many of these businesses depend upon licenses or franchises issued by the government authorities or agencies for their operations. These businesses would be materially adversely affected by the suspension or revocation of these licenses or franchises, which in turn may have a material adverse effect upon the Company. In addition, the introduction or inconsistent application of, or changes in regulations may from time to time materially affect the Company's operations.

**Cost and Effects of Compliance with Environmental Laws**

The operations of the Company are subject to various laws enacted for the protection of the environment. The Company believes that it has complied with all applicable Philippine environmental laws and regulations, an example of which is the installation of waste and industrial water treatments in its various facilities. Compliance with such laws has not had, and in the Company's opinion, is not expected to have, a material effect upon the Company's capital expenditures, earnings or competitive position.

**Employees and Labor**

The number of full-time employees employed by the Company and its operating subsidiaries as of December 31, 2012 is shown in the following table:

<b>Company</b>	<b>No. of Employees</b>
Branded Consumer Foods, Agro-industrial, & Commodity Food Products	10,603
Property Development and Hotel Management	1,626
Airlines	3,002
Petrochemicals	390
Finance	708
Supplementary Businesses	22
	16,351

The Company's management believes that good labor relations generally exist throughout the operating companies. For most of the operating companies, collective bargaining agreements exist between the relevant representative unions for the employees and the relevant operating companies. The collective bargaining agreements are usually valid for a term of five years, and include a right to renegotiate the economic terms of the agreement after three years, and generally provide for annual salary increment, health and insurance benefits and closed-shop arrangements. The management believes that those collective bargaining agreements, which are soon to expire or which have expired, will, as a result of existing good labor relations, be successfully renewed or renegotiated.

### **Working Capital**

The working capital requirement of each subsidiary varies depending on the industry it is engaged in and is financed by operations and short-term loans from banks.

### **Item 2. Properties**

JG Summit and subsidiaries conduct business throughout the Philippines, but primarily in and around Metro Manila (where it is based) and in the regions of Visayas and Mindanao. Substantially all facilities are owned by the Company and are in good condition.

URC operates manufacturing/farm facilities located in the following:

<b>Location (Number of facilities)</b>	<b>Type of Facility</b>	<b>Owned/ Rented</b>	<b>Condition</b>
Pasig City (5)	Branded consumer food plants, feedmills and flourmill	Owned	Good
Libis, Quezon City (1)	Branded consumer food plant	Owned	Good
Canlubang, Laguna (1)	Branded consumer food plant	Owned	Good
Luisita, Tarlac (1)	Branded consumer food plant	Owned	Good
San Fernando, Pampanga (1)	Branded consumer food plant	Owned	Good
Dasmariñas, Cavite (2)	Branded consumer food plants	Owned	Good
Cagayan de Oro (1)	Branded consumer food plant	Owned	Good
San Pedro, Laguna (1)	Branded consumer food plant	Owned	Good
Calamba, Laguna (1)	Branded consumer food plant	Rented	Good
San Pablo, Laguna (1)	Branded consumer food plant	Owned	Good
Binan, Laguna (1)	Branded consumer food plant	Owned	Good
Antipolo, Rizal (4)	Poultry and piggery farm	Rented	Good
Teresa, Rizal (2)	Piggery farms	Rented	Good
Angono, Rizal (1)	Poultry farm	Owned	Good
Taytay, Rizal (1)	Poultry farm	Rented	Good
Naic, Cavite (1)	Poultry farm	Owned	Good
San Miguel, Bulacan (3)	Poultry and piggery farms	Owned	Good
Bustos, Bulacan (1)	Piggery farm	Rented	Good
Pandi, Bulacan (1)	Piggery farm	Rented	Good
Novaliches, Quezon City (1)	Piggery farm	Owned	Good
Rosario, Batangas (1)	Piggery farm	Owned	Good
Davao City, Davao (2)	Branded consumer food plant and flourmill	Owned	Good
Mandaue City, Cebu (2)	Branded consumer food plant, poultry farm and feedmill	Owned	Good
Manjuyod, Negros Oriental (1)	Sugar mill	Owned	Good
Piat, Cagayan (1)	Sugar mill	Owned	Good
Kabankalan, Negros Occidental (1)	Sugar mill	Owned	Good
San Enrique, Iloilo City (1)	Sugar mill	Owned	Good
Simlong, Batangas (2)	BOPP plant/Flexible packaging	Owned	Good
Samutsakhorn Industrial Estate, Samutsakhorn, Thailand (2)	Branded consumer food plant	Owned	Good
Pasir Gudang, Johor, Malaysia (1)	Branded consumer food plant	Owned	Good

Jiangsu, China (1)	Branded consumer food plant	Owned	Good
Guandong, China (1)	Branded consumer food plant	Owned	Good
Shanghai, China (1)	Branded consumer food plant	Owned	Good
Industrial Town, Indonesia (1)	Branded consumer food plant	Owned	Good
VSIP, Bin Duong Province, Vietnam (2)	Branded consumer food plant	Owned	Good
Thach That District, Han Noi, Vietnam (1)	Branded consumer food plant	Owned	Good

Annual lease payments for Calamba plant for fiscal year 2012 amounted to ₱53 million. Lease contract is renewable annually. Land in Taytay, Teresa and Antipolo, Rizal where farm's facilities are located, are owned by an affiliate and are rent-free.

RLC has invested in a number of properties located across the Philippines for existing and future development projects. All of these properties are fully owned by RLC and none of which are subject of any mortgage, lien or any form of encumbrance. RLC also enters into joint venture arrangements with land owners in order to optimize their capital resources. Not only does this encourage raw land development for future projects but it also provides them with exclusive development and marketing rights.

Breakdown of RLC's properties is set forth below:

a) Land

Location	Use	Status
<b>Metro Manila</b>		
Manila	Mixed-use (mall/residential)	No encumbrances
Quezon City	Residential/ Mixed-use (mall/residential/hotel)	No encumbrances
Pasay City	Residential	No encumbrances
Mandaluyong City	Mixed-use (mall/hotel/residential)	No encumbrances
Makati City	Office Building	No encumbrances

Location	Use	Status
Pasig City	Residential/Mall/Mixed-use (mall/hotel/residential/office)	No encumbrances
Parañaque City	Residential	No encumbrances
Muntinlupa City	Mixed-use (mall/residential)	No encumbrances
Taguig City	Residential	No encumbrances
Metro Manila area	Land bank	No encumbrances
<b>Luzon</b>		
La Union	Residential	No encumbrances
Pangasinan	Mall	No encumbrances
Bulacan	Mall	No encumbrances
Nueva Ecija	Mall	No encumbrances
Pampanga	Mall	No encumbrances
Tarlac	Mall	No encumbrances
Batangas	Mall/Residential	No encumbrances
Cavite	Mall/Residential/Mixed-use (mall/hotel/residential)	No encumbrances
Laguna	Mall	No encumbrances
Palawan	Mixed-use (mall/hotel/residential)	No encumbrances
Rizal	Residential	No encumbrances
Luzon area	Land bank	No encumbrances
<b>Visayas</b>		
Iloilo City	Mall	No encumbrances
Bacolod City	Mixed-use (mall/hotel)	No encumbrances
Cebu	Mixed-use (mall/hotel/residential)	No encumbrances

Davao City, Davao del Sur	Mall	No encumbrances
Negros Oriental	Mixed-use (mall/hotel)	No encumbrances
Leyte	Mixed-use (mall/hotel)	No encumbrances
Visayas area	Land bank	No encumbrances
<b>Mindanao</b>		
Agusan del Norte	Mall	No encumbrances
Cagayan de Oro City	Mixed-use (mall/hotel/ residential)	No encumbrances
Davao City	Mall	No encumbrances
South Cotabato	Mall/Residential	No encumbrances
Mindanao area	Land bank	No encumbrances

b) Building and Improvements

Location	Use	Status
<b>Metro Manila</b>		
Manila	Mixed-use (mall/hotel/residential)	No encumbrances
Quezon City	Mixed-use (mall/hotel/residential)	No encumbrances
Mandaluyong City	Mixed-use (mall/hotel/residential)	No encumbrances
Makati City	Office Building	No encumbrances
Pasig City	Mixed-use (mall/hotel/residential)	No encumbrances
<b>Luzon</b>		
Ilocos Norte	Mall	No encumbrances
Bulacan	Mall	No encumbrances
Nueva Ecija	Mall	No encumbrances
Pampanga	Mall	No encumbrances
Tarlac	Mall	No encumbrances
Batangas	Mall	No encumbrances
Cavite	Mall/Mixed-use (mall/hotel)	No encumbrances
Laguna	Mall	No encumbrances
Rizal	Mall	No encumbrances
Pangasinan	Mall	No encumbrances
Palawan	Mall/Mixed-use (mall/hotel)	No encumbrances
<b>Visayas</b>		
Iloilo City	Mall	No encumbrances
Bacolod City	Mall	No encumbrances
Cebu	Mixed-use (mall/hotel/office)	No encumbrances
Negros Oriental	Mall	No encumbrances
Leyte	Mixed-use (mall/hotel)	No encumbrances
<b>Mindanao</b>		
Cagayan De Oro City	Mall	No encumbrances
Davao City	Mall	No encumbrances
South Cotabato	Mall	No encumbrances

RLC owns all the properties where its existing commercial centers are located except for the following: Robinsons Place – Iloilo, Robinsons - Cagayan de Oro, Robinsons Cainta and Robinsons Pulilan. These four properties are leased at prevailing market rates. The leases for Iloilo and Cagayan de Oro properties are for 50 years each and commenced in October 2001 and December 2002, respectively. The leases for the Cainta and Pulilan properties are for 25 years and commenced in December 2003 and January 2008, respectively. Renewal options for Cainta and Pulilan are available to RLC. Total rent expense amounted to P162 million in 2012, P158 million in 2011 and 2010.

JGSPC built its polypropylene and polyethylene complex on a site at Barangay. Simlong, Batangas.

The construction of JGSOC's naptha cracker plant is on-going in Barangay Simlong, Batangas City, adjacent to the existing Polyethylene (PE) / Polypropylene (PP) Plant of JGSPC. It is expected to start commercial operations in 2014.

### **Item 3. Risks**

The major business risks facing the Group are as follows:

#### **a. Competition**

Many of the Group's activities are in highly competitive industries. The Group faces competition in all segments of its businesses both in the Philippine market and in international markets. The Group's ability to compete effectively will require continuous efforts in sales and marketing of our existing products, development of new products and cost rationalization. There can be no assurance that the Group's sales volume and market share will not be adversely affected by negative consumer reaction to higher prices as a result of price reduction or promotional sales undertaken by its competitors.

#### **b. Financial Market**

The Group has a foreign exchange exposure primarily associated with fluctuations in the value of the Philippine Peso against the U.S. dollar and other foreign currencies. The Group's revenues are predominantly denominated in Pesos, while certain expenses, including fixed debt obligations, are denominated in foreign currencies. Prudent fund management is employed to minimize effects of fluctuations in interest and currency rates.

#### **c. Raw Materials**

Production operations of some of the Group's manufacturing operations are dependent in obtaining adequate supply of raw materials on a timely basis. In addition, its profitability depends in part on the prices of raw materials since a portion of the Group's raw material requirements is imported including packaging materials. To mitigate these risks, alternative sources of raw materials are used in operations.

#### **d. Cost and Availability of Fuel**

Fuel prices have been subject to high volatility, fluctuating substantially over the past several years. Any increase in the cost of fuel or any decline in the availability of adequate supplies of fuel could have a material adverse effect on the Group's airline operations and profitability. The airline business implements various fuel management strategies to manage the risk of rising fuel prices including hedging.

#### **e. Key Executives**

The Company's key executives play an integral part in the latter's success. The experience, knowledge, business relationships and expertise of these executives could be difficult to replace and may result in a decrease in the Company's operating proficiency and financial performance should any of them decide to leave the Company.

#### **f. Philippine Regulations**

The Group operates a material part of its businesses in a highly regulated environment. Many of these businesses depend upon licenses and franchises issued by government authorities or agencies for their operation. These businesses would be materially adversely affected by the suspension or revocation of these licenses or franchises.

The Group is also subject to numerous environmental laws and regulations relating to the protection of the environment and human health and safety, among others. Many of these environmental laws and regulations are becoming increasingly stringent and compliance to such is becoming increasingly complex and costly.

#### Item 4. Legal Proceedings

Certain consolidated subsidiaries are defendants to lawsuits or claims filed by third parties which have pending decisions by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial position. Refer to Note 43 of the Consolidated Financial Statements attached to this report for a detailed description.

#### Item 5. Submission of Matters to a Vote of Security Holders

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

### PART II - OPERATIONAL AND FINANCIAL INFORMATION

#### Item 6. Market for Registrant's Common Equity and Related Stockholder Matters

##### PRINCIPAL MARKET OR MARKETS WHERE THE REGISTRANT'S COMMON EQUITY IS TRADED.

The common stock of the Company is listed on the Philippine Stock Exchange.

##### STOCK PRICES

	<u>High</u>	<u>Low</u>
<b><u>2012</u></b>		
First Quarter	P31.35	P24.40
Second Quarter	35.50	29.40
Third Quarter	35.00	31.60
Fourth Quarter	39.25	31.95
<b><u>2011</u></b>		
First Quarter	P25.32	P18.22
Second Quarter	27.97	23.97
Third Quarter	26.87	20.30
Fourth Quarter	25.70	19.50
<b><u>2010</u></b>		
First Quarter	P11.00	P5.50
Second Quarter	16.75	9.30
Third Quarter	26.00	15.75
Fourth Quarter	26.55	19.60

The stock price of the Company's shares as of May 2, 2013 is P47.70.

##### CASH DIVIDENDS PER SHARE

On June 28, 2012, the Company declared a regular cash dividend of P0.16 per share from the Unrestricted Retained Earnings as of December 31, 1997 to all stockholders of record as of July 18, 2012 and payable on August 13, 2012.

On July 7, 2011, the Company declared a regular cash dividend of P0.05 per share and a special cash dividend of P0.03 per share from the Unrestricted Retained Earnings as of December 31, 1997 to all stockholders of record as of July 27, 2011 and payable on August 22, 2011.



On June 28, 2010, the Company declared cash dividend of ₱0.05 per share from the Unrestricted Retained Earnings as of December 31, 1997 to all stockholders of record as of July 16, 2010 and payable on August 6, 2010.

### STOCK DIVIDENDS DECLARED

No stock dividend was declared in 2012, 2011 and 2010.

Retained earnings of the Company as of December 31, 2012 include undistributed earnings amounting to ₱56.6 billion representing accumulated equity in net earnings of consolidated and unconsolidated subsidiaries and affiliates which is not available for dividend declaration until received in the form of dividends from the investees.

### RECENT SALES OF UNREGISTERED SECURITIES

Not Applicable.

The number of shareholders of record as of March 31, 2013 was 1,106. Total shares outstanding as of March 31, 2013 were 6,797,191,657 shares with a par value of ₱1.00.

#### Top 20 stockholders as of March 31, 2013:

<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total Outstanding</u>
1. Gokongwei Brothers Foundation, Inc.	1,997,076,451	29.38%
2. PCD Nominee Corporation (Filipino)	1,355,004,372	19.93%
3. RSB-TIG No. 030-46-000001-9	1,033,319,225	15.20%
4. John Gokongwei, Jr.	866,509,465	12.75%
5. PCD Nominee Corporation (Non-Filipino)	476,947,558	7.02%
6. Lance Y. Gokongwei &/or Elizabeth Gokongwei.	234,845,280	3.46%
7. James L. Go	148,679,656	2.19%
8. John Gokongwei &/or Lance Gokongwei	141,030,450	2.08%
9. Gosotto & Co., Inc.	105,644,494	1.55%
10. Robina Gokongwei Pe &/or Elizabeth Gokongwei	72,345,278	1.06%
11. Liza Yu Gokongwei &/or Elizabeth Gokongwei	54,200,000	0.80%
12. Faith Gokongwei Ong &/or Elizabeth Gokongwei	36,100,000	0.53%
12. Marcia Gokongwei Sy &/or Elizabeth Gokongwei	36,100,000	0.53%
12. Hope Gokongwei Tang &/or Elizabeth Gokongwei	36,100,000	0.53%
13. Nicris Development Corporation	36,073,252	0.53%
14. Emma G. See	19,552,125	0.29%
15. Pacred Service & Investment Corporation	18,733,226	0.28%
16. Michael Seetekbeng	13,400,327	0.20%
17. Olympia T. Gotao	8,767,730	0.13%
18. Richard Yap	8,570,362	0.13%
19. Elizabeth Gokongwei	6,270,000	0.09%
20. Raymond T. Gotao	6,045,154	0.09%
Others	85,877,252	1.26%
	<u>6,797,191,657</u>	<u>100.00%</u>

## **Item 7. Management's Discussion and Analysis or Plan of Operation.**

The following discussion and analysis should be read in conjunction with the accompanying financial statements and the related notes as of December 31, 2012, 2011 and 2010, included elsewhere in this Annual Report. Our financial statements, and the financial information discussed below, have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Management's Discussion of Results of Operations is presented in two parts: Consolidated Operations and Segment Operations.

### **2012 vs. 2011**

#### **I. CONSOLIDATED OPERATIONS**

##### **Results of Operations**

JG Summit Holdings Inc.'s consolidated net income attributable to equity holders of the Parent Company from continuing operations recorded a 59.6% increase from ₱8.48 billion in 2011 to ₱13.53 billion in 2012. The Group's Core Earnings before taxes, (income before extraordinary gains from the sale of Digitel in 2011, the effects of foreign exchange currency translations, and mark-to-market valuations of its financial investments), grew 19.6% to ₱19.47 billion in 2012 from ₱16.28 billion in 2011. Consolidated EBITDA (operating income plus depreciation and amortization) reached ₱29.14 billion, up from last year's ₱25.33 billion for a 15.0% growth. Dividends received from its 8% stake in PLDT which amounted to ₱2.95 billion, plus the continued appreciation of peso against the US dollar and the recovery in the market value of its bond and equity investments, have all contributed to the earnings growth. Including the extraordinary gains from sale of Digitel, which totaled to ₱13.04 billion in 2011, however, total net income attributable to equity holders of the parent dropped 37.1%.

Consolidated revenues grew 9.5% from ₱123.50 billion in 2011 to ₱135.25 billion this year as all subsidiaries posted decent revenue growth.

- URC's revenue grew 6.0% from ₱67.17 billion in 2011 to ₱71.20 billion in 2012 due to the strong performance of the branded consumer foods both domestic and international. The agro-industrial segment also recorded a slight increase of 4.1% due to higher prices of the feed business and higher sales volume of hogs and poultry products.
- CEB's 11.7% increase in gross revenues from ₱33.94 billion in 2011 to ₱37.90 billion in 2012 is brought about by 11.1% growth in passenger volume and higher ancillary revenues after implementing the unbundling of fares strategy.
- Real estate and hotel revenues posted a 5.5% growth from ₱12.79 billion to ₱13.50 billion due to higher revenues of most of its divisions, except for its Residential Division, which recorded lower realized revenues due to lower project completion.
- Petrochemical's revenues slightly increased 2.7% from ₱4.78 billion in 2011, to ₱4.91 billion in 2012.
- Banking revenues grew 7.4% to ₱2.53 billion during the period.

Dividend income significantly increased from ₱244.96 million in 2011 to ₱3.20 billion this year mainly due to dividends received from PLDT amounting to ₱2.95 billion

However, our equity income from associates and joint ventures, declined 9.4% from ₱2.22 billion to ₱2.01 billion due to the lower income take-up from Singapore-based affiliate, United Industrial Corp. Ltd. (UIC). JG Summit owns a 36.08% stake in UIC as its earnings weaken due to lower revenues from hotel operations, rental and lower sales from trading properties.

Consolidated cost of sales and services rose 6.9% from ₱86.71 billion last year to ₱92.68 billion. The increase is higher compared to revenue growth of our core businesses as the cost of sales and services,

particularly in airline have risen significantly. Cebu Air's higher aviation fuel expenses (brought about by increased number of flights and surge in fuel prices during the period) and higher flight deck expenses contributed to the Group's increased cost of sales.

Consolidated operating expenses increased 13.2% as a result of a higher level of business activity of food and airline businesses.

The Group's financing costs and other charges (net of interest income) incurred for the year ended December 31, 2012 decreased by 23.4% from ₱2.14 billion in 2011 to ₱1.64 billion as the Group's level of borrowings declined after full settlement of \$300 Million term loan in the last quarter of 2011, URC's \$200 million guaranteed note in the 1<sup>st</sup> quarter of 2012 and RLC's ₱3 billion loan in May 2012. Mark-to-market gains recognized from our financial assets for 2012 amounted to ₱1.87 billion, from a net market valuation loss last year of ₱648.91 million. Net gain during the year is due to price recoveries from our bond investments and gains from additional investments acquired. The Group also recognized foreign exchange gain of ₱1.40 billion against foreign exchange loss reported last year of ₱245.88 million due to the sharp appreciation of the Philippine peso this year.

Other income, which include commission income from our insurance brokering, rental income, management fees and gain on sale of financial instruments, among others, recorded a 49.2% decline from last year's as commission income recorded by Unicon dropped to ₱129.57 million in 2012 from ₱142.56 million in 2011.

Provision for income tax increased 44.4% due to higher taxable income of URC and recognition of deferred tax liabilities on unrealized foreign exchange gain of the food and airline businesses.

## **II. Segment Operations**

### **A. Results from Continuing Operations**

**Foods** generated a consolidated sale of goods and services of ₱71.20 billion for the fiscal year ended September 30, 2012, 6.0% sales growth over last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods segment, excluding packaging division, increased by ₱5.72 billion, or 11.7%, to ₱54.51 billion in fiscal 2012 from ₱48.79 billion registered in fiscal 2011. Domestic operations posted a 16.2% increase from ₱29.57 billion in fiscal 2011 to ₱34.35 billion in fiscal 2012 due to strong performance of its beverage division which grew 56.0% on the back of the stellar performance of the coffee business particularly the new coffee mix products. Sales for snack foods division grew at a slower pace due to competitive pressures as consumers go for lower priced and lower value-added products. BCFG's international sales increased by 4.9% to ₱20.16 billion in fiscal 2012 against ₱19.22 billion in fiscal 2011 due to increase in sales volume by 39.1%. This was supported by higher revenues from all the countries except Thailand as the effects of flood continued to affect the sales of its main categories, biscuits and wafers, which are not consumer staples and are discretionary. Vietnam, the biggest contributor, has contributed 42.8% of total international sales in dollar terms. Sale in URC's packaging division went down by 1.2% to ₱1.75 billion in fiscal 2012 from ₱1.77 billion recorded in fiscal 2011 due to decline in prices, pulling down the impact of increased sales volume. (2) Agro-Industrial segment (AIG) amounted to ₱7.37 billion in fiscal 2012, a 4.1% increase from ₱7.08 billion recorded in fiscal 2011. URC's feed business slightly grew by 2.4% to ₱3.60 billion on the back of higher prices while farm business increased by 5.7% due to higher sales volume of hogs and poultry products. (3) Sale of goods and services in commodity foods segment amounted to ₱7.58 billion, in fiscal 2012 or down by 20.5% from ₱9.53 billion reported in fiscal 2011. Sugar business sales declined by 39.9% due to lower selling prices and volume as a result of lower production yields caused by the excessive rains during the growing seasons. Flour business grew by 8.4% due to growth in sales volume and better prices.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by ₱2.09 billion, or 4.1%, to ₱52.73 billion in fiscal 2012 from ₱50.65 billion in fiscal 2011 due to increase in sales volume.

URC's gross profit for fiscal 2012 amounted to ₱18.47 billion, up by ₱1.95 billion from ₱16.52 billion reported in fiscal 2011. URC's gross margin increased by 130 basis points from 24.6% in

fiscal 2011 to 25.9% in fiscal 2012. Selling and distribution costs and general and administrative expenses rose by ₱1.04 billion or 10.8% to ₱10.67 billion in fiscal 2012 from ₱9.63 billion registered in fiscal 2011. This increase resulted primarily from the following factors: (1) 13.9% increase in advertising and promotion costs to ₱4.0 billion in fiscal 2012 from ₱3.51 billion in fiscal 2011 to support new SKUs launched and boost up sales of existing products; (2) 13.5% increase in freight and delivery charges to ₱ 2.83 billion in fiscal 2012 from ₱2.49 billion in fiscal 2011 due to increase in trucking and shipping costs associated with increased volume; (3) 8.8% increase in compensation and benefits to ₱2.40 billion in fiscal 2012 from ₱2.21 billion in fiscal 2011 due to annual salary adjustments and accrual of pension expenses.

Market valuation gain on financial instruments at fair value through profit or loss of ₱1.55 billion was reported in fiscal 2012 against the ₱1.16 billion market valuation loss in fiscal 2011 due to significant recoveries in the market values of bond and equity investments.

URC's finance revenues increased by ₱39 million to ₱1.23 billion in fiscal 2012 from ₱1.19 billion in fiscal 2011 due to increased level of financial assets.

URC's finance costs consist mainly of interest expense which decreased by ₱318 million or 31.8%, to ₱ 683.05 million in fiscal 2012 from ₱1.0 billion recorded in fiscal 2011 due to decline in level of financial debt resulting from settlement of long-term debt.

Impairment loss of ₱197.87 million was reported in fiscal 2012, an increase of 18.3% from ₱167.21 million in fiscal 2011 due to higher impairment loss recognized on trademark this year.

Foreign exchange loss - net amounted to ₱634.39 million in fiscal 2012 from ₱36.69 million reported in fiscal 2011 due to higher foreign exchange loss on translation of foreign currency denominated accounts as a result of continuous appreciation of Philippine Peso vis-a-vis US dollar.

Other income – net of ₱52.62 million was reported in fiscal 2012 against the ₱121.39 million other expenses – net in fiscal 2011 due to loss on sale of net assets of the disposal group recognized last year.

Provision for income tax of ₱989.34 million in fiscal 2012, 61.2% increase from ₱613.89 million in fiscal 2011 due to higher taxable income and recognition of deferred tax liabilities on unrealized foreign exchange gain.

Net income attributable to equity holders of the parent increased by ₱3.10 billion or 66.9% to ₱7.74 billion in fiscal 2012 from ₱4.64 billion in fiscal 2011 as a result of factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱11.22 billion for fiscal 2012, 10.5% higher than ₱10.16 billion posted in fiscal 2011. Core earnings before tax (operating profit after equity earnings, net finance costs and other expense-net) for fiscal 2012 amounted to ₱8.43 billion, an increase of 20.7% from ₱6.98 billion recorded for fiscal 2011.

**Real estate and hotels** generated total gross revenues of ₱13.52 billion for fiscal year 2012, an increase of 6% from ₱12.81 billion total gross revenues for fiscal year 2011. EBIT (Operating income) grew 16% to ₱5.23 billion while EBITDA (Operating income plus depreciation) posted a 10% growth to ₱7.32 billion. Net income stood at ₱4.24 billion, up by 7% compared to last year.

The Commercial Centers Division accounted for ₱6.43 billion of the real estate revenues for the year versus ₱5.76 billion last year or a 12% increase. Significant rental increment was contributed by the new malls opened in fiscal 2012. Also our flagship malls – Robinsons Galleria and Robinsons Place Manila and almost all provincial malls posted decent growth in rental revenues. The Division's EBIT and EBITDA have shown positive variances of 22% and 13%, respectively.

The Residential Division realized gross revenues of ₱4.30 billion is slightly lower by 5% from ₱4.51 billion last year due to lower project completion of various ongoing projects. Both EBIT and EBITDA, however, have shown a positive variance of 7% due to lower level of operational expenses.

The Office Buildings Division reported revenues of ₱1.40 billion compared to ₱1.33 billion over the same period last year. This 5% increase in lease income was due mainly to new office space available for lease in Robinsons Cybergate Tower 3 and completion of Cybergate Plaza. The Division's EBIT and EBITDA have shown positive variances of 4% and 3%, respectively.

The Hotels Division, a major contributor of RLC's recurring revenues, registered gross revenues of ₱1.38 billion, as against last year's ₱1.21 billion. The 15% increase in hotel revenues was principally due to higher occupancy of Crowne Plaza and Holiday Inn, increased hotel revenues from Summit Circle and the additional 4 new Go Hotels opened in fiscal year 2012. The hotel average occupancy rates are 82% for Crowne Plaza Galleria Regency, 78% for Holiday Inn Galleria Manila, 56% for Summit Circle Cebu (formerly Cebu Midtown Hotel), 42% for the Summit Ridge Hotel and 70% for Go Hotels. Hotel's Division EBIT grew by 38%, while EBITDA showed a positive variance of 14%.

Real estate cost and expenses went up to ₱5.26 billion this year. As a result of the slight decrease in realized gross revenues of the Residential Division, cost of real estate sale of sold residential units decreased by 11%. Hotel expenses slightly increased to ₱1.11 billion or 10% as compared to last year of ₱1.01 billion due to higher operational expenses at Crowne Plaza and Holiday Inn.

Interest income increased to ₱493.0 million from ₱444.2 million last year due to higher level of money market placements.

General and administrative expenses went up by 8% due to higher salaries, advertising and promotions and taxes and licenses, among others. Interest expense decreased by 75% due to higher level of capitalizable interest covering various capital expenditures.

**Air transportation** generated gross revenues of ₱37.90 billion for the year ended December 31, 2012 11.7% higher from last year's ₱33.94 billion, mainly attributed to the 11.1% growth in passenger volume driven by the increased number of flights and higher seat load factor of 82.7% in 2012. Number of flights went up by 12.5% as a result of increase in number of aircraft operated to 41 aircraft as of December 31, 2012 from 37 aircraft as of end 2011. Moreover, baggage fee and ancillary revenues went up by 30.9% to ₱3.27 billion in 2012 from ₱2.50 billion in 2011. As part of its unbundling of fares strategy, Cebu Air commenced charging for every checked-in luggage with the elimination of free baggage allowance. Cost of services and operating expenses went up 15.2% to ₱35.24 billion in 2012 from ₱30.60 billion last year. Major contributor to the higher expenses this year is the aviation fuel expenses which increased 15.4% from ₱15.22 billion in 2011 to ₱17.56 billion in 2012, consequent to the increase in volume of fuel consumed as a result of increased number of flights year on year. Rise in aviation fuel expenses was further influenced by the surge in aviation fuel prices as referenced by the increase in average published fuel MOPS price of US\$126.83 per barrel in the twelve months ended December 2012 from US\$125.50 average per barrel in the same period last year. Higher flight deck expenses owing to higher pilot costs, including training, also contributed to the increase in expenses for the period. Cebu Pacific recognized lower interest income for the period from ₱647.40 million last year to ₱415.77 million this year due to sale of its bond investments during the period. Foreign exchange gain increased significantly to ₱1.20 billion from ₱50.15 million last year as a result of peso appreciation during the period. As a result of the foregoing, net income for the year ended December 31, 2012 slightly dropped to ₱3.60 billion from ₱3.62 billion last year.

**Petrochemicals** gross revenues dropped 11.7% from ₱5.78 billion last year to ₱5.11 billion for the fiscal year ended September 30, 2012 due to lower production this year from 87,176MT in 2011 to 81,832MT in 2012. Costs and expenses, consequently dropped 7.7%. Impairment losses from inventory write-offs also decreased from ₱67.48 million last year to only ₱1.41 million this year. Gross loss for the period increased from ₱12.30 million in 2011 to ₱231.61 million in 2012. A net foreign exchange gain of ₱58.53 million was recognized in 2012 compared to a net foreign exchange loss of ₱2.22 million last year. Net loss for fiscal year ended 2012 increased 36.4% amounting to ₱523.73 million compared to only ₱383.97 million last year.

**Banking Services**, generated net earnings of ₱389.90 million for the year ended December 31, 2012, a slight 1.4% growth from last year's net income of ₱384.38 million. The increase is mainly due to the 7.4%

growth in revenues recorded this year from ₱2.36 billion last year to ₱2.53 billion this year. In December 26, 2012, SEC approved RBC's acquisition of 100% stake in Legazpi Savings Bank, which increased the bank's total resources as of December 31, 2012 to ₱41.33 billion from last year's ₱31.52 billion. Loans increased to ₱17.67 billion from last year's ₱12.58 billion, deposit liabilities likewise, increased to ₱33.96 billion this year from ₱25.19 billion last year.

**Equity in net earnings of associates companies and joint ventures** amounted to ₱2.01 billion for the year ended December 31, 2012, a 9.4% decline from last year's ₱2.22 billion. Decrease in equity income is mainly due to UIC, which recorded lower net income before fair value gain (loss) on investment properties this year. **United Industrial Corporation, Limited** recorded a 16.0% decline in its net income from operations S\$200.23 million in 2011 to S\$168.24 million in 2012. The decrease in net income is mainly due to lower revenues during the year as rental income, revenue from hotel operations and revenues from sale of properties all showed a decline of 5.8%, 39.0% and 5.5%, respectively. 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.

**Other Supplementary Business, Unicon** recognized net income of ₱28.94 million in 2012 a 26.6% drop from last year's ₱39.41 million mainly due to lower commission income of ₱129.57 million this year compared to ₱142.56 million last year. Decrease in commission income is due to Digitel's transfer to another broker after expiration of their insurance coverage during the year.

## 2011 vs. 2010

### I. CONSOLIDATED OPERATIONS

#### Results of Operations

JG Summit Holdings Inc.'s net income attributable to equity holders of the Parent Company reached a record level of ₱21.51 billion in 2011, a 31.8% increase from last year's ₱16.32 billion. Net profits from continuing operations plus profits arising from the sale of its stake in telecommunications business, Digitel to PLDT, all contributed to the record earnings. Profits from discontinued operations, including the gain from the sale of Digitel, amounted to ₱13.04 billion, while profits from continuing operations dipped 45.6% to ₱8.48 billion from ₱15.58 billion last year, because of high input costs, forex movements and capital markets volatility. Core earnings before taxes, excluding the extraordinary gains from sale of Digitel, the effects of foreign exchange and market valuation losses, dropped 9.1% to ₱16.28 billion in 2011 from ₱17.91 billion in 2010. Consolidated EBITDA (operating income adding back depreciation and amortization) for the year declined 10.0% to ₱25.33 billion from last year's ₱28.16 billion due mainly to the high commodity prices which eroded margins for our units, URC and Cebu Pacific.

Consolidated revenues grew 16.9% from ₱105.62 billion in 2010 to ₱123.50 billion this year as all subsidiaries posted decent revenue growth.

- URC's revenue grew 16.4% from ₱57.72 billion in 2010, to ₱67.17 billion in 2011 due to the strong performance of the branded consumer foods both domestic and international. In addition to this, the commodities group also registered 30% growth brought about by high sales volume and prices of sugar.
- CEB's 16.7% growth in gross revenues from ₱29.09 billion in 2010 to ₱33.94 billion in 2011 brought about by its continuous expansion of its route and flight network, additional passenger and cargo traffic and significantly increased ancillary revenues.
- Real estate and hotel revenues posted a 18.3% growth from ₱10.81 billion to ₱12.79 billion due to higher revenues of all its divisions, particularly its Residential Division, which recorded higher realized revenues due to increase in completion levels of its existing projects.
- Petrochemical's revenues increased 44.6% from ₱3.31 billion in 2010, to ₱4.78 billion in 2011 as a result of 42.7% growth in sales volume during the year.
- Banking revenues grew 36.1% to ₱2.36 billion during the period as it finally operated as a

commercial bank for a full year.

Dividend income increased 27.0% from ₱192.89 million in 2010 to ₱244.96 million in 2011.

However, our equity income from associates and joint ventures, declined 19.9% from ₱2.77 billion to ₱2.22 billion due to the lower income take-up from Singapore-based affiliate, United Industrial Corp. Ltd. (UIC). JG Summit owns a 36.09% stake in UIC.

Gross income dropped 4.5% to ₱36.79 billion mainly due to higher cost of sales during the year. The significant increase in aviation fuel prices and the higher costs of raw materials of the food business contributed to the 29.2% increase in cost of sales.

Consolidated operating expenses increased 10.2% as a result of a higher level of business activity of food and airline businesses. Hence, consolidated operating income decreased 16.8% because of the lower gross income and higher operating expenses.

The Group's financing costs and other charges (net of interest income) incurred for the year ended December 31, 2011 decreased by 40.3% from ₱3.59 billion in 2010 to ₱2.14 billion as the Group's level of borrowings declined after paying down some of the syndicated loans from cash proceeds of the PLDT share option sale and the higher average investment portfolio for the period. Mark-to-market valuation of financial assets for the year amounted to a loss of ₱648.91 million versus a gain of ₱1.71 billion for the same period in 2010. This was brought about by the combined effects of the lower market value of some of its financial assets and the fuel hedges of Cebu Air Inc., arising from volatility in global financial and commodity markets. The Group also recognized foreign exchange losses of ₱245.88 million against foreign exchange gains reported last year of ₱1.94 billion, as the Philippine peso was much stronger in 2010 as compared to 2011.

Other income, which include commission income from our insurance brokering, dividend income, rental income, management fees and gain on sale of financial instruments, among others, recorded a 68.8% growth from last year's.

Provision for income tax increased 21.9% mainly due to higher provision recognized by the real estate business during the period.

## **II. Segment Operations**

### **A. Results from Continuing Operations**

**Foods** generated a consolidated sale of goods and services of ₱67.17 billion for the fiscal year ended September 30, 2011, 16.4% sales growth over last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods segment, excluding packaging division, increased by ₱6.47 billion, or 15.3%, to ₱48.79 billion in fiscal 2011 from ₱42.32 billion registered in 2010. Domestic sales posted a 6.8% increase from ₱27.69 billion in fiscal 2010 to ₱29.57 billion in fiscal 2011 due to solid performance of its snackfoods division which posted a 14.6% growth. Sales for beverage division declined due to weak sales of C2 as consumption for RTD products in the Philippines declined. In addition, our coffee business was affected by strong pressure from competitors as well as consumer shifting to the 3in1 coffee mixes where URC is not a strong participant. BCFG's international sales significantly increased by 31.4% to ₱19.22 billion in fiscal 2011 against ₱14.63 billion in fiscal 2010 due to considerable increase in sales volume by 36.5%. This was supported by higher revenues from all the countries. Thailand and Vietnam, our two biggest contributors have contributed 75.3% of total international sales. Sale in URC's packaging division went up by 90.7% to ₱1.77 billion in fiscal 2011 from ₱928 million recorded in fiscal 2010 due to increases in sales volume and prices. (2) Agro-Industrial segment (AIG) declined to ₱7.08 billion in fiscal 2011 from ₱7.17 billion recorded in fiscal 2010. URC's feed business grew by 18.7% to ₱3.52 billion on the back of increases in sales volume and prices. Farm business declined by 15.2% due to decline in sales volume and farm gate prices caused by influx of cheap imported meat. (3) Sale of goods and services in commodity foods segment amounted to ₱9.53 billion, in fiscal 2011 or up by 30.5% from ₱7.30 billion reported in fiscal 2010 due to higher sales volume and better prices.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by ₱9.53 billion, or 23.2%, to ₱50.65 billion in fiscal 2011 from ₱41.11 billion in fiscal 2010. Cost of sales went up due to increases in sales volume and costs of major raw materials.

URC's gross profit for fiscal 2011 amounted to ₱16.52 billion, down by ₱85 million from ₱16.61 billion reported in fiscal 2010. URC's gross profit as a percentage of net sales declined by 4 percentage points to 25% in fiscal 2011 from 29% in fiscal 2010 due to higher input costs this year. Selling and distribution costs and general and administrative expenses rose by ₱706 million or 7.9% to ₱9.63 billion in fiscal 2011 from ₱8.93 billion registered in fiscal 2010. This increase resulted primarily from the following factors: (1) 22.3% increase in freight and delivery charges to ₱2.49 billion in fiscal 2011 from ₱2.04 billion in fiscal 2010 due to increase in trucking and shipping costs associated with increased volume and higher fuel prices; (2) 16.2% increase in compensation and benefits to ₱2.20 billion in fiscal 2011 from ₱1.90 billion in fiscal 2010 due to annual salary adjustments and accrual of pension expenses.

Market valuation loss on financial instruments at fair value through profit or loss of ₱1.16 billion in fiscal 2011 from ₱2.01 billion market valuation gain in fiscal 2010 due to significant drop in the market values of bond and equity security investments.

URC's finance revenues decreased by ₱31 million to ₱1.19 billion in fiscal 2011 from ₱1.22 billion in fiscal 2010 due to currency translation of interest income on foreign currency denominated financial assets.

URC's finance costs consist mainly of interest expense, decreased by ₱33 million or 3.2%, to ₱1.0 billion in fiscal 2011 from ₱1.03 billion recorded in fiscal 2010 due to currency translation of interest expense on foreign currency denominated financial liabilities.

Impairment loss of ₱167.21 million was reported in fiscal 2011, a decrease of 62.3% from ₱442.89 million in fiscal 2010 due to provision on impairment loss for other assets last year.

Foreign exchange loss amounted to ₱36.69 million in fiscal 2011 from ₱335.28 million reported in fiscal 2010 due to currency translation adjustments.

Net income attributable to equity holders of the parent decreased by ₱3.18 billion or 40.7% to ₱4.64 billion in fiscal 2011 from ₱7.82 billion in fiscal 2010 as a result of factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱10.16 billion for fiscal 2011, 7.3% lower than ₱10.96 billion posted in fiscal 2010. Core earnings before tax (operating profit after equity earnings, net finance costs and other expense-net) for fiscal 2011 amounted to ₱6.98 billion, a decrease of 9.2% from ₱7.69 billion recorded for fiscal 2010.

**Real estate and hotels** generated total gross revenues of ₱12.81 billion for fiscal year 2011, an increase of 18% from ₱10.82 billion of total gross revenues for fiscal year 2010. Net profit for the fiscal year 2011 amounted to ₱3.97 billion, up by 11% compared to fiscal year 2010. EBITDA amounted to ₱6.64 billion this year, up by 12% from last year.

The Commercial Centers Division accounted for ₱5.76 billion of the real estate revenues for the year versus ₱5.31 billion last year or an 8% increase. Rental escalations and strong take up of leased areas of the mall space after renovation and expansion work of existing malls increased the rental revenues. Significant rental increment was contributed by our flagship malls – Robinsons Galleria and Robinsons Place Manila and the continued strong growth of our new malls in Dumaguete, Ilocos Norte, General Santos, Tacloban, Davao and Cebu. The Division's EBIT and EBITDA have shown positive variances of 6% and 7%, respectively.



The Residential Division realized gross revenues of ₱4.51 billion up by 42% from ₱3.18 billion last year due to increase in completion levels of existing projects such as The Fort Residences, East of Galleria and Woodsville Viverde and higher take up of realized revenues from new projects such as Trion Tower 1, Sonata 1 and Amisa 1 and 2. As realized revenues increased, both EBIT and EBITDA have shown a positive variance of 33%.

The Office Buildings Division reported revenues of ₱1.33 billion compared to ₱1.18 billion over the same period last year. This 13% increase in lease income was due mainly to new office space available for lease in Robinsons Cybergate Tower 3 and completion of Cybergate Plaza. The Division's EBIT and EBITDA have shown positive variances of 10% and 14%, respectively.

The Hotels Division, a major contributor of RLC's recurring revenues registered gross revenues of ₱1.21 billion, as against last year's ₱1.15 billion. The 5% increase in hotel revenues was principally due to the strong performance of the pilot Go Hotel in Mandaluyong City. The average occupancy rates of RLC's hotels are 72% for Crowne Plaza Galleria Regency, 74% for Holiday Inn Galleria Manila, 60% for Summit Circle Cebu (formerly Cebu Midtown Hotel), 40% for the Summit Ridge Hotel and 88% for the newly opened Go Hotel. Hotel's Division EBIT grew by 31%, while EBITDA showed a positive variance of 10%.

Real estate cost and expenses went up to ₱5.50 billion this year. As a result of the increase in realized gross revenues of the Residential Division, cost of real estate sale of sold residential units increased by 53%. Hotel expenses slightly increased to ₱1.01 billion or 1% as compared to last year of ₱996.91 million due to higher operational expenses at Summit Ridge Hotel and Go Hotel.

Interest income slightly decreased to ₱444.2 million from ₱467.9 million last year. The higher interest income from money market placements was offset by the lower interest income on its receivable from affiliated companies.

General and administrative expenses went up by 11% due to higher salaries, advertising and promotions and insurance, among others. Interest expense decreased by 22% due to higher level of capitalizable interest covering various capital expenditures.

**Air transportation** generated gross revenues of ₱33.94 billion for the year ended December 31, 2011 16.7% higher from last year's ₱29.09 billion, mainly attributed to the 14.1% increase in the total number of passengers carried driven by the increased number of flights and higher seat load factor of 86.3% in 2011. Number of flights went up by 10.5% as a result of increase in number of aircraft operated to 37 aircraft as of December 31, 2011 from 31 aircraft as of end 2010. Moreover, baggage fee and ancillary revenues went up by 127.0% to ₱2.50 billion in 2011 from ₱1.10 billion in 2010 due to increased online bookings and higher excess baggage rates as part of its unbundling of fares strategy, Cebu Air commenced charging for every checked-in luggage with the elimination of free baggage allowance. Cost of services and operating expenses went up 34.2% to ₱30.60 billion in 2011 from ₱22.81 billion last year. Major contributor to the higher expenses this year is the aviation fuel expenses which increased 55.2% from ₱9.81 billion in 2010 to ₱15.22 billion in 2011, consequent to the increase in volume of fuel consumed as a result of increased number of flights year on year. Rise in aviation fuel expenses was further influenced by the surge in aviation fuel prices as referenced by the increase in average published fuel MOPS price of US\$125.50 per barrel in the twelve months ended December 2011 from US\$90.10 average per barrel in the same period last year. Cebu Pacific recognized higher interest income for the period from ₱237.50 million last year to ₱647.40 million this year due to higher average cash balance which were placed in short-term money markets in addition to interest generated from bond investments during the period. Foreign exchange gain dropped significantly to ₱50.15 million from ₱576.98 million recorded last year as a result of peso appreciation during the period. Net income for the year ended December 31, 2011 amounted to ₱3.62 billion, a decline of 47.6% from ₱6.92 billion last year.

**Petrochemicals** revenues surged to ₱4.78 billion for the fiscal year ended September 30, 2011, a 44.6% growth from last year's ₱3.31 billion as sales volume increased from 61,083 MT last year to 87,167 MT this year, in addition to the higher average selling price of Polypropylene during the year. Costs and expenses, increased 53.7%, relative to higher production and higher price of bunker fuel during the year. Higher impairment losses from inventory write-offs were also recognized during the period. This, together

with a net foreign exchange loss of ₱2.22 million this year compared to a net foreign exchange gain of ₱36.48 million last year, contributed to a higher net loss this year amounting to ₱383.97 million compared to only ₱102.15 million last year.

**Banking Services**, generated net earnings of ₱384.38 million for the year ended December 31, 2011, a 26.7% growth from last year's net income of ₱303.47 million. The increase is mainly due to higher revenues recorded this year from ₱1.73 billion last year to ₱2.36 billion this year. Aside from this, RBC also recorded a 65.3% growth from its trading gain from ₱251.58 million last year to ₱415.86 million this year. As of December 31, 2011, total resources amounted to ₱31.52 billion from last year's ₱24.80 billion. Loans increased to ₱13.18 billion from last year's ₱10.49 billion, deposit liabilities likewise, increased to ₱25.19 billion this year from ₱18.54 billion last year.

**Equity in net earnings of associates companies and joint ventures** amounted to ₱2.22 billion for the year ended December 31, 2011, a 19.9% decline from last year's ₱2.77 billion. Decrease in equity income is mainly due to UIC, which recorded lower net income before fair value gain (loss) on investment properties this year. **United Industrial Corporation, Limited** recorded a 15.5% decrease in its net income from operations S\$200.23 million in 2011 from S\$237.01 million in 2010. 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. **First Private Power Corporation (FPPC)**, ceased business operations last July 2010, thus no equity earnings take up on FPPC during the year.

**Other Supplementary Business, Unicon** recognized net income of ₱39.48 million in 2011 a significant growth from last year's ₱23.76 million mainly due to higher commission income of ₱142.56 million this year compared to ₱105.83 million last year.

## 2010 vs 2009

### I. CONSOLIDATED OPERATIONS

#### Results of Operations

The Group's reported consolidated net income attributable to equity holders of the parent showed an increase of 91.0% from ₱8.55 billion in 2009 to ₱16.32 billion in 2010 as most of our subsidiaries posted record performance. Core earnings before taxes for the year ended December 31, 2010, excluding the effects of foreign exchange and mark-to-market gains or losses, increased 74.2% from ₱10.28 billion to ₱17.91 billion. Likewise, our EBITDA (operating income adding back depreciation and amortization), recorded a 33.2% improvement from previous year's ₱21.15 billion to ₱28.16 billion in 2010, due to the strong performance of its subsidiaries.

Significant increase in net income was brought about by:

- The food business, Universal Robina Corporation's (URC) net income attributable to equity holders of the parent significantly improved 101.9% brought about by higher revenues for the period.
- Cebu Pacific Air's net income reached another record ₱6.56 billion, more than double of last year's net income amounting to ₱3.26 billion as it recorded a 24.8% growth in its gross revenues.

Consolidated revenues posted a double digit growth of 12.4% from ₱93.94 billion in 2009 to ₱105.62 billion this year due to the strong performance of our food and airlines businesses.

- URC's revenue grew 14.4% from ₱50.45 billion in 2009, to ₱57.72 billion in 2010 due to due to the strong performance of the branded consumer foods Philippines and international.
- CEB's 24.8% growth in gross revenues from ₱23.31 billion in 2009 to ₱29.09 billion in 2010 brought about by its continuous expansion of its route and flight network, additional passenger and cargo traffic and significantly increased ancillary revenues.

Gross income increased by 23.5% to ₱38.51 billion, a result of higher revenues and slight increase in cost of sales. The petrochemical business recorded lower cost of sales during the year due to lower production. Aside from this, URC's increase in cost of sales due to increase in sales volume was partially tempered by lower costs of raw materials this year.

Consolidated operating expenses increased 3.5% as a result of a higher level of business activity of food and airline businesses, consolidated operating income increased by a higher 47.5% due to better operating efficiencies that led to improved margins in 2010.

The Group's financing costs and other charges (net of interest income) incurred for the year ended December 31, 2010 decreased by 12.4% from ₱4.10 billion in 2009 to ₱3.59 billion as the Group was able to generate additional interest income on the latter part of the year on the proceeds from the successful IPO of Cebu Pacific in October 2010. The Group recognized gains from market valuation of its financial assets amounting to ₱1.71 billion for the year ended December 31, 2010 and foreign exchange gains of ₱1.94 billion as the Group benefited from the stabilization of the capital markets as well as the strengthening of the peso currency. Provision for income tax increased by 25.2% because of higher taxable income recorded by our food division and an increase in our provision for deferred tax on unrealized foreign exchange gains recorded for the year.

## **II. Segment Operations**

### **A. Results from Continuing Operations**

**Foods** posted a consolidated sale of goods and services of ₱57.72 billion for the fiscal year ended September 30, 2010, 14.4% higher than the sales posted last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods segment, excluding packaging division, increased by ₱4.22 billion, or 11.1%, to ₱42.32 billion in fiscal 2010 from ₱38.10 billion reported in 2009. Domestic sales increased by ₱1.12 billion to ₱27.69 billion in fiscal 2010 from ₱26.57 billion in fiscal 2009 due to strong performance of its beverage division which posted a 21.2% growth due to the successful rollout of C2 in 220ml at the beginning of fiscal year while the growth for snackfoods division was tempered by several supply issues as well as some shift in consumer demand for extruded or palletized snacks and functional candies. BCFG's international sales significantly increased by 26.9% due to considerable increase in sales volume by 34.8%. This was supported by strong sales growth from Vietnam, Thailand, Malaysia, Singapore and China. Thailand and Vietnam have reached the scale with sales of more than US\$100 million each with Thailand solidifying its leadership in biscuits while the strong demand for C2 product in Vietnam continues. Sale in URC's packaging division went down by 12.5% to ₱928 million in fiscal 2010 from ₱1.06 billion recorded in fiscal 2009 due to decrease in sales volume. (2) Agro-Industrial segment (AIG) posted revenues of ₱7.17 billion in fiscal 2010, an increase of 22.6% from ₱5.85 billion recorded in 2009. The increase is substantially driven by farm business, which grew by 35.2% due to higher sales volume of hogs and broiler coupled by increases in farm gate prices, which was partly driven by strong election spending in the third quarter of fiscal year. Feed sales went up by 8.2% on the back of increases in sales volume. (3) Sale of goods and services in commodity foods segment increased by ₱1.86 billion or 34.1% to ₱7.30 billion in fiscal 2010 from ₱5.45 billion recorded in fiscal 2009. This was primarily due to upsurge in net sales of sugar business by 97.4% driven by increases in selling prices while our flour business was affected by price rollbacks despite the growth in sales volume.

URC's cost of sales increased by ₱3.64 billion, or 9.7%, to ₱41.11 billion in fiscal 2010 from ₱37.48 billion in fiscal 2009. Cost of sales went up due to increase in sales volume, partially tempered by lower costs of major raw materials this year against last year.

URC's gross profit increased by ₱3.63 billion, or 28.0%, to ₱16.61 billion in fiscal 2010 from ₱12.98 billion reported in fiscal 2009. Gross profit as a percentage of net sales grew by 3 percentage points to 29% in fiscal 2010 from 26% in fiscal 2009 as URC took advantage of lower input costs this year. Selling and distribution costs and general and administrative expenses increased by ₱603 million or 7.2% to ₱8.93 billion in fiscal 2010 from ₱8.32 billion recorded in fiscal 2009. This increase resulted primarily from

the following factors: (1) 12.3% increase in advertising and promotion costs to ₱3.50 billion in fiscal 2010 from ₱3.11 billion in fiscal 2009 to support the new SKUs launched and to boost up sales of existing products in light of increasing market competition; (2) 16.0% increase in freight and delivery charges to ₱2.04 billion in fiscal 2010 from ₱1.76 billion in fiscal 2009 due to increase in trucking and shipping costs associated with increased volume.

Market valuation gain on financial instruments at fair value through profit or loss increased by ₱1.31 billion or 185.9% to ₱2.01 billion in fiscal 2010 from ₱702 million in fiscal 2009 due to significant recovery in market values of bonds and equity securities investments.

URC's finance costs consist mainly of interest expense decreased by ₱380 million or 26.9%, to ₱1.03 billion in fiscal 2010 from ₱1.41 billion recorded in fiscal 2009 due to decline in level of financial debt.

Foreign exchange loss amounted to ₱335 million in fiscal 2010 from ₱46 million reported in fiscal 2009 due to currency translation losses.

Net income attributable to equity holders of the parent increased by ₱3.93 billion or 101.1% to ₱7.82 billion in fiscal 2010 from ₱3.89 billion in fiscal 2009 as a result of factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱10.96 billion for fiscal 2010, 42.5% higher than ₱7.69 billion posted in fiscal 2009. Core earnings before tax (operating profit after equity earnings, net finance costs and other expense-net) for fiscal 2010 amounted to ₱7.69 billion, an increase of 83.6% from ₱4.19 billion recorded for fiscal 2009.

**Real estate and hotels** generated total gross revenues of ₱10.82 billion for fiscal year 2010, an increase of 3% from ₱10.50 billion of total gross revenues for fiscal year 2009. Net profit for the fiscal year 2010 amounted to ₱3.60 billion, up by 10% compared to fiscal year 2009. RLC's net profit growth would have been higher at 13% if the ₱103 million gain from interest rate swap transaction last year was excluded. EBITDA amounted to ₱5.93 billion this year, up by 4% from last year.

The Commercial Centers Division accounted for ₱5.31 billion of the real estate revenues for the year versus ₱4.02 billion last year. The 32% increase in revenues of the Commercial Centers Division was principally due to newly opened malls particularly Robinsons Place General Santos, Robinsons Ilocos Norte, Robinsons Place Dumaguete and Cybergate Cebu. Rental escalations and strong take up of leased areas of RLC's mall space after renovation and expansion work of existing malls increased the rental revenue by 7.74%. Significant rental contribution came from Robinsons Place Manila, Galleria mall, Robinsons Place Tacloban, Robinsons Place Lipa and Robinsons Cybergate Davao, among others. Amusement revenue during the year of ₱712 million was likewise recorded as a result of operating the Robinsons Movieworld starting fiscal year 2010. The Division's EBIT and EBITDA have shown positive variances of 25% and 22%, respectively.

The Residential Division realized gross revenues of ₱3.18 billion lower by 27% from ₱4.33 billion last year due to lower construction completion. As a result of the decrease in realized gross revenues, EBIT has shown a negative variance of 47%, while EBITDA showed a decrease of 46%.

The Office Buildings Division reported revenues of ₱1.18 billion compared to ₱1.11 billion over the same period last year. This 6% increase in lease income was due mainly to new office space available for lease in Robinsons Cybergate Tower 3 and completion of Cybergate Plaza. The Division's EBIT and EBITDA have shown positive variances of 14% and 10%, respectively.

The Hotels Division, a major contributor of RLC's recurring revenues registered gross revenues of ₱1.15 billion, as against last year's ₱1.03 billion. The 11% increase in hotel revenues was principally due to the opening of Summit Ridge Hotel in Tagaytay and Go Hotel in Mandaluyong City. The average occupancy rates of RLC's hotels are 75% for Crowne Plaza Galleria Regency, 76% for Holiday Inn Galleria Manila, 56% for Cebu Midtown Hotel, 36% for the Summit Ridge Hotel and 73% for the newly opened Go Hotel. Hotel's Division EBIT has shown a positive variance of 17%, while EBITDA showed a positive variance of 13%.

Real estate cost and expenses remained steady at ₱4.21 billion this year. Lower cost of real estate sale of sold residential units was offset by higher depreciation and cinema cost. Hotel expenses increased to ₱996.9 million or 10% as compared to last year of ₱905.8 million due to higher operational expenses at Summit Ridge Hotel and Go Hotel.

Interest income increased to ₱467.9 million from ₱126.7 million last year due to higher level of money market placements and other financial assets.

**Air transportation** generated gross revenues of ₱29.09 billion for the year ended December 31, 2010 a 24.8% increase from last year's ₱23.31 billion, largely driven by the increased number of flights and higher load factor in 2010. Increase in number of flights is brought about by additional flight frequencies to existing destinations and the opening of 1 domestic destination (Pagadian) and the launching of 2 new regional destinations (Brunei and Beijing) in 2010. It also increased its fleet by adding 2 Airbus A320 aircraft and 2 ATR 72-500 aircraft in 2009 and 3 Airbus A320 aircraft in 2010 which were used in operations during the last quarter of 2010. Moreover, increase in average fares and the automatic recognition of revenue from no-shows also boosted revenues. Correspondingly, cost of services and operating expenses went up to ₱22.81 billion from ₱20.25 billion last year. Cebu Pacific recognized gains from foreign exchange, fuel hedging and market valuation of its financial assets designated at fair value through profit or loss totaling ₱1.16 billion during the year compared to ₱1.10 billion recorded last year. All these factors contributed to the 112.5% growth in net income for the year from ₱3.26 billion last year to ₱6.92 billion this year.

**Petrochemicals** revenues declined to ₱3.31 billion for the fiscal year ended September 30, 2010, from last year's ₱5.57 billion as sales volume decreased from 108,836 MT last year to 61,115 MT due to lower sales. Cost of sales was likewise reduced from ₱ 6.09 billion to only ₱3.75 billion as production slowed down significantly this year compared to last year. This resulted to an improved gross income for JGSPC for the year with ₱126.81 million as compared to last year's ₱ 42.45 million and a decrease in net loss by 80.0% from ₱ 511.10 million to ₱ 102.15 million. Foreign exchange gain recognized during the year amounting to ₱ 36.48 million from a foreign exchange loss last year of ₱95.4 million also contributed to the reduced net loss.

**Banking Services**, which include **Robinsons Savings Bank (RSB)** and **Robinsons Bank Corporation (RBC)**, formerly Royal Bank of Scotland, Phils., generated net earnings of ₱303.47 million for the year ended December 31, 2010, a 49.6% growth from last year's net income of ₱202.81 million. The increase is mainly due to higher revenues recorded this year from ₱1.13 billion last year to ₱1.73 billion this year. Aside from this, RSB also recorded a significant growth from its trading gain from ₱32.08 million last year to ₱251.58 million this year. As of December 31, 2010, total resources amounted to ₱ 24.80 billion from last year's ₱16.89 billion. Loans increased to ₱10.49 billion from last year's ₱8.23 billion, as well deposit liabilities, which reached ₱18.54 billion this year from ₱14.09 billion last year.

**Equity in net earnings of associates companies and joint ventures** amounted to ₱2.77 billion for the year ended December 31, 2010, a 10.4% decline from last year's ₱3.09 billion. Decrease in equity income is mainly due to UIC, which recorded a higher net income before fair value gain (loss) on investment properties last year from a deferred income tax write-back of SGD21.7 million in 2009. **United Industrial Corporation, Limited** recorded a 1.6% decrease in its net income from operations S\$237.01 million in 2010 from S\$240.82 million in 2009. 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. **First Private Power Corporation (FPPC)**, ceased business operations last July 2010. As of December 31, 2010, FPPC merged with **Buang Private Power Corporation (BPPC)**, with the latter as the surviving company.

**Other Supplementary Business, Unicon** recognized net income of ₱23.76 million in 2010 a slight decrease from last year's ₱25.08 million despite increase in commission income of 4.0%. The decrease is mainly due to higher operating expenses during the period from ₱65.60 million last year to ₱72.80 million this year.

## **RESULTS FROM DISCONTINUED OPERATIONS**

On March 29, 2011, the Board of Directors of the Company and PLDT, approved the acquisition by PLDT of the Company's and certain other seller-parties' ownership interest in Digitel. The Company has since followed the accounting standard PFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

The acquisition was completed on October 26, 2011 following the issuance by the SEC on July 29, 2011 of the confirmations of the valuation of the Assets and that the issuance of the PLDT common shares to the Company and the other seller-parties is exempt from the registration requirement of the SRC, by the NTC on October 26, 2011 of the approval of the sale or transfer of the Company and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stock, and by the PSE on October 26, 2011 of the approval of the block sale of the Digitel shares. Below are the results of operation of Digitel for the periods ended March 31, 2011, December 31, 2010 and December 31, 2009:

<b>In Million Pesos</b>	<b>2011</b>	<b>2010</b>
Revenues	4,525	16,544
Costs and Operating expenses	4,182	15,453
Income (Loss) Before Tax	1,554	1,618
<b>In Million Pesos</b>	<b>2011</b>	<b>2010</b>
Net Income	1,542	963
EBIT	343	1,091
EBITDA	1,889	6,968

*Please note that numbers presented above are net of consolidation eliminating entries.*

## **FINANCIAL RESOURCES AND LIQUIDITY**

### **2012 vs 2011**

Cash & cash equivalents dropped from ₱33.90 billion as of December 31, 2011, to ₱19.70 billion as of December 31, 2012. Cash from operating activities amounted to ₱24.23 billion. As of December 31, 2012, net cash used in investing activities amounted to ₱26.27 billion mainly for the Company's capital expenditure program and payment for acquisition of noncontrolling interest made by a subsidiary amounting to ₱7.20 billion. The Group's cash used in financing activities amounted to ₱12.16 billion mainly pertaining to settlement of some of its long-term debt totaling ₱13.36 billion. However these were offset by proceeds from the sale of treasury shares of both Parent Company and of a subsidiary totaling ₱ 8.79 billion. Our financial assets, including those held at fair value through profit and loss and available for sale investments, increased 7.3% due to acquisition of debt instruments and equity investments and higher market valuation during the year.

Derivative assets increased 173.3% from ₱110.79 million to ₱302.75 million this year since RLC's derivative assets are now classified under current portion from noncurrent last year. Cebu Air also recognized higher derivative assets on its fuel hedges this year.

Receivables, including noncurrent portion increased 23.5% from ₱24.84 billion as of December 31, 2011 to ₱30.68 billion in 2012 mainly due to higher finance receivables of banks after acquiring a new subsidiary, Legazpi Savings Bank, during the year.

Inventories rose 12.6% from ₱20.44 billion as of December 31, 2011 to ₱23.01 billion as of December 31, 2012 mainly due to higher level of subdivision land and condominium and residential units for sale of real estate business. Aside from this, level of finished goods of the food and petrochemical businesses has increased during the period.

Other current assets dropped 21.9% to ₱5.88 billion in December 31, 2012 from ₱7.52 billion in 2011 after receiving a portion of the escrow account amounting to ₱2.81 billion during the period.

Investment properties rose 8.5% from ₱41.88 billion as of December 31, 2011 to ₱45.42 billion as of December 31, 2012 due to acquisition of land for future development, opening of three new malls – Robinsons Place Pangasinan, Robinsons Place Palawan and Robinsons Magnolia. It also completed the redevelopment of Robinsons Metro East and the expansion of its malls in Bacolod and Tacloban. There were four new Go Hotels completed during the year in Palawan, Dumaguete, Tacloban and Bacolod.

Property, plant and equipment increased 24.5% from ₱81.22 billion to ₱101.13 billion due to the on-going expansion of our branded consumer foods, on-going construction of Olefins and acquisition of four Airbus A320 aircraft during the period.

Biological assets, including noncurrent portion, grew 8.4% due to increase in population of livestock, net of decline in market value of hogs.

Goodwill and intangibles rose 30.6% and 48.1%, respectively during the year mainly related to acquisition of a new subsidiary by the bank.

Other noncurrent assets grew 175.7% from ₱1.89 billion in 2011 to ₱5.21 billion in 2012 mainly due to significant increase in advances to suppliers pertaining to the capital expenditures recognized by the food, airline, petrochemical and olefins businesses. Aside from this, there is the continuous recognition of input tax from the ongoing construction of the JG Olefins naphtha cracker plant.

Consolidated total assets reached ₱340.30 billion as of end of December 2012.

Accounts payable and accrued expenses increased 50.6% from ₱24.98 billion as of December 31, 2011 to ₱37.62 billion as of December 31, 2012 due to higher level of deposit liabilities of the banks.

Derivative liabilities, including noncurrent portion, dropped 86.5% to ₱41.18 million in 2012 from ₱303.93 million in 2011 due to recovery on the market valuation of interest-rate swap transaction of an offshore company.

Income tax payable increased 20.1% mainly due to higher level of tax payable of the real estate business.

Other current liabilities grew 26.0% from ₱6.71 billion in 2011 to ₱8.46 billion this year due to higher level of unearned transportation revenue due to increase in sale of passenger travel services. Cebu Air also recognized deposit to foreign carrier amounting to ₱410.5 million this year.

Long-term debt, including current portion, dropped 13.8% from ₱71.52 billion as of December 31, 2011 to ₱61.68 billion as of December 31, 2012 due to settlement of URC's \$200 Million Guaranteed Note and ₱26 Million peso loan from Philsucor. RLC also settled its ₱3 Billion peso loan during the period.

Deferred income tax liabilities increased 87.1% from ₱1.07 billion as of December 31, 2011 to ₱2.0 billion as of December 31, 2012 due to the recognition of deferred tax on unrealized foreign exchange gain, market valuation of hogs and the higher level of financial income against taxable income from installment sales of condo and housing units of real estate business, net of provision for deferred tax asset on accrual of pension expense.

Other noncurrent liabilities grew 24.3% to ₱11.51 billion as of December 31, 2012 mainly due to higher level of deposit liabilities of the bank.

Stockholders' equity, excluding minority interest, stood at ₱155.27 billion as of December 31, 2012 from ₱141.28 billion last year.

## **2011 vs 2010**

Cash & cash equivalents dropped from ₱42.11 billion as of December 31, 2010, to ₱33.90 billion as of December 31, 2011 mainly due to pay down of a syndicated loan from the cash proceeds of the PLDT shares option sale. Our financial assets, including those held at fair value through profit and loss and available for sale investments, significantly increased due to our 8% stake at PLDT booked as AFS investment during the period.

Cash from operating activities amounted to ₱11.61 billion. Proceeds from sale of PLDT put option shares amounting to ₱25 billion was used to pay the Company's syndicated loan, thus the net cash used in financing activities amounted to ₱9.70 billion. Cash was principally used for the capital expenditure program of the Company's operating subsidiaries and to service debt maturity.

Following the sale of Digitel's Enterprise Assets in 2011, the consolidated balances of most of our assets as of December 31, 2011 have decreased, particularly, derivative assets, property, plant and equipment, other noncurrent assets; and on the liabilities side, accounts payable and accrued expenses, derivative liabilities, long-term debt and other noncurrent liabilities.

Derivative assets dropped 89.7% from ₱1.08 billion to ₱0.11 billion this year since last year's balance still includes that of Digitel's derivatives on its currency forwards.

Inventories rose 25.3% from ₱16.31 billion as of December 31, 2010 to ₱20.44 billion as of December 31, 2011 mainly due to higher level of subdivision land and condominium and residential units for sale of real estate business. Aside from this, level of raw materials, finished goods and materials in transit of the food business has increased during the period.

Other current assets increased 19.9% to ₱7.52 billion in December 31, 2011 from ₱6.27 billion in 2010 mainly due to the escrow account on a portion of the proceeds of the PLDT share option sale.

Investment properties rose 30.5% from ₱32.09 billion as of December 31, 2010 to ₱41.88 billion as of December 31, 2011 due to acquisition of land for future development, and completion of redevelopment of the two flagship malls and on-going redevelopment, expansion and construction of the real estate business of the Company.

Property, plant and equipment decreased 44.1% from ₱145.21 billion to ₱81.22 billion attributed mainly to fixed assets of the telecoms business, which was disposed in 2011.

Goodwill and Intangibles dropped 10.3% and 8.9%, respectively during the year mainly due to impairment recognized by the food business.

Other noncurrent assets dropped 51.8% from ₱3.92 billion in 2010 to ₱1.89 billion in 2011 after derecognition of assets of telecoms, 2010 still includes deferred subscriber acquisition and retention cost amounting to ₱1.45 billion.

Consolidated total assets reached ₱313.63 billion as of end of December 2011.

Accounts payable and accrued expenses decreased 15.5% from ₱29.55 billion as of December 31, 2010 to ₱24.98 billion as of December 31, 2011 since last year's balance still includes that of Digitel.

Short-term debt increased 24.4% from ₱15.35 billion as of December 31, 2010 to ₱19.09 billion as of December 31, 2011 mainly due to availment of new loans by URC and the Parent company.

Derivative liabilities, including noncurrent portion, dropped 62.4% to ₱303.93 million in 2011 from ₱809.16 million in 2010 since Digitel's derivative liability from its IR swap transaction is no longer reflected in 2011.



Income tax payable increased 13.6% mainly due to higher level of tax payable of the foods and the real estate businesses.

Other current liabilities decreased 7.5% from ₱7.25 billion in 2010 to ₱6.71 billion this year mainly due to lower level of customer's deposits after excluding Digitel's balance this year.

Long-term debt, including current portion, dropped 26.8% from ₱97.66 billion as of December 31, 2010 to ₱71.52 billion as of December 31, 2011 as the Company settled its syndicated loan out of the proceeds from the PLDT share option sale.

Other noncurrent liabilities decreased 55.4% from ₱20.77 billion last year to ₱9.26 billion, since we did not include the accrued project cost from the telecoms business this year.

Stockholders' equity, excluding minority interest, stood at ₱141.28 billion as of December 31, 2011 from ₱117.57 billion last year.

### **2010 vs 2009**

Cash & cash equivalents increased significantly from ₱18.47 billion as of December 31, 2009 to ₱42.11 billion as of December 31, 2010 mainly due to proceeds from the successful IPO of Cebu Pacific in October 2010. Our financial assets, including those held at fair value through profit and loss and available for sale investments, increased by 3.7% due to acquisition of new investments by URC during the period.

Cash from operating activities amounted to ₱17.90 billion and cash from financing activities amounted to ₱22.82 billion. Proceeds from Cebu Air's IPO amounted to ₱24.53 billion. Cash was principally used for the capital expenditure program of the Company's operating subsidiaries and to service debt maturity.

Derivative assets increased 78.8% from ₱0.66 billion as of December 31, 2009 to ₱1.19 billion as of December 31, 2010 mainly due to higher balance of Cebu Air's derivatives on its fuel hedges and Digitel's derivatives on its currency forwards.

Inventories rose 24.8% from ₱13.08 billion as of December 31, 2009 to ₱16.31 billion as of December 31, 2010 mainly due to higher level of subdivision land and condominium and residential units for sale of real estate business. Aside from this, level of raw materials, finished goods and materials in transit of the food business has increased during the period.

Biological assets, including the noncurrent portion, dropped 17.3% from ₱1.57 billion as of December 31, 2009 to ₱1.30 billion as of December 31, 2010 due to decline in market value of hogs and population of livestock.

Held to maturity investments of our banking business were all reclassified to Available for Sale investments during the period because of tainting.

Investment in associates and joint ventures increased 8.3% to ₱30.43 billion in 2010 due to additional UIC shares acquired during the year.

Investment properties rose 8.7% from ₱29.53 billion as of December 31, 2009 to ₱32.09 billion as of December 31, 2010 due to acquisition of land for future development, completion of two malls and on-going renovations and construction of the real estate business of the Company.

Property, plant and equipment increased 9.8% from ₱132.26 billion to ₱145.21 billion attributed mainly to the on-going expansion of the facilities of our mobile phone business, additional aircrafts by the airline division, expansion of our branded consumer foods business and start of construction of the naphtha cracker project.

Intangibles increased 14.8% to ₱993.83 million in 2010 from ₱865.79 million in 2009 due to recognition of licenses from the newly acquired Robinsons Bank Corp. (formerly known as Royal Bank of Scotland (Phils.))

Other noncurrent assets dropped 0.6% from ₱3.94 billion in 2009 to ₱3.92 billion in 2010 due to lower level of deferred tax asset.

Consolidated total assets reached ₱325.11 billion as of December 31, 2010.

Accounts payable and accrued expenses decreased 13.3% from ₱34.10 billion as of December 31, 2009 to ₱29.55 billion as of December 31, 2010, which can be attributed to lower level of deposit liabilities of RSB and decrease in balance of due to related parties.

Short-term debt increased 10.0% from ₱13.96 billion as of December 31, 2009 to ₱15.35 billion as of December 31, 2010 mainly due to availment of new loans by the Parent and offshore companies.

Derivative liabilities, including noncurrent portion, increased 7.8% from ₱750.34 million in 2009 to ₱809.16 million in 2010 mainly due to higher derivative liability recognized by Digitel from its IR swap transaction.

Income tax payable dropped 11.4% mainly due to lower level of tax payable of the real estate business as their construction slowed down during the period compared to last year's.

Other current liabilities increased 30.8% from ₱5.55 billion as of December 31, 2009 to ₱7.25 billion as of December 31, 2010 mainly due to higher level of unearned revenue recorded by the airline business.

Long-term debt, including current portion, dropped 0.1% from ₱97.74 billion as of December 31, 2009 to ₱97.66 billion as of December 31, 2010 mainly due to lower exchange rate for the period, partially offset by higher loans of air transportation and the mobile businesses during the period.

Other noncurrent liabilities increased 26.2% from ₱16.46 billion last year to ₱20.77 billion mainly due to higher level of accrued project cost of the telecoms business.

Stockholders' equity, excluding minority interest, stood at ₱117.57 billion as of December 31, 2010 from ₱83.16 billion last year.

### 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 December 31, 2012, 2011 and 2010.

Key Financial Indicators	2012	2011	2010
Revenues	₱135.25 Billion	₱123.50 Billion	₱105.62 Billion
EBIT	₱20.57 Billion	₱17.35 Billion	₱20.86 Billion
EBITDA	₱29.14 Billion	₱25.33 Billion	₱28.16 Billion
Core Earnings before tax	₱19.47 Billion	₱16.28 Billion	₱17.91 Billion
Liquidity Ratio:			
Current ratio	1.10	1.53	1.61
Solvency ratios:			
Gearing ratio	0.41	0.50	0.76
Net debt to equity ratio	0.20	0.18	0.37
Asset-to-equity ratio	1.71	1.74	2.18
Interest rate coverage ratio	7.07	4.73	5.09
Profitability ratio:			

Operating margin	0.15	0.14	0.20
Book value per share	₱22.86	₱20.96	₱17.44

The manner in which the Company calculates the above key performance indicators is as follows:

<b>Key Financial Indicators</b>		
Revenues	=	Total of sales and services, income from banking business and equity in net earnings
EBIT	=	Operating income
EBITDA	=	Operating income add back depreciation and amortization expense.
Core Earnings before tax	=	Operating income less financing costs and other charges plus finance income and other income
Current ratio	=	Total current assets over current liabilities
Gearing ratio	=	Total Financial Debt over Total Equity.
Net debt to equity ratio	=	Total Financial Debt less Cash including Financial Assets at FVPL and AFS investments (excluding RSB and RBC Cash and AFS investments) over Total Equity.
Asset-to-equity ratio	=	Total Assets over Total Equity
Interest rate coverage ratio	=	EBITDA over Interest Expense
Operating Margin	=	Operating Income over Revenue
Book value per share	=	Stockholders' Equity (Equity attributable to parent) over outstanding number of common shares

Current assets amounted to ₱94.10 billion while current liabilities reached ₱87.73 billion, for a current ratio of 1.10:1. The Company and the Group as a whole, do not expect any liquidity problems that may arise in the near future.

Total financial debt amounted to ₱81.11 billion in 2012, lower than last year's ₱90.61 billion. Settlement of URC and RLC loans caused the decrease, bringing our gearing ratio to a level of 0.41:1, well within the financial covenant of 2.0:1. Net debt stood at ₱41.31 billion, bringing our net debt to equity ratio to 0.20:1.

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.

## **DISCLOSURE OF EFFECTS OF PESO DEPRECIATION AND OTHER CURRENT EVENTS**

Refer to Management Discussion and Analysis on pages 39-59 of this report and Note 4 of the Consolidated Financial Statements.

### **Item 8. Financial Statements**

The Consolidated financial statements are filed as part of this report.

## Item 9. Information on Independent Accountant and other Related Matters

### A. External Audit Fees and Services

#### Audit and Audit - Related Fees

The following table sets out the aggregate fees billed to the Company for each of the last three (3) years for professional services rendered by SyCip, Gorres Velayo & Co.,

	2012	2011	2010
<b>Audit and Audit-Related Fees</b>			
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	₱2,220,966	₱1,759,851	₱1,764,249
Professional Fees for due diligence review for bond offering	10,500,000	None	None
Tax Fees	None	None	None
All Other Fees	None	None	None
<b>Total</b>	<b>₱12,720,966</b>	<b>₱1,759,851</b>	<b>₱1,764,249</b>

No other service was provided by external auditors to the Company for the calendar years 2012, 2011 and 2010.

#### **The audit committee's approval policies and procedures for the services rendered by the external auditors**

The Corporate Governance Manual of the Company provides that the audit committee shall, among others:

1. Evaluate all significant issues reported by the external auditors relating to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company.
2. Ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors.
3. Ensure the compliance of the Company with acceptable auditing and accounting standards and regulations.

### B. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

NONE.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 10. Directors and Executive Officers of the Registrant

#### DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The names and ages of directors and executive officers of the Company are as follow:

#### 1. DIRECTORS

Director, Chairman Emeritus	John Gokongwei, Jr.	86	Filipino
Director, Chairman and Chief Executive Officer	James L. Go	73	Filipino
Director, President and Chief Operating Officer	Lance Y. Gokongwei	46	Filipino
Director	Lily G. Ngochua	81	Filipino
Director	Patrick Henry C. Go	42	Filipino
Director	Johnson Robert G. Go Jr.	47	Filipino
Director	Robina Y. Gokongwei-Pe	51	Filipino
Director	Gabriel C. Singson	83	Filipino
Director	Ricardo J. Romulo	79	Filipino
Director (Independent)	Cornelio T. Peralta	79	Filipino
Director (Independent)	Jose T. Pardo	73	Filipino

#### 2. MEMBERS OF ADVISORY BOARD

Member of Advisory Board	Aloysius B. Colayco	62	Filipino
Member of Advisory Board	Washington Z. SyCip	91	Filipino
Member of Advisory Board	Jimmy Tang	77	Filipino

#### 3. EXECUTIVE OFFICERS

Senior Vice President - Corporate Controller	Constante T. Santos	64	Filipino
Senior Vice President - Corporate Planning	Bach Johann M. Sebastian	51	Filipino
Senior Vice President - Corporate Human Resource	Nicasio L. Lim	56	Filipino

Vice President and Treasurer	Aldrich T. Javellana	39	Filipino
Deputy Treasurer	Chona R. Ferrer	55	Filipino
Corporate Secretary	Rosalinda F. Rivera	42	Filipino

All of the above directors and officers have served their respective offices since June 28, 2012.

Messrs. Cornelio T. Peralta and Jose T. Pardo are the "Independent Directors" of the Company as defined under SRC Rule 38.1.

The directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Officers are appointed or elected annually by the Board of Directors. Appointed or elected officers are to hold office until a successor shall have been elected, appointed or shall have qualified.

A brief description of the directors' and executive officers' business experience and other directorships held in other reporting companies are provided as follows:

1. **John L. Gokongwei, Jr.**, 86, is the founder and Chairman Emeritus of JG Summit Holdings, Inc. (JGSHI) effective January 1, 2002. He continues to be a member of the Board of Directors of JGSHI and certain of its subsidiaries. He also continues to be a member of the Executive Committee of JGSHI and is Chairman Emeritus of certain of its subsidiaries. He is currently the Chairman of the Gokongwei Brothers Foundation, Inc. (GBFI), Deputy Chairman and Director of United Industrial Corporation, Ltd. (UIC) and Singapore Land, Limited (Singland), and a director of Cebu Air, Inc., JG Summit Capital Markets Corporation (JGSCMC), Oriental Petroleum and Minerals Corporation (OPMC). He is also a non-executive director of A. Soriano Corporation. Mr. Gokongwei received a Masters degree in Business Administration from De La Salle University and attended the Advanced Management Program at Harvard Business School.
2. **James L. Go**, 73, is the Chairman and Chief Executive Officer of JGSHI. He had been President and Chief Operating Officer of JGSHI and was elected to his current position effective January 1, 2002. As Chairman and Chief Executive Officer, he heads the Executive Committee of JGSHI. He is currently the Chairman of Universal Robina Corporation (URC), Robinsons Land Corporation (RLC), JG Summit Petrochemical Corporation (JGSPC). He is the Chairman and Chief Executive Officer of Robinsons Inc. and OPMC. In addition, he is the President and a Trustee of the GBFI. He was elected director of the Philippine Long Distance Telephone Company (PLDT) on November 3, 2011 and was also appointed as a member of PLDT's Technology Strategy Committee. He is also a director of Cebu Air, Inc., UIC, Singland, Marina Center Holdings, Inc., Hotel Marina City Private Limited and JGSCMC. He received a Bachelor of Science and a Master of Science in Chemical Engineering from Massachusetts Institute of Technology. He is a brother of Mr. John L. Gokongwei, Jr.
3. **Lance Y. Gokongwei**, 46, is the President and Chief Operating Officer of JGSHI. He had been Executive Vice President of JGSHI and was elected President and Chief Operating Officer effective January 1, 2002. He is also President and Chief Executive Officer of URC, Cebu Air, Inc. and JGSPC. He is the Vice Chairman and Chief Executive Officer of RLC, Chairman of Robinsons Bank, Chairman and President of JGSCMC, and a director of OPMC, UIC and Singland. He is a trustee, secretary and treasurer of the GBFI. He received a Bachelor of Science in Finance and a Bachelor of Science in Applied Science from the University of Pennsylvania. He is the son of Mr. John L. Gokongwei, Jr.

4. **Lily G. Ngochua**, 81, has been a director of JGSHI since its formation in 1990. She is responsible for overseeing the Company's hotel and agro-industrial business in Cebu. She also supervises the purchasing and treasury departments of the URC Biscuit and Noodle Plants in Cebu and handles the treasury and accounting functions of the retail business in Cebu. She received a Bachelor of Arts degree from Maryknoll College in Quezon City in 1957.
5. **Johnson Robert G. Go, Jr.**, 47, was elected as a director of JGSHI on August 18, 2005. He is currently a director of URC, RLC and Robinsons Bank. He is also a trustee of the GBFI. He received a Bachelor of Arts degree in Interdisciplinary Studies (Liberal Arts) from the Ateneo de Manila University. He is a nephew of Mr. John L. Gokongwei, Jr.
6. **Patrick Henry C. Go**, 42, has been a director of JGSHI since 2000. He is currently a director and Vice President of URC and is Managing Director of JGSPC, URC Packaging Division (BOPP), CFC Flexible Packaging Division and JG Summit Olefins Corporation (JGSOC). In addition, he is a director of RLC and Robinsons Bank. He is also a trustee of the GBFI. He received a Bachelor of Science degree in Management from the Ateneo de Manila University and attended a General Manager Program at Harvard Business School. Mr. Patrick Henry C. Go is a nephew of Mr. John L. Gokongwei, Jr.
7. **Robina Y. Gokongwei-Pe**, 51, was elected as a director of JGSHI on April 15, 2009. She is also a director of RLC, Cebu Air, Inc., Robinsons Bank and JGSCMC. She is currently the President and Chief Operating Officer of the Robinsons Retail Group consisting of Robinsons Department Store, Robinsons Supermarket, Handyman, True Value, Robinsons Specialty Stores, Robinsons Appliances, Toys R Us and Saizen by Daiso Japan. She obtained her Bachelor of Arts degree in Journalism from the New York University. She is a daughter of Mr. John L. Gokongwei, Jr.
8. **Gabriel C. Singson**, 83, has been a director and Senior Adviser of JGSHI since 1999. He is a director of OPMC and a trustee of the GBFI and Tan Yan Kee Foundation. He is also the Chairman of Sun Life Grepa Financial Inc. and Chairman of the Advisory Board of Rizal Commercial Banking Corporation. He was the former Governor of the Bangko Sentral ng Pilipinas (1993-1999) and President of the Philippine National Bank (1992-1993). He obtained his Bachelor of Laws degree, cum laude, from the Ateneo Law School and received his Master of Laws from the University of Michigan Law School as a Dewitt Fellow and Fulbright scholar.
9. **Ricardo J. Romulo**, 79, was elected as a director of JGSHI. He is a Senior Partner of Romulo, Mabanta, Buenaventura, Sayoc & De Los Angeles Law Office. He is Chairman of Cebu Air, Inc., Federal Phoenix Assurance Company, Inc., InterPhil Laboratories, Inc. He is Vice Chairman of Planters Development Bank and Director of SM Development Corporation, Philippine American Life and General Insurance Company, and Zuellig Pharma Corporation. He received his Bachelor of Laws degree from Georgetown University and Doctor of Laws degree from Harvard Law School.
10. **Cornelio T. Peralta**, 79, was elected as a director of JGSHI on July 26, 2000. He is a director of Philippine Stock Exchange, University of the East, UERM Medical Center Inc., Makati Commercial Estate Association, Inc., Capital Market Integrity Corporation, Securities Clearing Corporation of the Philippines, Wan Hai Lines, Inc. and Grow Holdings Phils. Inc. He was formerly Chairman, CEO and President of Kimberly Clark Philippines, Inc. (1971 - 1998) and former President of P. T. Kimsari Paper Indonesia (1985 - 1998) and Chairman and CEO of University of the East (1982 - 1984). He finished Bachelor of Arts, cum laude, and Bachelor of Laws degrees from the University of the Philippines and took up Advanced Management Program at Harvard Graduate School of Business.
11. **Jose T. Pardo**, 73, was elected as an independent director of JGSHI on August 6, 2003. He is presently the Chairman of Philippine Stock Exchange, Securities Clearing Corporation of the Philippines, Philippine Savings Bank, Bank of Commerce and Electronic Commerce Payment Network, Inc. (ECPay). He is also a director of National GRID Corporation of the Philippines and ZNN Radio Veritas. He also held positions in government as former Secretary of the Department of Finance and former Secretary of the Department of Trade and Industry. He obtained his

Bachelor of Science in Commerce, Major in Accounting and his Masters Degree in Business Administration from the De La Salle University.

### Members of Advisory Board

1. **Aloysius B. Colayco**, 62, was appointed to the advisory board of JGSHI in August 2001 and is presently the Country Chairman for the Jardine Matheson Group in the Philippines. He is also the Managing Director of Argosy Partners, a private equity firm. He is the Chairman of Republic Cement and Colliers Philippines. Previously, Mr. Colayco was president of AIG Investment Corporation in New York, the AIG subsidiary responsible for managing the Group's investment portfolios outside the US (primarily Europe, Asia, Latin America, the Middle East and Africa).
2. **Washington Z. Sycip**, 91, was appointed to the advisory board of JGSHI in 2001 and is the founder of The SGV Group, a firm of auditors and management consultants. He is also Chairman Emeritus of the Board of Trustees and Board of Governors of the Asian Institute of Management, member of Board of Overseers, Columbia University's Graduate School of Business, member of the International Advisory Board of the Council on Foreign Relations (1995 – 2010) and Counselor of the Conference Board. Among his awards are the Management Man of the Year given by the Management Association of the Philippines, Ramon Magsaysay Award for International Understanding, Officer's Cross of the Order of Merit given by the Federal Republic of Germany, Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden, Star of the Order of Merit conferred by the Republic of Austria and Philippine Legion of Honor, degree of Commander conferred by the Philippine Government and the order of Lakandula, The Rank of Grand Cross conferred by the Philippine President Benigno S. Aquino III.
3. **Jimmy Tang**, 77, has been a member of the advisory board of JGSHI since 2012. He is the President and Chairman of the Board of the Avesco Group of Companies. He is currently an Honorary President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII), and was FFCCCII President for two terms from 1993-1997. In addition, he is presently an Honorary Adviser of Electrical & Electronics Suppliers and Manufacturers of the Philippines, Inc. (PESA) & PESA Foundation. He was the 9<sup>th</sup> President of PESA and the first Chairman of the PESA Foundation, which he served for seven years. He obtained his Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology which conferred him the "Top Outstanding Mapuan for Entrepreneurship" award in 1987.

### Executive Officers

1. **Constante T. Santos**, 64, has been the Senior Vice President - Corporate Controller of JGSHI since 1998. He is also Senior Vice President - Corporate Controller of URC and RLC. Prior to joining the Company, he practiced public accounting with SGV & Co. in the Philippines and Ernst & Whinney in the United States. He is a member of the Philippine Institute of Certified Public Accountants. Mr. Santos obtained his Bachelor of Science degree in Business Administration from the University of the East and attended the Management Development Program at the Asian Institute of Management.
2. **Bach Johann M. Sebastian**, 51, was appointed as Senior Vice President - Chief Strategist of JGSHI on June 28, 2007. He is also Senior Vice President for Corporate Planning of URC and RLC. Prior to joining JGSHI in 2002, he was Senior Vice President and Chief Corporate Strategist at PSI Technologies and RFM Corporation. He was also Chief Economist, Director of Policy and Planning Group at the Department of Trade and Industry. He received a Bachelor of Arts degree in Economics from the University of the Philippines and his Masters in Business Management degree from the Asian Institute of Management.
3. **Nicasio L. Lim**, 56, was appointed as Senior Vice President (SVP), Corporate Human Resources (CHR) of JGSHI on March 1, 2008. He is a top human resource executive with 36 years solid experience in the Human Resources both here and abroad, 21 of those years in San Miguel Corporation (SMC), 5 in Kraft Foods International (KFI) and now with JGSHI. Prior to his current role as SVP of CHR, he was Director, Human Resources of URC starting May 2004. In that role, he managed HR functions for the whole URC group comprising of several businesses: Branded



Consumer Foods, Agro-Industrial, Flour, Sugar, Packaging and CFC Flexible. When he retired from San Miguel in 1999, he was Vice President for HR & Communications of the Beer Division. It was in his stint in SMC when he had his first crack at going international through his assignment as Vice President for Human Resources of San Miguel Brewing International based in Hong Kong in 1997. After SMC, he joined KFI in 2000 as Human Resources Director for Southeast Asia. He was able to forge a very strong HR organization which took care of managing the needed HR imperatives of KFI across 16 countries. He was conferred the People Manager of the Year Award, the highest award an HR practitioner can receive in his lifetime given by the People Management Association of the Philippines (PMAP) in 2007. He was Director, PMAP Board from 2004 to 2005. In his capacity as Director, he headed the Committees on International Affairs and Industrial Relations. Moreover, he is among the esteemed HR professionals in the country who was bestowed the title Diplomat in People Management by PMAP. He graduated with a Bachelor's Degree on Business Administration at the De La Salle University and pursued advanced Human Resource Executive Program at the University of Michigan-USA.

4. **Aldrich T. Javellana**, 39, was appointed as Vice President and Treasurer of JGSHI effective January 2, 2012. Prior to joining JGSHI in 2003, he worked in Corporate Finance with CLSA Exchange Capital. He graduated from De La Salle University with a degree in BS Accountancy.
5. **Chona R. Ferrer**, 55, was appointed as Deputy Treasurer of JGSHI on January 2, 2012. She is also the First Vice President for Corporate Treasury of URC and Treasurer of Outreach Home Development Corporation. Prior to joining JGSHI in 1983, she was Assistant Treasurer of Guevent Industrial Development Corporation. She received a Bachelor of Science degree in Business Administration from the University of the Philippines.
6. **Rosalinda F. Rivera**, 42, was appointed as Corporate Secretary of JGSHI on August 6, 2003 and has been Assistant Corporate Secretary since May 2002. She is also the Corporate Secretary of URC, RLC, Cebu Air, Inc., JGSPC. Prior to joining the Company, she was a Senior Associate in Puno and Puno Law Offices. She received a degree of Juris Doctor from the Ateneo de Manila University School of Law and a Masters of Law in International Banking from the Boston University School of Law.

#### **SIGNIFICANT EMPLOYEE**

There are no persons who are not executive officers of the Company who are expected to make a significant contribution to the business.

#### **INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS WHICH OCCURRED DURING THE PAST FIVE YEARS.**

None.

#### **FAMILY RELATIONSHIPS**

1. Mr. James L. Go is the brother of John L. Gokongwei, Jr.
2. Ms. Lily G. Ngochua is the sister of John L. Gokongwei, Jr.
3. Mr. Lance Y. Gokongwei is the son of John L. Gokongwei, Jr.
4. Mr. Patrick Henry C. Go is the nephew of John L. Gokongwei, Jr.
5. Mr. Johnson Robert G. Go, Jr. is the nephew of John L. Gokongwei, Jr.
6. Ms. Robina Y. Gokongwei-Pe is the daughter of John L. Gokongwei, Jr.

## Item 11. Executive Compensation

The aggregate compensation of executive officers and directors of the Company for the last 2 years and projected for the ensuing year (2012) are as follows:

ACTUAL					
	Salary	Bonus	Others	2012 Total	2011
A. CEO and Five (5) most highly compensated Executive officer	₱71,225,159	₱1,500,000	₱455,000	₱73,180,159	₱60,594,995
All directors and executive officers as a group unnamed	₱125,786,835	₱4,200,000	₱1,155,000	₱131,141,835	₱120,201,777

PROJECTED 2013				
	Salary	Bonus	Others	Total
A. CEO and Five (5) most highly compensated Executive officer	₱77,858,466	₱1,500,000	₱420,000	₱79,778,466
All directors and executive officers as a group unnamed	₱131,187,903	₱4,200,000	₱990,000	₱136,377,903

The following are the five (5) highest compensated directors/or executive officers of the Company; 1. Chairman Emeritus- John Gokongwei, Jr.; 2. Director, Chairman and CEO – James L. Go; 3. Director, President and COO– Lance Y. Gokongwei; 4. Director – Patrick Henry C. Go; and 5. Director – Gabriel C. Singson

### Standard Arrangement

Other than payment of reasonable per diem, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services rendered provided as a director for the last completed fiscal year and the ensuing year.

### Other Arrangements

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the Company's last completed fiscal year, and the ensuing year, for any service provided as a director.

### Terms and Conditions of any Employment Contract or any Compensatory Plan or Arrangement between the Company and the Executive Officers.

None.

### Outstanding Warrants or Options Held by the Company's CEO, the Executive Officers and Directors.

None.

## Item 12. Security Ownership of Certain Record and Beneficial Owners and Management

As of March 31, 2013, the Company is not aware of anyone who beneficially owns in excess of 5% of JG Summit's capital stock except as set forth in the table below:

### (1) SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS

Title of Class	Names and Addresses of record owners and relationship with the Corporation	Names of beneficial owner and relationship with record owner	Citizenship	No. of Shares Held	% to Total Outstanding
Common	Gokongwei Brothers Foundation, Inc. 43/F Robinsons Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder)	same as record owner (see note 1)	Filipino	1,997,076,451	29.38%
Common	PCD Nominee Corporation (Filipino) GF MKSE Building 6767 Ayala Avenue, Makati City (stockholder)	PCD Participants and their clients (see note 2)	Filipino	1,355,004,372	19.93%
Common	Robinsons Savings Bank – Trust & Investment Group No. 030-46-000001-9 17/F Galleria Corporate Center Edsa Cor. Ortigas Ave., Quezon City (stockholder)	Trustee's designated Officers (see note 3)	Filipino	1,033,319,225	15.20%
Common	John Gokongwei, Jr. 43/F Robinsons Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder and Chairman Emeritus)	same as record owner (see note 4)	Filipino	1,007,539,915	14.82%
Common	PCD Nominee Corporation (Non-Filipino) GF MKSE Building 6767 Ayala Avenue, Makati City (stockholder)	PCD Participants and their clients (see note 2)	Non- Filipino	476,947,558	7.02%

#### Notes:

1. Gokongwei Brothers Foundation, Inc. (the "Foundation") is a non-stock, non-profit corporation organized by the irrevocable donation by the incorporators, who are also Trustees of the Foundation, of shares of JG Summit Holdings, Inc. Under the Articles of Incorporation and By-Laws of the Foundation, except for salaries of employees and honoraria of consultants and similar expenses for actual services rendered to the Foundation or its projects, no part of the corpus or its income and increments shall benefit or be used for the private gain of any member, trustee, officer or any juridical or natural person whatsoever. The Chairman of the Board of Trustees shall exercise exclusive power and authority to represent and vote for any shares of stock owned by the Foundation in other corporate entities. The incumbent Chairman of the Board of Trustees of the Foundation is Mr. John L. Gokongwei, Jr.

2. PCD Nominee Corporation is the registered owner of the shares in the books of the Corporation's transfer agent. PCD Nominee Corporation is a corporation wholly-owned by Philippine Depository and Trust Corporation, Inc. (formerly the Philippine Central Depository) ("PDTC"), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. PDTC is a private corporation organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. Under the current PDTC system, only participants (brokers and custodians) will be recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participant will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. Out of the PCD Nominee Corporation (Filipino) account, "BPI Securities Corporation" holds for various trust accounts the following shares of the Corporation as of March 31, 2013:

BPI Securities Corporation	<u>No. of shares held</u> 641,231,026	<u>% to total outstanding</u> 9.43%
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The securities are voted by the trustee's designated officers who are not known to the Corporation.

3. Robinsons Savings Bank – Trust & Investment Group is the trustee of this trust account.

The securities are voted by the trustee's designated officers who are not known to the Corporation.

4. Sum of shares in the name of "John Gokongwei, Jr." and "John Gokongwei, Jr. and/or Lance Gokongwei" for 866,509,465 and 141,030,450 shares, respectively.

## (2) SECURITY OWNERSHIP OF MANAGEMENT AS OF March 31, 2013:

Title of Class	Names of beneficial owner	Position	Amount and nature of		% to Total Outstanding
			Beneficial Ownership	Citizenship	
A. Named Executive Officers <sup>1</sup>					
Common	1. John L. Gokongwei, Jr.	Chairman Emeritus	1,007,539,915 <sup>2</sup> (D)	Filipino	14.82%
Common	2. James L. Go	Director, Chairman and CEO	148,679,656(D)	Filipino	2.19%
Common	3. Lance Y. Gokongwei	Director, President and COO	235,513,855 <sup>3</sup> (D)	Filipino	3.46%
Common	4. Johnson Robert G. Go, Jr.	Director	1(D)	Filipino	*
	<i>Sub-Total</i>		<u>1,391,733,426</u>		<u>20.47%</u>
B. Other Directors and Executive Officers and Nominees					
Common	5. Lily G. Ngochua	Director	74,591,775(D)	Filipino	1.10%
Common	6. Patrick Henry C. Go	Director	93,500(D)	Filipino	*
Common	7. Robina Y. Gokongwei-Pe		74,145,278 <sup>4</sup> (D)	Filipino	1.09%
Common	8. Gabriel C. Singson	Director	1(D)	Filipino	*
Common	9. Ricardo J. Romulo	Director	1(D)	Filipino	*
Common	10. Cornelio T. Peralta	Director (Independent)	11,000(D)	Filipino	*
Common	11. Jose T. Pardo	Director (Independent)	1(D)	Filipino	*
	<i>Sub-Total</i>		<u>148,841,556</u>		<u>2.19%</u>
C. All directors, executive officers & nominees as a group unnamed			<u>1,540,574,983</u>		<u>22.66%</u>

## Notes:

## D - Direct

1 As defined under Part IV (B) (1) (b) of SRC Rule 12, the "named executive officers" to be listed refer to the Chief Executive Officer and those that are the four (4) most highly compensated executive officers as of December 31, 2012.

2 Sum of shares in the name of "John Gokongwei, Jr.", "John Gokongwei, Jr. and/or Lance Gokongwei" for 866,509,465 and 141,030,450 shares, respectively.

3 Sum of shares in the name of "Lance Gokongwei. " and "Lance Y. Gokongwei &/or Elizabeth Gokongwei" for 668,575 and 234,845,280 shares, respectively.

4 Held in the name of "Robina Y. Gokongwei-Pe &/or Elizabeth Gokongwei.

\* less than 0.01%.

The other Executive Officers of the Company have no beneficial ownership over any shares of the Company as of December 31, 2012, namely:

1. Constante T. Santos - Senior Vice President
2. Bach Johann M. Sebastian - Senior Vice President
3. Nicasio L. Lim – Senior Vice President
4. Aldrich T. Javellana – Vice President and Treasurer
5. Chona R. Ferrer – Deputy Treasurer
6. Rosalinda F. Rivera - Corporate Secretary

(3) VOTING TRUST HOLDERS OF 5% OR MORE

As of December 31, 2012, there are no persons holding more than 5% of a class under a voting trust or similar agreement.

(4) CHANGES IN CONTROL

None

**Item 13. Certain Relationships and Related Transactions**


See Note 39(Related Party Transactions Disclosures) of the Notes to Consolidated Financial Statements.

The Company and its subsidiaries and affiliates, in their regular conduct of business, have engaged in transactions with each other and with other affiliated companies, consisting principally of sales and purchases at market prices and advances made and obtained.

**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, in the City of PASIG on April 12, 2013.

By:

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

  
**LANCE Y. GOKONGWEI**  
 President and  
 Chief Operating Officer

  
**CONSTANTE T. SANTOS**  
 Senior Vice President  
 Corporate Controller


  
**ROSALINDA F. RIVERA**  
 Corporate Secretary

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**APR 12 2013**

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of April 2013 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	CTC NO.	DATE OF ISSUE	PLACE OF ISSUE
James L. Go	1722722	January 14, 2013	Pasig City
Lance Gokongwei	1722721	January 14, 2013	Pasig City
Constante T. Santos	16282266	February 19, 2013	Pasig City
Rosalinda F. Rivera	Drivers License No. N0194172453	June 12, 2011	Pasig City

  
**ATTY. STEVE G. CUDAL**  
 Notary Public  
 Until December 31, 2013  
 IBP Lifetime Member No. 01512  
 PTR No. 7588156 ; 1-02-13 ; Q.C.

Doc. No. 85  
 Book No. 16  
 Page No. 17  
 Series of 2013



# JG SUMMIT HOLDINGS, INC.

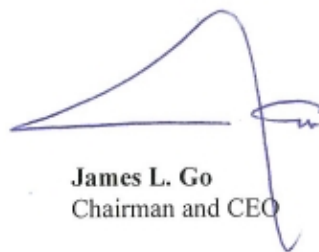
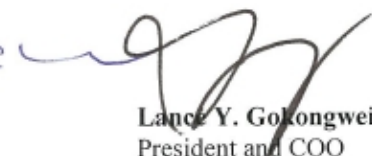
43<sup>rd</sup> FLOOR ROBINSONS EQUITABLE TOWER ADB AVE. COR. POVEDA RD. ORTIGAS CENTER, PASIG CITY  
TEL. NO.: 633-7631, 637-1670, 240-8801 FAX NO.: 633-9387 OR 633-9207

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of JG Summit Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, in accordance with Philippine Financial Reporting Standards indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

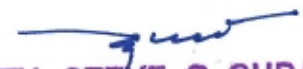
  
**James L. Go**  
Chairman and CEO  
**Lance Y. Gokongwei**  
President and COO  
**Constante T. Santos**  
SVP-Corp. Controller/CFO

**APR 12 2013**

Subscribed and Sworn to before me this April \_\_, 2013 affiant(s) exhibiting to me his/her Residence Certificates, as follows:

<u>Names</u>	<u>CTC No.</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
James L. Go	1722722	January 14, 2013	Pasig City
Lance Y. Gokongwei	1722721	January 14, 2013	Pasig City
Constante T. Santos	16282266	January 19, 2013	Pasig City

Doc. No. 84  
Book No. 16  
Page No. 17  
Series of 2013.

  
**ATTY. STEVE G. CUDAL**  
Notary Public  
Until December 31, 2013  
IBP Lifetime Member No. 01512  
PTR No. 7588156 ; 1-02-13 ; Q.C.

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
JG Summit Holdings, Inc.  
43rd Floor, Robinsons-Equitable Tower  
ADB Avenue corner Poveda Road, Pasig City

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

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

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

### *Auditors' Responsibility*

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

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

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





***Opinion***

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

SYCIP GORRES VELAYO & CO.

  
Vicky Lee Salas  
Partner

CPA Certificate No. 86838

SEC Accreditation No. 0115-AR-3 (Group A),

February 14, 2013, valid until February 13, 2016

Tax Identification No. 129-434-735

BIR Accreditation No. 08-001998-53-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3669690, January 2, 2013, Makati City

March 14, 2013



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2012	2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	₱19,698,072,507	₱33,895,343,005
Derivative assets (Note 8)	302,748,695	110,790,850
Financial assets at fair value through profit or loss (Note 9)	15,230,438,363	10,957,955,084
Available-for-sale investments (Note 10)	12,604,430,408	12,271,628,856
Receivables (Note 11)	16,320,725,310	13,422,264,265
Inventories (Note 12)	23,010,504,841	20,443,884,662
Biological assets (Note 17)	1,057,007,658	911,265,129
Other current assets (Note 13)	5,875,282,425	7,518,161,626
Total Current Assets	<b>94,099,210,207</b>	<b>99,531,293,477</b>
<b>Noncurrent Assets</b>		
Available-for-sale investments (Note 10)	43,757,557,795	43,475,735,940
Receivables (Note 11)	14,362,509,117	11,413,317,152
Investments in associates and joint ventures (Note 14)	33,497,292,680	32,055,963,868
Property, plant and equipment (Note 16)	101,134,655,563	81,221,037,701
Investment properties (Note 15)	45,423,932,675	41,883,671,246
Goodwill (Note 19)	1,042,954,782	798,627,776
Biological assets (Note 17)	428,961,591	459,053,688
Intangible assets (Note 18)	1,341,022,581	905,540,502
Other noncurrent assets (Note 20)	5,210,269,215	1,889,827,592
Total Noncurrent Assets	<b>246,199,155,999</b>	<b>214,102,775,465</b>
	<b>₱340,298,366,206</b>	<b>₱313,634,068,942</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 21)	₱37,619,383,555	₱24,978,223,074
Short-term debts (Note 23)	19,397,079,998	19,092,634,264
Derivative liabilities (Note 8)	41,178,211	85,244,646
Income tax payable	630,203,421	524,843,024
Current portion of long-term debts (Note 23)	19,553,919,868	13,622,011,230
Redeemable preferred shares (Note 46)	30,700,000	-
Other current liabilities (Note 22)	8,458,375,643	6,711,208,267
Total Current Liabilities	<b>85,730,840,696</b>	<b>65,014,164,505</b>
<b>Noncurrent Liabilities</b>		
Long-term debts - net of current portion (Note 23)	42,129,366,111	57,895,483,064
Deferred tax liabilities (Note 38)	2,002,179,727	1,069,913,490
Other noncurrent liabilities (Note 24)	11,509,065,034	9,255,687,905
Total Noncurrent Liabilities	<b>55,640,610,872</b>	<b>68,221,084,459</b>
Total Liabilities	<b>141,371,451,568</b>	<b>133,235,248,964</b>

(Forward)



	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Equity</b>		
Equity attributable to equity holders of the Parent Company:		
Paid-up capital (Note 25)	<b>₱14,085,731,314</b>	₱12,896,988,094
Retained earnings (Note 25)	<b>122,375,153,466</b>	109,936,209,748
Equity reserve (Note 25)	<b>17,619,600,043</b>	17,845,476,796
Other comprehensive income	<b>1,906,842,524</b>	1,579,331,055
Treasury shares (Note 25)	<b>(721,848,289)</b>	(974,690,819)
	<b>155,265,479,058</b>	141,283,314,874
Non-controlling interests (Note 25)	<b>43,661,435,580</b>	39,115,505,104
Total Equity	<b>198,926,914,638</b>	180,398,819,978
	<b>₱340,298,366,206</b>	₱313,634,068,942

*See accompanying Notes to Consolidated Financial Statements.*



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>		
	<b>2012</b>	2011 (As Restated - Notes 2 and 28)	2010 (As Restated - Notes 2 and 28)
<b>REVENUE</b>			
Sale of goods and services:			
Foods	<b>₱71,201,677,779</b>	₱67,167,630,481	₱57,719,996,079
Air transportation	<b>37,904,453,623</b>	33,935,402,775	29,088,798,959
Real estate and hotels	<b>13,496,159,940</b>	12,789,785,121	10,807,257,196
Petrochemicals	<b>4,912,723,947</b>	4,781,883,298	3,306,184,683
Banking (Note 26)	<b>2,533,727,931</b>	2,359,933,505	1,734,465,754
Dividend income (Notes 2 and 28)	<b>3,196,108,759</b>	244,958,962	192,886,520
Equity in net earnings of associates and joint ventures (Note 14)	<b>2,008,411,939</b>	2,217,599,783	2,768,724,722
	<b>135,253,263,918</b>	123,497,193,925	105,618,313,913
<b>COST OF SALES AND SERVICES</b> (Note 30)	<b>92,679,172,259</b>	86,711,248,012	67,113,284,697
<b>GROSS INCOME</b>	<b>42,574,091,659</b>	36,785,945,913	38,505,029,216
<b>OTHER OPERATING EXPENSES</b>			
General and administrative expenses (Note 31)	<b>21,734,816,649</b>	19,105,642,981	17,297,360,553
Impairment losses and others (Note 34)	<b>271,254,229</b>	329,638,645	345,983,265
	<b>22,006,070,878</b>	19,435,281,626	17,643,343,818
<b>OPERATING INCOME</b>	<b>20,568,020,781</b>	17,350,664,287	20,861,685,398
<b>OTHER INCOME (LOSSES)</b>			
Financing costs and other charges (Note 35)	<b>(4,120,299,659)</b>	(5,358,526,349)	(5,527,356,812)
Market valuation gains (losses) on financial assets at fair value through profit or loss (Note 9)	<b>1,504,427,749</b>	(1,147,579,612)	1,203,477,432
Finance income (Note 27)	<b>2,479,635,046</b>	3,215,590,280	1,939,824,597
Market valuation gains on derivative financial instruments (Note 8)	<b>361,470,480</b>	498,667,680	509,066,462
Foreign exchange gains (losses)	<b>1,399,125,794</b>	(245,881,638)	1,938,838,537
Others (Note 29)	<b>545,470,985</b>	1,074,512,120	636,480,948
<b>INCOME BEFORE INCOME TAX</b>	<b>22,737,851,176</b>	15,387,446,768	21,562,016,562
<b>PROVISION FOR INCOME TAX</b> (Note 38)	<b>2,833,691,846</b>	1,962,532,759	1,610,249,143
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>19,904,159,330</b>	13,424,914,009	19,951,767,419
<b>DISCONTINUED OPERATIONS</b> (Note 44)			
Income after tax from discontinued operations	-	1,541,710,759	962,795,913
Gain from sale of a subsidiary, net of tax	-	11,570,087,639	-
	-	13,111,798,398	962,795,913
<b>NET INCOME</b>	<b>19,904,159,330</b>	26,536,712,407	20,914,563,332

(Forward)



	<b>Years Ended December 31</b>		
	<b>2012</b>	2011 (As Restated - Notes 2 and 28)	2010 (As Restated - Notes 2 and 28)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
(Note 36)			
Net gains on available-for-sale investments (Note 10)	<b>₱619,164,921</b>	₱3,032,890,203	₱271,796,893
Cumulative translation adjustments	<b>(222,092,683)</b>	(136,058,643)	(91,091,377)
Net unrealized gains on available-for-sale investments of an associate (Notes 10 and 14)	<b>10,100,452</b>	4,508,521	175,748
Net gains from cash flow hedges (Note 8)	-	364,294,311	52,296,125
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>	<b>407,172,690</b>	3,265,634,392	233,177,389
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱20,311,332,020</b>	₱29,802,346,799	₱21,147,740,721
<b>NET INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company			
Income from continuing operations	<b>₱13,532,894,383</b>	₱8,477,359,822	₱15,575,451,617
Income from discontinued operations (Note 44)	-	13,035,501,339	746,148,184
	<b>13,532,894,383</b>	21,512,861,161	16,321,599,801
Non-controlling interests (Note 25)			
Income from continuing operations	<b>6,371,264,947</b>	4,947,554,187	4,376,315,802
Income from discontinued operations	-	76,297,059	216,647,729
	<b>6,371,264,947</b>	5,023,851,246	4,592,963,531
	<b>₱19,904,159,330</b>	₱26,536,712,407	₱20,914,563,332
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company			
Comprehensive income from continuing operations	<b>₱13,860,405,852</b>	₱11,903,169,607	₱15,694,957,765
Comprehensive income from discontinuing operations (Note 44)	-	13,035,501,339	746,148,184
	<b>13,860,405,852</b>	24,938,670,946	16,441,105,949
Non-controlling interests (Note 25)			
Comprehensive income from continuing operations	<b>6,450,926,168</b>	4,787,378,794	4,489,987,043
Comprehensive income from discontinuing operations	-	76,297,059	216,647,729
	<b>6,450,926,168</b>	4,863,675,853	4,706,634,772
	<b>₱20,311,332,020</b>	₱29,802,346,799	₱21,147,740,721
<b>Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 39)</b>			
Basic/diluted earnings per share	<b>₱1.99</b>	₱3.19	₱2.42
<b>Earnings Per Share Attributable to Equity Holders of the Parent Company from continuing operations (Note 39)</b>			
Basic/diluted earnings per share	<b>₱1.99</b>	₱1.26	₱2.31

See accompanying Notes to Consolidated Financial Statements.



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

For the Years Ended December 31, 2012, 2011 and 2010

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY														
	Paid-up Capital			Retained Earnings (Note 25)			Other Comprehensive Income (Loss)					NON-CONTROLLING INTERESTS (Note 25)		TOTAL EQUITY	
	Capital Stock (Note 25)	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 (Note 10)	Net Unrealized Losses on Cash Flow Hedge (Note 8)	Total Other Comprehensive Income (Loss)	Treasury Shares	Total		
Balance at January 1, 2012	₱6,935,273,657	₱5,961,714,437	₱12,896,988,094	₱51,359,142,349	₱58,577,067,399	₱109,936,209,748	₱17,845,476,796	(₱1,885,140,097)	₱3,464,471,152	₱-	₱1,579,331,055	(₱974,690,819)	₱141,283,314,874	₱39,115,505,104	₱180,398,819,978
Total comprehensive income (loss)	-	-	-	13,532,894,383	-	13,532,894,383	-	(148,761,389)	476,272,858	-	327,511,469	-	13,860,405,852	6,450,926,168	20,311,332,020
Appropriation of retained earnings (Note 25)	-	-	-	(483,262,000)	483,262,000	-	-	-	-	-	-	-	-	-	-
Cash dividends (Note 25)	-	-	-	(1,093,950,665)	-	(1,093,950,665)	-	-	-	-	-	-	(1,093,950,665)	-	(1,093,950,665)
Cash dividends paid to non-controlling interests (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,268,172,563)	(2,268,172,563)
Decrease in subsidiaries' treasury shares (Note 25)	-	-	-	-	-	-	3,143,549,427	-	-	-	-	-	3,143,549,427	4,201,218,573	7,344,768,000
Acquisition of non-controlling interest by a subsidiary (Note 25)	-	-	-	-	-	-	(3,369,426,180)	-	-	-	-	-	(3,369,426,180)	(3,838,041,702)	(7,207,467,882)
Disposal of Parent Company shares by a subsidiary (Note 25)	-	1,188,743,220	1,188,743,220	-	-	-	-	-	-	-	-	252,842,530	1,441,585,750	-	1,441,585,750
<b>Balance at December 31, 2012</b>	<b>₱6,935,273,657</b>	<b>₱7,150,457,657</b>	<b>₱14,085,731,314</b>	<b>₱63,314,824,067</b>	<b>₱59,060,329,399</b>	<b>₱122,375,153,466</b>	<b>₱17,619,600,043</b>	<b>(₱2,033,901,486)</b>	<b>₱3,940,744,010</b>	<b>₱-</b>	<b>₱1,906,842,524</b>	<b>(₱721,848,289)</b>	<b>₱155,265,479,058</b>	<b>₱43,661,435,580</b>	<b>₱198,926,914,638</b>
Balance at January 1, 2011	₱6,895,273,657	₱5,961,714,437	₱12,856,988,094	₱33,331,438,656	₱55,638,885,264	₱88,970,323,920	₱18,563,003,092	(₱1,798,631,669)	₱316,447,250	(₱364,294,311)	(₱1,846,478,730)	(₱974,690,819)	₱117,569,145,557	₱31,891,251,796	₱149,460,397,353
Total comprehensive income (loss)	-	-	-	21,512,861,161	-	21,512,861,161	-	(86,508,428)	3,148,023,902	364,294,311	3,425,809,785	-	24,938,670,946	4,863,675,853	29,802,346,799
Unappropriation of retained earnings	-	-	-	3,035,000,000	(3,035,000,000)	-	-	-	-	-	-	-	-	-	-
Appropriation of retained earnings (Note 25)	-	-	-	(5,973,182,135)	5,973,182,135	-	-	-	-	-	-	-	-	-	-
Issuance of preferred voting shares	40,000,000	-	40,000,000	-	-	-	-	-	-	-	-	-	40,000,000	-	40,000,000
Cash dividends (Note 25)	-	-	-	(546,975,333)	-	(546,975,333)	-	-	-	-	-	-	(546,975,333)	-	(546,975,333)
Cash dividends paid to non-controlling interests (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,579,518,135)	(2,579,518,135)
Increase in subsidiaries' treasury shares (Note 25)	-	-	-	-	-	-	(717,526,296)	-	-	-	-	-	(717,526,296)	(288,849,407)	(1,006,375,703)
Additional non-controlling interests in subsidiaries (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	952,889,242	952,889,242
Issuance of capital stock of a subsidiary (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	5,298,191,460	5,298,191,460
Effect of disposal of a subsidiary (Note 44)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,022,135,705)	(1,022,135,705)
<b>Balance at December 31, 2011</b>	<b>₱6,935,273,657</b>	<b>₱5,961,714,437</b>	<b>₱12,896,988,094</b>	<b>₱51,359,142,349</b>	<b>₱58,577,067,399</b>	<b>₱109,936,209,748</b>	<b>₱17,845,476,796</b>	<b>(₱1,885,140,097)</b>	<b>₱3,464,471,152</b>	<b>₱-</b>	<b>₱1,579,331,055</b>	<b>(₱974,690,819)</b>	<b>₱141,283,314,874</b>	<b>₱39,115,505,104</b>	<b>₱180,398,819,978</b>

(Forward)



For the Years Ended December 31, 2012, 2011 and 2010

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY														
	Paid-up Capital			Retained Earnings (Note 25)			Other Comprehensive Income (Loss)					Treasury Shares	NON-CONTROLLING INTERESTS (Note 25)	TOTAL EQUITY	
	Capital Stock (Note 25)	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 (Note 10)	Net Unrealized Losses on Cash Flow Hedge (Note 8)	Total Other Comprehensive Income (Loss)				Total
Balance at January 1, 2010	₱6,895,273,657	₱5,961,714,437	₱12,856,988,094	₱36,353,298,438	₱36,635,285,264	₱72,988,583,702	₱-	(₱1,746,826,705)	₱197,432,263	(₱416,590,436)	(₱1,965,984,878)	(₱721,848,289)	₱83,157,738,629	₱21,736,756,026	₱104,894,494,655
Total comprehensive income (loss)	-	-	-	16,321,599,801	-	16,321,599,801	-	(51,804,964)	119,014,987	52,296,125	119,506,148	-	16,441,105,949	4,706,634,772	21,147,740,721
Gain from primary and secondary offering of a subsidiary's shares of stock (Note 25)	-	-	-	-	-	-	18,563,003,092	-	-	-	-	-	18,563,003,092	-	18,563,003,092
Appropriation of retained earnings (Note 25)	-	-	-	(19,003,600,000)	19,003,600,000	-	-	-	-	-	-	-	-	-	-
Cash dividends (Note 25)	-	-	-	(339,859,583)	-	(339,859,583)	-	-	-	-	-	-	(339,859,583)	-	(339,859,583)
Cash dividends paid to non-controlling interests (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,217,749,826)	(1,217,749,826)
Increase in subsidiaries' treasury shares (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	(718,184,546)	(718,184,546)
Additional non-controlling interests in subsidiaries (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	7,383,795,370	7,383,795,370
Acquisition of Parent Company shares by a subsidiary (Note 25)	-	-	-	-	-	-	-	-	-	-	-	(252,842,530)	(252,842,530)	-	(252,842,530)
<b>Balance at December 31, 2010</b>	<b>₱6,895,273,657</b>	<b>₱5,961,714,437</b>	<b>₱12,856,988,094</b>	<b>₱33,331,438,656</b>	<b>₱55,638,885,264</b>	<b>₱88,970,323,920</b>	<b>₱18,563,003,092</b>	<b>(₱1,798,631,669)</b>	<b>₱316,447,250</b>	<b>(₱364,294,311)</b>	<b>(₱1,846,478,730)</b>	<b>(₱974,690,819)</b>	<b>₱117,569,145,557</b>	<b>₱31,891,251,796</b>	<b>₱149,460,397,353</b>

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before tax from continuing operations	<b>₱22,737,851,176</b>	₱15,387,446,768	₱21,562,016,562
Income before tax from discontinued operations (Note 44)	–	13,124,496,302	1,618,385,427
Income before tax	<b>22,737,851,176</b>	28,511,943,070	23,180,401,989
Adjustments for:			
Depreciation and amortization of:			
Property, plant and equipment (Note 16)	<b>6,692,688,674</b>	6,195,057,338	10,056,087,248
Investment properties (Note 15)	<b>1,875,597,172</b>	1,777,866,356	1,604,096,198
Deferred subscriber acquisition and retention costs	–	–	1,505,116,389
Biological assets (Note 17)	<b>176,526,566</b>	26,163,535	139,105,194
Intangible assets (Note 18)	<b>3,548,311</b>	5,176,189	7,035,669
Market valuation losses (gains) on:			
Financial assets at fair value through profit or loss (Note 9)	<b>(1,504,427,749)</b>	1,147,579,612	(1,203,477,432)
Derivative instruments (Note 8)	<b>(361,470,480)</b>	(498,667,680)	(432,751,286)
Interest expense (Note 35)	<b>3,893,517,825</b>	5,017,894,903	5,662,393,407
Dividend income (Note 28)	<b>(3,196,108,759)</b>	(244,958,962)	(192,886,520)
Interest income (Notes 27 and 44)	<b>(2,479,635,046)</b>	(3,215,590,280)	(1,981,887,268)
Equity in net earnings of associates and joint ventures (Note 14)	<b>(2,008,411,939)</b>	(2,217,599,783)	(2,768,724,722)
Foreign exchange losses (gains)	<b>(1,399,125,794)</b>	245,881,638	(2,846,297,517)
Inventory obsolescence and market decline (Note 12)	<b>1,408,536</b>	63,784,807	17,580,211
Provision for impairment losses on (Note 34):			
Intangible assets	<b>190,223,400</b>	84,014,765	–
Receivables (Note 11)	<b>63,864,521</b>	102,517,878	688,286,605
Other noncurrent assets	<b>8,106,596</b>	5,136,823	–
Property, plant and equipment	<b>7,651,176</b>	10,065,297	–
Goodwill	–	63,500,000	–
Investment properties	–	619,075	–
Losses arising from changes in fair value less estimated costs to sell of swine stocks (Note 17)	<b>15,524,660</b>	128,310,166	44,745,566
Gains on sale of:			
Available-for-sale investments (Note 29)	<b>(54,592,830)</b>	(69,390,963)	(72,954,396)
Property, plant and equipment	<b>(30,157,395)</b>	(20,421,141)	(14,597,827)
Investment properties	<b>(110,039)</b>	(26,115,273)	(5,190,424)
Subsidiary, net of tax (Note 44)	–	(11,570,087,639)	–
Net assets of disposal group classified as held-for-sale (Note 45)	–	177,789,396	31,708,814
Amortization of debt issuance costs	<b>54,278,655</b>	125,659,382	104,045,665
Gain on initial recognition of investment properties	–	–	(2,531,342)
Operating income before changes in working capital accounts	<b>24,686,747,237</b>	25,826,128,509	33,519,304,221

(Forward)





	<b>Years Ended December 31</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Changes in operating assets and liabilities:</b>			
Decrease (increase) in the amounts of:			
Derivative assets	<b>₱125,446,200</b>	₱1,303,994,907	₱173,722,661
Financial assets at fair value through profit or loss	<b>(3,402,410,052)</b>	(1,839,785,644)	(2,056,607,310)
Receivables	<b>(6,076,952,899)</b>	(2,773,503,329)	(1,824,255,758)
Inventories	<b>(1,866,234,354)</b>	(4,343,996,577)	(3,254,831,582)
Biological assets	<b>(307,701,658)</b>	(229,215,482)	86,451,589
Other current assets	<b>1,642,879,201</b>	(452,742,999)	4,591,740
Increase (decrease) in the amounts of:			
Accounts payable and accrued expenses	<b>11,152,347,643</b>	(2,740,763,852)	(4,587,209,987)
Unearned revenue	<b>727,762,570</b>	(42,317,411)	1,240,492,798
Other current liabilities	<b>1,019,404,806</b>	530,013,458	22,383,134
Net cash generated from operations	<b>27,701,288,694</b>	15,237,811,580	23,324,041,506
Interest paid	<b>(4,139,438,621)</b>	(4,997,557,469)	(5,460,402,127)
Interest received	<b>2,584,349,096</b>	3,211,659,280	1,709,400,201
Income taxes paid	<b>(1,911,347,895)</b>	(1,838,068,705)	(1,673,749,172)
Net cash provided by operating activities	<b>24,234,851,274</b>	11,613,844,686	17,899,290,408
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Available-for-sale investments	<b>(21,887,407,653)</b>	(27,629,769,590)	(14,157,195,773)
Property, plant and equipment (Notes 16 and 49)	<b>(20,901,070,620)</b>	(17,719,764,211)	(15,912,854,294)
Investment properties (Note 15)	<b>(5,932,228,635)</b>	(11,658,048,371)	(4,216,551,087)
Investments in associates and joint ventures (Note 14)	<b>(105,283,416)</b>	(172,144,748)	(594,409,921)
Intangible assets (Note 18)	<b>(8,939,647)</b>	(900,000)	(800,000)
Held-to-maturity investments	-	-	(207,553,359)
Cash acquired from business combination, net of cash paid (Note 46)	<b>249,157,091</b>	-	1,657,507,883
Proceeds from sale of:			
Available-for-sale investments	<b>21,708,247,000</b>	24,957,489,920	15,937,923,027
Property, plant and equipment	<b>70,873,393</b>	76,338,289	228,007,033
Investment properties	<b>7,785,165</b>	124,178,837	28,386,973
Net assets of disposal group classified as held for sale (Note 45)	-	107,920,453	255,954,535
Increase in the amounts of other noncurrent assets	<b>(3,316,914,316)</b>	(149,919,315)	(1,166,755,628)
Return of investment from an associate (Note 14)	-	20,522,040	179,812,500
Dividends received (Note 28)	<b>3,196,108,759</b>	244,958,962	192,886,520
Dividends received on investments in associates and joint ventures (Note 14)	<b>647,461,127</b>	575,078,473	697,648,858
Proceeds from disposal of a subsidiary, net of cash disposed of (Note 44)	-	21,094,437,319	-
Net cash used in investing activities	<b>(26,272,211,752)</b>	(10,129,621,942)	(17,077,992,733)

(Forward)



	<b>Years Ended December 31</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of:			
Short-term debt	<b>₱19,376,024,107</b>	₱21,733,209,557	₱18,691,647,718
Long-term debt	-	-	5,161,318,927
Settlements of:			
Short-term debt	<b>(18,651,456,380)</b>	(17,588,328,230)	(17,299,675,315)
Long-term debt (Note 23)	<b>(13,357,232,304)</b>	(15,650,333,104)	(5,807,962,530)
Acquisition of non-controlling interest by a subsidiary (Note 25)	<b>(7,200,000,000)</b>	-	-
Proceeds from:			
Sale of Parent Company shares by a subsidiary (Note 25)	<b>1,441,585,750</b>	-	-
Sale of a subsidiary's treasury shares, net of transaction costs (Note 25)	<b>7,344,768,000</b>	-	-
Issuance of common shares (inclusive of additional paid-in capital) of a subsidiary (Note 25)	-	5,298,191,460	-
Issuance of preferred shares (Note 25)	-	40,000,000	-
Sale of interest in Cebu Air, Inc. (Note 25)	-	-	24,527,649,549
Increase (decrease) in other noncurrent liabilities	<b>2,248,524,035</b>	(116,280,069)	(292,171,251)
Purchase of subsidiaries' treasury shares and others (Note 25)	-	(288,849,407)	(608,184,546)
Dividends paid to non-controlling interests (Note 25)	<b>(2,268,172,563)</b>	(2,579,518,135)	(1,217,749,826)
Dividends paid on:			
Common shares (Note 25)	<b>(1,087,550,665)</b>	(543,775,333)	(339,859,583)
Preferred shares (Note 25)	<b>(6,400,000)</b>	(3,200,000)	-
Net cash provided by (used in) financing activities	<b>(12,159,910,020)</b>	(9,698,883,261)	22,815,013,143
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(14,197,270,498)</b>	(8,214,660,517)	23,636,310,818
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>33,895,343,005</b>	42,110,003,522	18,473,692,704
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱19,698,072,507</b>	₱33,895,343,005	₱42,110,003,522

*See accompanying Notes to Consolidated Financial Statements.*



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

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information**

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

The Parent Company, 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 generation. In 2011, the Group disposed its Telecommunications segment (Note 44).

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).



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

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

#### Statement of Compliance

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



Basis of Consolidation

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

Subsidiaries	Country of Incorporation	Effective Percentage of Ownership		
		December 31		
		2012	2011	2010
<b>Food</b>				
URC and Subsidiaries	Philippines*	<b>60.64</b>	64.17	64.14
<b>Air Transportation</b>				
CP Air Holdings, Inc. (CPAHI) and Subsidiaries	-do-	<b>100.00</b>	100.00	100.00
Cebu Air, Inc. (CAI) and Subsidiaries	-do-	<b>67.23</b>	67.23	65.53
Pacific Virgin Islands Holdings, Co., Ltd.	British Virgin Islands	<b>100.00</b>	100.00	100.00
<b>Telecommunications</b>				
Digital Telecommunications Phils., Inc. (Digitel) and Subsidiaries**	Philippines	—	—	49.57
<b>Real Estate and Hotels</b>				
Robinsons Land Corporation (RLC) and Subsidiaries	-do-	<b>60.97</b>	60.97	60.40
<b>Petrochemicals</b>				
JG Summit Petrochemical Corporation (JGSPC)	-do-	<b>100.00</b>	100.00	100.00
JG Summit Olefins Corporation (JGSOC)	-do-	<b>100.00</b>	100.00	100.00
<b>Banking</b>				
Robinsons Savings Bank Corporation (RSBC)***	-do-	—	—	100.00
Robinsons Bank Corporation (RBC) and Subsidiary	-do-	<b>60.00</b>	60.00	60.00
Legazpi Savings Bank, Inc. (LSB)****	-do-	<b>60.00</b>	—	—
<b>Supplementary Businesses</b>				
Express Holdings, Inc. (EHI) and a Subsidiary	-do-	<b>100.00</b>	100.00	100.00
Summit Forex Brokers Corporation	-do-	<b>100.00</b>	100.00	100.00
JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries	-do-	<b>100.00</b>	100.00	100.00
JG Summit Capital Markets Corporation (JGSMC)	-do-	<b>100.00</b>	100.00	100.00
Summit Point Services Ltd.	-do-	<b>100.00</b>	100.00	100.00
Summit Internet Investments, Inc.	-do-	<b>100.00</b>	100.00	100.00
JG Summit (Cayman), Ltd. (JGSCL)	Cayman Islands	<b>100.00</b>	100.00	100.00
JG Summit Philippines Ltd. (JGSPL) and Subsidiaries	-do-	<b>100.00</b>	100.00	100.00
JGSH Philippines, Limited	British Virgin Islands	<b>100.00</b>	100.00	100.00
Multinational Finance Group, Ltd.	-do-	<b>100.00</b>	100.00	100.00
Telegraph Development, Ltd.	Singapore	<b>100.00</b>	100.00	100.00
Summit Top Investment, Ltd.	British Virgin Islands	<b>100.00</b>	100.00	100.00
JG Summit Limited (JGSL)	-do-	<b>100.00</b>	100.00	100.00
Unicon Insurance Brokers Corporation	Philippines	<b>100.00</b>	100.00	100.00
<b>Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries</b>				
Fruits of the East, Inc.	-do-	<b>100.00</b>	100.00	—
Hometel Integrated Management Corporation	-do-	<b>100.00</b>	100.00	—
King Leader Philippines, Inc.	-do-	<b>100.00</b>	100.00	—
Samar Commodities Trading and Industrial Corporation	-do-	<b>100.00</b>	100.00	—
Tropical Aqua Resources	-do-	<b>100.00</b>	100.00	—
United Philippines Oil Trading, Inc.	-do-	<b>100.00</b>	100.00	—

(Forward)



Subsidiaries	Country of Incorporation	Effective Percentage of Ownership		
		December 31		
		2012	2011	2010
JG Cement Corporation (JGCC)*****	Philippines	–	–	100.00
Premiere Printing Company, Inc.(PPCI) *****	-do-	–	–	100.00
Litton Mills, Inc. (LMI) *****	-do-	–	–	100.00

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

\*\* The consolidated financial statements include the accounts of entities over which the Group has the ability to govern the financial and operating policies to obtain benefits from their activities. The Group's consolidated financial statements include the accounts of Digital Telecommunications Philippines, Inc., and its wholly owned subsidiaries (the Digital Group) up to October 26, 2011. As disclosed above, the Digital Group is a 49.57% owned subsidiary as of December 31, 2010. In 2011, the Group sold all of its investments in the shares of stock of Digital to Philippine Long Distance Telephone Company (PLDT). Beginning March 29, 2011, the date that the Group is committed to sell Digitel, the Group classified all the assets and liabilities of Digitel as held for sale. Accordingly, Digitel is also a discontinued operation on March 29, 2011.

\*\*\* On May 20, 2010, the Board of Directors (BOD) and the stockholders of RBC approved the Plan of Merger and the Articles of Merger of RBC and RSBC. The Bangko Sentral ng Pilipinas and the SEC approved the merger of the two banks on December 9, 2010 and May 25, 2011, respectively. RBC, having a commercial banking license, is the surviving entity.

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

\*\*\*\*\* Effective 2011, the net assets of LMI, PPCI and JGCC were merged with the Parent Company.

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

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

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

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

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



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

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to profit or loss or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in profit or loss in the consolidated statement of comprehensive income.

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

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

Subsidiaries	Fiscal Year
<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-
<b>Textiles</b>	
LMI*	-do-
<b>Supplementary Business</b>	
JGCC*	-do-

\* Effective 2011, the net assets of LMI and JGCC were merged with the Parent Company

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

#### Business Combinations

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



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

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

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

#### Goodwill

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

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

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

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





Changes in Accounting Policies and Disclosures

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

**Change in the presentation of dividend income in the statement of comprehensive income**

The consolidated statements of comprehensive income in 2011 and 2010 have been restated following the presentational changes adopted in 2012. The Group voluntarily changed its presentation of dividend income under 'Revenue' given the nature of such dividend income and the amount involved. Previously, dividend income is presented under 'Other Income'. The Group has made these presentational changes to more accurately reflect the underlying business, to further improve comparability of its results to those of other holding companies, and to allow readers to make a more accurate assessment of the sustainable earnings capacity of the Group. The following are the effect of presentational changes in the comparative periods.

Consolidated Statements of Comprehensive Income

	2011	
	Previously Reported	As Restated
Revenue	₱123,056,737,965	₱123,497,193,925
Operating income	17,044,264,786	17,350,664,287
Non-operating loss	1,656,818,018	1,963,217,159

	2010	
	Previously Reported	As Restated
Revenue	₱105,199,312,802	₱105,618,313,913
Operating income	20,608,311,640	20,861,685,398
Non-operating income	953,704,922	700,331,164

Total net income and earnings per share are unchanged.

Consolidated Statements of Cash Flows

	2011	
	Previously Reported	As Restated
Net cash flows provided by operating activities	₱12,176,260,444	₱11,613,844,686
Net cash used in investing activities	10,374,580,904	10,129,621,942

	2010	
	Previously Reported	As Restated
Net cash flows provided by operating activities	₱18,326,980,467	₱17,899,290,408
Net cash used in investing activities	17,270,879,253	17,077,992,733



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

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

### **Significant Accounting Policies**

#### Foreign Currency Translation

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

#### *Transactions and balances*

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

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

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *Group companies*

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

#### Cash and Cash Equivalents

Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of placement, and that are subject to an insignificant risk of changes in value.

#### Recognition of Financial Instruments

##### *Date of recognition*

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



*Initial recognition of financial instruments*

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

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

*Determination of fair value*

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

*'Day 1' difference*

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

*Financial assets and financial liabilities at FVPL*

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

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

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



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

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

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

*Derivatives classified as FVPL*

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

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

*Derivatives designated as accounting hedges*

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

In 2010, the Group applied cash flow hedge accounting treatment on interest rate swap transactions.



#### *Hedge accounting*

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

#### *Cash flow hedge*

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

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

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

#### *Hedge effectiveness testing*

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

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

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

#### *Embedded derivatives*

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



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

#### Current versus noncurrent classification

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

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

#### *HTM investments*

HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments before their maturity, the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is not permitted to classify any of its financial assets as HTM investments for two years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in profit or loss in the consolidated statement of comprehensive income when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement of foreign currency-denominated HTM investments are recognized in profit or loss in the consolidated statement of comprehensive income.

#### *Loans and receivables*

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



*AFS investments*

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

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

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

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

*Other financial liabilities*

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

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

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



### Debt Issuance Cost

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

### Customers' Deposits

#### *Deposits from lessees*

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

The difference between the cash received and its fair value is deferred (included in 'Other current or noncurrent liabilities' in the consolidated statement of financial position) and amortized using the straight-line method.

#### *Deposits from real estate buyers*

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

### Reclassification of Financial Assets

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

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

The Group evaluates its AFS investments whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intention and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss in the consolidated statement of comprehensive income over the remaining life of the investment using the effective interest method. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.





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

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

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

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

#### Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

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

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.



If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss in the consolidated statement of comprehensive income to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

#### *AFS investments*

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

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

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

#### Derecognition of Financial Instruments

##### *Financial assets*

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

- the rights to receive cash flows from the asset have expired;
  - the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;
- or



- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership and retained control of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss in the consolidated statement of comprehensive income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### Inventories

Inventories, including work-in-process, are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs. In determining the NRV, the Group deducts from cost 100.0% of the carrying value of slow-moving items and nonmoving items for more than one year. Cost is determined using the weighted average method.

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

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

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



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

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

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

*Subdivision land and condominium and residential units for sale*

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

Noncurrent Assets (Disposal Group) Held for Sale

The Group classifies noncurrent assets (disposal group) as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets, and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

In circumstances where certain events have extended the period to complete the sale of a disposal group beyond one year, the disposal group continues to be classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the disposal group. Otherwise, if the criteria for classification of a disposal group as held for sale are no longer met, the Group ceases to classify the disposal group as held for sale.

*Initial and subsequent measurement*

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

Noncurrent assets (disposal group) held for sale are measured at the lower of their carrying amount or fair value less costs to sell. Impairment losses are recognized for any initial or subsequent write-down of the noncurrent assets (disposal group) held for sale to the extent that these have not been previously recognized at initial recognition. Reversals of impairment losses for any subsequent increases in fair value less cost to sell of the noncurrent assets (disposal group)



held for sale are recognized as a gain, but not in excess of the cumulative impairment loss that has been previously recognized. Liabilities directly related to noncurrent assets held for sale are measured at their expected settlement amounts.

#### Investment in Associates and Joint Ventures

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

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

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

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

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

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized either in profit or loss or other comprehensive income in the consolidated statement of comprehensive income.

#### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and impairment loss, if any. Land is carried at cost less impairment loss, if any. Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of 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
Telecommunications equipment:	
Tower	20 years
Switch	10 to 20 years
Outside plant facilities	10 to 20 years
Distribution dropwires	5 years
Cellular facilities and others	3 to 20 years
Investment in cable systems	15 years
Leasehold improvements	15 years
Passenger aircraft*	15 years
Other flight equipment	5 years
Transportation, furnishing and other equipment	3 to 5 years

\* With 15.0% residual value after 15 years

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

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

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

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



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

#### *ARO*

The Group is legally required under various lease contracts to restore leased aircraft to their original conditions and to bear the cost of any dismantling and deinstallation at the end of the contract period. These costs are accrued based on an internal estimate made by the work of both third party and Group's engineers which includes estimates of certain redelivery costs at the end of the operating aircraft lease.

The Group recognizes the present value of these costs as ARO asset and ARO liability. The Group depreciates ARO asset on a straight-line basis over the EUL of the related account or the lease term, whichever is shorter, or written-off as a result of impairment of the related account. The Group amortizes ARO liability using the effective interest method and recognizes accretion expense (included in 'Cost of sales and services' in profit or loss in the consolidated statement of comprehensive income) over the lease term. The ARO liability is included under 'Other noncurrent liabilities'.

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

#### Borrowing Costs

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

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

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

#### Biological Assets

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

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





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

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

Agricultural produce is the harvested product of the Group's biological assets. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when the 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 in the consolidated statement of comprehensive income) is computed using the straight-line method over the EUL of the biological assets, regardless of utilization. The EUL of biological assets is reviewed annually based on expected utilization as anchored on business plans and strategies that consider market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the biological assets. The EUL of biological assets ranges from two to three years.

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

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

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

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

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



### Goodwill

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

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

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

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

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

### Bank Licenses

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

### Intangible Assets

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

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

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

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level (see further discussion under Impairment of Nonfinancial Assets). Such intangibles are not amortized. The intangible asset with an indefinite useful life is



reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite useful life is no longer appropriate, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

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

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

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

#### Deferred Subscriber Acquisition and Retention Costs

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

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

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

This accounting policy applies to the Telecommunication Segment of the Group which was disposed in 2011.



### 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 in the consolidated statement of comprehensive income.

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

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

For property, plant and equipment, investment properties, intangible assets with definite useful lives and deferred subscriber acquisition and retention costs, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the consolidated statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### *Goodwill*

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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



*Investments in associates and joint ventures*

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

*Biological assets at cost*

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

*Intangible assets with indefinite useful lives*

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

Common Stock

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

Treasury Shares

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

Revenue and Cost Recognition

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

*Sale of goods*

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

*Rendering of tolling services*

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

*Rendering of air transportation services*

Passenger ticket and cargo waybill sales are initially recorded as 'Unearned revenue' (included under 'Other current liabilities' in the consolidated statement of financial position) until recognized as 'Revenue' in profit or loss in the consolidated statement of comprehensive income, when the transportation service is rendered by the Group (i.e., when passengers and cargo are



lifted). Unearned tickets are recognized as revenue using estimates regarding the timing of the recognition based on the terms and conditions of the ticket and historical trends.

The related commission is recognized as outright expense upon the receipt of payment from customers, and is included under 'Cost of sales and services' in profit or loss in the consolidated statement of comprehensive income.

*Ancillary revenue*

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

*Real estate sales*

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

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

*Revenue from hotel operations*

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

*Interest income*

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

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

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

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



*Service fees and commission income*

The Group earns fees and commission income from the diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, portfolio fees, credit-related fees and other service and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

*Trading and securities gain (loss)*

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

*Dividend income*

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

*Rent income*

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

*Amusement income*

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

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

Gain from sale of properties, investments and other assets is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

*Rendering of telecommunications services*

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

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

The Group's service revenue includes the revenue earned from subscribers and connecting carriers/traffic. With respect to revenue earned from subscribers, revenue principally consists of: (1) per minute airtime and toll fees for local, domestic and international long distance calls in excess of free call allocation, less bonus airtime credits, airtime on free SIM, prepaid reload discounts and interconnection fees; (2) revenue from value-added services (VAS) such as short messaging services (SMS) in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), multimedia messaging services (MMS), content downloading and infotext services, net of amounts settled with carriers owning the network where the outgoing



voice call or SMS terminates and payout to content providers; (3) inbound revenue from other carriers which terminate their calls to the Group's network less discounts; (4) revenue from international roaming services; (5) usage of broadband and internet services in excess of fixed monthly service fees; (6) fixed monthly service fees (for postpaid wireless subscribers) and prepaid subscription fees for discounted promotional calls and SMS.

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

Proceeds from over-the-air reloading channels and sale of prepaid cards are initially recognized as unearned revenue (recorded under 'Other current liabilities' in the consolidated statement of financial position). Revenue is realized upon actual usage of the airtime value of the prepaid card, net of free service allocation. The unused value of prepaid cards is likewise recognized as revenue upon expiration. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

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

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

Revenues from telecommunication services are presented under discontinued operations in the consolidated statement of comprehensive income. This accounting policy pertains to the Telecommunication segment of the Group that was disposed in 2011 (Note 44).

#### Provisions

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





Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

#### Contingencies

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

#### Pension Costs

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10.0% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

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

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

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

#### Income Taxes

##### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of reporting date.



*Deferred tax*

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

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

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

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

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

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recognized.

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

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

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



### Leases

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

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

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

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

### *Group as a lessee*

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

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

### *Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

### Earnings Per Share (EPS)

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



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

#### Dividends on Common Shares

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

#### Segment Reporting

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

#### Subsequent Events

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

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

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

##### *Effective 2013*

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

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

- a. The gross amounts of those recognized financial assets and recognized financial liabilities;
- b. The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c. The net amounts presented in the statement of financial position;



- d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    - ii. Amounts related to financial collateral (including cash collateral); and
  - e. The net amount after deducting the amounts in (d) from the amounts in (c) above.
- PFRS 10, *Consolidated Financial Statements*  
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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

- PFRS 11, *Joint Arrangements*  
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- PFRS 12, *Disclosure of Interests with Other Entities*  
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required but have no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after January 1, 2013. The new standard affects disclosures only and has no impact on the Group's financial position or performance.
- PFRS 13, *Fair Value Measurement*  
The standard establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.



- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)  
 The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result in the modification of the presentation of items of OCI.
- PAS 19, *Employee Benefits* (Revised)  
 Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	As at 31 December 2012	As at 1 January 2012
<u>Increase (decrease) in:</u>		
<u>Consolidated statements of</u>		
<u>financial position</u>		
Pension liabilities	₱632,059,643	₱252,349,358
Deferred tax assets	189,617,893	75,704,807
Retained earnings	31,561,673	(43,398,323)
Other comprehensive income	(613,627,307)	(255,634,398)
	2012	2011
<u>Consolidated statements of</u>		
<u>comprehensive income</u>		
Pension expense	(₱47,652,480)	(₱57,052,370)
Provision for income tax	14,295,744	17,115,711
Net income		
Attributable to equity holders of the Parent Company	(20,454,347)	(25,256,122)
Attributable to non-controlling interests	(12,902,389)	(14,680,537)
Other comprehensive income		
Attributable to equity holders of the Parent Company	(188,416,620)	(93,802,390)
Attributable to non-controlling interests	(110,747,422)	(43,488,546)



- *PAS 27, Separate Financial Statements* (as revised in 2011)  
As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- *PAS 28, Investments in Associates and Joint Ventures* (as revised in 2011)  
As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- *Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*  
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013.
- *Annual Improvements to PFRSs (2009-2011 cycle)*  
The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.
  - *PFRS 1, First-time Adoption of PFRS - Borrowing Costs*  
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
  - *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*  
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
  - *PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment*  
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.



- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*  
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

*Effective 2014*

- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*  
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*Effective 2015*

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





- **Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate***  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

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

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### 3. Significant Accounting Judgments and Estimates

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

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

#### Judgments

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

*a. Going concern assessment*

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



b. *Classification of financial instruments*

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

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

c. *Determination of fair values of financial instruments*

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

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

d. *Revenue from real estate sales*

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

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

The related balances from real estate transactions follow:

	2012	2011	2010
Revenue	<b>₱4,105,106,260</b>	₱4,307,396,547	₱2,954,258,256
Cost and expenses	<b>2,360,585,729</b>	2,664,371,840	1,745,032,612

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 its 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 43).



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.

The related balances from real estate transactions follow:

	2012	2011	2010
Revenue	<b>₱4,105,106,260</b>	₱4,307,396,547	₱2,954,258,256
Cost and expenses	<b>2,360,585,729</b>	2,664,371,840	1,745,032,612

- 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.

- Rendering of telecommunications services

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

The Telecommunication Segment's agreements with local and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by management. Initial recognition of revenue is based on observed traffic in the network, since normal historical experience adjustments are not material to the consolidated financial statements. The differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no



assurance that such use of estimates will not result in material adjustments in future periods.

The above estimate was used in the balances of the Telecommunication Segment of the Group that was disposed in 2011 (Note 44).

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 2012, 2011 and 2010, 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.

In 2012, 2011 and 2010, the Group did not recognize impairment losses on its AFS equity investments.

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

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

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

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



Provisions for impairment losses on receivables, included in 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income, are disclosed in Notes 11 and 34 to the consolidated financial statements.

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

*d. Determination of NRV of inventories*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally providing a 100.0% write down for nonmoving items for more than one year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect any market decline in the value of the recorded inventories. The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

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

Inventory obsolescence and market decline included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income are disclosed in Notes 12 and 34 to the consolidated financial statements.

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

*e. Estimation of ARO*

The Group is legally required under various contracts to restore certain leased aircraft to its original condition and to bear the costs of dismantling and deinstallation at the end of the contract period. These costs are accrued based on an internal estimate which incorporates estimates on the amounts of asset retirement costs, third party margins and interest rates. The Group recognizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, and depreciates such on a straight-line basis over the EUL of the related asset.

The present value of the cost of restoration for the air transportation segment is computed based on CAI's average borrowing cost. Assumptions used to compute ARO are reviewed and updated annually.

In 2012, 2011 and 2010, the Group recognized the amortization of ARO asset amounting to ₱369.1 million, ₱317.5 million and ₱234.8 million, respectively.

The carrying values of the Group's ARO (included under 'Other noncurrent liabilities' in the consolidated statements of financial position) is disclosed in Note 24 to the consolidated financial statements.



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

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

As of December 31, 2012 and 2011, the balance of the Group's depreciable assets are disclosed in the respective notes to the consolidated financial statements.

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

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

The Group recognized losses arising from changes in the fair market value of biological assets (included in 'Cost of sales and services' in profit or loss in the consolidated statements of comprehensive income) amounting to ₱15.5 million, ₱128.3 million and ₱44.7 million in 2012, 2011 and 2010, respectively (Note 17).

The carrying value of the Group's biological assets carried at fair values less estimated costs to sell is disclosed in Note 17 to the consolidated financial statements.

*h. Estimation of pension and other benefits costs*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates (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.

As of December 31, 2012 and 2011, the balance of the Group's present value of defined benefit obligations and other employee benefits is shown in Note 37.





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

The Group assesses impairment on its property, plant and equipment, investment properties, investments in associates and joint ventures, biological assets carried at cost and goodwill and other intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

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

Provision for impairment losses on nonfinancial assets recognized in 2012, 2011 and 2010 is disclosed in Note 34 to the consolidated financial statements.

As of December 31, 2012 and 2011, the balance of the Group's nonfinancial assets, net of accumulated depreciation, amortization and impairment loss follow:

	<b>2012</b>	2011
Property, plant and equipment (Note 16)	<b>₱101,134,655,563</b>	₱81,221,037,701
Investment properties (Note 15)	<b>45,423,932,675</b>	41,883,671,246
Investments in associates and joint ventures (Note 14)	<b>33,497,292,680</b>	32,055,963,868
Goodwill (Note 19)	<b>1,042,954,782</b>	798,627,776
Intangible assets (Note 18)	<b>1,341,022,581</b>	905,540,502



*j. Recognition of deferred tax assets*

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

As of December 31, 2012 and 2011, the Group's recognized deferred tax assets are shown in Note 38.

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 (Note 38).

As of December 31, 2012 and 2011, the total amounts of temporary differences, for which the Group did not recognize any deferred tax assets are shown in Note 38.

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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.

a. Credit risk exposure

The Group's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following accounts:

	2012			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Loans and receivables				
Trade receivables	₱10,081,857,609	₱177,100,000	₱9,904,757,609	₱177,100,000
Finance receivables:				
Commercial	11,322,202,999	2,414,483,131	8,907,719,868	2,414,483,131
Real estate	1,994,937,426	3,128,551,351	-	1,994,937,426
Consumption	3,396,799,943	1,760,042,919	1,636,757,024	1,760,042,919
Other receivables	1,462,893,256	60,762,484	1,402,130,772	60,762,484
<b>Total credit risk exposure</b>	<b>₱28,258,691,233</b>	<b>₱7,540,939,885</b>	<b>₱21,851,365,273</b>	<b>₱6,407,325,960</b>

	2011			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Loans and receivables				
Trade receivables	₱8,696,770,491	₱161,411,682	₱8,535,358,809	₱161,411,682
Finance receivables:				
Commercial	7,763,177,168	741,366,636	7,021,810,532	741,366,636
Real estate	2,614,517,808	4,725,689,282	-	2,614,517,808
Consumption	2,064,871,818	2,103,241,674	-	2,064,871,818
Other receivables	1,906,510,189	16,098,704	1,890,411,485	16,098,704
<b>Total credit risk exposure</b>	<b>₱23,045,847,474</b>	<b>₱7,747,807,978</b>	<b>₱17,447,580,826</b>	<b>₱5,598,266,648</b>



*Collateral and other credit enhancements*

The Group holds collateral in the form of cash bonds, real estate and chattel mortgages and government securities. The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. It is the Group's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

b. Risk concentrations of the maximum exposure to credit risk

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

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

i. Concentration by geographical location

The Group's credit risk exposures as of December 31, 2012 and 2011, before taking into account any collateral held or other credit enhancements, is categorized by geographic location as follows:

	December 31, 2012						Total
	Philippines	Asia (excluding Philippines)	United States	Europe	Others*		
Cash and cash equivalents**	₱15,555,588,761	₱3,032,510,477	₱-	₱-	₱-	₱-	₱18,588,099,238
Financial assets at FVPL:							
Held-for-trading:							
Debt securities:							
Private	2,303,338,452	2,082,637,515	791,774,427	3,674,743,714	638,146,606		9,490,640,714
Government	3,182,835,307	364,310,895	-	-	54,787,629		3,601,933,831
	5,486,173,759	2,446,948,410	791,774,427	3,674,743,714	692,934,235		13,092,574,545
Equity securities:							
Quoted	309,145,085	425,188,345	386,255,710	1,017,271,599	-		2,137,860,739
Unquoted	-	3,079	-	-	-		3,079
	309,145,085	425,191,424	386,255,710	1,017,271,599	-		2,137,863,818
	5,795,318,844	2,872,139,834	1,178,030,137	4,692,015,313	692,934,235		15,230,438,363
Derivative assets:							
Not designated as accounting hedges	199,231,766	-	-	103,516,929	-		302,748,695
	5,994,550,610	2,872,139,834	1,178,030,137	4,795,532,242	692,934,235		15,533,187,058
AFS investments:							
Debt securities:							
Government	7,635,707,383	32,492,119	-	-	370,774,090		8,038,973,592
Private	1,102,645,686	897,137,215	300,358,872	787,354,107	-		3,087,495,880
	8,738,353,069	929,629,334	300,358,872	787,354,107	370,774,090		11,126,469,472
Equity securities:							
Quoted	43,918,889,535	-	370,435,200	929,128,125	-		45,218,452,860
Unquoted	17,065,871	-	-	-	-		17,065,871
	43,935,955,406	-	370,435,200	929,128,125	-		45,235,518,731
	52,674,308,475	929,629,334	670,794,072	1,716,482,232	370,774,090		56,361,988,203

(Forward)



December 31, 2012						
	Philippines	Asia (excluding Philippines)	United States	Europe	Others*	Total
Receivables:						
Trade receivables	₱8,019,236,787	₱2,025,557,950	₱22,611,964	₱4,085,966	₱10,364,942	₱10,081,857,609
Finance receivables	17,199,408,241	—	—	—	—	17,199,408,241
Due from related parties	1,304,241,205	24,213,507	—	—	—	1,328,454,712
Interest receivable	400,580,629	95,789,568	67,225,078	45,220,844	1,804,490	610,620,609
Other receivables	1,448,299,306	14,593,950	—	—	—	1,462,893,256
	<b>28,371,766,168</b>	<b>2,160,154,975</b>	<b>89,837,042</b>	<b>49,306,810</b>	<b>12,169,432</b>	<b>30,683,234,427</b>
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	820,512,914	—	—	33,438,542	—	853,951,456
Other financial assets (included under 'Other current assets' in the consolidated statements of financial position)	1,639,198,798	—	56,521	—	—	1,639,255,319
	<b>₱105,055,925,726</b>	<b>₱8,994,434,620</b>	<b>₱1,938,717,772</b>	<b>₱6,594,759,826</b>	<b>₱1,075,877,757</b>	<b>₱123,659,715,701</b>

\* Others include South American countries (i.e., Argentina and Mexico)

\*\* Excludes cash on hand amounting to ₱1,109,973,269.

December 31, 2011						
	Philippines	Asia (excluding Philippines)	United States	Europe	Others*	Total
Cash and cash equivalents**	₱31,125,259,019	₱1,989,034,859	₱—	₱—	₱—	₱33,114,293,878
Financial assets at FVPL:						
Held-for-trading:						
Debt securities:						
Private	2,060,545,559	1,244,218,970	361,697,309	2,724,956,460	1,061,363,155	7,452,781,453
Government	966,672,000	179,391,071	—	—	127,419,349	1,273,482,420
	3,027,217,559	1,423,610,041	361,697,309	2,724,956,460	1,188,782,504	8,726,263,873
Equity securities:						
Quoted	405,400,107	349,382,300	361,109,440	1,115,794,848	—	2,231,686,695
Unquoted	—	4,516	—	—	—	4,516
	405,400,107	349,386,816	361,109,440	1,115,794,848	—	2,231,691,211
	3,432,617,666	1,772,996,857	722,806,749	3,840,751,308	1,188,782,504	10,957,955,084
Derivative assets:						
Not designated as accounting hedges	251,777,742	5,467,549	—	26,042,434	—	283,287,725
	3,684,395,408	1,778,464,406	722,806,749	3,866,793,742	1,188,782,504	11,241,242,809
AFS investments:						
Debt securities:						
Government	6,907,345,449	147,680,695	—	—	558,143,833	7,613,169,977
Private	988,115,716	889,537,156	725,620,840	756,304,325	80,526,856	3,440,104,893
	7,895,461,165	1,037,217,851	725,620,840	756,304,325	638,670,689	11,053,274,870
Equity securities:						
Quoted	43,694,169,605	110,367,200	—	—	872,487,250	44,677,024,055
Unquoted	17,065,871	—	—	—	—	17,065,871
	43,711,235,476	110,367,200	—	—	872,487,250	44,694,089,926
	51,606,696,641	1,147,585,051	725,620,840	756,304,325	1,511,157,939	55,747,364,796
Receivables:						
Trade receivables	6,880,614,623	1,797,924,233	10,946,298	6,198,094	1,087,243	8,696,770,491
Finance receivables	12,160,584,030	—	—	—	—	12,160,584,030
Due from related parties	1,126,990,686	229,391,362	—	—	—	1,356,382,048
Interest receivable	539,174,134	44,507,345	25,687,935	56,245,627	49,719,618	715,334,659
Other receivables	1,458,535,568	361,585,694	86,388,927	—	—	1,906,510,189
	22,165,899,041	2,433,408,634	123,023,160	62,443,721	50,806,861	24,835,581,417
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	247,022,482	—	—	166,175,680	—	413,198,162
Other financial assets (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	4,340,500,000	—	61,251	—	—	4,340,561,251
	<b>₱113,169,772,591</b>	<b>₱7,348,492,950</b>	<b>₱1,571,512,000</b>	<b>₱4,851,717,468</b>	<b>₱2,750,747,304</b>	<b>₱129,692,242,313</b>

\* Others include South American countries (i.e., Argentina and Mexico)

\*\* Excludes cash on hand amounting to ₱781,049,127



ii. Concentration by industry

The tables below show the industry sector analysis of the Group's financial assets as of December 31, 2012 and 2011, before taking into account any collateral held or other credit enhancements.

	2012											
	Manufacturing	Real Estate, Renting and Related Business Activities	Wholesale and Retail Trade	Private Households	Financial Intermediaries	Transportation, Storage and Communication	Construction	Agricultural, Hunting and Forestry	Electricity, Gas and Water	Public Administration and Defense	Others*	Total
Cash and cash equivalents**	₱-	₱-	₱-	₱-	₱18,587,817,008	₱-	₱-	₱282,230	₱-	₱-	₱-	₱18,588,099,238
Financial assets at FVPL:												
Held-for-trading:												
Debt securities:												
Private	64,368,241	241,294,893	-	-	4,560,825,381	621,201,804	-	396,481,324	-	-	3,606,469,071	9,490,640,714
Government	-	-	-	-	1,208,066,197	-	-	-	-	-	2,393,867,634	3,601,933,831
	64,368,241	241,294,893	-	-	5,768,891,578	621,201,804	-	396,481,324	-	-	6,000,336,705	13,092,574,545
Equity securities:												
Quoted	-	93,600	-	-	1,745,702,335	83,013,310	-	-	-	-	309,051,494	2,137,860,739
Unquoted	-	-	-	-	3,079	-	-	-	-	-	-	3,079
	-	93,600	-	-	1,745,705,414	83,013,310	-	-	-	-	309,051,494	2,137,863,818
	64,368,241	241,388,493	-	-	7,514,596,992	704,215,114	-	396,481,324	-	-	6,309,388,199	15,230,438,363
Derivative financial assets:												
Not designated as accounting hedges	-	-	-	-	200,065,933	-	-	102,682,762	-	-	-	302,748,695
	64,368,241	241,388,493	-	-	7,714,662,925	704,215,114	-	499,164,086	-	-	6,309,388,199	15,533,187,058
AFS investments:												
Debt securities:												
Government	-	-	-	-	-	-	-	-	-	-	8,038,973,592	8,038,973,592
Private	-	-	-	-	2,223,496,049	91,537,672	-	355,580,097	-	-	416,882,062	3,087,495,880
	-	-	-	-	2,223,496,049	91,537,672	-	355,580,097	-	-	8,455,855,654	11,126,469,472
Equity securities:												
Quoted	-	-	-	-	490,694,977	43,757,557,795	-	-	-	-	970,200,088	45,218,452,860
Unquoted	-	-	-	-	16,378,200	-	-	-	-	-	687,671	17,065,871
	-	-	-	-	507,073,177	43,757,557,795	-	-	-	-	970,887,759	45,235,518,731
	-	-	-	-	2,730,569,226	43,849,095,467	-	355,580,097	-	-	9,426,743,413	56,361,988,203
Receivables:												
Trade receivables	4,903,198,312	4,264,824,183	-	-	30,670,388	746,708,239	-	115,335,811	-	-	21,120,676	10,081,857,609
Finance receivables	601,452,548	4,598,852,121	3,039,784,212	-	-	562,789,456	844,948,612	2,256,205,839	2,004,040,890	-	3,291,334,563	17,199,408,241
Due from related parties	397,534,347	46,164,678	435,343,845	-	197,841,208	244,445,670	-	-	1,296,154	-	5,828,810	1,328,454,712
Interest receivable	3,912,346	1,865,245	-	-	206,246,991	10,107,612	-	-	22,204,386	-	366,284,029	610,620,609
Other receivables	343,122,971	175,985,706	-	-	555,000,000	54,456,753	-	-	-	-	334,327,826	1,462,893,256
	6,249,220,524	9,087,691,933	3,475,128,057	-	989,758,587	1,618,507,730	844,948,612	2,371,541,650	2,027,541,430	-	4,018,895,904	30,683,234,427

(Forward)





	2012											
	Manufacturing	Real Estate, Renting and Related Business Activities	Wholesale and Retail Trade	Private Households	Financial Intermediaries	Transportation, Storage and Communication	Construction	Agricultural, Hunting and Forestry	Electricity, Gas and Water	Public Administration and Defense	Others*	Total
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	₱1,371,964	₱788,857,881	₱-	₱-	₱-	₱33,438,542	₱-	₱-	₱-	₱-	₱30,283,069	₱853,951,456
Other financial assets (included under 'Other noncurrent assets' in the consolidated statements of financial position)	-	-	-	-	1,639,255,319	-	-	-	-	-	-	1,639,255,319
	<b>₱6,314,960,729</b>	<b>₱10,117,938,307</b>	<b>₱3,475,128,057</b>	<b>₱-</b>	<b>₱31,662,063,065</b>	<b>₱46,205,256,853</b>	<b>₱844,948,612</b>	<b>₱2,371,823,880</b>	<b>₱2,882,285,613</b>	<b>₱-</b>	<b>₱19,785,310,585</b>	<b>₱123,659,715,701</b>

\* Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.

\*\* Excludes cash on hand amounting to ₱1,109,973,269.

	2011											
	Manufacturing	Real Estate, Renting and Related Business Activities	Wholesale and Retail Trade	Private Households	Financial Intermediaries	Transportation, Storage and Communication	Construction	Agricultural, Hunting and Forestry	Electricity, Gas and Water	Public Administration and Defense	Others*	Total
Cash and cash equivalents**	₱-	₱-	₱-	₱-	₱33,114,293,878	₱-	₱-	₱-	₱-	₱-	₱-	₱33,114,293,878
Financial assets at FVPL:												
Held-for-trading:												
Debt securities:												
Private	-	-	-	-	3,828,855,069	228,951,008	46,221,322	-	144,373,507	-	3,204,380,547	7,452,781,453
Government	-	-	-	-	1,137,848,787	-	-	-	-	-	135,633,633	1,273,482,420
	-	-	-	-	4,966,703,856	228,951,008	46,221,322	-	144,373,507	-	3,340,014,180	8,726,263,873
Equity securities:												
Quoted	-	-	-	-	1,939,999,926	147,000	15,569,742	-	-	-	275,970,027	2,231,686,695
Unquoted	-	-	-	-	-	-	-	-	-	-	4,516	4,516
	-	-	-	-	1,939,999,926	147,000	15,569,742	-	-	-	275,974,543	2,231,691,211
Derivative financial assets:												
Not designated as accounting hedges	-	-	-	-	266,407,517	-	-	-	16,880,208	-	-	283,287,725
	-	-	-	-	7,173,111,299	229,098,008	61,791,064	-	161,253,715	-	3,615,988,723	11,241,242,809
AFS investments:												
Debt securities:												
Government	-	-	-	-	-	-	-	-	-	-	7,613,169,977	7,613,169,977
Private	-	-	-	-	2,413,527,913	84,737,667	135,094,800	-	-	-	806,744,513	3,440,104,893
	-	-	-	-	2,413,527,913	84,737,667	135,094,800	-	-	-	8,419,914,490	11,053,274,870
Equity securities:												
Quoted	-	-	-	-	1,162,628,655	28,674,553,192	-	-	-	-	14,839,842,208	44,677,024,055
Unquoted	-	-	-	-	16,378,200	-	-	-	-	-	687,671	17,065,871
	-	-	-	-	1,179,006,855	28,674,553,192	-	-	-	-	14,840,529,879	44,694,089,926
	-	-	-	-	3,592,534,768	28,759,290,859	135,094,800	-	-	-	23,260,444,369	55,747,364,796

(Forward)



2011

	Manufacturing	Real Estate, Renting and Related Business Activities	Wholesale and Retail Trade	Private Households	Financial Intermediaries	Transportation, Storage and Communication	Construction	Agricultural, Hunting and Forestry	Electricity, Gas and Water	Public Administration and Defense	Others*	Total
Receivables:												
Trade receivables	₱4,516,052,575	₱3,161,581,894	₱-	₱-	₱-	₱647,199,979	₱-	₱-	₱-	₱-	₱371,936,043	₱8,696,770,491
Finance receivables	721,468,409	4,244,154,274	2,264,664,821	-	188,038,748	791,013,401	130,280,290	420,300,694	1,325,910,696	-	2,074,752,697	12,160,584,030
Due from related parties	219,691,387	276,268,559	-	-	354,665,325	58,851,694	-	-	410,436,221	-	36,468,862	1,356,382,048
Interest receivable	-	-	-	-	308,655,420	7,646,172	9,139,693	-	3,084,373	-	386,809,001	715,334,659
Other receivables	362,870,044	185,402,345	-	-	-	8,167,635	-	-	-	-	1,350,070,165	1,906,510,189
	5,820,082,415	7,867,407,072	2,264,664,821	-	851,359,493	1,512,878,881	139,419,983	420,300,694	1,739,431,290	-	4,220,036,768	24,835,581,417
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	1,106,342	225,596,431	-	-	-	166,175,680	-	-	-	-	20,319,709	413,198,162
Other financial assets (included under 'Other noncurrent assets' in the consolidated statements of financial position)	-	-	-	-	4,340,561,251	-	-	-	-	-	-	4,340,561,251
	₱5,821,188,757	₱8,093,003,503	₱2,264,664,821	₱-	₱49,071,860,689	₱30,667,443,428	₱336,305,847	₱420,300,694	₱1,900,685,005	₱-	₱31,116,789,569	₱129,692,242,313

\* Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.

\*\* Excludes cash on hand amounting to ₱781,049,127



c. Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets gross of allowance for impairment losses:

	2012						Total
	Neither Past Due Nor Impaired			Unrated	Past Due or Individually Impaired		
	High Grade	Standard Grade	Substandard Grade				
Cash and cash equivalents*	₱9,202,711,928	₱9,385,387,310	₱-	₱-	₱-	₱18,588,099,238	
Financial assets at FVPL:							
Held-for-trading:							
Debt securities:							
Private	1,684,773,674	6,677,086,079	1,128,780,961	-	-	9,490,640,714	
Government	1,153,278,568	2,448,655,263	-	-	-	3,601,933,831	
	2,838,052,242	9,125,741,342	1,128,780,961	-	-	13,092,574,545	
Equity securities:							
Quoted	1,793,488,509	344,372,230	-	-	-	2,137,860,739	
Unquoted	3,079	-	-	-	-	3,079	
	1,793,491,588	344,372,230	-	-	-	2,137,863,818	
	4,631,543,830	9,470,113,572	1,128,780,961	-	-	15,230,438,363	
Derivative financial assets:							
Not designated as accounting hedges	193,660,081	109,088,614	-	-	-	302,748,695	
	4,825,203,911	9,579,202,186	1,128,780,961	-	-	15,533,187,058	
AFS investments:							
Debt securities:							
Government	-	8,038,973,592	-	-	-	8,038,973,592	
Private	-	3,087,495,880	-	-	-	3,087,495,880	
	-	11,126,469,472	-	-	-	11,126,469,472	
Equity securities:							
Quoted	44,287,010,722	931,442,138	-	-	-	45,218,452,860	
Unquoted	687,671	-	-	16,378,200	-	17,065,871	
	44,287,698,393	931,442,138	-	16,378,200	-	45,235,518,731	
	44,287,698,393	12,057,911,610	-	16,378,200	-	56,361,988,203	
Receivables:							
Trade receivables	6,263,469,650	2,250,623,299	94,653,505	-	1,978,419,681	10,587,166,135	
Finance receivables	6,362,600,773	8,744,020,368	653,871,036	548,063,175	1,361,433,373	17,669,988,725	
Due from related parties	1,328,454,712	-	-	-	-	1,328,454,712	
Interest receivable	94,559,732	472,826,887	35,279,158	-	7,954,832	610,620,609	
Other receivables	586,596,284	709,918,676	7,228,003	-	347,879,751	1,651,622,714	
	14,635,681,151	12,177,389,230	791,031,702	548,063,175	3,695,687,637	31,847,852,895	
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	822,296,423	1,371,964	-	30,283,069	-	853,951,456	
Other financial assets (included under 'Other noncurrent assets' in the consolidated statements of financial position)	1,639,255,319	-	-	-	-	1,639,255,319	
	<b>₱75,412,847,125</b>	<b>₱43,201,262,300</b>	<b>₱1,919,812,663</b>	<b>₱594,724,444</b>	<b>₱3,695,687,637</b>	<b>₱124,824,334,169</b>	

\* Excludes cash on hand amounting to ₱1,109,973,269.

	2011						Total
	Neither Past Due Nor Impaired			Unrated	Past Due or Individually Impaired		
	High Grade	Standard Grade	Substandard Grade				
Cash and cash equivalents*	₱28,676,251,707	₱4,438,042,171	₱-	₱-	₱-	₱33,114,293,878	
Financial assets at FVPL:							
Held-for-trading:							
Debt securities:							
Private	1,137,046,140	2,130,038,158	1,617,915,823	2,567,781,332	-	7,452,781,453	
Government	-	1,273,482,420	-	-	-	1,273,482,420	
	1,137,046,140	3,403,520,578	1,617,915,823	2,567,781,332	-	8,726,263,873	
Equity securities:							
Quoted	1,540,009,757	544,239,970	147,436,968	-	-	2,231,686,695	
Unquoted	-	-	-	4,516	-	4,516	
	1,540,009,757	544,239,970	147,436,968	4,516	-	2,231,691,211	
	2,677,055,897	3,947,760,548	1,765,352,791	2,567,785,848	-	10,957,955,084	
Derivative financial assets:							
Not designated as accounting hedges	204,006,858	79,280,867	-	-	-	283,287,725	
	2,881,062,755	4,027,041,415	1,765,352,791	2,567,785,848	-	11,241,242,809	

(Forward)



	2011					Total
	Neither Past Due Nor Impaired			Unrated	Past Due or Individually Impaired	
	High Grade	Standard Grade	Substandard Grade			
AFS investments:						
Debt securities:						
Government	₱-	₱7,424,793,488	₱-	₱188,376,489	₱-	₱7,613,169,977
Private	102,000,000	3,119,395,606	-	218,709,287	-	3,440,104,893
	102,000,000	10,544,189,094	-	407,085,776	-	11,053,274,870
Equity securities:						
Quoted	43,694,169,605	982,854,450	-	-	-	44,677,024,055
Unquoted	-	-	-	17,065,871	-	17,065,871
	43,694,169,605	982,854,450	-	17,065,871	-	44,694,089,926
	43,796,169,605	11,527,043,544	-	424,151,647	-	55,747,364,796
Receivables:						
Trade receivables	6,551,578,659	525,095,325	7,587,894	-	2,132,617,861	9,216,879,739
Finance receivables	1,697,671,361	7,921,916,854	1,243,077,530	953,094,598	762,143,427	12,577,903,770
Due from related parties	1,335,200,943	21,181,105	-	-	-	1,356,382,048
Interest receivable	440,765,445	259,143,085	-	-	15,426,129	715,334,659
Other receivables	828,236,330	982,343,233	353,233	-	291,006,598	2,101,939,394
	10,853,452,738	9,709,679,602	1,251,018,657	953,094,598	3,201,194,015	25,968,439,610
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	391,772,111	1,106,342	-	20,319,709	-	413,198,162
Other financial assets (included under 'Other noncurrent assets' in the consolidated statements of financial position)	4,340,561,251	-	-	-	-	4,340,561,251
	₱90,939,270,167	₱29,702,913,074	₱3,016,371,448	₱3,965,351,802	₱3,201,194,015	₱130,825,100,506

\* Excludes cash on hand amounting to ₱781,049,127

*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>
<b>High grade</b>		
<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
<b>Standard</b>		
<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.
<b>Standard</b>		
<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.
<b>Standard</b>		
<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.

(Forward)



<b>Grades</b>	<b>Categories</b>	<b>Description</b>
Sub-standard grade		
<i>Risk rating 9</i>	Marginal	Elevated level of probability of default, with limited margin; repayment source is adequate to marginal.
<i>Risk rating 10</i>	Watchlist	Unfavorable industry or company specific risk factors represent a concern, financial strength may be marginal; will find it difficult to cope with significant downturn.
<i>Risk rating 11</i>	Special mention	Loans have potential weaknesses that deserve close attention; borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardized due to evidence of weakness in the borrower's financial condition.
<i>Risk rating 12</i>	Substandard	Substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics; with well-defined weaknesses that jeopardize their liquidation. e.g. negative cash flow, case of fraud.
Impaired		
<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.

d. Aging analysis of receivables by class

The aging analysis of the Group's receivables as of December 31, 2012 and 2011 follow:

	2012						Total
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Past Due and Impaired	
		Less than 30 Days	30 to 60 Days	61 to 90 Days	Over 90 Days		
Trade receivables	₱8,608,746,454	₱549,563,425	₱225,992,682	₱124,973,266	₱572,581,782	₱505,308,526	₱10,587,166,135
Finance receivables	16,308,555,352	33,490,251	21,240,741	43,096,449	793,025,448	470,580,484	17,669,988,725
Due from related parties	1,328,454,712	-	-	-	-	-	1,328,454,712
Interest receivable	602,665,777	190,590	220,897	1,058,394	6,484,951	-	610,620,609
Others	1,303,742,963	28,439,019	8,026,208	6,023,648	116,661,418	188,729,458	1,651,622,714
	₱28,152,165,258	₱611,683,285	₱255,480,528	₱175,151,757	₱1,488,753,599	₱1,164,618,468	₱31,847,852,895

	2011						Total
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Past Due and Impaired	
		Less than 30 Days	30 to 60 Days	61 to 90 Days	Over 90 Days		
Trade receivables	₱7,084,261,878	₱535,719,875	₱108,705,075	₱53,526,462	₱933,557,202	₱501,109,247	₱9,216,879,739
Finance receivables	11,815,760,343	32,316,013	17,469,094	38,042,495	175,243,733	499,072,092	12,577,903,770
Due from related parties	1,356,382,048	-	-	-	-	-	1,356,382,048
Interest receivable	699,908,530	-	-	-	-	15,426,129	715,334,659
Others	1,810,932,796	47,572,239	25,691,062	3,491,416	38,469,358	175,782,523	2,101,939,394
	₱22,767,245,595	₱615,608,127	₱151,865,231	₱95,060,373	₱1,147,270,293	₱1,191,389,991	₱25,968,439,610



*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 tables below summarize the maturity profile of the Group's financial assets and liabilities based on undiscounted contractual payments as of December 31, 2012 and 2011:

	2012					Total
	On Demand	Up to 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 Years	
<b>Financial Assets</b>						
Cash and cash equivalents	₱13,576,969,575	₱6,039,504,236	₱-	₱130,470,278	₱-	₱19,746,944,089
Financial assets at FVPL:						
Held-for-trading:						
Debt securities:						
Private	-	185,431,509	10,130,163,123	-	-	10,315,594,632
Government	2,185,673,337	2,907,715	1,540,035,807	-	-	3,728,616,859
	2,185,673,337	188,339,224	11,670,198,930	-	-	14,044,211,491
Equity securities:						
Quoted	309,145,085	82,515,837	1,746,199,817	-	-	2,137,860,739
Unquoted	-	-	3,079	-	-	3,079
	309,145,085	82,515,837	1,746,202,896	-	-	2,137,863,818
	2,494,818,422	270,855,061	13,416,401,826	-	-	16,182,075,309
Derivative financial assets:						
Not designated as accounting hedges	-	109,922,781	192,825,914	-	-	302,748,695
	2,494,818,422	380,777,842	13,609,227,740	-	-	16,484,824,004
AFS investments:						
Debt securities:						
Government	-	30,495,857	1,958,358,335	12,722,732,802	-	14,711,586,994
Private	474,700,315	48,843,607	2,608,147,945	100,393,523	-	3,232,085,390
	474,700,315	79,339,464	4,566,506,280	12,823,126,325	-	17,943,672,384
Equity securities:						
Quoted	21,720,000	2,314,013	1,436,861,052	43,757,557,795	-	45,218,452,860
Unquoted	-	16,378,200	687,671	-	-	17,065,871
	21,720,000	18,692,213	1,437,548,723	43,757,557,795	-	45,235,518,731
	496,420,315	98,031,677	6,004,055,003	56,580,684,120	-	63,179,191,115
Receivables:						
Trade receivables	3,442,209,484	4,076,726,502	1,437,050,779	1,057,063,629	68,807,215	10,081,857,609
Finance receivables	3,663,711,745	560,594,743	686,921,963	9,170,200,816	10,402,209,787	24,483,639,054
Due from related parties	1,328,454,712	-	-	-	-	1,328,454,712
Interest receivable	20,178,120	590,442,489	-	-	-	610,620,609
Other receivables	147,747,209	388,473,778	926,672,269	-	-	1,462,893,256
	8,602,301,270	5,616,237,512	3,050,645,011	10,227,264,445	10,471,017,002	37,967,465,240
Refundable security deposits	4,787,236	1,625,597	528,203,914	34,114,111	285,220,598	853,951,456
Other financial assets (included under 'Other current assets' in the consolidated statement of financial position)	-	56,521	1,641,060,488	-	-	1,641,117,009
	₱25,175,296,818	₱12,136,233,385	₱24,833,192,156	₱66,972,532,954	₱10,756,237,600	₱139,873,492,913

(Forward)



	2012					Total
	On Demand	Up to 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 Years	
Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties')	₱10,111,311,674	₱5,561,495,466	₱4,316,514,036	₱512,891,678	₱921,029,912	₱21,423,242,766
Short-term debt	-	16,488,782,045	2,959,235,653	-	-	19,448,017,698
Redeemable preferred shares	-	-	30,700,000	-	-	30,700,000
Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)	14,121,663,007	2,346,889,592	908,562,827	2,310,168,542	-	19,687,283,968
Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position)	691,151,836	-	-	1,039,489,605	-	1,730,641,441
Deposits from lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position)	1,314,563	108,719,669	203,365,228	1,944,913,423	84,760,446	2,343,073,329
Accrued maintenance cost (included under 'Other noncurrent liabilities' in the consolidated statement of financial position)	-	-	-	424,276,778	-	424,276,778
Derivative financial liability (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position)	-	4,680,533	36,497,678	-	-	41,178,211
Long-term debt (including current portion)	-	10,668,280,921	10,836,842,355	37,354,427,603	6,380,489,253	65,240,040,132
	₱24,925,441,080	₱35,178,848,226	₱19,291,717,777	₱43,586,167,629	₱7,386,279,611	₱130,368,454,323
<b>Off-balance sheet</b>						
Commitments*	₱1,625,932,731	₱-	₱-	₱-	₱-	₱1,625,932,731

\* Pertains to committed credit lines and letters of credit of RBC and capital expenditure commitments of CAI.

	2011					Total
	On Demand	Up to 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 Years	
<b>Financial Assets</b>						
Cash and cash equivalents	₱6,652,626,278	₱27,281,203,308	₱-	₱-	₱-	₱33,933,829,586
Financial assets at FVPL:						
Held-for-trading:						
Debt securities:						
Private	-	109,041,032	5,714,983,628	1,726,543,574	295,367,616	7,845,935,850
Government	-	2,255,542	237,707,724	-	1,039,254,600	1,279,217,866
	-	111,296,574	5,952,691,352	1,726,543,574	1,334,622,216	9,125,153,716
Equity securities:						
Quoted	1,464,599,372	47,983,275	536,072,048	-	183,032,000	2,231,686,695
Unquoted	-	-	4,516	-	-	4,516
	1,464,599,372	47,983,275	536,076,564	-	183,032,000	2,231,691,211
	1,464,599,372	159,279,849	6,488,767,916	1,726,543,574	1,517,654,216	11,356,844,927
Derivative financial assets:						
Not designated as accounting hedges	-	13,374,755	18,135,228	251,777,742	-	283,287,725
	1,464,599,372	172,654,604	6,506,903,144	1,978,321,316	1,517,654,216	11,640,132,652
AFS investments:						
Debt securities:						
Government	-	88,268,320	2,287,296,942	835,054,238	9,018,261,050	12,228,880,550
Private	-	43,883,351	2,596,797,323	107,941,289	1,449,625,090	4,198,247,053
	-	132,151,671	4,884,094,265	942,995,527	10,467,886,140	16,427,127,603

(Forward)





	2011					Total
	On Demand	Up to 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 Years	
Equity securities:						
Quoted	21,720,000	–	966,485,427	102,698,179	43,586,120,449	44,677,024,055
Unquoted	16,378,200	–	687,671	–	–	17,065,871
	38,098,200	–	967,173,098	102,698,179	43,586,120,449	44,694,089,926
	38,098,200	132,151,671	5,851,267,363	1,045,693,706	54,054,006,589	61,121,217,529
Receivables:						
Trade receivables	₱2,612,833,627	₱3,230,512,991	₱1,664,005,784	₱949,512,472	₱239,905,617	₱8,696,770,491
Finance receivables	416,839,431	833,150,105	1,257,095,628	7,259,042,779	8,666,308,650	18,432,436,593
Due from related parties	1,356,382,048	–	–	–	–	1,356,382,048
Interest receivable	649,825,372	65,509,287	–	–	–	715,334,659
Other receivables	1,030,802,434	178,040,282	162,369,841	615,194,330	19,589,427	2,005,996,314
	6,066,682,912	4,307,212,665	3,083,471,253	8,823,749,581	8,925,803,694	31,206,920,105
Refundable security deposits	166,175,680	1,106,342	–	20,319,709	225,596,431	413,198,162
Other financial assets (included under 'Other current assets' in the consolidated statement of financial position)	61,251	–	4,363,715,571	–	–	4,363,776,822
	₱14,388,243,693	₱31,894,328,590	₱19,805,357,331	₱11,868,084,312	₱64,723,060,930	₱142,679,074,856
Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties')	₱4,760,253,259	₱7,515,880,786	₱4,682,205,610	₱401,616,668	₱1,105,057,028	₱18,465,013,351
Short-term debt	–	19,091,151,558	32,730,137	–	–	19,123,881,695
Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)	2,522,134,130	2,687,341,145	1,152,412,209	1,684,020,827	–	8,045,908,311
Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position)	631,338,794	–	168,346	994,856,747	–	1,626,363,887
Deposits from lessees and accrued maintenance cost (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position)	–	90,061,557	84,483,584	1,799,300,032	21,084,551	1,994,929,724
Accrued maintenance cost (included under 'Other noncurrent liabilities' in the consolidated statement of financial position)	–	–	–	670,810,817	–	670,810,817
Derivative financial liability (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position)	–	–	85,244,646	218,686,239	–	303,930,885
Long-term debt (including current portion)	–	1,258,471,761	16,330,352,698	53,640,643,054	5,273,175,920	76,502,643,433
	₱7,913,726,183	₱30,642,906,807	₱22,367,597,230	₱59,409,934,384	₱6,399,317,499	₱126,733,482,103
<b>Off-balance sheet</b>						
Commitments*	₱870,512,753	₱–	₱9,737,276,141	₱56,840,205,217	₱–	₱67,447,994,111

\* Pertains to committed credit lines and letters of credit of RBC and capital expenditure commitments of CAI.

### Market risk

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



The following discussion covers the market risks of the Group except for its Banking Segment:

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Group makes use of derivative financial instruments, such as currency swaps, to hedge foreign currency exposure (Note 8).

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. As of December 31, 2012, 2011 and 2010, approximately 31.8%, 32.2% and 30.3%, respectively, of the Group's total sales are denominated in currencies other than the functional currency. In addition, approximately 35.6% and 48.6% of total debt are denominated in US Dollar as of December 31, 2012 and 2011, respectively. The Group's capital expenditures are likewise substantially denominated in US Dollar.

The tables below summarize the Group's exposure to foreign currency risk as of December 31, 2012 and 2011:

	2012		Total
	US Dollar	Other Currencies*	
<b>Assets</b>			
Cash and cash equivalents	₱9,067,275,307	₱1,447,775,844	₱10,515,051,151
Financial assets at FVPL	12,212,817,299	472,406,181	12,685,223,480
AFS investments	4,852,111,768	294,480,053	5,146,591,821
Receivables	1,323,190,602	2,017,609,027	3,340,799,629
Derivative assets	102,682,762	834,167	103,516,929
Other noncurrent assets	33,495,063	–	33,495,063
	<b>27,591,572,801</b>	<b>4,233,105,272</b>	<b>31,824,678,073</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	5,055,514,584	3,119,884,640	8,175,399,224
Short-term debt	11,091,837,396	5,898,233,228	16,990,070,624
Derivative liability	36,497,678	–	36,497,678
Long-term debt (including current portion)	33,435,014,165	–	33,435,014,165
Other noncurrent liabilities	670,810,775	–	670,810,775
	<b>50,289,674,598</b>	<b>9,018,117,868</b>	<b>59,307,792,466</b>
<b>Net Foreign Currency-Denominated Liabilities</b>	<b>(₱22,698,101,797)</b>	<b>(₱4,785,012,596)</b>	<b>(₱27,483,114,393)</b>

\*Other currencies include Hong Kong Dollar, Singaporean Dollar, Thai Baht, Chinese Yuan, Indonesian Rupiah, Vietnam Dong, Malaysian Ringgit, Korean Won, New Taiwan Dollar, Japanese Yen, Australian Dollar and Euro

	2011		Total
	US Dollar	Other Currencies*	
<b>Assets</b>			
Cash and cash equivalents	₱5,182,469,250	₱1,741,632,529	₱6,924,101,779
Financial assets at FVPL	10,179,569,559	507,350,957	10,686,920,516
AFS investments	1,600,307,829	4,061,201,074	5,661,508,903
Receivables	883,319,038	2,410,904,334	3,294,223,372
Derivative assets	23,839,918	7,670,065	31,509,983
Other noncurrent assets	244,495,030	–	244,495,030
	<b>18,114,000,624</b>	<b>8,728,758,959</b>	<b>26,842,759,583</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	4,515,200,520	3,155,562,770	7,670,763,290
Short-term debt	11,385,073,044	6,204,293,017	17,589,366,061
Derivative liability	218,686,239	–	218,686,239
Long-term debt (including current portion)	40,279,468,271	–	40,279,468,271
Other noncurrent liabilities	670,810,817	–	670,810,817
	<b>57,069,238,891</b>	<b>9,359,855,787</b>	<b>66,429,094,678</b>
<b>Net Foreign Currency-Denominated Liabilities</b>	<b>(₱38,955,238,267)</b>	<b>(₱631,096,828)</b>	<b>(₱39,586,335,095)</b>

\*Other currencies include Hong Kong Dollar, Singaporean Dollar, Thai Baht, Chinese Yuan, Indonesian Rupiah, Vietnam Dong, Malaysian Ringgit, Korean Won, New Taiwan Dollar, Japanese Yen, Australian Dollar and Euro



The exchange rates used to convert the Group's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2012 and 2011 follow:

	<b>2012</b>	2011
US dollar-Philippine peso exchange rate	₱41.05 to US\$1.00	₱43.84 to US\$1.00

Foreign currency borrowings of certain subsidiaries with fiscal year ending September 30 were converted at ₱41.70 and ₱43.72 to US\$1.00 as of September 30, 2012 and 2011, respectively.

The following table sets forth the impact of the range of reasonably possible changes in the US dollar-Philippine peso exchange rate on the Group's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2012, 2011 and 2010.

Reasonably Possible Changes in US Dollar-Philippine Peso Exchange Rates	<b>2012</b>	
	Change in Income Before Income Tax	Change in Equity
12.2%	(₱3,816,888,572)	(₱111,406,250)
(12.2)	3,816,888,572	111,406,250
	2011	
Reasonably Possible Changes in US Dollar-Philippine Peso Exchange Rates	Change in	
	Income Before Income Tax	Change in Equity
11.4%	(₱4,562,857,801)	₱119,361,289
(11.4)	4,562,857,801	(119,361,289)
	2010	
Reasonably Possible Changes in US Dollar-Philippine Peso Exchange Rates	Change in	
	Income Before Income Tax	Change in Equity
11.4%	(₱6,299,276,645)	₱120,581,843
(11.4)	6,299,276,645	(120,581,843)

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

*Equity price risk*

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

In 2012, 2011 and 2010, changes in fair value of equity instruments held as financial assets at FVPL due to a reasonably possible change in equity indices, with all other variables held constant, will increase profit by ₱29.1 million, ₱16.1 million and ₱28.6 million, respectively, if equity prices will increase by 1.5%. A similar increase in equity indices on AFS equity instruments will also increase net unrealized gains on other comprehensive income by ₱569.6 million, ₱793.1 million and ₱20.6 million as of December 31, 2012, 2011 and 2010, respectively. An equal change in the opposite direction would have decreased equity and profit by the same amount.



*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.

The following tables show information about the Group's long-term debt presented by maturity profile:

	2012						Total (In US Dollar)	Total (in Philippine Peso)	Debt Issuance Costs	Carrying Value (in Philippine Peso)	Fair Value
	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years					
Long-term debt											
Foreign currencies:											
<i>Floating rate</i>											
US Dollar loans	US\$16,950,465	US\$16,778,245	US\$15,618,710	US\$15,821,397	US\$16,038,362	US\$102,552,396	US\$183,759,575	₱7,543,330,554	₱-	₱7,543,330,554	₱7,472,062,236
Interest rate (London Interbank Offered Rate (LIBOR) plus margin)											
<i>Fixed rate</i>											
US Dollar loans	306,577,635	50,662,976	51,778,056	53,186,262	66,641,743	14,522,931	543,369,603	25,892,414,795	731,196	25,891,683,599	25,891,683,599
Interest rate (3.4% to 8.3%)											
Local currencies:											
<i>Floating rate</i>											
Philippine Peso loans	2,000,000,000	-	-	-	-	-	-	2,000,000,000	-	2,000,000,000	2,000,000,000
Interest rate (3M MART 1 + 1.0-2.0%)											
<i>Fixed rate</i>											
Philippine Peso loans	4,310,000,000	22,000,000,000	-	-	-	-	-	26,310,000,000	61,728,174	26,248,271,826	27,558,380,614
Interest rate (6.4% to 8.8%)											
							US\$727,129,178	₱61,745,745,349	₱62,459,370	₱61,683,285,979	₱62,922,126,449



		2011						Total	Total	Debt	Carrying Value	Fair Value
		<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	(In US Dollar)	(in Philippine Peso)	Issuance Costs	(in Philippine Peso)	
Long-term debt												
Foreign currencies:												
<i>Floating rate</i>												
US Dollar loans	US\$15,624,071	US\$15,963,283	US\$16,063,580	US\$15,095,474	US\$15,493,179	US\$101,870,331	US\$180,109,918	₱7,896,018,805	₱-	₱7,896,018,805	₱8,647,608,777	
Interest rate (London Interbank Offered Rate (LIBOR) plus margin)												
<i>Fixed rate</i>												
US Dollar loans	228,251,030	296,407,154	40,168,294	40,941,637	42,005,356	91,864,071	739,637,542	32,403,198,788	19,749,322	32,383,449,466	32,154,916,111	
Interest rate (3.4% to 8.3%)												
Local currencies:												
<i>Floating rate</i>												
Philippine Peso loans	₱-	₱2,000,000,000	₱-	₱-	₱-	₱-	-	2,000,000,000	-	2,000,000,000	2,000,000,000	
Interest rate (3M MART 1 + 1.0-2.0%)												
<i>Fixed rate</i>												
Philippine Peso loans	3,007,956,489	4,318,553,226	22,009,194,718	-	-	-	-	29,335,704,433	97,678,410	29,238,026,023	31,837,629,706	
Interest rate (6.4% to 8.8%)												
							US\$919,747,460	₱71,634,922,026	₱117,427,732	₱71,517,494,294	₱74,640,154,594	



The following table sets forth the impact of the range of reasonably possible changes in the interest rates on the Group's income from floating debt obligations before income tax:

Reasonably Possible Changes in Interest Rates	Change in Income Before Income Tax	
	2012	2011
+150 basis points (bps)	(₱143,149,958)	(₱148,440,282)
-150 bps	143,149,958	148,440,282

*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.

	Reasonably Possible Changes in Market Prices	2012	
		Change in Income Before Income Tax	Change in Equity
FVPL	1.5%	(₱1,951,696,554)	₱-
	(1.5)	981,858,439	-
AFS	1.5	-	(457,410,580)
	(1.5)	-	85,282,608
2011			
	Reasonably Possible Changes in Market Prices	Change in Income Before Income Tax	Change in Equity
FVPL	1.5%	(₱1,744,287,162)	₱-
	(1.5)	2,875,831,719	-
AFS	1.5	-	(11,644,476)
	(1.5)	-	2,171,072
2010			
	Reasonably Possible Changes in Market Prices	Change in Income Before Income Tax	Change in Equity
Derivative financial assets:			
Designated as accounting hedges*	1.5%	₱-	₱4,564,897
	(1.5)	-	(4,564,897)
FVPL	1.5	(368,795,005)	-
	(1.5)	404,654,396	-
AFS	1.5	-	(374,030,961)
	(1.5)	-	426,990,357



#### *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. A change in price by US\$10.0 per barrel of jet fuel affects the Group's fuel annual costs on pre-tax income by ₱1.3 billion in 2012, ₱1.1 billion in 2011 and ₱1.0 billion in 2010, assuming no change in volume of fuel is consumed.

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

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

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

#### *VaR objectives and methodology*

VaR is used by RBC to measure market risk exposure from its trading and investment activities. VaR is an estimate of the maximum decline in value on a given position over a specified holding period in a normal market environment, with a given probability of occurrence.

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

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

#### *VaR methodology assumptions and assumptions*

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

- a. VaR is a statistical estimate and thus, does not give the precise amount of loss RBC may incur in the future;
- b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from RBC's exposure to market risk;
- c. Since VaR is computed from end-of-day positions and market factors, VaR does not capture intraday market risk.
- d. VaR systems depend on historical data. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Therefore, market shifts (i.e. an unexpected collapse of the market) will not be captured and may inflict losses larger than anything the VaR model may have calculated; and



- e. The limitation relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR with daily stress testing reported to RBC's Risk Management Committee, Asset-Liability Committee (ALCO) and the concerned risk-takers.

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

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

RBC's VaR figures are as follows (in millions):

	<b>2012</b>			
	<b>Average</b>	<b>High</b>	<b>Low</b>	<b>December 31</b>
Instruments sensitive to local interest rates	<b>₱25.32</b>	<b>₱82.89</b>	<b>₱0.00</b>	<b>₱31.15</b>
Instruments sensitive to foreign interest rates	<b>3.51</b>	<b>16.40</b>	<b>0.00</b>	<b>1.59</b>
Instruments sensitive to foreign exchange rates	<b>5.89</b>	<b>19.88</b>	<b>1.16</b>	<b>4.09</b>
	June 1, 2011 to December 31, 2011			
	Average	High	Low	December 31
Instruments sensitive to local interest rates	₱0.30	₱29.38	₱0.00	₱0.00
Instruments sensitive to foreign interest rates	0.11	2.82	0.00	0.00
Instruments sensitive to foreign exchange rates	1.38	7.50	0.01	5.84
	January 1, 2011 to May 31, 2011			
	Average	High	Low	May 31
Instruments sensitive to local interest rates	₱37.58	₱53.31	₱21.63	₱52.90
Instruments sensitive to foreign interest rates	42.13	45.92	34.34	43.53

Daily VaR figures are based on positions of the previous day. In addition, the VaR figures from June 1 to December 31, 2011 were derived from the enhanced VaR model. Prior to this period, VaR figures are based on the previous model, which are based on weekly calculations and do not include a foreign exchange risk VaR.

*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.

RBC's EaR figures are as follows (in PHP millions):

	2012			December 31
	Average	High	Low	
Instruments sensitive to local interest rates	<b>₱53.95</b>	<b>₱75.98</b>	<b>₱37.42</b>	<b>₱37.42</b>
Instruments sensitive to foreign interest rates	<b>0.13</b>	<b>0.15</b>	<b>0.11</b>	<b>0.11</b>

	2011			December 31
	Average	High	Low	
Instruments sensitive to local interest rates	₱85.59	₱127.85	₱47.41	₱110.71
Instruments sensitive to foreign interest rates	1.67	2.19	1.07	1.07

*Foreign currency risk*

RBC seeks to maintain a square or minimal position on its foreign currency exposure. Foreign currency liabilities generally consist of foreign currency deposits in RBC's Foreign Currency Deposit Unit (FCDU). Foreign currency deposits are generally used to fund RBC's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in the FCDU. In addition, the BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held in the FCDU. RBC uses VaR methodology for measuring foreign currency risk.



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## 5. Fair Value of Financial Assets and Liabilities

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

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

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

*Finance receivables*

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

*Installment contract receivables*

Fair values of installment contract receivables are based on the discounted value of future cash flows using the applicable rates for similar types of receivables. The discount rates used range from 5.5% to 7.0% in 2012 and 6.1% to 7.1% in 2011.

*Debt securities*

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

*Quoted equity securities*

Fair values are based on quoted prices published in markets.

*Unquoted equity securities*

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

*Amounts due from and due to related parties*

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

*Deposit liabilities*

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

*Noninterest-bearing refundable security deposits*

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

*Long-term debt*

The fair value of long-term debt is based on the discounted value of future cash flows (interests and principal) using the applicable rates for similar types of loans. The discount rates used range from 0.6% to 4.4% in 2012 and 0.2% to 7.1% in 2011.



*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.

As of December 31, 2012 and 2011, except for the following financial instruments, the carrying values of the Group's financial assets and liabilities as reflected in the consolidated statements of financial position and related notes approximate their respective fair values.

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Finance receivables	₱17,199,408,241	₱18,194,425,860	₱12,160,584,030	₱12,466,282,512
Trade receivables	10,081,857,609	9,937,549,146	8,696,770,491	8,370,810,859
Other receivables	1,462,893,256	1,472,826,975	1,906,510,189	1,890,398,754
	<b>28,744,159,106</b>	<b>29,604,801,981</b>	22,763,864,710	22,727,492,125
Refundable security deposits (included under 'Other current assets' and 'Other noncurrent assets' in the consolidated statements of financial position)	853,951,456	853,951,456	413,198,162	373,731,733
	<b>₱29,598,110,562</b>	<b>₱30,458,753,437</b>	₱23,177,062,872	₱23,101,223,858
<b>Financial Liabilities</b>				
Financial liabilities at amortized cost:				
Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)	₱19,461,932,760	₱19,507,017,212	₱7,702,783,632	₱7,743,748,398
Deposits from lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statements of financial position)	2,343,073,329	2,151,225,512	1,994,929,724	1,899,672,575
Long-term debt (including current portion)	61,683,285,979	62,922,126,449	71,517,494,294	74,640,154,594
	<b>₱83,488,292,068</b>	<b>₱84,580,369,173</b>	₱81,215,207,650	₱84,283,575,567

*Fair Value Hierarchy of Financial Instruments*

All financial instruments carried at fair value are classified in three categories, defined as follows:

- (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.



The following table shows the Group's financial instruments carried at fair value:

	December 31, 2012		
	Level 1	Level 2	Total
<b>Financial Assets</b>			
Financial assets at FVPL:			
Held-for-trading:			
Debt securities:			
Private	P9,490,640,714	P-	P9,490,640,714
Government	3,601,933,831	-	3,601,933,831
	13,092,574,545	-	13,092,574,545
Equity securities:			
Quoted	2,137,860,739	-	2,137,860,739
	15,230,435,284	-	15,230,435,284
Derivative financial assets:			
Not designated as accounting hedges	-	302,748,695	302,748,695
	15,230,435,284	302,748,695	15,533,183,979
AFS investments:			
Debt securities:			
Government	8,038,973,592	-	8,038,973,592
Private	3,087,495,880	-	3,087,495,880
	11,126,469,472	-	11,126,469,472
Equity securities:			
Quoted	45,218,452,860	-	45,218,452,860
	56,344,922,332	-	56,344,922,332
	P71,575,357,616	P302,748,695	P71,878,106,311
<b>Financial Liabilities</b>			
Financial liabilities at FVPL:			
Derivative financial liabilities:			
Not designated as accounting hedges	P-	P41,178,211	P41,178,211

	December 31, 2011		
	Level 1	Level 2	Total
<b>Financial Assets</b>			
Financial assets at FVPL:			
Held-for-trading:			
Debt securities:			
Private	P7,412,283,736	P40,497,717	P7,452,781,453
Government	1,273,482,420	-	1,273,482,420
	8,685,766,156	40,497,717	8,726,263,873
Equity securities:			
Quoted	2,231,686,695	-	2,231,686,695
	10,917,452,851	40,497,717	10,957,950,568
Derivative financial assets:			
Not designated as accounting hedges	-	283,287,725	283,287,725
	10,917,452,851	323,785,442	11,241,238,293

(Forward)



	December 31, 2011		
	Level 1	Level 2	Total
AFS investments:			
Debt securities:			
Government	₱7,613,169,977	₱-	₱7,613,169,977
Private	3,440,104,893	-	3,440,104,893
	11,053,274,870	-	11,053,274,870
Equity securities:			
Quoted	44,677,024,055	-	44,677,024,055
	55,730,298,925	-	55,730,298,925
	₱66,647,751,776	₱323,785,442	₱66,971,537,218
<b>Financial Liabilities</b>			
Financial liabilities at FVPL:			
Derivative financial liabilities:			
Not designated as accounting hedges	₱-	₱303,930,885	₱303,930,885

In 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements. The Group has no Level 3 financial instruments. No transfers between any level of the fair value hierarchy took place in the equivalent comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

## 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.
- Telecommunications - service provider of voice and data telecommunications services which include international gateway facilities, a local exchange network and traditional business services (fax, telex, leased lines and other value-added network products, value-added network provider using electronics data interchange). This segment is presented under discontinued operations in 2011 and 2010.
- Other supplementary businesses - asset management, insurance brokering, foreign exchange and securities dealing. Beginning 2012, other supplementary businesses include dividend income from PLDT.

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

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

The Executive Committee (Excom) is actively involved in planning, approving, reviewing, and assessing the performance of each of the Group's segments. The Excom oversees Group's decision making process. The Excom's functions are supported by the heads of each of the operating segments, which provide essential input and advice in the decision-making process.

The 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 years ended December 31, 2012, 2011 and 2010. 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:

	December 31, 2012							
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	₱71,201,677,779	₱37,904,453,623	₱13,496,159,940	₱4,912,723,947	₱2,533,727,931	₱-	₱-	₱130,048,743,220
Intersegment revenue	-	-	-	186,113,022	-	-	(186,113,022)	-
	71,201,677,779	37,904,453,623	13,496,159,940	5,098,836,969	2,533,727,931	-	(186,113,022)	130,048,743,220
Dividend income (Note 28)	204,844,077	4,356,090	-	-	-	2,986,908,592	-	3,196,108,759
Equity in net earnings of associates and joint ventures (Note 14)	31,172,102	54,384,007	1,796,079,451	-	-	132,758,014	(5,981,635)	2,008,411,939
<b>Total revenue</b>	71,437,693,958	37,963,193,720	15,292,239,391	5,098,836,969	2,533,727,931	3,119,666,606	(192,094,657)	135,253,263,918
Cost of sales and services (Note 30)	52,730,554,394	27,739,594,145	6,373,057,083	5,339,913,965	779,311,082	-	(283,258,410)	92,679,172,259
<b>Gross income (loss)</b>	₱18,707,139,564	₱10,223,599,575	₱8,919,182,308	(₱241,076,996)	₱1,754,416,849	₱3,119,666,606	91,163,753	42,574,091,659
General and administrative expenses (Note 31)								21,734,816,649
Impairment losses and others (Note 34)								271,254,229
<b>Operating income</b>								20,568,020,781
Financing cost and other charges (Note 35)								(4,120,299,659)
Finance income (Note 27)								2,479,635,046
Other operating income (Note 29)								545,470,985
<b>Core earnings</b>								19,472,827,153
Market valuation gain on financial assets at FVPL and derivative financial instruments								1,865,898,229
Foreign exchange gains								1,399,125,794
<b>Income before income tax</b>								22,737,851,176
Provision for income tax (Note 38)								2,833,691,846
<b>Net income</b>								₱19,904,159,330
<b>Net income (loss) attributable to equity holders of the Parent Company</b>	₱4,690,870,141	₱2,400,013,513	₱4,380,410,829	(₱523,734,964)	₱233,939,942	₱2,490,563,052	(₱139,168,130)	₱13,532,894,383
<b>EBIT</b>	₱8,036,540,837	₱2,718,718,333	₱5,214,880,264	(₱533,488,314)	₱528,254,390	₱4,603,115,271	₱-	₱20,568,020,781
Depreciation and amortization (Notes 15, 16, 18 and 33)	3,419,027,676	2,767,863,860	2,083,885,060	157,146,499	103,918,231	39,992,831	-	8,571,834,157
<b>EBITDA</b>	₱11,455,568,513	₱5,486,582,193	₱7,298,765,324	(₱376,341,815)	₱632,172,621	₱4,643,108,102	₱-	₱29,139,854,938

(Forward)



	December 31, 2012							
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization (Note 34):								
Impairment losses on:								
Intangible assets (Note 18)	₱190,223,400	₱-	₱-	₱-	₱-	₱-	₱-	₱190,223,400
Receivables (Note 11)	-	2,697,464	731,444	-	60,435,613	-	-	63,864,521
Other noncurrent assets (Note 20)	-	-	-	-	8,106,596	-	-	8,106,596
Property, plant and equipment (Note 16)	7,651,176	-	-	-	-	-	-	7,651,176
Inventory obsolescence and market decline (Note 12)	-	-	-	1,408,536	-	-	-	1,408,536
	<b>₱197,874,576</b>	<b>₱2,697,464</b>	<b>₱731,444</b>	<b>₱1,408,536</b>	<b>₱68,542,209</b>	<b>₱-</b>	<b>₱-</b>	<b>₱271,254,229</b>





December 31, 2011  
(As Restated - Notes 2 and 28)

	CONTINUING OPERATIONS							DISCONTINUED OPERATIONS		TOTAL OPERATIONS
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL	Tele-communications	
<b>Revenue</b>										
Sale of goods and services:										
External customers	₱67,167,630,481	₱33,935,402,775	₱12,789,785,121	₱4,781,883,298	₱2,359,933,505	₱-	₱-	₱121,034,635,180	₱4,524,649,269	₱125,559,284,449
Intersegment revenue	-	-	-	990,764,289	-	-	(990,764,289)	-	-	-
	67,167,630,481	33,935,402,775	12,789,785,121	5,772,647,587	2,359,933,505	-	(990,764,289)	121,034,635,180	4,524,649,269	125,559,284,449
Dividend income (Note 28)	211,016,855	30,550,894	-	-	-	3,391,213	-	244,958,962	-	244,958,962
Equity in net earnings of associates and joint ventures (Note 14)	25,469,633	42,318,202	2,037,713,779	-	-	118,079,804	(5,981,635)	2,217,599,783	-	2,217,599,783
<b>Total revenue</b>	67,404,116,969	34,008,271,871	14,827,498,900	5,772,647,587	2,359,933,505	121,471,017	(996,745,924)	123,497,193,925	4,524,649,269	128,021,843,194
Cost of sales and services (Note 30)	50,645,273,658	24,071,054,839	6,509,426,344	5,792,194,377	684,063,083	-	(990,764,289)	86,711,248,012	496,535,978	87,207,783,990
<b>Gross income (loss)</b>	₱16,758,843,311	₱9,937,217,032	₱8,318,072,556	(₱19,546,790)	₱1,675,870,422	₱121,471,017	(₱5,981,635)	36,785,945,913	4,028,113,291	40,814,059,204
General and administrative expenses (Note 31)								19,105,642,981	3,625,943,506	22,731,586,487
Impairment losses and others (Note 34)								329,638,645	59,401,794	389,040,439
<b>Operating income</b>								17,350,664,287	342,767,991	17,693,432,278
Financing cost and other charges (Note 35)								(5,358,526,349)	(116,858,869)	(5,475,385,218)
Finance income (Note 27)								3,215,590,280	1,398,694,829	4,614,285,109
Other operating income (Note 29)								1,074,512,120	7,713,286	1,082,225,406
<b>Core earnings</b>								16,282,240,338	1,632,317,237	17,914,557,575
Market valuation loss on financial assets at FVPL and derivative financial instruments								(648,911,932)	(43,945,006)	(692,856,938)
Foreign exchange loss								(245,881,638)	(33,963,568)	(279,845,206)
<b>Income before income tax</b>								15,387,446,768	1,554,408,663	16,941,855,431
Provision for income tax (Note 38)								1,962,532,759	12,697,904	1,975,230,663
<b>Income after income tax</b>								13,424,914,009	1,541,710,759	14,966,624,768
Gain on sale of subsidiary								-	11,570,087,639	11,570,087,639
<b>Net income</b>								₱13,424,914,009	₱13,111,798,398	₱26,536,712,407
<b>Net income (loss) attributable to equity holders of the Parent Company</b>	₱2,975,039,881	₱2,436,369,647	₱4,460,830,244	(₱383,972,661)	₱271,582,246	₱722,596,022	(₱2,005,085,557)	₱8,477,359,822	₱13,035,501,339	₱21,512,861,161
<b>EBIT</b>	₱7,125,234,109	₱3,409,224,173	₱4,508,841,960	(₱327,797,733)	₱579,539,354	₱2,055,622,424	₱-	₱17,350,664,287	₱342,767,991	₱17,693,432,278
Depreciation and amortization (Notes 15, 16, 18, 20 and 33)	3,266,144,468	2,314,954,127	2,113,120,088	146,162,144	83,639,461	54,079,595	-	7,978,099,883	1,546,551,044	9,524,650,927
<b>EBITDA</b>	₱10,391,378,577	₱5,724,178,300	₱6,621,962,048	(₱181,635,589)	₱663,178,815	₱2,109,702,019	₱-	₱25,328,764,170	₱1,889,319,035	₱27,218,083,205

(Forward)



December 31, 2011										
	CONTINUING OPERATIONS								DISCONTINUED	TOTAL
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL	OPERATIONS Tele- communications	
<b>Other information</b>										
Non-cash expenses other than depreciation and amortization (Note 34):										
Impairment losses:										
Receivables (Notes 11 and 44)	₱5,625,813	₱611,385	₱770,804	₱6,911,560	₱88,598,316	₱-	₱-	₱102,517,878	₱59,401,794	₱161,919,672
Intangible assets (Note 18)	84,014,765	-	-	-	-	-	-	84,014,765	-	84,014,765
Goodwill (Note 19)	63,500,000	-	-	-	-	-	-	63,500,000	-	63,500,000
Property, plant and equipment (Note 16)	10,065,297	-	-	-	-	-	-	10,065,297	-	10,065,297
Noncurrent assets (Note 20)	-	-	-	-	5,136,823	-	-	5,136,823	-	5,136,823
Investment properties (Note 15)	-	-	-	-	619,075	-	-	619,075	-	619,075
Inventory obsolescence and market decline (Note 12)	4,005,060	-	-	59,779,747	-	-	-	63,784,807	-	63,784,807
	<b>₱167,210,935</b>	<b>₱611,385</b>	<b>₱770,804</b>	<b>₱66,691,307</b>	<b>₱94,354,214</b>	<b>₱-</b>	<b>₱-</b>	<b>₱329,638,645</b>	<b>₱59,401,794</b>	<b>₱389,040,439</b>



December 31, 2010  
(As Restated - Notes 2 and 28)

	CONTINUING OPERATIONS							TOTAL	DISCONTINUED	TOTAL OPERATIONS
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations		OPERATIONS Tele-communications	
<b>Revenue</b>										
Sale of goods and services:										
External customers	₱57,719,996,079	₱29,088,798,959	₱10,807,257,196	₱3,306,184,683	₱1,734,465,754	₱-	₱-	₱102,656,702,671	₱16,543,916,906	₱119,200,619,577
Intersegment revenue	-	-	-	566,078,600	-	-	(566,078,600)	-	-	-
	57,719,996,079	29,088,798,959	10,807,257,196	3,872,263,283	1,734,465,754	-	(566,078,600)	102,656,702,671	16,543,916,906	119,200,619,577
Dividend income (Note 28)	189,654,704	-	-	-	-	3,231,816	-	192,886,520	-	192,886,520
Equity in net earnings of associates and joint ventures (Note 14)	26,194,500	25,248,534	2,648,908,487	-	-	68,373,201	-	2,768,724,722	-	2,768,724,722
<b>Total revenue</b>	57,935,845,283	29,114,047,493	13,456,165,683	3,872,263,283	1,734,465,754	71,605,017	(566,078,600)	105,618,313,913	16,543,916,906	122,162,230,819
Cost of sales and services (Note 30)	41,113,405,237	17,198,113,111	5,203,032,434	3,745,456,507	419,356,008	-	(566,078,600)	67,113,284,697	2,074,712,276	69,187,996,973
<b>Gross income (loss)</b>	₱16,822,440,046	₱11,915,934,382	₱8,253,133,249	₱126,806,776	₱1,315,109,746	₱71,605,017	₱-	38,505,029,216	14,469,204,630	52,974,233,846
General and administrative expenses (Note 31)								17,297,360,553	13,017,906,040	30,315,266,593
Impairment losses and others (Note 34)								345,983,265	359,883,551	705,866,816
<b>Operating income</b>								20,861,685,398	1,091,415,039	21,953,100,437
Financing cost and other charges (Note 35)								(5,527,356,812)	(394,490,003)	(5,921,846,815)
Finance income (Note 27)								1,939,824,597	32,872,466	1,972,697,063
Other operating income (Note 29)								636,480,948	49,363,271	685,844,219
<b>Core earnings</b>								17,910,634,131	779,160,773	18,689,794,904
Market valuation gain (loss) on financial assets at FVPL and derivative financial instruments								1,712,543,894	(68,234,326)	1,644,309,568
Foreign exchange loss								1,938,838,537	907,458,980	2,846,297,517
<b>Income before income tax</b>								21,562,016,562	1,618,385,427	23,180,401,989
Provision for income tax (Note 38)								1,610,249,143	655,589,514	2,265,838,657
<b>Net income</b>								₱19,951,767,419	₱962,795,913	₱20,914,563,332
<b>Net income (loss) attributable to equity holders of the Parent Company</b>	₱5,014,063,930	₱6,555,670,912	₱4,818,939,274	(₱102,146,004)	₱298,339,070	(₱89,038,495)	(₱920,377,070)	₱15,575,451,617	₱746,148,184	₱16,321,599,801
<b>EBIT</b>	₱7,894,057,589	₱6,304,971,378	₱4,008,941,347	(₱96,285,690)	₱342,860,225	₱2,407,140,549	₱-	₱20,861,685,398	₱1,091,415,039	₱21,953,100,437
Depreciation and amortization (Notes 15, 16, 18 and 33)	3,280,800,173	1,866,126,225	1,912,198,868	131,665,885	65,085,613	39,407,744	-	7,295,284,508	5,877,050,996	13,172,335,504
<b>EBITDA</b>	₱11,174,857,762	₱8,171,097,603	₱5,921,140,215	₱35,380,195	₱407,945,838	₱2,446,548,293	₱-	₱28,156,969,906	₱6,968,466,035	₱35,125,435,941

(Forward)



December 31, 2010										
CONTINUING OPERATIONS									DISCONTINUED OPERATIONS	TOTAL
Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL	Tele- communications	TOTAL OPERATIONS	
<b>Other information</b>										
Non-cash expenses other than depreciation and amortization (Note 34):										
Impairment losses on receivables (Notes 11 and 44)	₱163,552,126	₱2,127,309	₱-	₱1,248,635	₱151,285,298	₱12,670,357	₱-	₱330,883,725	₱357,402,880	₱688,286,605
Inventory obsolescence and market decline (Notes 12 and 44)	248,805	-	-	14,850,735	-	-	15,099,540	2,480,671	17,580,211	
	₱163,800,931	₱2,127,309	₱-	₱16,099,370	₱151,285,298	₱12,670,357	₱345,983,265	₱359,883,551	₱705,866,816	



Other information on the Group's operating segments follow:

	December 31, 2012							
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Investments in associates and joint ventures (Note 14)	₱96,139,053	₱511,756,873	₱32,321,698,046	₱-	₱-	₱567,698,708	₱-	₱33,497,292,680
Segment assets	₱69,987,315,242	₱61,443,751,261	₱70,646,747,635	₱25,987,138,741	₱41,329,045,734	₱140,491,976,393	(₱69,587,608,800)	₱340,298,366,206
Short-term debt (Note 23)	₱12,052,897,098	₱-	₱-	₱1,406,680,975	₱-	₱5,937,501,925	₱-	₱19,397,079,998
Long-term debt (Note 23)	₱2,990,455,926	₱22,924,359,199	₱12,000,000,000	₱-	₱-	₱23,768,470,854	₱-	₱61,683,285,979
Segment liabilities	₱23,370,763,638	₱40,074,986,811	₱24,073,545,864	₱4,701,366,873	₱35,597,637,450	₱53,273,017,247	(₱39,719,866,315)	₱141,371,451,568
Capital expenditures (Notes 15 and 16)	₱5,129,191,994	₱10,455,747,815	₱6,300,441,090	₱10,728,395,337	₱361,907,302	₱26,201,816	₱-	₱33,001,885,354

	December 31, 2011									
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Total Continuing Operations	Discontinued Operations Tele- communications	Consolidated
Investments in associates and joint ventures (Note 14)	₱89,966,944	₱409,478,237	₱31,036,493,201	₱-	₱-	₱520,025,486	₱-	₱32,055,963,868	₱-	₱32,055,963,868
Segment assets	₱68,373,683,901	₱54,697,597,746	₱65,118,791,480	₱12,746,546,689	₱31,515,878,991	₱153,364,856,958	(₱72,183,286,823)	₱313,634,068,942	₱-	₱313,634,068,942
Short-term debt (Note 23)	₱7,197,788,918	₱-	₱-	₱2,868,424,854	₱-	₱9,026,420,492	₱-	₱19,092,634,264	₱-	₱19,092,634,264
Long-term debt (Note 23)	₱11,208,210,724	₱20,871,893,433	₱15,000,000,000	₱-	₱-	₱24,437,390,137	₱-	₱71,517,494,294	₱-	₱71,517,494,294
Segment liabilities	₱26,347,172,407	₱36,705,516,893	₱26,082,193,270	₱4,314,877,711	₱26,170,627,184	₱70,054,948,477	(₱56,440,086,978)	₱133,235,248,964	₱-	₱133,235,248,964
Capital expenditures (Notes 15 and 16)	₱4,559,453,861	₱9,405,733,815	₱11,082,104,773	₱8,233,931,355	₱166,238,050	₱1,103,993,948	₱-	₱34,551,455,802	₱1,280,729,400	₱35,832,185,202



December 31, 2010

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Total Continuing Operations	Discontinued Operations Tele- communications	Consolidated
Investments in associates and joint ventures	₱89,497,240	₱369,644,738	₱29,361,243,640	₱-	₱-	₱605,376,630	₱-	₱30,425,762,248	₱-	₱30,425,762,248
Segment assets	₱65,367,175,366	₱48,904,680,686	₱53,101,135,224	₱7,679,208,825	₱24,590,673,476	₱157,085,570,977	(₱122,514,595,174)	₱234,213,849,380	₱90,897,908,000	₱325,111,757,380
Short-term debt	₱5,111,859,534	₱-	₱-	₱2,255,696,545	₱-	₱7,535,085,610	₱-	₱14,902,641,689	₱449,404,721	₱15,352,046,410
Long-term debt	₱11,226,348,770	₱18,432,708,704	₱15,000,000,000	₱-	₱-	₱37,732,864,045	₱-	₱82,391,921,519	₱15,264,176,622	₱97,656,098,141
Segment liabilities	₱23,528,934,357	₱32,345,072,561	₱25,363,707,010	₱9,687,852,790	₱19,955,942,974	₱87,832,987,863	(₱113,916,530,528)	₱84,797,967,027	₱90,853,393,000	₱175,651,360,027
Capital expenditures	₱3,582,808,089	₱8,069,677,765	₱4,698,283,286	₱1,319,212,632	₱137,321,822	₱74,099,624	₱-	₱17,881,403,218	₱12,730,978,969	₱30,612,382,187



Reconciliation of Income Before Income Tax to EBITDA and Core Earnings

	2012	2011	2010
Income before income tax	<b>₱22,737,851,176</b>	₱16,941,855,431	₱23,180,401,989
Finance income	<b>(2,479,635,046)</b>	(4,614,285,109)	(1,972,697,063)
Financing cost and other charges	<b>4,120,299,659</b>	5,475,385,218	5,921,846,815
Other operating income	<b>(545,470,985)</b>	(1,082,225,406)	(685,844,219)
Market valuation losses (gains) on financial assets at FVPL and derivative financial instruments	<b>(1,865,898,229)</b>	692,856,938	(1,644,309,568)
Foreign exchange losses (gains)	<b>(1,399,125,794)</b>	279,845,206	(2,846,297,517)
EBIT	<b>20,568,020,781</b>	17,693,432,278	21,953,100,437
Depreciation and amortization	<b>8,571,834,157</b>	9,524,650,927	13,172,335,504
<b>EBITDA</b>	<b>₱29,139,854,938</b>	₱27,218,083,205	₱35,125,435,941
Income before income tax	<b>₱22,737,851,176</b>	₱16,941,855,431	₱23,180,401,989
Market valuation losses (gains) on financial assets at FVPL and derivative financial instruments	<b>(1,865,898,229)</b>	692,856,938	(1,644,309,568)
Foreign exchange losses (gains)	<b>(1,399,125,794)</b>	279,845,206	(2,846,297,517)
<b>Core earnings</b>	<b>₱19,472,827,153</b>	₱17,914,557,575	₱18,689,794,904

Intersegment Revenues

Intersegment revenues are eliminated at the consolidation level.

Segment Results

Segment results pertain to the net income (loss) of each of the operating segments adjusted by the subsequent take up of significant transactions of operating segments with fiscal year-end and the capitalization of borrowing costs at the consolidated level for qualifying assets held by a certain subsidiary. The chief decision maker also uses the 'Core earnings', 'EBIT' and 'EBITDA' in measuring the performance of each of the Group's operating segments. The Group defines each of the operating segment's 'Core earnings' as the total of the 'Operating income', 'Finance income' and 'Other operating income' deducted by the 'Financing cost and other charges'. EBIT is equivalent to the Group's operating income while EBITDA is computed by adding back to the EBIT the depreciation and amortization expenses during the period. Depreciation and amortization include only the depreciation and amortization of , plant and equipment, investment properties, deferred subscriber acquisition and retention costs and intangible assets.

Depreciation and amortization

In 2012, the amount of reported depreciation and amortization includes depreciation for investment properties and property, plant and equipment, and amortization of intangible assets. In 2011 and 2010, the amount of depreciation and amortization includes depreciation for investment properties and property, plant and equipment, and amortization of intangible assets and deferred subscriber acquisition and retention costs.

Segment Assets

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



Segment Liabilities

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

Capital Expenditures

The components of capital expenditures reported to the chief operating decision maker are the acquisitions of investment property and property, plant and equipment during the period, including those acquired through business combination.

Geographical Information

The Group operates in the Philippines, Thailand, Malaysia, Indonesia, China, Hong Kong, Singapore and Vietnam.

The following table shows the distribution of the Group's consolidated revenues to external customers by geographical market, regardless of where the goods were produced:

	2012	2011	2010
Domestic	<b>₱92,306,425,530</b>	₱83,688,946,042	₱73,586,797,958
Foreign	<b>42,946,838,388</b>	39,808,247,883	32,031,515,955
	<b>₱135,253,263,918</b>	₱123,497,193,925	₱105,618,313,913

The Group has no significant customer which contributes 10.0% or more of the consolidated revenues of the Group.

The table below shows the Group's carrying amounts of noncurrent assets per geographic location excluding noncurrent financial assets, deferred tax assets and pension assets:

	2012	2011
Domestic	<b>₱143,443,397,440</b>	₱118,706,531,073
Foreign	<b>41,945,977,046</b>	39,531,622,201
	<b>₱185,389,374,486</b>	₱158,238,153,274

**7. Cash and Cash Equivalents**

This account consists of:

	2012	2011
Cash on hand	<b>₱1,109,973,269</b>	₱781,049,127
Cash in banks	<b>13,542,523,264</b>	8,350,559,234
Cash equivalents	<b>5,045,575,974</b>	24,763,734,644
	<b>₱19,698,072,507</b>	₱33,895,343,005

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group, and earn annual interest ranging from 0.2% to 3.9%, 0.2% to 4.9% and 0.3% to 4.8% in 2012, 2011 and 2010, respectively.





## 8. Derivative Financial Instruments

The tables below show the fair value of the Group's outstanding derivative financial instruments, reported as assets or liabilities, together with their notional amounts as of December 31, 2012 and 2011. The notional amount is the basis upon which changes in the value of derivatives are measured.

	December 31, 2012					
	Notional Amounts				Derivative Assets	Derivative Liabilities
	US Dollar	Euro	Philippine Peso	Philippine Peso Equivalent		
<b>Derivatives Not Designated as Accounting Hedges</b>						
Freestanding:						
Interest rate swaps	US\$60,000,000	€-	₱2,000,000,000	₱4,463,000,000	₱90,143,152	₱36,497,678
Commodity swaps*	-	-	-	-	102,682,762	-
Currency options	-	900,000	-	49,077,000	834,167	4,680,533
Cross currency swaps	7,000,000	-	-	395,565,163	109,088,614	-
	<b>US\$67,000,000</b>	<b>€900,000</b>	<b>₱2,000,000,000</b>	<b>₱4,907,642,163</b>	<b>₱302,748,695</b>	<b>₱41,178,211</b>
<b>Presented in the consolidated statements of financial position as:</b>						
Current					<b>₱302,748,695</b>	<b>₱41,178,211</b>

\*Nominal quantity amounted to 240,000 US barrels as of December 31, 2012.



December 31, 2011						
	Notional Amounts				Derivative Assets	Derivative Liabilities
	US Dollar	Euro	Philippine Peso	Philippine Peso Equivalent		
<b>Derivatives Not Designated as Accounting Hedges</b>						
Freestanding:						
Interest rate swaps	US\$180,000,000	€-	₱2,000,000,000	₱9,891,200,000	₱172,496,875	₱218,686,239
Commodity swaps and options*	-	-	-	-	16,880,208	60,857,586
Currency options	-	900,000	-	51,158,520	7,552,893	22,991,518
Cross currency swaps	7,000,000	-	-	395,565,163	79,280,867	-
Foreign currency forwards	10,980,390	900,000	-	532,538,518	7,076,882	1,395,542
	US\$197,980,390	€1,800,000	₱2,000,000,000	₱10,870,462,201	₱283,287,725	₱303,930,885
<b>Presented in the consolidated statements of financial position as:</b>						
Current					₱110,790,850	₱85,244,646
Noncurrent (Notes 20 and 24)					172,496,875	218,686,239
					₱283,287,725	₱303,930,885

\*Nominal quantity amounted to 600,000 US barrels as of December 31, 2011.



*Derivatives not designated as accounting hedges*

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

- Interest rate swaps

On May 28, 2008, the Group entered into an interest rate swap agreement with a bank, with a total notional amount of ₱2.0 billion to hedge its interest rate exposures on the Inverse Floating Rate Notes bearing an interest of 15.7% less 3-month (3M) benchmark rate (PDST-F). The interest rate swap has a term of five years and interest exchange is every 5th day of March, June, September and December. Under the agreement, the Group agreed with the counterparty to exchange at quarterly intervals, the Group's floating rate payments on the Inverse Floating Rate Notes based on 3M PDST-F (but not to exceed 15.7%) with fixed rate payments based on a 7.0% coupon rate. The swap agreement effectively fixes the Group's interest rate exposure on the inverse floating note to 8.8%. The interest rate swap will mature on the same date as the hedged Inverse Floating Rate Notes. As of December 31, 2012 and 2011, the positive fair values of this interest rate swap agreement amounted to ₱90.1 million and ₱172.5 million, respectively.

On June 27, 2008, the Group entered into an interest rate swap option (swaption) with a notional amount of US\$100.0 million. Under the swaption, the Group provided an option to the counterparty to enter into a swap where the Group would pay a fixed rate of 3.7% and receive LIBOR every interest payment date (every June 16 and December 16). The option is exercisable on December 12, 2008. If the option is exercised, the first swap payment would cover the interest period December 16, 2008 to June 16, 2009. The option premium amounted to \$0.3 million and was recognized in the consolidated statements of comprehensive income.

On December 12, 2008, the option was exercised and the resulting interest rate swap was used to hedge the interest cash flow variability arising from the movements in the benchmark LIBOR of the remaining US\$100.0 million of the US\$300.0 million loan starting December 16, 2008. The notional amount of the interest rate swap is subject to semi-annual amortization of US\$20.0 million starting June 16, 2011 and will be fully settled on June 16, 2013. As of December 31, 2012 and 2011, the outstanding notional amount is US\$20.0 million and US\$60.0 million, respectively, and the negative fair values of this interest rate swap amounted to ₱12.2 million and ₱72.9 million, respectively.

- Commodity derivatives

The Group entered into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a credit to or charge against profit or loss. As of December 31, 2012 and 2011, the Group has outstanding fuel hedging transactions with notional quantity of 240,000 US barrels and 600,000 US barrels, respectively. The notional quantity is the amount of derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. Some of these derivatives are commodity options, which can be exercised at various calculation dates with specified quantities on each calculation date. As of December 31, 2012, these commodity options have various maturity dates through December 31, 2013.

As of December 31, 2012, the positive fair value of the commodity derivatives amounted to ₱102.7 million. As of December 31, 2011, the positive and negative fair values of the commodity derivatives amounted to ₱16.9 million and ₱60.9 million, respectively.



- **Currency options**  
The Group entered into currency options that are all due within one year from respective reporting dates and have a total notional amount of €0.9 million as of December 31, 2012 and 2011. The positive and negative fair values of these currency options amounted to ₱0.8 million and ₱4.7 million, respectively, as of December 31, 2012 and ₱7.6 million and ₱23.0 million, respectively, as of December 31, 2011.
- **Currency swaps**  
On January 27, 2010, July 16, 2008 and June 11, 2008, the Group entered into a long-term currency swap agreements to hedge the foreign exchange risk on certain AFS investments. As of December 31, 2012 and 2011, the positive fair value of the currency swaps amounted to ₱109.1 million and ₱79.3 million, respectively. As of December 31, 2012 and 2011, outstanding notional amount is US\$7.0 million.

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

- **Foreign currency forwards**  
The Group entered into short-term nondeliverable foreign currency forward contracts. The Group's short-term forwards have varying tenors ranging from one to three months and have a total notional amount of US\$11.0 million and €0.9 million as of December 31, 2011. The positive and negative fair values of these foreign currency forwards amounted to ₱7.1 million and ₱1.4 million as of December 31, 2011.

#### *Derivatives designated as accounting hedges*

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

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

- **Interest rate swaps**  
On April 23, 2008 and May 9, 2008, the Group entered into two interest rate swaps with amortizing notional amount of US\$100.0 million each. The swaps are intended to hedge the interest rate exposure due to the movements in the benchmark LIBOR on US\$200.0 million of the US\$300.0 million Guaranteed Term Loan Facility due 2013 (Note 23). Under the swaps, the Group pays fixed and receives LIBOR every interest payment date (every June 16 and December 16). The notional amount of the interest rate swaps is subject to semi-annual amortization of US\$20.0 million starting June 16, 2011. The effectivity of both swaps is on June 16, 2008 and maturity date is on June 16, 2013. The terms of the swaps (i.e., benchmark rate, notional amount, fixing dates and maturity date) coincide with the hedged loan.

#### Hedge Effectiveness Results

In 2010, the net effective fair value changes on the Group's cash flow hedge that was deferred in other comprehensive income under 'Net unrealized gains (losses) on cash flow hedge' amounted to ₱52.3 million (Note 36). In 2011, prior to the termination of the underlying hedged loan, the effective fair value changes on the cashflow hedge amounting to ₱175.8 million was deferred in other comprehensive income (Note 36).



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

Subsequent to the termination of the underlying hedged loan, the cumulative changes in fair value of the derivatives amounting to ₱188.5 million that was deferred in other comprehensive income was recycled to profit or loss under ‘Market valuation gains on derivative financial instruments’ in the consolidated statements of comprehensive income.

As of December 31, 2012 and 2011, the negative fair value of the swaps amounted to ₱24.3 million and ₱145.8 million, respectively, and the outstanding notional amount is US\$40.0 million and US\$120.0 million, respectively.

Net Unrealized Losses on Cash Flow Hedge

Movements in the net unrealized losses on cash flow hedge consist of:

	2011	2010
Beginning balance	(₱364,294,311)	(₱416,590,436)
Net changes shown in other comprehensive income (Note 36):		
Net changes in fair value of derivatives taken to other comprehensive income	175,838,098	52,296,125
Amounts recycled to profit or loss	188,456,213	-
	364,294,311	52,296,125
	₱-	(₱364,294,311)

*Fair value changes in derivatives*

The net movements in fair value of the Group’s derivative financial instruments follow:

	2012	2011
Balance at beginning of year:		
Derivative assets	₱283,287,725	₱1,186,178,607
Derivative liabilities	(303,930,885)	(809,157,927)
	(20,643,160)	377,020,680
Net changes in fair value of derivatives taken to profit or loss:		
Continuing operations	361,470,480	498,667,680
Discontinued operations (Note 44)	-	(43,945,006)
Net changes in fair value of derivatives taken to other comprehensive income	-	175,838,098
Fair value of settled instruments	(79,256,836)	(807,983,448)
Effect of disposal of a subsidiary	-	(220,241,164)
	282,213,644	(397,663,840)
Balance at end of year:		
Derivative assets	302,748,695	283,287,725
Derivative liabilities	(41,178,211)	(303,930,885)
	₱261,570,484	(₱20,643,160)

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.



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

These investments that are held for trading consist of:

	2012	2011
Debt securities:		
Private	<b>₱9,490,640,714</b>	₱7,452,781,453
Government	<b>3,601,933,831</b>	1,273,482,420
	<b>13,092,574,545</b>	8,726,263,873
Equity securities:		
Quoted	<b>2,137,860,739</b>	2,231,686,695
Unquoted	<b>3,079</b>	4,516
	<b>2,137,863,818</b>	2,231,691,211
	<b>₱15,230,438,363</b>	₱10,957,955,084

In 2012 and 2010, the Group recognized net market valuation gains on financial assets at FVPL amounting to ₱1.5 billion and ₱1.2 billion, respectively. In 2011, the Group recognized net market valuation losses on financial assets at FVPL amounting to ₱1.1 billion.

Interest income recognized on financial assets at FVPL consists of (Note 27):

	2012	2011	2010
Debt securities:			
Private	<b>₱606,351,348</b>	₱658,507,026	₱585,286,153
Government	<b>189,857,833</b>	94,821,394	104,017,469
	<b>₱796,209,181</b>	₱753,328,420	₱689,303,622

### Reclassification of Financial Assets at FVPL

Following the amendments to PAS 39 and PFRS 7, the Group reclassified certain trading assets from the 'Financial assets at FVPL' category to the 'AFS investments' category in the December 31, 2008 consolidated statement of financial position. The global credit crunch in 2008 had prompted the amendments to be issued by the IASB, and the adoption of these amendments permitted the Group to revisit the existing classification of their financial assets. The Group identified assets, eligible under the amendments, for which at July 1, 2008, it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. The disclosures below detail the impact of the reclassifications in the Group's consolidated financial statements.

The following table shows the carrying values of the reclassified assets:

	September 30, 2012*	September 30, 2011*	September 30, 2010*	September 30, 2009*	September 30, 2008*
Private bonds	<b>₱1,984,850,194</b>	₱2,451,989,177	₱3,238,990,528	₱3,851,715,862	₱3,296,606,883
Government securities	<b>1,862,178,302</b>	2,165,354,695	2,543,989,688	2,559,491,290	2,224,382,820
Equity securities	<b>929,128,125</b>	872,487,250	943,694,250	896,441,088	783,853,000
	<b>₱4,776,156,621</b>	₱5,489,831,122	₱6,726,674,466	₱7,307,648,240	₱6,304,842,703

\*URC and Subsidiaries' financial year-end

As of reclassification date, effective interest rates on reclassified trading assets ranged from 6.1% to 18.9%, with expected recoverable cash flows of ₱12.5 billion. The range of effective interest rates were determined based on weighted average rates by business.



Prior to reclassification, reduction in the fair values of the Group's financial assets at FVPL at July 1, 2008 amounted to ₱1.3 billion, which is included under 'Market valuation gains (losses) on financial assets at FVPL' in the 2008 consolidated statement of comprehensive income.

Had the reclassification not been made, the Group's consolidated net income would have included an additional market valuation gain on financial assets at FVPL amounting to ₱393.5 million in 2012, an additional market valuation loss of ₱437.9 million in 2011, and an additional market valuation gain of ₱426.6 billion in 2010.

After reclassification, the reclassified financial assets contributed the following amounts to consolidated income before income taxes for the years ended December 31, 2012, 2011 and 2010, respectively:

	2012	2011	2010
Increase (reduction) in:			
Interest income	<b>₱9,004,095</b>	₱7,474,245	₱16,478,340
Foreign exchange losses	<b>(19,198,021)</b>	(23,298,431)	(42,496,452)

The reclassification was compliant with the criteria and rules set forth in Securities and Exchange Commission (SEC) Memorandum Circular No. 10, Series of 2008, on Amendments to PAS 39 and PFRS 7, as issued by the Philippine SEC.

## 10. Available-for-Sale Investments

This account consists of investments in:

	2012	2011
Debt securities:		
Government	<b>₱8,038,973,592</b>	₱7,613,169,977
Private	<b>3,087,495,880</b>	3,440,104,893
	<b>11,126,469,472</b>	11,053,274,870
Equity securities:		
Quoted	<b>45,218,452,860</b>	44,677,024,055
Unquoted	<b>17,065,871</b>	17,065,871
	<b>45,235,518,731</b>	44,694,089,926
	<b>₱56,361,988,203</b>	₱55,747,364,796

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

	2012	2011
Current portion	<b>₱12,604,430,408</b>	₱12,271,628,856
Noncurrent portion	<b>43,757,557,795</b>	43,475,735,940
	<b>₱56,361,988,203</b>	₱55,747,364,796

In 2011, the Group disposed its entire investment in Digital in exchange for 27.6 million PLDT shares with a fair value of ₱64.3 billion at the date of exchange. As a result of the transaction, the Group recognized gain of ₱11.6 billion in the consolidated statements of comprehensive income, booked under 'Gain from sale of a subsidiary' under discontinued operations (Note 44). Included in the 27.6 million shares are 10.4 million shares which are under option agreements that the



Parent Company had entered into with Philippine associate of First Pacific Company Limited and NTT Docomo, Inc. With prior consent of PLDT, the 10.4 million shares were sold in November 2011. As a result of the transaction, the Group's remaining investment in PLDT shares decreased to 17.2 million shares with corresponding fair value of ₱40.1 billion (Note 44). The Group has classified the remaining PLDT shares representing 8.0% ownership interest as AFS investments which have a carrying value of ₱43.8 billion and ₱43.5 billion as of December 31, 2012 and 2011, respectively.

In 2012, 2011 and 2010, the Group did not recognize any permanent decline in value on its AFS investments.

Interest income recognized on AFS debt investments are as follows (Note 27):

	2012	2011	2010
Debt securities:			
Government	₱520,370,550	₱536,727,522	₱353,189,546
Private	275,016,991	254,549,893	323,429,132
	<b>₱795,387,541</b>	<b>₱791,277,415</b>	<b>₱676,618,678</b>

Movements in the net unrealized gains on AFS investments follow:

	2012		
	Parent Company	Non-controlling Interests	Total
Balance at beginning of year	₱3,464,471,152	₱92,464,968	₱3,556,936,120
Net changes shown in other comprehensive income (Note 36):			
Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries	501,675,588	172,082,163	673,757,751
Realized gain on sale of AFS investments (Note 29)	(35,503,182)	(19,089,648)	(54,592,830)
	466,172,406	152,992,515	619,164,921
Net changes in fair value of AFS investments of an associate (Notes 14 and 36)	10,100,452	-	10,100,452
	476,272,858	152,992,515	629,265,373
Balance at end of year	<b>₱3,940,744,010</b>	<b>₱245,457,483</b>	<b>₱4,186,201,493</b>

	2011		
	Parent Company	Non-controlling Interests	Total
Balance at beginning of year	₱316,447,250	₱203,090,146	₱519,537,396
Net changes shown in other comprehensive income (Note 36):			
Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries	3,188,042,736	(85,761,570)	3,102,281,166
Realized gain on sale of AFS investments (Note 29)	(44,527,355)	(24,863,608)	(69,390,963)
	3,143,515,381	(110,625,178)	3,032,890,203
Net changes in fair value of AFS investments of an associate (Notes 14 and 36)	4,508,521	-	4,508,521
	3,148,023,902	(110,625,178)	3,037,398,724
Balance at end of year	<b>₱3,464,471,152</b>	<b>₱92,464,968</b>	<b>₱3,556,936,120</b>





	2010		Total
	Parent Company	Non-controlling Interests	
Balance at beginning of year	₱197,432,263	₱50,132,492	₱247,564,755
Net changes shown in other comprehensive income (Note 36):			
Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries	187,660,479	157,090,810	344,751,289
Realized gain on sale of AFS investments (Note 29)	(68,821,240)	(4,133,156)	(72,954,396)
	118,839,239	152,957,654	271,796,893
Net changes in fair value of AFS investments of an associate (Note 36)	175,748	–	175,748
	119,014,987	152,957,654	271,972,641
Balance at end of year	₱316,447,250	₱203,090,146	₱519,537,396

## 11. Receivables

This account consists of:

	2012	2011
Finance receivables	₱17,669,988,725	₱12,577,903,770
Trade receivables	10,587,166,135	9,216,879,739
Due from related parties (Note 40)	1,328,454,712	1,356,382,048
Interest receivable	610,620,609	715,334,659
Other receivables	1,651,622,714	2,101,939,394
	31,847,852,895	25,968,439,610
Less allowance for impairment losses	1,164,618,468	1,132,858,193
	₱30,683,234,427	₱24,835,581,417

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

	2012	2011
Current portion	₱16,320,725,310	₱13,422,264,265
Noncurrent portion	14,362,509,117	11,413,317,152
	₱30,683,234,427	₱24,835,581,417

Noncurrent receivables consist of:

	2012	2011
Trade receivables	₱1,125,870,844	₱1,189,418,089
Finance receivables	13,236,638,273	10,223,899,063
	₱14,362,509,117	₱11,413,317,152



### Finance Receivables

Breakdown of finance receivables, which represent receivables from customers of RBC, follows:

	2012	2011
Receivables from customers:		
Commercial	<b>₱11,657,063,483</b>	₱7,763,177,168
Consumption	<b>3,433,721,943</b>	2,064,871,818
Real estate	<b>2,093,735,426</b>	2,614,517,808
Domestic bills purchased	<b>495,138,146</b>	135,745,968
	<b>17,679,658,998</b>	12,578,312,762
Less unearned interest and discounts	<b>9,670,273</b>	408,992
	<b>₱17,669,988,725</b>	₱12,577,903,770

Interest income on finance receivables, unquoted debt securities and sales contract receivable included under 'Banking revenue' and 'Finance income' in profit or loss in the consolidated statements of comprehensive income, consists of (Notes 26 and 27):

	2012	2011	2010
Receivables from customers:			
Commercial	<b>₱617,186,555</b>	₱531,137,224	₱419,193,811
Real estate	<b>387,519,795</b>	231,570,335	190,097,977
Consumption	<b>247,371,993</b>	368,913,374	312,436,100
Domestic bills purchased	<b>983,346</b>	754,832	1,127,396
Unquoted debt securities	<b>48,543,639</b>	43,563,929	9,075,686
Sales contract receivable	<b>3,796,013</b>	1,034,341	1,434,874
	<b>₱1,305,401,341</b>	₱1,176,974,035	₱933,365,844

Restructured receivables which do not meet the requirements to be treated as performing receivables are considered as nonperforming loans. Restructured receivables as of December 31, 2012 and 2011 amounted to ₱111.8 million and ₱110.8 million, respectively.

### Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group amounting to ₱3.4 billion and ₱2.5 billion as of December 31, 2012 and 2011. These are collectible in monthly installments over a period of between one year to five years and earn annual interest ranging from 8.2% to 9.8% computed on the diminishing balance of the principal. Revenue from real estate and hotels includes interest income earned from installment contract receivables amounting to ₱253.6 million, ₱227.6 million and ₱234.2 million in 2012, 2011 and 2010, respectively (Note 27).

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

### Others

Other receivables include unquoted debt securities, claims receivables, creditable withholding tax and other receivables. Unquoted debt securities amounting to ₱555.0 million and ₱602.6 million as of December 31, 2012 and 2011, respectively, pertain to investments in private bonds with local companies and are presented net of unamortized discount amounting to nil and ₱2.4 million, respectively. Unquoted debt securities earn interest at annual fixed rates ranging from 0.0% to 8.9% in 2012 and 2011.

As of December 31, 2012 and 2011, claims receivables amounted to ₱243.6 million and ₱224.6 million, respectively.



Allowance for Impairment Losses on Receivables

Changes in the allowance for impairment losses on receivables follow:

	December 31, 2012					
	Individual Assessment			Collective Assessment		
	Trade Receivables	Finance Receivables	Other Receivables	Trade Receivables	Finance Receivables	Total
Balance at beginning of year	₱456,587,701	₱274,586,201	₱195,429,205	₱63,521,547	₱142,733,539	₱1,132,858,193
Provision for impairment losses	3,428,908	761,692	–	–	59,673,921	63,864,521
Recovery of accounts previously written-off	(750,515)	–	–	–	–	(750,515)
Accounts written-off	(435,130)	–	(6,699,747)	–	–	(7,134,877)
Unrealized foreign exchange gains	(17,043,985)	–	–	–	–	(17,043,985)
Reclassification	–	59,743,846	–	–	(66,918,715)	(7,174,869)
Balance at end of year	₱441,786,979	₱335,091,739	₱188,729,458	₱63,521,547	₱135,488,745	₱1,164,618,468

	December 31, 2011					
	Individual Assessment			Collective Assessment		
	Trade Receivables	Finance Receivables	Other Receivables	Trade Receivables	Finance Receivables	Total
Balance at beginning of year	₱520,158,311	₱396,570,396	₱221,821,677	₱1,759,418,691	₱113,644,603	₱3,011,613,678
Provision for impairment losses	11,819,603	20,769,898	2,099,959	59,401,794	67,828,418	161,919,672
Accounts written-off	(15,329,908)	(142,754,093)	(13,509,758)	–	(38,739,482)	(210,333,241)
Effect of disposal of a subsidiary	(60,060,305)	–	(14,982,673)	(1,755,298,938)	–	(1,830,341,916)
Balance at end of year	₱456,587,701	₱274,586,201	₱195,429,205	₱63,521,547	₱142,733,539	₱1,132,858,193

Breakdown of provision for impairment losses on receivables follow:

	2012	2011	2010
Continuing operations (Note 34)	₱63,864,521	₱102,517,878	₱330,883,725
Discontinued operations	–	59,401,794	357,402,880
	₱63,864,521	₱161,919,672	₱688,286,605

## 12. Inventories

This account consists of inventories held as follows:

	2012	2011
At cost:		
Raw materials	₱3,639,758,183	₱3,598,336,480
Finished goods	3,218,174,006	3,017,249,923
	6,857,932,189	6,615,586,403
At NRV:		
Subdivision land, condominium and residential units for sale	10,991,157,298	8,491,028,487
Spare parts, packaging materials and other supplies	3,106,211,006	2,997,982,794
Work-in-process	371,702,619	486,414,046
By-products	26,646,141	18,070,095
	14,495,717,064	11,993,495,422
Materials in-transit	1,656,855,588	1,834,802,837
	₱23,010,504,841	₱20,443,884,662



Summary of the movements in real estate inventory follows:

	2012	2011
Balance at beginning of year	<b>₱8,491,028,487</b>	₱6,197,307,815
Land acquired during the year	<b>315,364,666</b>	509,525,443
Land cost transferred from investment property	<b>701,794,361</b>	165,397,823
Construction and development costs incurred	<b>3,814,411,829</b>	4,283,169,246
Borrowing costs capitalized	<b>29,143,684</b>	-
Costs of real estate sales (Note 30)	<b>(2,360,585,729)</b>	(2,664,371,840)
	<b>₱10,991,157,298</b>	₱8,491,028,487

Under the terms of agreements covering liabilities under trust receipts amounting to ₱4.9 billion and ₱4.1 billion as of December 31, 2012 and 2011, respectively, inventories of equivalent amount with the liabilities under trust receipts have been released to the Group in trust for the creditor banks (Note 23). The Group is accountable to the banks for the value of the trustee inventories or their sales proceeds.

Inventory written down as expense (included under 'Cost of sales and services' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱673.6 million, ₱470.1 million and ₱459.7 million in 2012, 2011 and 2010, respectively.

The Group recognized inventory obsolescence and market decline included under 'Impairment losses and others' in the following sections of the consolidated statements of comprehensive income:

	2012	2011	2010
Continuing operations (Note 34)	<b>₱1,408,536</b>	₱63,784,807	₱15,099,540
Discontinued operations	-	-	2,480,671
	<b>₱1,408,536</b>	₱63,784,807	₱17,580,211

### 13. Other Current Assets

This account consists of:

	2012	2011
Input value-added tax (VAT)	<b>₱2,025,479,885</b>	₱1,698,955,523
Funds under escrow	<b>1,639,198,798</b>	4,340,500,000
Advances to suppliers	<b>793,640,671</b>	932,900,119
Prepaid expenses	<b>505,045,569</b>	451,387,692
Advances to lot owners	<b>144,951,759</b>	32,772,104
Utility deposits	<b>4,065,390</b>	3,519,980
Others	<b>762,900,353</b>	58,126,208
	<b>₱5,875,282,425</b>	₱7,518,161,626

#### Input VAT

As of December 31, 2012 and 2011, the gross amount of output VAT deducted from input VAT amounted to ₱8.3 billion and ₱3.3 billion, respectively. The Group believes that the amount of input VAT is fully realizable in the future.



Funds under Escrow

As part of the SPA entered into by the Parent Company and PLDT (the Parties) (Note 44), an Escrow Agreement was executed on November 10, 2011 by the Parties with a third party Bank (Escrow Agent) which states that upon exercise of the options by the Parties, the Parent Company will deliver an amount of ₱4.3 billion to the Escrow Agent. The Escrow account is interest bearing and has an original term of six months from the closing date of the SPA. Subject to the terms and conditions of the SPA, the funds will be released to the Parent Company if certain conditions on working capital and net debt of the Digitel Group are met. In May 2012, the Parent Company received part of the escrow fund amounting to ₱2.8 billion from the Escrow Agent. As of December 31, 2012, the balance of ₱1.6 billion remains outstanding. Following the completion of the remaining post-closing exercise, management has formally written PLDT for the release of funds under escrow.

Advances to Suppliers

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

Prepaid Expenses

This includes:

	2012	2011
Prepaid rent	<b>₱168,229,184</b>	₱179,403,127
Prepaid insurance	<b>106,325,200</b>	124,986,548
Prepaid office supplies	<b>72,823,109</b>	4,427,028
Prepaid advertising	<b>46,474,942</b>	38,619,931
Prepaid taxes	<b>39,711,334</b>	35,338,582
Other prepaid expenses	<b>71,481,800</b>	68,612,476
	<b>₱505,045,569</b>	₱451,387,692

Advances to Lot Owners

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

Others

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

Also included under 'Others' account are creditable withholding taxes amounting to ₱262.2 million as of December 31, 2012.



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

This account consists of:

	2012	2011
Acquisition cost:		
Balance at beginning of year	₱19,586,228,469	₱19,727,475,601
Additional investments	105,283,416	172,144,748
Effect of disposal of a subsidiary	-	(292,869,840)
Return of investment from an associate	-	(20,522,040)
Balance at end of year	19,691,511,885	19,586,228,469
Accumulated equity in net earnings:		
Balance at beginning of year	12,684,263,965	10,998,327,321
Equity in net earnings	2,008,411,939	2,217,599,783
Cash dividends received	(647,461,127)	(575,078,473)
Effect of disposal of a subsidiary	-	43,415,334
Balance at end of year	14,045,214,777	12,684,263,965
Share in net unrealized gain on AFS investments of an associate:		
Balance at beginning of year	6,044,857	1,536,336
Share in net changes in fair value of AFS investments of an associate (Note 36)	10,100,452	4,508,521
Balance at end of year	16,145,309	6,044,857
Cumulative translation adjustment	41,871,106	76,876,974
	33,794,743,077	32,353,414,265
Less allowance for impairment losses	297,450,397	297,450,397
	₱33,497,292,680	₱32,055,963,868

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

	Percentage of Ownership		Equity in Net Assets	
	2012	2011	2012	2011
			(In Million Pesos)	
<b>Associates</b>				
Foreign:				
United Industrial Corp., Limited (UICL)	36.08	36.09	₱32,321.7	₱31,036.5
Domestic:				
OPMC	19.40	19.40	439.1	415.2
Cebu Light Industrial Park, Inc. (CLIP)	20.00	20.00	99.1	65.0
Jobstreet.com Philippines, Inc. (JPI)	40.00	40.00	29.5	39.8
Sterling Holdings and Security Corporation (SHSC)	49.00	49.00	-	-
Bauang Private Power Corporation (BPPC)/First Private Power Corporation (FPPC)	18.66	18.66	-	-
			32,889.4	31,556.5
<b>Joint Ventures</b>				
Domestic:				
SIA Engineering (Philippines) Corp. (SIAEP)	23.53	23.53	258.5	244.0
Aviation Partnership (Philippines) Corp. (APPC)	32.94	32.95	129.1	131.7
Hunt-Universal Robina Corporation (HURC)	30.32	32.08	96.1	90.0
Philippine Academy for Aviation Training (PAAT)	33.62	40.34	124.2	33.8
			607.9	499.5
			₱33,497.3	₱32,056.0



Investment in UICL

UICL follows the revaluation method of measuring investment properties while the Group follows the cost method of 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.

Financial information of UICL follows:

	<b>2012</b>	2011
Current assets	<b>₱33,189,998,686</b>	₱36,424,862,998
Noncurrent assets	<b>222,486,998,809</b>	208,498,566,485
Current liabilities	<b>28,495,079,327</b>	37,311,635,922
Noncurrent liabilities	<b>12,448,606,530</b>	5,445,957,480
Non-controlling interest	<b>57,298,815,124</b>	56,520,474,160
Revenue	<b>24,567,480,712</b>	27,104,267,160
Cost of sales	<b>14,195,581,838</b>	15,201,666,524
Net income	<b>1,305,919,774</b>	11,328,336,735

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.

*Fair value of investments in listed associates*

As of December 31, 2012 and 2011, the Group's investments in the following listed investee companies have a fair value of:

	Exchange Listed	<b>2012</b>	2011
UICL	Singapore Exchange Limited	<b>₱47,632,797,263</b>	₱45,886,715,900
OPMC	Philippine Stock Exchange	<b>767,153,503</b>	650,728,898

As of December 31, 2012 and 2011, the breakdown of the total fair market value of the Group's investment in OPMC follows:

	<b>2012</b>	2011
Class A Common Stock	<b>₱171,200,099</b>	₱144,168,505
Class B Common Stock	<b>595,953,404</b>	506,560,393

The fair value is based on the quoted price prevailing as of the reporting date.

Investment in CLIPI

The Group's investment in CLIPI includes deposits for future subscription amounting to ₱72.0 million on the latter's proposed increase in authorized capital stock. Such increase in CLIPI's authorized capital stock has not been effected as of December 31, 2012 and 2011.



Summarized below is the financial information of the significant associates of the Group:

2012							
Associate	Statement of Financial Position				Statement of Comprehensive Income		
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income
OPMC	₱1,889,317,424	₱1,188,642,651	₱26,381,973	₱96,442,706	₱648,271,375	₱253,976,113	₱421,650,855
CLIFI	454,822,516	313,251,535	272,604,267	873,433	530,984,672	337,978,552	170,088,135
JPI	470,213,354	25,395,935	444,059,485	5,930,461	390,679,135	204,570,596	110,012,276
2011							
Associate	Statement of Financial Position				Statement of Comprehensive Income		
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income
OPMC	₱1,670,447,225	₱1,182,158,752	₱25,851,089	₱122,583,304	₱1,039,526,621	₱337,540,759	₱374,685,647
CLIFI	601,171,759	292,839,283	522,808,904	46,693,922	199,256,325	148,179,400	47,642,389
JPI	350,553,619	15,429,221	327,072,098	3,517,695	286,621,377	160,850,804	71,769,739





#### Investment in SHSC

The investment in SHSC is fully provided with allowance amounting to ₱113.4 million as of December 31, 2012 and 2011.

#### Investment in FPPC/BPPC

On October 14, 2010, the BOD and stockholders of FPPC and BPPC approved a Plan of Merger where FPPC shall be merged into and be part of BPPC, and its separate corporate existence shall cease by operation of law. Subsequently, on December 13, 2010, the SEC approved the Certificate of Filing of the Articles and Plan of Merger. On December 15, 2010, the effective date of the Merger, FPPC transferred its assets and liabilities at their carrying values to BPPC.

Pursuant to the Articles of Merger, BPPC issued common stock to holders of FPPC common stock upon the surrender and cancellation of the common stock of FPPC. The merger was accounted for in accordance with the pooling of interest method where the identifiable assets acquired and liabilities assumed from FPPC are recognized at their carrying values and is accounted for prospectively.

On September 16, 2011, the Parent Company received from BPPC an amount of ₱31.7 million representing return of investment. The payment was applicable to FPPC shares held by the Parent Company with a carrying value of ₱20.5 million. The remaining balance in the Parent Company's investment in FPPC amounting to ₱5.9 million was written off since management believes that it is least likely that the remaining investment will be recovered.

#### Investment in Joint Ventures

##### *SIAEP*

SIAEP is a jointly controlled entity which was incorporated on July 27, 2008 and was 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.

##### *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.

The Parent Company entered into a joint venture agreement with CAE on December 13, 2011. PAAT was created to provide training for pilots, cabin crews, aviation management services and guest services for purposes of addressing 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 ₱33.8 million representing 25% payment for the 135,000,000 Class A subscribed shares at ₱1.0 par value. PAAT was formally incorporated on January 27, 2012.

As of December 31, 2012 and 2011, the Parent Company's investment in PAAT amounted to ₱124.2 million and ₱33.8 million, net of subscription payable of ₱101.3 million, respectively.



The summary of information below is adjusted to the proportionate share of the Group in the assets and liabilities as at December 31, 2012 and 2011 and the income and expenses of the jointly controlled entities for the years ended December 31, 2012 and 2011.

2012							
Joint Venture	Statement of Financial Position				Statement of Comprehensive Income		
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income (Loss)
APPC	P135,585,159	P23,292,019	P71,516,393	P-	P138,693,439	P97,750,225	P27,223,520
HURC	152,626,945	674,152	125,386,274	-	198,126,391	173,690,761	18,996,279
SIAEP	97,962,750	142,110,982	88,813,400	-	86,062,555	81,302,852	4,180,678
PAAT	21,016,243	145,530,384	84,037,176	-	80,618	9,432,288	(7,171,094)

2011							
Joint Venture	Statement of Financial Position				Statement of Comprehensive Income		
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income (Loss)
APPC	P130,640,715	P17,484,399	P58,939,161	P-	P166,527,392	P118,104,727	P34,386,685
HURC	107,246,918	926,556	82,557,057	186,628	211,028,204	190,770,482	16,341,316
SIAEP	62,834,435	142,269,566	53,665,036	-	64,471,287	75,113,018	(11,136,180)

As of December 31, 2012 and 2011, the Group has no unrecognized share of losses, share on commitments and contingencies of its associates and joint ventures.



## 15. Investment Properties

Movements in this account follow:

	2012			
	Land and Land Improvements	Buildings and Improvements	Construction In-Progress	Total
<b>Cost</b>				
Balance at beginning of year	₱18,723,301,928	₱30,945,512,132	₱5,291,466,931	₱54,960,280,991
Additions	1,474,432,125	911,178,363	3,546,618,147	5,932,228,635
Additions due to business combinations (Note 46)	175,029,262	–	–	175,029,262
Retirement/disposals	(8,437,222)	–	–	(8,437,222)
Transfers/other adjustments	(656,528,440)	4,022,042,706	(4,049,306,922)	(683,792,656)
Balance at end of year	19,707,797,653	35,878,733,201	4,788,778,156	60,375,309,010
<b>Accumulated Depreciation and Amortization</b>				
Balance at beginning of year	68,263,728	13,007,726,942	–	13,075,990,670
Depreciation and amortization	9,613,645	1,865,983,527	–	1,875,597,172
Retirements/disposals	(762,096)	–	–	(762,096)
Transfers/other adjustments	(68,486)	–	–	(68,486)
Balance at end of year	77,046,791	14,873,710,469	–	14,950,757,260
<b>Allowance for impairment losses</b>	619,075	–	–	619,075
<b>Net Book Value at End of Year</b>	<b>₱19,630,131,787</b>	<b>₱21,005,022,732</b>	<b>₱4,788,778,156</b>	<b>₱45,423,932,675</b>
	2011			
	Land and Land Improvements	Buildings and Improvements	Construction In-Progress	Total
<b>Cost</b>				
Balance at beginning of year	₱11,816,859,415	₱29,873,050,038	₱1,494,802,196	₱43,184,711,649
Additions	7,005,314,453	679,500,890	3,973,233,028	11,658,048,371
Retirement/disposals	(1,981,968)	(101,313,154)	–	(103,295,122)
Transfers/other adjustments	(96,889,972)	494,274,358	(176,568,293)	220,816,093
Balance at end of year	18,723,301,928	30,945,512,132	5,291,466,931	54,960,280,991
<b>Accumulated Depreciation and Amortization</b>				
Balance at beginning of year	50,382,165	11,044,216,347	–	11,094,598,512
Depreciation and amortization	6,940,466	1,770,925,890	–	1,777,866,356
Retirements/disposals	(55,279)	(5,176,279)	–	(5,231,558)
Transfers/other adjustments	10,996,376	197,760,984	–	208,757,360
Balance at end of year	68,263,728	13,007,726,942	–	13,075,990,670
<b>Allowance for Impairment Losses</b>				
Provision for impairment losses (Note 34)	619,075	–	–	619,075
<b>Net Book Value at End of Year</b>	<b>₱18,654,419,125</b>	<b>₱17,937,785,190</b>	<b>₱5,291,466,931</b>	<b>₱41,883,671,246</b>

Investment properties consist mainly of land held for appreciation, and shopping malls or commercial centers and office buildings that are held to earn rentals. Also included under this account are the properties acquired by the Group's banking segment through foreclosure. Most of the Group's properties are in prime locations across the Philippines.

In 2012, land with carrying value of ₱701.8 million was transferred from investment properties to subdivision land, condominium and residential units for sale for the Group's residential projects.

### Borrowing Costs

Borrowing costs capitalized amounted to ₱1.1 billion and ₱1.0 billion in 2012 and 2011, respectively. These amounts were included in the consolidated statements of cash flows under additions to investment properties. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2012 and 2011 is 8.15% and 8.03%, respectively.



Fair Value of Investment Properties

The fair value of investment properties, which has been determined based on valuations performed by independent and professional property appraisers performed on various dates, exceeds its carrying cost. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The fair value of investment properties as of December 31, 2012 and 2011 amounted to ₱51.2 billion and ₱51.1 billion, respectively.

The fair value of the investment properties was arrived at using the *Market Data Approach*. In this approach, the fair value of the investment properties is based on sales and listings of comparable property registered in the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as a basis for comparison are situated within the immediate vicinity of the subject property.

Rent Income from Investment Properties

Consolidated rent income from investment properties included under 'Real estate and hotels revenue' in the consolidated statements of comprehensive income amounted to ₱6.9 billion, ₱6.2 billion and ₱5.6 billion in 2012, 2011 and 2010, respectively.

Direct Operating Expenses

Direct operating expenses pertaining to rental operations (included under 'Cost of sales and services' and 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱2.3 billion, ₱2.2 billion and ₱1.8 billion in 2012, 2011 and 2010, respectively.

Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on investment properties follows:

	2012	2011	2010
Depreciation and amortization expense included under:			
Cost of services (Note 30)	<b>₱1,860,033,478</b>	₱1,756,889,603	₱1,596,776,495
General and administrative expenses (Note 31)	<b>15,563,694</b>	20,976,753	7,319,703
	<b>₱1,875,597,172</b>	₱1,777,866,356	₱1,604,096,198

Collaterals

As of December 31, 2012 and 2011, the Group has no investment properties that are pledged as collateral.



## 16. Property, Plant and Equipment

The composition of and movements in this account follow:

	December 31, 2012					
	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Tele- communications Equipment	Investment in Cable Systems	Sub-total
<b>Cost</b>						
Balance at beginning of year	₱3,583,341,664	₱15,764,840,796	₱46,120,306,383	₱-	₱-	₱65,468,488,843
Additions	545,809,668	1,098,460,557	2,101,351,567	-	-	3,745,621,792
Additions due to business combination (Note 46)	6,184,400	23,656,402	-	-	-	29,840,802
Transfers, disposals and other adjustments	5,453,200	(101,440,022)	(303,942,913)	-	-	(399,929,735)
Balance at end of year	4,140,788,932	16,785,517,733	47,917,715,037	-	-	68,844,021,702
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	592,380,326	7,174,374,689	28,924,223,459	-	-	36,690,978,474
Depreciation and amortization	50,887,612	643,108,748	2,843,779,239	-	-	3,537,775,599
Disposals and other adjustments	(2,535,082)	(110,637,401)	(298,027,881)	-	-	(411,200,364)
Balance at end of year	640,732,856	7,706,846,036	31,469,974,817	-	-	39,817,553,709
<b>Allowance for impairment losses</b>						
Balance at beginning of year	-	-	10,065,297	-	-	10,065,297
Provision for impairment losses (Note 34)	-	-	7,651,176	-	-	7,651,176
	-	-	17,716,473	-	-	17,716,473
<b>Net Book Value at End of Year</b>	<b>₱3,500,056,076</b>	<b>₱9,078,671,697</b>	<b>₱16,419,958,450</b>	<b>₱-</b>	<b>₱-</b>	<b>₱29,008,751,520</b>



	December 31, 2012				
	Transportation, Furnishing and Other Equipment	Passenger Aircraft and Other Flight Equipment	Construction In-progress	Equipment In-transit	Total
<b>Cost</b>					
Balance at beginning of year	₱5,109,129,782	₱43,147,431,487	₱17,455,179,925	₱102,358,702	₱131,282,588,739
Additions	475,287,149	6,636,493,424	15,305,026,801	688,287,640	26,850,716,806
Additions due to business combination (Note 46)	14,069,849	-	-	-	43,910,651
Transfers, disposals and other adjustments	(39,643,866)	1,994,633,409	(2,224,629,100)	(191,692,097)	(861,261,389)
Balance at end of year	5,558,842,914	51,778,558,320	30,535,577,626	598,954,245	157,315,954,807
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	3,177,631,384	10,182,875,883	-	-	50,051,485,741
Depreciation and amortization	431,591,756	2,723,321,319	-	-	6,692,688,674
Disposals and other adjustments	(161,878,680)	(7,512,600)	-	-	(580,591,644)
Balance at end of year	3,447,344,460	12,898,684,602	-	-	56,163,582,771
<b>Allowance for impairment losses</b>					
Balance at beginning of year	-	-	-	-	10,065,297
Provision for impairment losses (Note 34)	-	-	-	-	7,651,176
	-	-	-	-	17,716,473
<b>Net Book Value at End of Year</b>	<b>₱2,111,498,454</b>	<b>₱38,879,873,718</b>	<b>₱30,535,577,626</b>	<b>₱598,954,245</b>	<b>₱101,134,655,563</b>



	December 31, 2011					
	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Telecommunications Equipment	Investment in Cable Systems	Sub-total
<b>Cost</b>						
Balance at beginning of year	₱4,022,664,045	₱19,371,135,535	₱45,079,276,023	₱76,661,977,708	₱790,726,855	₱145,925,780,166
Additions	140,770,256	517,960,255	3,121,383,746	26,562,000	–	3,806,676,257
Effect of disposal of a subsidiary (Note 44)	(475,998,730)	(4,051,858,503)	(2,027,653,984)	(76,688,539,708)	(790,726,855)	(84,034,777,780)
Transfers, disposals and other adjustments	(104,093,907)	(72,396,491)	(52,699,402)	–	–	(229,189,800)
Balance at end of year	3,583,341,664	15,764,840,796	46,120,306,383	–	–	65,468,488,843
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	591,046,110	8,295,032,545	28,261,827,334	30,907,766,533	238,198,373	68,293,870,895
Depreciation and amortization	59,006,637	708,350,834	2,787,448,541	979,577,000	10,732,800	4,545,115,812
Effect of disposal of a subsidiary (Note 44)	–	(1,959,644,638)	(1,115,898,647)	(31,869,430,533)	(248,931,173)	(35,193,904,991)
Disposals and other adjustments	(57,672,421)	130,635,948	(1,009,153,769)	(17,913,000)	–	(954,103,242)
Balance at end of year	592,380,326	7,174,374,689	28,924,223,459	–	–	36,690,978,474
<b>Allowance for impairment losses</b>						
Provision for impairment losses (Note 34)	–	–	10,065,297	–	–	10,065,297
<b>Net Book Value at End of Year</b>	<b>₱2,990,961,338</b>	<b>₱8,590,466,107</b>	<b>₱17,186,017,627</b>	<b>₱–</b>	<b>₱–</b>	<b>₱28,767,445,072</b>

	December 31, 2011				
	Transportation, Furnishing and Other Equipment	Passenger Aircraft and Other Flight Equipment	Construction In-progress	Equipment In-transit	Total
<b>Cost</b>					
Balance at beginning of year	₱9,572,560,515	₱35,876,526,445	₱36,581,784,809	₱386,517,787	₱228,343,169,722
Additions	526,472,077	5,637,547,069	14,101,082,726	102,358,702	24,174,136,831
Effect of disposal of a subsidiary (Note 44)	(4,898,964,587)	–	(31,905,616,838)	–	(120,839,359,205)
Transfers, disposals and other adjustments	(90,938,223)	1,633,357,973	(1,322,070,772)	(386,517,787)	(395,358,609)
Balance at end of year	5,109,129,782	43,147,431,487	17,455,179,925	102,358,702	131,282,588,739
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	6,914,130,420	7,921,510,313	–	–	83,129,511,628
Depreciation and amortization	548,642,626	2,272,280,768	–	–	7,366,039,206
Effect of disposal of a subsidiary (Note 44)	(4,211,731,743)	–	–	–	(39,405,636,734)
Disposals and other adjustments	(73,409,919)	(10,915,198)	–	–	(1,038,428,359)
Balance at end of year	3,177,631,384	10,182,875,883	–	–	50,051,485,741
<b>Allowance for impairment losses</b>					
Provision for impairment losses (Note 34)	–	–	–	–	10,065,297
<b>Net Book Value at End of Year</b>	<b>₱1,931,498,398</b>	<b>₱32,964,555,604</b>	<b>₱17,455,179,925</b>	<b>₱102,358,702</b>	<b>₱81,221,037,701</b>



Construction in-Progress

*CAI*

Construction in-progress represents the cost of aircraft and engine modifications in progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of December 31, 2012 and 2011, the Group's capitalized pre-delivery payments as construction in-progress amounted to ₱8.4 billion and ₱6.9 billion, respectively.

*JGSOC*

Construction in-progress amounting to ₱16.4 billion and ₱6.7 billion as of December 31, 2012 and 2011, respectively, represents the construction costs of the Naphtha Cracker Plant. The plant is intended for the production primarily of polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.

*JGSPC*

Construction in progress amounting to ₱546.0 million and ₱67.0 million as of December 31, 2012 and 2011, respectively, represents the expansion and rehabilitation of PE and PP plant.

RLC

Construction in progress amounting to ₱4.8 billion and ₱4.7 billion as of December 31, 2012 and 2011, respectively, represents the cost of ongoing construction and development of malls and office buildings for lease.

Borrowing Costs

Borrowing costs capitalized as part of property, plant and equipment under construction amounted to nil in 2012 and 2011.

Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on property, plant and equipment follows:

	2012	2011	2010
Continuing operations:			
Cost of sales (Note 30)	<b>₱3,366,426,009</b>	₱3,178,652,452	₱3,183,399,786
Cost of services (Note 30)	<b>223,851,582</b>	356,230,485	315,422,373
General and administrative expenses (Note 31)	<b>3,102,411,083</b>	2,660,174,401	2,185,330,482
Discontinued operations	-	1,170,981,868	4,371,934,607
	<b>₱6,692,688,674</b>	₱7,366,039,206	₱10,056,087,248

Property, Plant and Equipment Pledged as Collateral

*Passenger aircraft held as securing assets under various loans*

In 2005 and 2006, CAI entered into Export Credit Agency (ECA)-backed loan facilities (ECA loans) to partially finance the purchase of ten Airbus A319 aircraft. In 2007, CAI also 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 Quick Engine Change (QEC) Kit. In 2008, CAI entered into both ECA loans and commercial loans to partially finance the purchase of six Avion de Transport Regional (ATR) 72-500 turboprop aircraft. Then in 2009, ECA loans were availed to finance the purchase of two ATR 72-500 turboprop aircraft.





In 2010, CAI entered into ECA loan to finance the purchase of three Airbus A320 aircraft. In 2011, CAI entered into ECA-backed loan facilities to finance the purchase of three additional Airbus A320 aircraft. In 2012, CAI entered into ECA loan to finance the purchase of four additional Airbus A320 aircraft (Note 23).

Under the terms of the ECA loans and the commercial loan facilities, upon the event of default, the outstanding amount of the loan (including accrued interest) will be payable by CALL or ILL or BLL or SLL or SALL or VALL or POALL, or by the guarantors which are CPAHI and the Parent Company. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of December 31, 2012 and 2011, the carrying amounts of the securing assets (included under the 'Property, plant and equipment' in the consolidated statements of financial position) amounted to ₱35.6 billion and ₱30.4 billion, respectively.

*Others*

Certain property, plant and equipment of URC with an aggregate net book value of ₱34.3 million have been pledged as security for certain long-term debt of URC as of December 31, 2011 (Note 23).

Operating Fleet

As of December 31, 2012 and 2011, the Group's operating fleet follows:

	2012	2011
Owned (Note 23):		
Airbus A319	10	10
Airbus A320	12	8
ATR 72-500	8	8
Under operating lease (Note 42):		
Airbus A320	11	11
	41	37

## 17. Biological Assets

The composition and movements in this account follow:

	December 31, 2012						
	Swine (At Fair Value Less Estimated Costs to Sell)			Poultry (At Cost)			Total
	Breeder	Commercial	Sub-total	Breeder	Commercial	Sub-total	
<b>Cost</b>							
Balance at beginning of year	₱422,322,129	₱850,256,410	₱1,272,578,539	₱130,599,612	₱61,008,719	₱191,608,331	₱1,464,186,870
Additions	383,682,724	2,960,918,965	3,344,601,689	179,122,273	582,769,817	761,892,090	4,106,493,779
Disposal	(337,830,042)	(2,903,504,759)	(3,241,334,801)	(131,522,118)	(541,316,483)	(672,838,601)	(3,914,173,402)
Balance at end of year	468,174,811	907,670,616	1,375,845,427	178,199,767	102,462,053	280,661,820	1,656,507,247
<b>Accumulated Depreciation</b>							
Balance at beginning of year	39,015,962	-	39,015,962	54,852,091	-	54,852,091	93,868,053
Depreciation	40,854,993	-	40,854,993	135,671,573	-	135,671,573	176,526,566
Disposal	(22,815,084)	-	(22,815,084)	(92,566,197)	-	(92,566,197)	(115,381,281)
Balance at end of year	57,055,871	-	57,055,871	97,957,467	-	97,957,467	155,013,338
Gains (losses) arising from changes in fair value less estimated costs to sell	(62,399,649)	46,874,989	(15,524,660)	-	-	-	(15,524,660)
<b>Net Book Value at End of Year</b>	₱348,719,291	₱954,545,605	₱1,303,264,896	₱80,242,300	₱102,462,053	₱182,704,353	₱1,485,969,249



December 31, 2011

	Swine (At Fair Value Less Estimated Costs to Sell)			Poultry (At Cost)			Total
	Breeder	Commercial	Sub-total	Breeder	Commercial	Sub-total	
<b>Cost</b>							
Balance at beginning of year	₱396,710,301	₱787,198,756	₱1,183,909,057	₱145,480,795	₱59,678,045	₱205,158,840	₱1,389,067,897
Additions	350,854,991	2,839,957,501	3,190,812,492	–	593,208,152	593,208,152	3,784,020,644
Disposal	(335,315,726)	(2,638,517,118)	(2,973,832,844)	(14,881,183)	(591,877,478)	(606,758,661)	(3,580,591,505)
Balance at end of year	412,249,566	988,639,139	1,400,888,705	130,599,612	61,008,719	191,608,331	1,592,497,036
<b>Accumulated Depreciation</b>							
Balance at beginning of year	37,487,487	–	37,487,487	56,003,374	–	56,003,374	93,490,861
Depreciation	26,163,535	–	26,163,535	–	–	–	26,163,535
Disposal	(24,635,060)	–	(24,635,060)	(1,151,283)	–	(1,151,283)	(25,786,343)
Balance at end of year	39,015,962	–	39,015,962	54,852,091	–	54,852,091	93,868,053
Gains (losses) arising from changes in fair value less estimated costs to sell	10,072,563	(138,382,729)	(128,310,166)	–	–	–	(128,310,166)
<b>Net Book Value at End of Year</b>	<b>₱383,306,167</b>	<b>₱850,256,410</b>	<b>₱1,233,562,577</b>	<b>₱75,747,521</b>	<b>₱61,008,719</b>	<b>₱136,756,240</b>	<b>₱1,370,318,817</b>

The Group has about 217,796 and 206,201 heads of swine as of December 31, 2012 and 2011, respectively, and about 652,556 and 470,969 heads of poultry as of December 31, 2012 and 2011, respectively.

Total biological assets shown in the consolidated statements of financial position follow:

	2012	2011
Current portion	<b>₱1,057,007,658</b>	₱911,265,129
Noncurrent portion	<b>428,961,591</b>	459,053,688
	<b>₱1,485,969,249</b>	<b>₱1,370,318,817</b>

## 18. Intangible Assets

The composition and movements in this account follow:

	2012					Total
	Technology Licenses	Licenses	Software Costs	Trademarks	Product Formulation	
<b>Cost</b>						
Balance at beginning of year	₱552,331,752	₱235,592,879	₱72,161,135	₱251,524,581	₱425,000,000	₱1,536,610,347
Additions	–	2,400,000	6,539,647	–	–	8,939,647
Additions due to business combination (Note 46)	–	620,000,000	–	–	–	620,000,000
Balance at end of year	552,331,752	857,992,879	78,700,782	251,524,581	425,000,000	2,165,549,994
<b>Accumulated Amortization and Impairment Losses</b>						
Balance at beginning of year	552,331,752	–	67,436,912	11,301,181	–	631,069,845
Amortization	–	–	3,548,311	–	–	3,548,311
Impairment losses (Note 34)	–	–	–	190,223,400	–	190,223,400
Reclassification	–	–	(314,143)	–	–	(314,143)
Balance at end of year	552,331,752	–	70,671,080	201,524,581	–	824,527,413
<b>Net Book Value at End of Year</b>	<b>₱–</b>	<b>₱857,992,879</b>	<b>₱8,029,702</b>	<b>₱50,000,000</b>	<b>₱425,000,000</b>	<b>₱1,341,022,581</b>



	2011					Total
	Technology Licenses	Licenses	Software Costs	Trademarks	Product Formulation	
<b>Cost</b>						
Balance at beginning of year	₱552,331,752	₱234,692,879	₱72,161,135	₱335,539,346	₱425,000,000	₱1,619,725,112
Additions	–	900,000	–	–	–	900,000
Disposal of investment	–	–	–	(84,014,765)	–	(84,014,765)
Balance at end of year	552,331,752	235,592,879	72,161,135	251,524,581	425,000,000	1,536,610,347
<b>Accumulated Amortization and Impairment Losses</b>						
Balance at beginning of year	552,331,752	–	63,875,178	9,686,726	–	625,893,656
Amortization	–	–	3,561,734	1,614,455	–	5,176,189
Impairment losses (Notes 34 and 45)	–	–	–	84,014,765	–	84,014,765
Disposal of investment	–	–	–	(84,014,765)	–	(84,014,765)
Balance at end of year	552,331,752	–	67,436,912	11,301,181	–	631,069,845
<b>Net Book Value at End of Year</b>	<b>₱–</b>	<b>₱235,592,879</b>	<b>₱4,724,223</b>	<b>₱240,223,400</b>	<b>₱425,000,000</b>	<b>₱905,540,502</b>

### Technology Licenses

Technology licenses represent the cost of JGSPC's technology and licensing agreements which cover the construction, manufacture, use and sale of PE and PP lines. JGSPC's technology licenses were fully impaired in 2006.

### Licenses

Included in this account are 'Bank licenses' of RBC amounting to ₱324.3 million and ₱321.9 million in 2012 and 2011, respectively.

Bank licenses have been allocated to the cash-generating units (CGU) for impairment testing.

The recoverable amount of the CGU has been determined based on value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

Key assumptions in value-in-use calculation of CGUs follow:

- **Balance sheet items**  
Deposit levels are based on projected bankwide plan, with varying growth of 5.0% to 20.0% depending on product type. Cash on hand is based on 3.0% of total deposits derived from historical average. Loan levels are based on historical growth, assuming a linear trend function. Past due receivables and/or real and other properties required are a function of loan levels, while other assets are a function of fund source levels. Reserve requirements include 18.0% of peso deposits.
- **Income statement items**  
Historical or average interest rates are used for loan interest income. For theoretical income from branch funds, peso-denominated accounts are pegged on the average high cost rate rate while foreign currency-denominated accounts use average interest derived from blended foreign currency-denominated funds. Other income is based on incremental growth ratios derived from the market's perceived response and assumed marketing efforts on the bank's products and services. Interest expense is computed using 0.3% for current and savings accounts, 4.8% for time deposits and special savings accounts, and 0.9% for foreign currency deposits. Operating expenses have 7% benchmark for increments.



- Net present value computation  
Terminal value is the growth rate based on the bankwide average balance sheet spread, plus weighted average cost of capital. The discount rate is the weighted average cost of capital derived using actual levels.

#### Trademarks and Product Formulation

Trademarks were acquired by URC from Nestlé Waters Philippines, Inc. and Acesfood in 2008 and 2007, respectively. Product formulation was acquired from General Milling Corporation in 2008.

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## 19. Goodwill

Movements in the Group's goodwill account follow:

	2012	2011
<b>Cost</b>		
Balance at beginning of year	<b>₱1,046,767,480</b>	₱1,075,014,724
Additions due to business combination (Note 46)	<b>244,327,006</b>	–
Disposal of investment (Note 45)	–	(28,247,244)
Balance at end of year	<b>1,291,094,486</b>	1,046,767,480
<b>Accumulated Impairment Losses</b>		
Balance at beginning of year	<b>248,139,704</b>	184,639,704
Provision for impairment losses (Note 34)	–	63,500,000
Balance at end of year	<b>248,139,704</b>	248,139,704
<b>Net Book Value at End of Year</b>	<b>₱1,042,954,782</b>	₱798,627,776

The Group's goodwill pertains to: (a) the acquisition of LSB in December 2012, (b) the acquisition of Advanson in December 2007, (c) the acquisition of Acesfood in May 2007, (d) the excess of the acquisition cost over the fair values of the net assets acquired by Hongkong China Foods Co., Ltd. (HCFCL) and URC Asean Brands Co., Ltd. (UABCL) in 2000, and (e) the acquisition of Southern Negros Development Corporation (SONEDCO) in 1998. The goodwill arising from the acquisitions of HCFCL, UABCL, Acesfood and Advanson was translated at the applicable year-end exchange rate.

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 9.3% to 10.0%. 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.



In 2011, the Group recognized provision for impairment losses amounting to ₱63.5 million (included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income) on the goodwill pertaining to SONEDCO (Note 34). The Group also derecognized goodwill of ₱28.2 million in relation to the disposal of Shantou SEZ Toyo Food Industrial Co. Ltd. (Shantou SEZ Toyo) and Guangdong Acesfood Co. Ltd. (Guangdong Acesfood) (Note 45).

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## 20. Other Noncurrent Assets

This account consists of:

	2012	2011
Advances to suppliers	<b>₱2,015,979,514</b>	₱1,271,267
Input VAT	<b>1,662,032,457</b>	150,799,015
Security and miscellaneous deposits	<b>459,619,840</b>	486,258,247
Utility deposits	<b>284,792,491</b>	222,076,451
Deferred tax assets (Note 38)	<b>177,796,078</b>	242,595,026
Advances to lot owners	<b>172,366,647</b>	174,166,992
Derivative assets (Note 8)	–	172,496,875
Others	<b>437,682,188</b>	440,163,719
	<b>₱5,210,269,215</b>	₱1,889,827,592

### Advances to Suppliers

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

### Input VAT

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

### Security Deposits

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

### Utility Deposits

Utility deposits consist primarily of bid bonds and meter deposits.

### Advances to Lot Owners

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

### Others

Others include repossessed chattels.

Provision for impairment losses on other noncurrent assets recognized under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income amounted to ₱8.1 million and ₱5.1 million in 2012 and 2011, respectively (Note 34).



## 21. Accounts Payable and Accrued Expenses

This account consists of:

	2012	2011
Deposit liabilities	<b>₱15,499,122,740</b>	₱6,326,435,391
Trade payables	<b>10,295,094,173</b>	8,267,951,604
Accrued expenses	<b>8,890,668,489</b>	8,193,504,665
Due to related parties (Note 40)	<b>691,151,836</b>	631,507,140
Airport and other related fees payable	<b>534,436,035</b>	330,044,660
Withholding taxes payable	<b>149,295,632</b>	107,597,736
Output VAT	<b>16,461,637</b>	8,957,536
Dividends payable	<b>9,483,026</b>	8,689,011
Other payables	<b>1,533,669,987</b>	1,103,535,331
	<b>₱37,619,383,555</b>	₱24,978,223,074

### 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, 2012 and 2011, 67.2% and 70.4%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities of the RBC and LBC incur interest at annual fixed rates of up to 2.8% for both years.

As of December 31, 2011, non-FCDU deposit liabilities of RBC are subject to statutory reserve of 2.00% and liquidity reserve of 6.00%.

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.

The liquidity and statutory reserves of RBC and LSB as reported to the BSP are as follows (Note 7):

	2012	2011
Due from BSP*	<b>₱5,756,584,476</b>	₱3,047,421,010
Cash and other cash items**	-	669,931,514
	<b>₱5,756,584,476</b>	₱3,717,352,524

\* Included in Cash in banks

\*\* Included in Cash equivalents

As of December 31, 2012 and 2011, RBC and LSB is in compliance with the regulations.



The details of 'Interest expense' on 'Deposit liabilities', which are included in the 'Cost of services - Banking' in profit or loss in the consolidated statements of comprehensive income are as follows (Note 30):

	2012	2011	2010
Savings	<b>₱533,822,581</b>	₱500,579,872	₱11,467,073
Time	<b>192,751,001</b>	145,802,586	277,310,307
Demand	<b>18,897,859</b>	15,092,128	102,875,442
	<b>₱745,471,441</b>	₱661,474,586	391,652,822

#### 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.

#### Accrued Expenses

Accrued expenses consists of accruals for:

	2012	2011
Landing and take-off, navigational charges, and other aircraft-related expenses	<b>₱1,847,497,977</b>	₱1,701,604,461
Taxes and licenses	<b>1,306,611,012</b>	790,682,556
Advertising and promotions	<b>1,298,057,610</b>	1,240,988,242
Compensation and benefits	<b>1,108,962,258</b>	957,869,667
Accrued interest payable	<b>998,588,995</b>	1,244,509,791
Import bills payable	<b>769,081,650</b>	604,225,375
Contracted services	<b>457,174,349</b>	522,201,437
Rental expense	<b>348,824,688</b>	209,234,327
Utilities	<b>208,419,893</b>	248,324,819
Freight and handling costs	<b>191,287,113</b>	160,409,857
Insurance	<b>77,014,438</b>	91,624,863
Royalties	<b>7,328,644</b>	14,997,384
Other accrued expenses	<b>271,819,862</b>	406,831,886
	<b>₱8,890,668,489</b>	₱8,193,504,665

Other accrued expenses include accruals for travel and transportation, repairs and maintenance and other professional services.

#### Airport and Other Related Fees Payable

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

#### Other Payables

Other payables mostly consist of management bonus and royalty payables.



## 22. Other Current Liabilities

This account consists of:

	2012	2011
Unearned transportation revenue	<b>₱5,981,195,913</b>	₱5,253,433,343
Deposits from real estate buyers (Note 24)	<b>1,226,426,595</b>	845,695,426
Deposits from lessees (Note 24)	<b>313,399,460</b>	174,545,141
Deposit from foreign carrier	<b>410,500,000</b>	-
Customer's deposits	<b>274,974,831</b>	246,517,350
Advances from agents and others	<b>251,878,844</b>	191,017,007
	<b>₱8,458,375,643</b>	₱6,711,208,267

### Unearned Transportation Revenue

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

### Deposit from Foreign Carrier

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

### Advances from Agents and Others

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

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

### Short-term Debts

Short-term debts consist of:

	2012	2011
Parent Company:		
Foreign currency - with interest rate ranging from 1.0% to 1.1% in 2012 and 1.1% in 2011	<b>₱958,928,000</b>	₱3,726,400,000
Subsidiaries:		
Foreign currencies - with interest rates ranging from 0.4% to 4.3% in 2012 and 0.4% to 4.4% in 2011	<b>16,031,471,023</b>	13,862,966,061
Philippine Peso - with interest rates ranging from 3.0% to 4.5% in 2012 and 4.0% to 4.5% in 2011	<b>2,406,680,975</b>	1,503,268,203
	<b>18,438,151,998</b>	15,366,234,264
	<b>₱19,397,079,998</b>	₱19,092,634,264





As of December 31, 2012 and 2011, short-term debt of certain subsidiaries denominated in foreign currency and peso include trust receipts and acceptances payable amounting to ₱4.9 billion and ₱4.1 billion, respectively. The trust receipts and acceptances payable are secured by the trusted inventories for the same amount (Note 12).

In 2012, 2011 and 2010, the Group has incurred interest expense on short-term notes amounting to ₱631.9 million, ₱264.3 million and ₱253.8 million, respectively (Note 35).

### Long-term Debts

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

	Maturities	Interest Rates	2012	2011	Condition
<b>Parent Company:</b>					
Fixed Rate Retail Bonds	2014	8.25%	<b>₱8,954,500,971</b>	₱8,933,149,468	Unsecured
Fixed Rate Corporate Notes	2013	8.00%	<b>4,303,314,929</b>	4,294,472,920	- do -
			<b>13,257,815,900</b>	13,227,622,388	
<b>Subsidiaries:</b>					
Foreign currencies:					
JGSPL					
US\$300.0 million guaranteed notes	2013	8.00%	<b>10,510,654,954</b>	11,209,767,749	Unsecured
URCPL					
US\$200.0 million guaranteed notes	2012	8.25%	-	8,197,807,089	- do -
CAI					
ECA loans (Note 16)	Various dates through 2023	3.37% to 5.83% 0.85% to 2.05% in 2012 and 2011 (US Dollar LIBOR 6 months + margin or 3 months + margin)	<b>13,725,647,413</b>	10,896,597,403	Secured
Commercial loan from foreign banks	Various dates through 2017	4.11% to 5.67% in 2012 and in 2011 1.65% to 1.71% in 2012 and 2011 (US Dollar LIBOR 6 months plus margin)	<b>7,420,307,510</b>	7,696,377,955	- do -
			<b>1,655,381,256</b>	2,079,277,203	- do -
			<b>123,023,020</b>	199,640,872	- do -
			<b>33,435,014,153</b>	40,279,468,271	
<b>Philippine Peso:</b>					
URC					
₱3.0 billion loan facility Philippine Sugar Corporation restructured loan	2014	8.75%	<b>2,990,455,926</b>	2,984,699,202	Unsecured
RLC					
₱5.0 billion loan facility	2014	8.50%	<b>5,000,000,000</b>	5,000,000,000	- do -
₱5.0 billion loan facility	2014	8.25%	<b>5,000,000,000</b>	5,000,000,000	- do -
₱3.0 billion loan facility	2012	6.38%	-	3,000,000,000	- do -
		15.70% -			
₱2.0 billion bonds	2013	PDST-F rate	<b>2,000,000,000</b>	2,000,000,000	- do -
			<b>14,990,455,926</b>	18,010,403,635	
			<b>48,425,470,079</b>	58,289,871,906	
			<b>61,683,285,979</b>	71,517,494,294	
			<b>19,553,919,868</b>	13,622,011,230	
Less current portion			<b>₱42,129,366,111</b>	₱57,895,483,064	

Except for the balances of subsidiaries reporting at September 30 fiscal year end, the foreign exchange rate used to revalue the foreign currency borrowings was ₱41.05 to US\$1.00 and ₱43.84 to US\$1.00 on December 31, 2012 and 2011, respectively. The foreign exchange rates used by the subsidiaries reporting at fiscal year end were ₱41.70 to US\$1.00 and ₱43.72 to US\$1.00 on September 30, 2012 and 2011, respectively.



Long-term debt to foreign banks is shown net of unamortized debt issuance costs totaling ₱0.7 million (US\$17.8 thousand) and ₱19.7 million (US\$0.5 million) as of December 31, 2012 and 2011, respectively. Unamortized debt issuance cost related to peso-denominated long-term debt amounted to ₱61.7 million and ₱97.7 million as of December 31, 2012 and 2011, respectively.

Repayments of the long-term debt (gross of debt issuance costs) follow:

	2012	2011
Due in:		
2012	₱-	₱13,676,929,895
2013	19,561,336,135	20,012,873,193
2014	24,797,954,494	24,474,400,064
2015	2,766,637,278	2,456,666,932
2016	2,832,764,395	2,520,735,763
Thereafter	11,787,053,047	8,493,316,179
	<b>₱61,745,745,349</b>	<b>₱71,634,922,026</b>

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

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

Parent Company ₱4.3 Billion Fixed Rate Corporate Notes

On September 10, 2008, the Parent Company issued an aggregate amount of ₱4.3 billion fixed rate corporate notes. The notes bear an annual interest of 8.0% payable semi-annually and the principal amount will be paid on September 16, 2013. In 2012, 2011 and 2010, the interest expense recognized related to this loan, including amortization of bond issue costs, amounted to ₱353.6 million, ₱353.0 million and ₱350.4 million, respectively. As of December 31, 2012 and 2011, the carrying value of the corporate notes amounted to ₱4.3 billion, net of unamortized bond issue costs of ₱6.7 million and ₱15.5 million, respectively.

Parent Company ₱9.0 Billion Fixed Retail Bonds

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

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

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



#### Subsidiaries' Foreign Currency Loans

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

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

##### *URCPL 8.25% Guaranteed Notes Due 2012*

On January 14, 2005, URCPL issued US\$200.0 million 8.25% notes due 2012 guaranteed by URC. Unless previously redeemed or purchased and cancelled, the notes will be redeemed at their principal amount, plus accrued and unpaid interest on January 20, 2012.

On January 20, 2012, URCPL fully settled the notes with a total payment of ₱8.4 billion, including interest.

##### *Digitel Group's Bonds and Term Loan Facilities*

As a result of the disposal of Digitel, as discussed in Note 44 to the consolidated financial statements, PLDT assumed the obligations of the Parent Company, as guarantor under the Digitel and DMPI loan agreements covered by guarantees from the Parent Company. Digitel and DMPI obtained the required consent of the lenders and export credit agencies for the replacement of the Parent Company by PLDT as guarantor under these loans. As at December 31, 2011, all long-term debt of Digitel Group were derecognized as part of the Group's disposal of its entire ownership interest in Digitel.

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

In 2007, CAI entered into a commercial loan facility to partially finance the purchase of two Airbus A320 aircraft, one CFM 565B4/P engine, two CFM 565B5/P engines and one QEC Kit. The security trustee of the commercial loan facility established ILL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to a: (a) 10-year finance lease arrangement for the aircraft, (b) six-year finance lease arrangement for the engines and (c) five-year finance lease arrangement for the QEC Kit. The quarterly rental payments of CAI correspond to the principal and interest payments made by ILL to the commercial lenders and are guaranteed by the Parent Company. CAI has the option of purchasing the aircraft, the engines and the QEC Kit for a nominal amount at the end of such leases.

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

The terms of the commercial loan from foreign banks follow:

- Term of 10 years starting from the delivery date of each Airbus A320 aircraft.
- Term of six and five years for the engines and QEC Kit, respectively.
- Term of six years starting from the delivery date of each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the two Airbus A320 aircraft and six ATR 72-500 turboprop aircraft, and equal principal repayments for the engines and the QEC Kit. Principal repayments shall be made on a quarterly and semi-annual basis for the two Airbus A320 aircraft, engines and the QEC Kit and six ATR 72-500 turboprop aircraft, respectively.
- Interest on the commercial loan facility for the two Airbus A320 aircraft shall be 3-month LIBOR plus margin. On February 29, 2009, the interest rates on the two Airbus A320 aircraft, engines and QEC Kit were fixed ranging from 4.11% to 5.67%.



- Interest on the commercial loan facility for the six ATR 72-500 turboprop aircraft shall be 6-month LIBOR plus margin.
- The commercial loan facility provides for material breach as an event of default.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose on secured assets, namely the aircraft.

#### *CAI's ECA Loans*

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

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

The Company pre-terminated the lease agreement with BLL related to the disposal of one ATR 72-500 turboprop aircraft. The outstanding balance of the related loans and accrued interests amounting to ₱638.1 million (US\$14.5 million) and ₱13.0 million (US\$0.3 million), respectively, 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.



### Philippine Peso Loans

#### *URC Philippine Sugar Corporation Restructured Loan*

Republic Act (RA) No. 7202 dated February 24, 1992 provided for, among others, the condonation of all penalties and surcharges on loans granted to sugar producers from crop year 1974-1975 up to and including 1984-1985. The guidelines for the implementation of RA No. 7202 was issued under Executive Order No. 31 dated October 29, 1992, directing all government lending financial institutions to write-off from their respective books the interest in excess of 12.0% yearly and all penalties and surcharges due.

Certain assets of URC with a net book value of nil and ₱34.3 million as of December 31, 2012 and 2011, respectively, were used to secure the loan (Note 16). The loan is payable in 25 equal annual amortizations of ₱9.9 million. Unpaid interest on the loan amounted to nil and ₱1.4 million as of December 31, 2012 and 2011, respectively.

SONEDCO fully settled the loan with a total payment of ₱27.6 million in 2011, including interest.

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

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

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

#### *RLC ₱3.0 Billion Bonds due in May 2012*

On May 24, 2007, RLC issued a ₱3.0 billion Fixed Rate Corporate Note Facility constituting direct, unconditional, unsubordinated, general and unsecured obligations of RLC ranking at least *pari passu* in all respects and ratably without preference or priority (except for any statutory preference or priority applicable in the winding-up of RLC) with all other outstanding unsecured and unsubordinated obligations of the Group. The term of the bonds is five years and one day from issue date to be issued in one tranche.

The interest rate shall be 6.38% per annum and shall be payable semi-annually, computed based on the outstanding balance with payments commencing on the issue date and ending on the maturity date.

Debt covenants include provision that RLC must ensure that it will remain at least 51.0% owned by the Parent Company.

RLC paid in full the loan on May 28, 2012.

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

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



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

Debt covenants include provision that RLC must ensure that it will remain at least 51.0% owned by the Parent Company.

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

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

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

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

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

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

Breakdown of total interest expense on long-term debts follows:

	2012	2011	2010
Continuing operations (Note 35)	<b>₱3,137,541,167</b>	₱4,669,096,924	₱4,937,281,124
Discontinued operations (Note 44)	-	90,813,031	280,435,831
	<b>₱3,137,541,167</b>	<b>₱4,759,909,955</b>	<b>₱5,217,716,955</b>

In 2012, 2011 and 2010, the Group recognized amortization of bond issue costs amounting to ₱54.3 million, ₱125.7 million and ₱104.0 million, respectively (Note 35).

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**24. Other Noncurrent Liabilities**

This account consists of:

	2012	2011
Deposit liabilities	<b>₱3,962,810,020</b>	₱1,376,348,241
Deposits from lessees	<b>2,029,673,869</b>	1,820,384,583
ARO	<b>1,351,931,051</b>	1,263,319,344
Accrued rent expense	<b>1,181,403,160</b>	1,080,362,640
Due to related parties (Note 40)	<b>1,039,489,605</b>	994,856,747

(Forward)



	2012	2011
Deposits from real estate buyers	<b>₱544,836,353</b>	₱741,071,742
Pension liabilities (Note 37)	<b>406,589,215</b>	455,086,450
Accrued maintenance cost	<b>424,276,778</b>	670,810,817
Derivative liabilities (Note 8)	–	218,686,239
Others	<b>568,054,983</b>	634,761,102
	<b>₱11,509,065,034</b>	₱9,255,687,905

#### Deposit Liabilities

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

#### Deposits from Lessees

Deposits from lessees (including the current portion shown in Note 22) 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 accretion expense on these deposits recorded as part of cost of rental services on the discount amounted to ₱65.1 million, ₱72.6 million and ₱71.3 million in 2012, 2011 and 2010, respectively (Note 30). The deposits from lessees were discounted using PDST-F rate plus 2.0% spread.

The unearned rental income (included under 'Deposit from lessees') amounted to ₱103.0 million and ₱104.0 million as of December 31, 2012 and 2011, respectively. The rental income on amortization of unearned rental income amounted to ₱65.0 million, ₱70.0 million and ₱72.0 million in 2012, 2011 and 2010, respectively.

#### ARO

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

In 2012, the Group's capitalized ARO liability amounted to ₱459.3 million refers to the cost of restoration of two new operating lease passenger aircraft entered in March 2012. In 2011, the Group's capitalized ARO liability amounted to ₱279.9 million refers to the cost of restoration of two new operating lease passenger aircraft entered in October 2011.

In 2012 and 2011 and 2010, the Group's accretion expense on ARO liability amounted to ₱208.4 million, ₱191.5 million and ₱170.4 million, respectively.

#### Deposits from Real Estate Buyers

Deposits from real estate buyers (including the current portion shown in Note 22) 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 22).

Deposits from real estate buyers also include cash collections in excess of the installment contract receivables recognized under the percentage-of-completion method which amounted to ₱1.8 billion and ₱1.6 billion as of December 31, 2012 and 2011, respectively.





Accrued Maintenance Cost

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

**25. Equity**

Details of the Parent Company's authorized capital stock as of December 31, 2012 and 2011 follow:

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

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

	2012		2011	
	Shares	Paid-up Capital	Shares	Paid-up Capital
Common shares				
Issued and fully paid	6,895,273,657	₱14,045,731,314	6,895,273,657	₱12,856,988,094
Less treasury shares	98,082,000	721,848,289	155,745,430	974,690,819
Total issued and outstanding	6,797,191,657	₱13,323,883,025	6,739,528,227	₱11,882,297,275
Preferred voting shares				
Issued and outstanding	4,000,000,000	₱40,000,000	4,000,000,000	₱40,000,000

Increase in Authorized Capital Stock

On December 9, 2010, the Parent Company's BOD approved the amendment of its articles of incorporation to implement the following: (a) increase in authorized capital stock from Fourteen Billion Eight Hundred Fifty Million Eight Hundred Thousand Pesos (₱14,850,800,000) to Fourteen Billion Eight Hundred Ninety Million Eight Hundred Thousand Pesos (₱14,890,800,000); and (b) to create Four Billion (4,000,000,000) voting and non-redeemable preferred shares with a par value of One Centavo (₱0.01) per share, for a total par value of Forty Million Pesos (₱40,000,000).

The foregoing BOD resolution was approved by the stockholders of the Company in its special meeting held on January 27, 2011.

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:

- a. 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.
- b. The shares shall be non-redeemable.
- c. 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.



- d. 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 commons 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.

Date of offering	Type of offering	No. of shares offered	Par value	Offer price	Authorized number of shares	Issued and outstanding shares
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	–

(Forward)



Date of offering	Type of offering	No. of shares offered	Par value	Offer price	Authorized number of shares	Issued and outstanding shares
June 30, 1993	Initial public offering (IPO)	1,428,175,000 common shares	₱1.00	₱4.40	–	1,428,175,000 common shares
June 30, 1994	Conversion of convertible bonds into common shares	428,175,000 common shares	₱1.00	₱13.75	–	3,725,457 common shares
July 3, 1998	Stock rights offering (1:2)	2,060,921,728 common shares	₱1.00	₱2.00	–	2,060,921,728 common shares

The table below provides information regarding the number of stockholders of the Parent Company as of December 31, 2012, 2011 and 2010:

	2012	2011	2010
Common shares	1,112	1,171	1,233
Preferred voting shares	1	1	–

#### 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:

	2012	2011
(a) Gross debt		
Short-term debt (Note 23)	₱19,397,079,998	₱19,092,634,264
Long-term debt (Note 23)	61,683,285,979	71,517,494,294
Derivative liabilities (Note 8)	41,178,211	303,930,885
Redeemable preferred shares (Note 46)	30,700,000	–
	<b>₱81,152,244,188</b>	<b>₱90,914,059,443</b>
(b) Capital	<b>₱198,926,914,638</b>	<b>₱180,398,819,978</b>
(c) Debt-to-capital ratio (a/b)	<b>0.41:1</b>	<b>0.50:1</b>

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

#### Regulatory Capital

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



RBC's regulatory capital consists of Tier 1 (core) capital, which comprises share capital and retained earnings including current year profit less required deductions such as deferred income tax and unsecured credit accommodations to directors, officers, stockholders and related interest (DOSRI). Certain adjustments are made to PFRS-based results and reserves as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes, among others, general loan loss provision. The risk based capital ratio of RBC is expressed as a percentage of qualifying capital to risk weighted assets, which are computed based on BSP regulations.

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

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

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

The following table sets the regulatory capital of RBC as reported to the BSP (in millions):

	2012	2011
Tier 1 capital	<b>₱4,836</b>	₱4,822
Tier 2 capital	<b>(242)</b>	145
Gross qualifying capital	<b>4,594</b>	4,967
Less required deductions	-	-
Total qualifying capital	<b>₱4,594</b>	₱4,967
Risk weighted assets	<b>₱17,464</b>	₱17,048
Tier 1 capital ratio	<b>27.69%</b>	28.28%
Tier 2 capital ratio	<b>(1.39%)</b>	0.85%
Risk-based CAR	<b>26.31%</b>	29.13%

Regulatory capital consists of Tier 1 capital, which comprises paid-up common stock, surplus, surplus reserves including current year profit, less total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI.

The other component of regulatory capital is Tier 2 capital, which represents the general loan loss provisions capped at a maximum of 1.25% of gross risk weighted assets. The general loan loss provisions are based on regulatory accounting principles of the BSP.

As of December 31, 2012 and 2011, the Group had complied with all externally imposed capital requirements.



### 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 30, 2010 and December 28, 2009, the Parent Company's BOD approved the additional appropriation of retained earnings amounting to ₱19.0 billion and ₱15.0 billion, respectively.

The ₱42.0 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 2014
Construction of naphtha cracker plant	JGSOC	US\$800.0 million	Expected completion in 2014

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 is restricted 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.

#### *RLC*

On May 14, 2003, the BOD of RLC approved the appropriation of ₱3.5 billion, out of the unappropriated retained earnings, for future expansion.



On September 15, 2009, the BOD of RLC approved the additional appropriation of ₱7.0 billion, out of the unappropriated retained earnings of RLC, to support its capital expenditure requirement.

The current level of appropriations is earmarked for the continuing capital expenditures of RLC Group. About 33.0% of the appropriation is allocated for residential residential condos and housing units, mainly for the Luxuria (Amisa, Signa Designer, and Sonata projects) and Residences (Trion Towers and Magnolia Residences). 50% will be spent for mall operations (7 new malls and 2 expansion projects in the planning and development stage for completion in the next two years). 17% is allocated for office buildings for the development of 2 additional buildings in Ortigas and hotels for the Company's 6 expansion projects in the planning and development stage for completion in the next 2 years.

#### *CAI*

On April 19, 2012, the Parent Company's Executive Committee appropriated ₱483.3 million from its unrestricted retained earnings as of December 31, 2011 for purposes of the Group's re-fleeting program. The appropriated amount will be used for settlement of pre-delivery payments and aircraft lease commitments in 2013.

On December 9, 2011, the Parent Company's BOD appropriated ₱933.5 million from its unrestricted retained earnings as of December 31, 2010 for purposes of the Parent Company's re-fleeting program. The appropriated amount will be used for settlement of pre-delivery payments and aircraft lease commitments in 2013.

#### *RBC*

As of December 31, 2012, 2011 and 2010, RBC's surplus reserve amounted to ₱112.2 million, ₱108.6 million and ₱103.9 million, respectively, which were appropriated for self-insurance and for its trust operations.

RBC's BOD approved to appropriate reserves for self-insurance amounting to ₱3.6 million in 2012, 2011 and 2010.

#### *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.

#### *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 ₱56.6 billion, ₱46.3 billion and ₱30.9 billion as of December 31, 2012, 2011 and 2010, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.



Cash Dividends

*Parent Company*

Details of the Parent Company's dividend declarations on its common stock follow:

	<b>2012</b>	2011	2010
Date of declaration	<b>June 28, 2012</b>	July 7, 2011	June 28, 2010
Dividend per share	<b>₱0.16</b>	₱0.08	₱0.05
Total dividends	<b>₱1.1 billion</b>	₱543.8 million	₱339.9 million
Date of record	<b>July 18, 2012</b>	July 27, 2011	July 16, 2010
Date of payment	<b>August 13, 2012</b>	August 22, 2011	August 6, 2010

Details of the Parent Company's dividend declarations on its preferred stock follow:

	<b>2012</b>	2011
Date of declaration	<b>June 28, 2012</b>	July 7, 2011
Dividend per share	<b>₱0.0016</b>	₱0.0008
Total dividends	<b>₱6.4 million</b>	₱3.2 million
Date of record	<b>July 18, 2012</b>	July 27, 2011
Date of payment	<b>August 13, 2012</b>	August 22, 2011

The following tables summarize the dividends declared by significant subsidiaries of the Parent Company:

*URC*

Details of URC's dividend declarations follow:

	<b>2012</b>	2011	2010
Date of declaration	<b>April 18, 2012</b>	May 11, 2011	April 15, 2010
Dividend per share	<b>₱1.90</b>	₱1.90	₱0.94
Total dividends	<b>₱3.9 billion</b>	₱3.9 billion	₱1.9 billion
Date of record	<b>May 8, 2012</b>	May 31, 2011	May 5, 2010
Date of payment	<b>June 1, 2012</b>	June 27, 2011	May 20, 2010

*RLC*

Details of RLC's dividend declarations follow:

	<b>2012</b>	2011	2010
Date of declaration	<b>April 18, 2012</b>	May 11, 2011	April 15, 2010
Dividend per share	<b>₱0.36</b>	₱0.36	₱0.48
Total dividends	<b>₱1.5 billion</b>	₱1.5 billion	₱1.3 billion
Date of record	<b>May 8, 2012</b>	May 31, 2011	May 5, 2010
Date of payment	<b>June 1, 2012</b>	June 27, 2011	May 20, 2010

*CAI*

Details of CAI's dividend declarations follow:

	<b>2012</b>	2011
Date of declaration	<b>June 28, 2012</b>	March 17, 2011
Dividend per share - regular	<b>₱1.00</b>	₱2.00
Total dividends - regular	<b>₱606.0 million</b>	₱1.2 billion
Dividend per share - special	-	₱1.00
Total dividends - special	-	₱0.6 billion
Date of record	<b>July 18, 2012</b>	April 14, 2011
Date of payment	<b>August 13, 2012</b>	May 12, 2011



Treasury Shares

The Group has outstanding 98.1 million treasury shares amounting to ₱721.8 million as of December 31, 2012 and 155.7 million treasury shares amounting to ₱974.7 million as of December 31, 2011 and 2010.

In 2012, 57,663,430 shares of common stock of the Parent Company held by a subsidiary were sold through a secondary block sale agreement for a total consideration of ₱1.4 billion. These same shares were acquired by the subsidiary for a consideration of ₱252.8 million in 2010. The excess of the total consideration received over the cost amounting to ₱1.2 billion was treated as an additional paid-in capital.

Equity Reserve

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

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

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

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

Non-controlling Interests

Below is the rollforward of non-controlling interests:

	2012	2011	2010
Beginning balance	<b>₱39,115,505,104</b>	₱31,891,251,796	₱21,736,756,026
Total comprehensive income:			
Net income attributable to non-controlling interests	<b>6,371,264,947</b>	5,023,851,246	4,592,963,531
Other comprehensive income attributable to non-controlling interests:			
Net gain (loss) on AFS investments (Note 10)	<b>152,992,515</b>	(110,625,178)	152,957,654
Cumulative translation adjustments	<b>(73,331,294)</b>	(49,550,215)	(39,286,413)
	<b>6,450,926,168</b>	4,863,675,853	4,706,634,772

(Forward)





	2012	2011	2010
Cash dividends paid to non-controlling interests	<b>(₱ 2,268,172,563)</b>	(₱2,579,518,135)	(₱1,217,749,826)
Additional non-controlling interests in subsidiaries	-	952,889,242	7,383,795,370
Decrease (increase) in subsidiaries' treasury shares	<b>4,201,218,573</b>	(288,849,407)	(718,184,546)
Acquisition of non-controlling interest by a subsidiary	<b>(3,838,041,702)</b>	-	-
Issuance of capital stock of a subsidiary	-	5,298,191,460	-
Effect of disposal of a subsidiary (Note 44)	-	(1,022,135,705)	-
	<b>₱43,661,435,580</b>	<b>₱39,115,505,104</b>	<b>₱31,891,251,796</b>

The increase in non-controlling interests amounting to ₱0.9 billion in 2011 was mainly attributable to the merger of RSB with RBC while the ₱7.4 billion increase in 2010 was a result of the IPO of CAI.

*Share buy-back program of the subsidiaries*

On October 22, 2009, RLC's BOD approved the creation and implementation of a share buy-back program allotting up to ₱1.0 billion to reacquire a portion of RLC's issued and outstanding common shares, representing approximately 3.1% of current market capitalization. As of December 31, 2010, RLC has repurchased a total of 17,698,000 shares for a total purchase price of ₱222 million at an average price of ₱12.53 per share.

On December 8, 2009, URC's BOD also approved the purchase of 81.5 million of its common shares through the share buy-back program at ₱14.0 per share or a total consideration of ₱1.1 billion.

In November and December 2010, URC repurchased a total of 8.0 million shares for a total consideration of ₱290.0 million, pursuant to its share buy-back program. The purchase increased the outstanding treasury shares to 156.6 million shares, equivalent to 7.0% of its outstanding shares.

On January 12, 2011, URC's BOD approved the extension of URC's share buy-back program, allotting additional ₱2.5 billion to reacquire a portion of URC's issued and outstanding common shares. The extension of the share buy-back program shall have the same terms and conditions as the share buy-back program approved by the BOD on November 13, 2007.

On February 28, 2011, the BOD of CAI approved the creation and implementation of a share buy-back program up to ₱2.0 billion worth of CAI's common shares. The share buy-back program shall commence upon approval and shall end upon utilization of the said amount, or as may be otherwise determined by the BOD of CAI. As of December 31, 2012 and 2011, CAI has outstanding treasury shares of 7,283,220 shares.

As a result of the above transactions, the Parent Company recognized loss in 2011 amounting to ₱717.5 million, which are charged directly to 'Equity reserve' account attributable to the equity holders of the Parent Company. The above transactions also resulted in the decrease in the balance of the non-controlling interests in the amount of ₱288.8 million.

*Stock rights offering of RLC*

On February 16, 2011, a 1:2 stock rights offering to stockholders of record as of March 30, 2011 (ex-date March 25, 2011) was approved by the BOD of RLC. Accordingly, RLC received subscriptions for 1,364,610,228 shares at an offer price of ₱10.0 per share on April 11-15, 2011.



As a result of the stock rights offering, RLC issued 516,912,492 number of shares to the non-controlling interests of the Parent Company which had a total proceeds amounting to ₱5.3 billion.

## 26. Banking Revenue

This account consists of:

	2012	2011	2010
Interest income (Note 27)	₱1,925,726,487	₱1,831,335,393	₱1,361,977,076
Trading and securities gains	454,610,012	415,861,968	251,580,794
Service fees and commission income	153,391,432	112,736,144	120,907,884
	<b>₱2,533,727,931</b>	<b>₱2,359,933,505</b>	<b>₱1,734,465,754</b>

## 27. Interest Income

This account consists of:

	2012	2011	2010
Interest income from:			
Cash and cash equivalents	₱1,396,783,004	₱2,290,811,698	₱835,915,600
Finance receivables, unquoted debt securities and sales contract receivable (Note 11)	1,305,401,341	1,176,974,035	933,365,844
AFS debt investments (Note 10)	795,387,541	791,277,415	676,618,678
Investments in financial assets at FVPL (Note 9)	796,209,181	753,328,420	689,303,622
Installment contract receivables (Note 11)	253,601,041	227,648,380	234,195,441
Others	111,580,466	34,534,105	166,597,929
	<b>₱4,658,962,574</b>	<b>₱5,274,574,053</b>	<b>₱3,535,997,114</b>

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

	2012	2011	2010
Finance income	₱2,479,635,046	₱3,215,590,280	₱1,939,824,597
Banking revenue (Note 26)	1,925,726,487	1,831,335,393	1,361,977,076
Revenue from real estate and hotels	253,601,041	227,648,380	234,195,441
	<b>₱4,658,962,574</b>	<b>₱5,274,574,053</b>	<b>₱3,535,997,114</b>

## 28. Dividend Income

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

Beginning 2012, management voluntarily changed its presentation of dividend income and included the same under 'Revenue'. Management believes that this presentation is more appropriate as it accurately reflects the underlying business, will further improve comparability of its results to those of other holding companies and will allow readers to make a more accurate



assessment of the sustainable earnings capacity of the Group. Previously, dividend income was presented under 'Other income'. Refer to Note 2 to the consolidated financial statements for details of the effect of the presentational change.

In 2012, included in this account are dividends received from PLDT which amounted to ₱2.9 billion. Investments in PLDT are reflected as AFS investments in the consolidated statements of financial position.

## 29. Other Operating Income

This account consists of:

	2012	2011	2010
Realized gain on sale of AFS investments (Note 10)	<b>₱54,592,830</b>	₱69,390,963	₱72,954,396
Commission income from insurance brokerage business	<b>129,566,925</b>	142,557,188	105,834,568
Others	<b>361,311,230</b>	862,563,969	457,691,984
	<b>₱545,470,985</b>	₱1,074,512,120	₱636,480,948

Others include rent income and gain on sale of PPE.

## 30. Cost of Sales and Services

This account consists of:

	2012	2011	2010
Raw materials used	<b>₱44,518,114,430</b>	₱42,213,713,864	₱33,909,798,842
Direct labor	<b>2,088,308,487</b>	2,473,797,570	1,978,803,934
Overhead cost	<b>11,200,346,088</b>	11,546,679,551	9,392,906,165
Total manufacturing cost	<b>57,806,769,005</b>	56,234,190,985	45,281,508,941
Work-in-process	<b>114,711,427</b>	(363,089,202)	(2,202)
Cost of goods manufactured	<b>57,921,480,432</b>	55,871,101,783	45,281,506,739
Finished goods	<b>(134,270,483)</b>	(424,398,037)	(988,723,595)
Cost of sales	<b>57,787,209,949</b>	55,446,703,746	44,292,783,144
Cost of services	<b>34,891,962,310</b>	31,264,544,266	22,820,501,553
Cost of sales and services	<b>₱92,679,172,259</b>	₱86,711,248,012	₱67,113,284,697

Overhead costs are broken down as follows:

	2012	2011	2010
Utilities and fuel	<b>₱4,693,742,475</b>	₱4,985,466,200	₱3,113,449,120
Depreciation and amortization (Note 33)	<b>3,366,426,009</b>	3,180,266,907	3,186,167,422
Repairs and maintenance	<b>1,469,544,292</b>	1,387,402,899	1,255,770,951
Personnel (Note 32)	<b>1,239,758,331</b>	1,173,551,341	1,237,064,340
Rental	<b>128,497,226</b>	146,735,657	130,391,613
Handling and delivery charges	<b>58,187,875</b>	113,895,035	97,648,773
Royalties	-	74,091,734	73,810,601
Research and development	<b>81,251,615</b>	43,950,080	58,033,639
Others	<b>162,938,265</b>	441,319,698	240,569,706
	<b>₱11,200,346,088</b>	₱11,546,679,551	₱9,392,906,165



Cost of services is broken down as follows:

	2012	2011	2010
Air transportation	<b>₱27,739,594,145</b>	₱24,071,054,839	₱17,198,113,111
Real estate	<b>5,259,372,904</b>	5,499,836,562	4,206,126,042
Hotel operations	<b>1,113,684,179</b>	1,009,589,782	996,906,392
Banking	<b>779,311,082</b>	684,063,083	419,356,008
	<b>₱34,891,962,310</b>	₱31,264,544,266	₱22,820,501,553

Further breakdown of the 'Cost of services' account showing the nature of expenses follow:

	2012	2011	2010
Fuel and oil	<b>₱17,561,860,875</b>	₱15,220,724,678	₱9,807,825,078
Maintenance costs	<b>3,181,354,221</b>	2,854,607,462	2,435,779,652
Personnel (Note 32)	<b>2,888,641,886</b>	2,498,246,211	2,088,111,961
Cost of real estate sales (Note 12)	<b>2,360,585,729</b>	2,664,371,840	1,745,032,612
Depreciation and amortization (Note 33)	<b>2,083,885,060</b>	2,113,120,088	1,912,198,868
Landing and take-off	<b>1,568,553,958</b>	1,323,586,310	1,064,449,189
Ground handling charges	<b>1,079,658,319</b>	941,465,556	758,912,700
Reservation costs	<b>811,439,034</b>	729,985,397	669,706,169
Interest expense (Note 21)	<b>745,471,441</b>	661,474,586	391,652,822
Property operations and maintenance costs	<b>573,088,940</b>	484,609,588	426,710,072
Film rentals expense - amusement services	<b>389,831,006</b>	320,222,382	309,970,334
Passenger liability insurance	<b>296,694,606</b>	301,694,148	255,184,289
Contracted services	<b>252,378,423</b>	94,999,468	87,421,133
Cost of food and beverage - hotel operations	<b>180,153,791</b>	172,332,552	164,849,924
Customs, immigration and duties	<b>135,943,169</b>	127,429,916	108,283,604
Pilot and crew meals	<b>44,337,026</b>	38,934,351	35,095,046
Interrupted/delayed trips expense	<b>42,456,043</b>	49,709,826	27,655,411
Service charges and commission expense	<b>33,839,641</b>	22,588,497	20,655,330
Passenger food and supplies	<b>18,799,334</b>	15,057,321	14,985,412
Travel and transportation	<b>28,909,379</b>	38,580,089	22,310,341
Others	<b>614,080,429</b>	590,804,000	473,711,606
	<b>₱34,891,962,310</b>	₱31,264,544,266	₱22,820,501,553

### 31. General and Administrative Expenses

This account consists of:

	2012	2011	2010
Advertising and promotions	<b>₱4,963,067,275</b>	₱4,393,143,054	₱4,339,125,593
Outside services	<b>3,899,994,465</b>	3,322,782,943	2,762,986,817
Depreciation and amortization (Note 33)	<b>3,121,523,088</b>	2,684,712,888	2,196,918,218
Personnel (Note 32)	<b>3,318,027,820</b>	2,931,474,386	2,588,241,218
Aircraft and engine lease	<b>2,033,953,783</b>	1,718,431,374	1,604,855,579
Travel and transportation	<b>706,568,152</b>	635,641,616	530,926,801

(Forward)



	2012	2011	2010
Rental	<b>₱651,284,242</b>	₱606,043,577	₱569,734,389
Taxes, licenses and fees	<b>590,260,463</b>	568,622,031	533,516,620
Sales commission	<b>425,418,948</b>	411,452,597	320,782,375
Insurance	<b>389,754,230</b>	379,133,542	298,113,871
Utilities and supplies	<b>390,840,251</b>	339,371,168	321,622,004
Repairs and maintenance	<b>320,113,385</b>	254,124,725	227,460,319
Communication	<b>140,876,557</b>	142,188,028	129,017,772
Entertainment, amusement and recreation (Note 38)	<b>111,702,367</b>	81,436,864	66,402,052
Others	<b>671,431,623</b>	637,084,188	807,656,925
	<b>₱21,734,816,649</b>	₱19,105,642,981	₱17,297,360,553

Others

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

### 32. Personnel Expenses

Personnel expenses consist of:

	2012	2011	2010
Salaries and wages	<b>₱5,678,642,191</b>	₱5,142,455,441	₱4,807,208,089
Other employee benefits	<b>1,508,513,174</b>	1,265,073,668	964,244,051
Pension expense (Note 37)	<b>259,272,672</b>	195,742,829	141,965,379
	<b>₱7,446,428,037</b>	₱6,603,271,938	₱5,913,417,519

The breakdown of personnel expenses follows:

	2012	2011	2010
Cost of sales and services (Note 30)	<b>₱4,128,400,217</b>	₱3,671,797,552	₱3,325,176,301
General and administrative expenses (Note 31)	<b>3,318,027,820</b>	2,931,474,386	2,588,241,218
	<b>₱7,446,428,037</b>	₱6,603,271,938	₱5,913,417,519

### 33. Depreciation and Amortization

The breakdown of depreciation and amortization on property, plant and equipment, investment properties, deferred subscriber acquisition and retention costs, biological assets and intangible assets follows:

	2012	2011	2010
Continuing operations			
Cost of sales and services (Notes 15, 16 and 30)	<b>₱5,450,311,069</b>	₱5,293,386,995	₱5,098,366,290
General and administrative expenses (Note 31)	<b>3,121,523,088</b>	2,684,712,888	2,196,918,218
Discontinued operations	<b>—</b>	1,546,551,044	5,877,050,996
	<b>₱8,571,834,157</b>	₱9,524,650,927	₱13,172,335,504



### 34. Impairment Losses and Others

This account consists of:

	2012	2011	2010
Provision for impairment losses on:			
Intangible assets	<b>₱190,223,400</b>	₱84,014,765	₱-
Receivables	<b>63,864,521</b>	102,517,878	330,883,725
Property, plant and equipment	<b>7,651,176</b>	10,065,297	-
Other noncurrent assets	<b>8,106,596</b>	5,136,823	-
Goodwill	-	63,500,000	-
Investment properties	-	619,075	-
Inventory obsolescence and market decline	<b>1,408,536</b>	63,784,807	15,099,540
	<b>₱271,254,229</b>	₱329,638,645	₱345,983,265

### 35. Financing Costs and Other Charges

This account consists of:

	2012	2011	2010
Interest expense	<b>₱3,947,796,480</b>	₱5,143,554,285	₱5,416,493,967
Bank charges and others	<b>172,503,179</b>	214,972,064	110,862,845
	<b>₱4,120,299,659</b>	₱5,358,526,349	₱5,527,356,812

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

	2012	2011	2010
Long-term debt (Note 23)	<b>₱3,137,541,167</b>	₱4,669,096,924	₱4,937,281,124
Short-term debt (Note 23)	<b>631,939,890</b>	264,330,251	253,777,149
Advances from affiliates	<b>78,270,790</b>	82,469,024	120,299,521
Others	<b>45,765,978</b>	1,998,704	1,090,508
	<b>3,893,517,825</b>	5,017,894,903	5,312,448,302
Amortization of debt issuance costs (Note 23)	<b>54,278,655</b>	125,659,382	104,045,665
	<b>₱3,947,796,480</b>	₱5,143,554,285	₱5,416,493,967



### 36. Components of Other Comprehensive Income

Below is the composition of the Group's 'Other comprehensive income':

	2012		Total
	Parent Company	Non-controlling Interests	
Net gains on AFS investments (Note 10):			
Net changes in fair value of AFS investments of the Parent Company and its subsidiaries:			
Net changes in fair value during the period	₱501,675,588	₱172,082,163	₱673,757,751
Reclassification adjustment included in profit or loss arising from disposal of AFS investments	(35,503,182)	(19,089,648)	(54,592,830)
	466,172,406	152,992,515	619,164,921
Net changes in fair value of AFS investments of an associate	10,100,452	–	10,100,452
	476,272,858	152,992,515	629,265,373
Cumulative translation adjustments	(148,761,389)	(73,331,294)	(222,092,683)
	₱327,511,469	₱79,661,221	₱407,172,690
	2011		Total
	Parent Company	Non-controlling Interests	
Net gains on AFS investments (Note 10):			
Net changes in fair value of AFS investments of the Parent Company and its subsidiaries:			
Net changes in fair value during the period	₱3,188,042,736	(₱85,761,570)	₱3,102,281,166
Reclassification adjustment included in profit or loss arising from disposal of AFS investments	(44,527,355)	(24,863,608)	(69,390,963)
	3,143,515,381	(110,625,178)	3,032,890,203
Net changes in fair value of AFS investments of an associate	4,508,521	–	4,508,521
	3,148,023,902	(110,625,178)	3,037,398,724
Net gains from cash flow hedge (Note 8):			
Net changes in fair value of derivatives taken to other comprehensive income	175,838,098	–	175,838,098
Amounts recycled to profit or loss	188,456,213	–	188,456,213
	364,294,311	–	364,294,311
Cumulative translation adjustments	(86,508,428)	(49,550,215)	(136,058,643)
	₱3,425,809,785	(₱160,175,393)	₱3,265,634,392



	2010		
	Parent Company	Non-controlling Interests	Total
Net gains on AFS investments (Note 10):			
Net changes in fair value of AFS investments of the Parent Company and its subsidiaries:			
Net changes in fair value during the period	₱187,660,479	₱157,090,810	₱344,751,289
Reclassification adjustment included in profit or loss arising from disposal of AFS investments	(68,821,240)	(4,133,156)	(72,954,396)
	118,839,239	152,957,654	271,796,893
Net changes in fair value of AFS investments of an associate	175,748	–	175,748
	119,014,987	152,957,654	271,972,641
Net gains from cash flow hedge (Note 8):			
Net changes in fair value of derivatives taken to other comprehensive income	52,296,125	–	52,296,125
Cumulative translation adjustments	(51,804,964)	(39,286,413)	(91,091,377)
	₱119,506,148	₱113,671,241	₱233,177,389

The income tax effects relating to other comprehensive income are as follows:

	2012		
	Before tax	Tax benefit	Net of tax
Net gains on AFS investments of Parent Company and its subsidiaries	₱616,917,327	₱2,247,594	₱619,164,921
Cumulative translation adjustments	(222,092,683)	–	(222,092,683)
Net changes in fair value of AFS investments of an associate (Note 10)	10,100,452	–	10,100,452
	₱404,925,096	₱2,247,594	₱407,172,690

	2011		
	Before tax	Tax benefit	Net of tax
Net gains on AFS investments of Parent Company and its subsidiaries	₱3,020,137,300	₱12,752,903	₱3,032,890,203
Net movement in cash flow hedge	364,294,311	–	364,294,311
Cumulative translation adjustments	(136,058,643)	–	(136,058,643)
Net changes in fair value of AFS investments of an associate (Note 10)	4,508,521	–	4,508,521
	₱3,252,881,489	₱12,752,903	₱3,265,634,392

	2010		
	Before tax	Tax expense	Net of tax
Net gains on AFS investments of Parent Company and its subsidiaries	₱287,618,959	₱15,822,066	₱271,796,893
Net movement in cash flow hedge	52,296,125	–	52,296,125
Cumulative translation adjustments	(91,091,377)	–	(91,091,377)
Net changes in fair value of AFS investments of an associate (Note 10)	175,748	–	175,748
	₱248,999,455	₱15,822,066	₱233,177,389





### 37. 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, 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 amounts recognized as pension liabilities in the consolidated statements of financial position follow:

	2012	2011
Present value of defined benefit obligation	<b>₱2,594,063,351</b>	₱1,977,205,371
Fair value of plan assets	<b>1,548,289,918</b>	1,273,534,411
Unfunded status	<b>1,045,773,433</b>	703,670,960
Unrecognized actuarial losses	<b>(639,184,218)</b>	(248,584,510)
Pension liabilities (Note 24)	<b>₱406,589,215</b>	₱455,086,450

Changes in the present value of the Group's defined benefit obligations follow:

	2012	2011
Balance at beginning of year	<b>₱1,977,205,371</b>	₱1,991,167,899
Current service cost	<b>161,248,608</b>	126,713,282
Interest cost	<b>139,463,214</b>	133,193,081
Benefits paid	<b>(117,091,299)</b>	(120,289,465)
Actuarial losses - net	<b>435,709,886</b>	138,205,268
Effect of disposal of a subsidiary	<b>(2,472,429)</b>	(291,784,694)
Balance at end of year	<b>₱2,594,063,351</b>	₱1,977,205,371

Movements in the fair value of plan assets follow:

	2012	2011
Balance at beginning of year	<b>₱1,273,534,411</b>	₱1,304,010,880
Expected return on plan assets	<b>51,093,078</b>	45,891,442
Actual contributions	<b>247,508,396</b>	6,503,240
Benefits paid	<b>(61,738,317)</b>	(106,016,533)
Actuarial gains	<b>37,892,350</b>	23,145,382
Balance at end of year	<b>₱1,548,289,918</b>	₱1,273,534,411
Actual return on plan assets	<b>₱89,065,428</b>	₱69,036,824

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.



Net plan assets consist of the following:

	2012	
	Amount	%
Cash	<b>₱104,073,335</b>	<b>6.72</b>
Receivables (Note 40)	<b>1,824,669,598</b>	<b>117.85</b>
Liabilities (Note 40)	<b>380,453,015</b>	<b>(24.57)</b>
Balance at end of year	<b>₱1,548,289,918</b>	<b>100.00</b>

	2011	
	Amount	%
Cash	₱225,168	0.01
Receivables (Note 40)	1,641,684,330	128.91
Liabilities (Note 40)	368,375,087	(28.92)
Balance at end of year	₱1,273,534,411	100.00

The Group expects to contribute ₱153.0 million into the pension fund for the year ending 2013.

Movements in unrecognized actuarial losses follow:

	2012	2011
Balance at beginning of year	<b>₱248,584,510</b>	₱243,056,685
Actuarial losses (gains) for the year - obligation	<b>435,446,093</b>	164,984,142
Actuarial losses (gains) for the year - plan assets	<b>(37,795,083)</b>	(23,145,382)
Actuarial gains (losses) recognized	<b>(7,051,302)</b>	(136,310,935)
Balance at end of year	<b>₱639,184,218</b>	₱248,584,510

Components of pension expense (included under 'Personnel expenses' in the 'General and administrative expenses' under continuing and discontinued operations in the consolidated statements of comprehensive income) follow (Note 32):

	2012	2011	2010
Current service cost	<b>₱161,248,608</b>	₱126,713,282	₱121,557,357
Interest cost	<b>139,463,214</b>	133,193,081	159,580,388
Expected return on plan assets	<b>(51,093,079)</b>	(45,891,442)	(64,695,288)
Net actuarial losses (gains) recognized during the year	<b>9,653,929</b>	(18,323,767)	(30,459,487)
Amortization of increase in liability	–	51,675	–
Total pension expense	<b>₱259,272,672</b>	₱195,742,829	₱185,982,970
Pension expense recorded under:			
Continuing operations	<b>259,272,672</b>	195,742,829	141,965,379
Discontinued operations	–	–	44,017,591
	<b>₱259,272,672</b>	₱195,742,829	₱185,982,970



The assumptions used to determine the pension benefits of the Group follow:

2012					
	Retirement Age	Average Remaining Working Life (in years)	Expected Return on Assets	Salary Rate Increase	Discount Rate
Parent Company	60	17	–	5.5%	6.0%
URC	60	9	4.0%	5.5%	5.6% to 6.2%
RLC	60	6 to 14	4.5%	5.5%	5.2% to 5.8%
CAI	60	12	–	5.5%	5.8%
RBC	60	12	–	5.5%	5.8%
JGSPC	60	10	–	5.5%	5.9%
Unicon	60	18	–	5.5%	6.0%

2011					
	Retirement Age	Average Remaining Working Life (in years)	Expected Return on Assets	Salary Rate Increase	Discount Rate
Parent Company	60	19	–	5.5%	6.7%
URC	60	9	4.0%	5.5%	7.2% to 8.3%
RLC	60	6 to 14	4.5%	5.5%	6.7% to 7.4%
CAI	60	12	–	5.5%	6.5%
RBC	60	12	–	5.5%	6.5%
JGSPC	60	10	–	5.5%	7.5%
Unicon	60	7	–	5.5%	6.7%

2010					
	Retirement Age	Average Remaining Working Life (in years)	Expected Return on Assets	Salary Rate Increase	Discount Rate
Parent Company	60	19	–	5.5%	6.7%
URC	60	9	3.9%	5.5%	7.8% to 9.3%
RLC	60	6 to 14	4.5%	5.5%	7.2% to 8.2%
CAI	60	12	–	5.5%	9.9%
RBC	60	12	–	5.5%	8.6%
JGSPC	60	10	–	5.5%	10.2%
Unicon	60	7	–	5.5%	4.8%
Digitel	60	–	–	5.5%	9.3%

Amounts for the current annual period and previous four annual periods are as follows:

	URC				
	2012	2011	2010	2009	2008
Defined benefit obligation	₱1,738,830,510	₱1,351,799,927	₱1,220,977,777	₱1,038,335,854	₱1,113,492,800
Plan assets	1,389,545,391	1,221,431,248	1,247,197,112	1,354,691,166	1,341,210,300
Deficit (surplus)	₱349,285,119	₱130,368,679	(₱26,219,335)	(₱316,355,312)	(₱227,717,500)
Experience adjustments on:					
Plan assets	₱29,720,029	₱16,273,939	(₱32,995,817)	₱6,390,700	(₱5,111,600)
Plan liabilities	61,225,995	(1,502,508)	(3,797,073)	(7,144,800)	(176,556,600)
	Others*				
	2012	2011	2010	2009	2008
Defined benefit obligation	₱855,232,841	₱625,405,444	₱770,190,122	₱526,194,596	₱379,041,001
Plan assets	158,744,527	52,103,163	56,813,768	60,559,560	57,568,490
Deficit	₱696,488,314	₱573,302,281	₱713,376,354	₱465,635,036	₱321,472,511
Experience adjustments on:					
Plan assets	₱7,885,276	₱6,871,443	₱2,428,730	₱12,070	₱7,876,242
Plan liabilities	(65,002,478)	(9,648,177)	(20,389,616)	81,239,100	(3,194,328)

\* Others include the Parent Company, RLC, CAI, RBC, JGSPC and Unicon.



### 38. Income Taxes

Provision for income tax from continuing operations consists of:

	2012	2011	2010
Corporate	<b>₱1,757,172,782</b>	₱1,514,167,521	₱1,529,848,866
Final	<b>259,535,510</b>	382,382,532	64,035,658
Deferred	<b>816,983,554</b>	65,982,706	16,364,619
	<b>₱2,833,691,846</b>	₱1,962,532,759	₱1,610,249,143

#### Republic Act (RA) No. 9337

RA No. 9337, *An Act Amending the National Internal Revenue Code (NIRC) of 1997*, provides that the RCIT rate shall be 30.0% and interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

The NIRC of 1997 also provides for rules on the imposition of a 2.0% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Parent Company has elected to claim itemized deductions instead of OSD for its 2012, 2011 and 2010 RCIT computations.

#### Entertainment, Amusement and Recreation (EAR) Expenses

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1.0% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. The Group recognized EAR expenses (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounting to ₱111.7 million, ₱81.4 million and ₱66.4 million in 2012, 2011 and 2010, respectively (Note 31).

Components of the Group's net deferred tax assets (included in the 'Other noncurrent assets' in the consolidated statements of financial position) follow (Note 20):

	2012	2011
Deferred tax assets on:		
Unrealized foreign exchange loss	<b>₱92,377,936</b>	₱92,377,935
Unfunded pension benefits	<b>2,824,670</b>	13,055,074
Unfunded profit sharing	-	50,882,812
Allowance for impairment losses on receivables and property, plant and equipment	-	3,981,523
Others	<b>83,504,512</b>	90,230,032
	<b>178,707,118</b>	250,527,376
Deferred tax liabilities on:		
Unrealized foreign exchange gain	<b>(911,040)</b>	(7,034,387)
Unrealized gain on AFS investments	-	(897,963)
	<b>(911,040)</b>	(7,932,350)
Net deferred tax asset	<b>₱177,796,078</b>	₱242,595,026



Components of the Group's net deferred tax liabilities reported in the consolidated statements of financial position follow:

	2012	2011
Deferred tax assets on:		
ARO liability	₱784,939,385	₱731,300,500
NOLCO	472,039,018	79,851,428
Accrued rent expense	382,212,836	351,900,680
Allowance for impairment losses on receivables and property, plant and equipment	242,919,834	203,513,671
Unfunded pension benefits	126,959,112	109,177,767
Accrued interest expense	118,148,251	98,798,026
MCIT carryforward	86,171,040	59,107,325
Unfunded profit sharing	55,657,697	-
Allowance for inventory obsolescence	23,439,329	22,200,106
Foreign subsidiaries	11,644,434	22,141,945
Unrealized loss on financial assets at FVPL	4,744,398	43,066,411
Unrealized loss on initial recognition of repossessed chattels	1,819,577	-
Unrealized loss on net derivative liability	-	8,559,355
Unrealized loss on AFS investment	-	2,412,970
	<b>2,310,694,911</b>	<b>1,732,030,184</b>
Deferred tax liabilities on:		
Double depreciation	(944,198,871)	(566,416,958)
Unrealized foreign exchange gain	(828,089,134)	(506,818,185)
Unamortized capitalized interest	(808,787,183)	(528,633,025)
Excess of financial gross profit over taxable gross profit	(720,588,577)	(450,812,458)
Undistributed income of foreign subsidiaries	(268,093,259)	(202,060,961)
ARO asset	(194,497,361)	(220,320,170)
Bank licenses	(186,000,000)	-
Accrued rent income	(107,993,247)	(105,349,086)
Borrowing cost	(71,832,394)	(71,832,394)
Gain arising from changes in fair value less estimated costs to sell of swine stocks	(56,566,683)	(61,224,081)
Unrecognized gain on derivative asset	(46,975,362)	-
Foreign subsidiaries	(35,212,730)	(35,345,959)
Unamortized debt issuance costs	(22,584,949)	(28,065,344)
Market valuation gain on derivative instruments	(12,274,845)	(18,429,190)
Others	(9,180,043)	(6,635,863)
	<b>(4,312,874,638)</b>	<b>(2,801,943,674)</b>
Net deferred tax liabilities	<b>(₱2,002,179,727)</b>	<b>(₱1,069,913,490)</b>

In 2011, the Group derecognized deferred tax liabilities amounting to ₱3.4 billion as part of the Group's disposal of its entire ownership interest in Digitel.

The Group did not recognize any deferred tax assets on temporary differences on account of the subsidiaries' respective ITH. The management of the Group believes that they may not be able to generate sufficient taxable income that will be available to allow all or part of the deferred tax assets to be realized.



The following are the temporary differences on which the Group did not recognize deferred tax assets :

	2012	2011
Allowance for impairment losses	<b>₱3,522,916,579</b>	₱3,469,152,299
NOLCO	<b>2,762,235,976</b>	1,941,998,237
Difference between cost and NRV of inventories	<b>64,488,572</b>	131,577,582
Accrued pension costs	<b>66,110,622</b>	69,755,865
MCIT	<b>37,540,874</b>	39,259,167
Depreciation of investment properties and repossessed chattels	<b>16,292,090</b>	16,292,090
Unrealized loss on net derivative liability	-	15,446,196
Unrealized foreign exchange losses	<b>18,573,530</b>	-
	<b>₱6,488,158,243</b>	₱5,683,481,436

Reconciliation between the Group's statutory income tax rate and the effective income tax rate follows:

	2012	2011	2010 (As restated - Note 44)
Statutory income tax rate	<b>30.00%</b>	30.00%	30.00%
Tax effects of:			
Dividend income	<b>(4.22)</b>	-	-
Equity in net earnings of affiliates	<b>(2.65)</b>	(4.32)	(3.85)
Nontaxable income	<b>(4.43)</b>	(0.48)	(0.27)
Changes in unrecognized deferred tax assets	<b>(0.69)</b>	(0.74)	(0.29)
Income subjected to lower tax rates	<b>(1.81)</b>	(4.39)	(1.18)
Board of Investments (BOI) tax credits and others	<b>(4.26)</b>	(7.25)	(10.85)
Nondeductible interest expense	<b>0.69</b>	1.67	0.45
Others	<b>(0.17)</b>	(1.74)	(6.54)
Effective income tax rate	<b>12.46%</b>	12.75%	7.47%

### 39. 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

	2012	2011	2010
Income from continuing operations attributable to equity holders of the Parent Company	<b>₱13,532,894,383</b>	₱8,477,359,822	₱15,575,451,617
Less: Dividends on preferred shares (Note 25)	<b>6,400,000</b>	3,200,000	-
Income from continuing operations attributable to holders of common shares of the Parent Company	<b>13,526,494,383</b>	8,474,159,822	15,575,451,617
Income from discontinued operations attributable to equity holders of the Parent Company	-	13,035,501,339	746,148,184
Income attributable to holders of common shares of the Parent Company	<b>₱13,526,494,383</b>	₱21,509,661,161	₱16,321,599,801
Weighted average number of common shares	<b>6,792,386,371</b>	6,739,528,227	6,739,528,227
Basic/dilutive earnings per share	<b>₱1.99</b>	₱3.19	₱2.42

Earnings per share attributable to equity holders of the Parent Company from continuing operations

	2012	2011	2010
Income from continuing operations attributable to equity holders of the Parent Company	<b>₱13,532,894,383</b>	₱8,477,359,822	₱15,575,451,617
Less: Dividends on preferred shares	<b>6,400,000</b>	3,200,000	-
Income from continuing operations attributable to holders of common shares of the Parent Company	<b>₱13,526,494,383</b>	₱8,474,159,822	₱15,575,451,617
Weighted average number of common shares	<b>6,792,386,371</b>	6,739,528,227	6,739,528,227
Basic/dilutive earnings per share	<b>₱1.99</b>	₱1.26	₱2.31

There were no potential dilutive common shares in 2012, 2011 and 2010.

#### 40. 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.



In addition to the related party information disclosed elsewhere in the consolidated financial statements, the year-end balances in respect of related parties follow:

Related Party	Category/ Transaction	Amount/Volume	2012		Terms	Conditions
			Outstanding Balance			
			Statement of Financial Position	Statement of Comprehensive Income		
<b>Subsidiaries:</b>						
Due from related parties	Advances	<b>₱154,343,416</b>	<b>₱1,235,103,950</b>		On demand; Interest bearing with interest rate ranging from 3.8% to 3.9% / Non-interest bearing	Unsecured; Not impaired
	Rent income	<b>100,573,452</b>		<b>₱100,573,452</b>		
	Other income	<b>66,186,445</b>		<b>66,186,445</b>		
	Rent expense	<b>18,270,890</b>		<b>18,270,890</b>		
Due to related parties	Advances	<b>569,565,026</b>	<b>3,170,200,468</b>		On demand; Interest bearing with interest rate of 3.8% / Non-interest bearing	Unsecured
	Management fees	<b>72,000,000</b>		<b>72,000,000</b>		
Cash in bank	Deposits	<b>13,429,726,961</b>	<b>16,039</b>		On demand	Unsecured
Cash equivalents	Money market placements	<b>65,558,502,968</b>	<b>121,714,155</b>		1 to 35 days; Interest bearing with interest rate ranging from 1.5% to 4.6%	Unsecured
	Interest receivable / Interest income	<b>164,907,214</b>	<b>80,916</b>	<b>164,907,214</b>	1 to 35 days; Interest bearing with interest rate ranging from 1.5% to 4.6%	
Dividend receivable/ Dividend income	Dividends	<b>3,423,620,329</b>	<b>867,130,262</b>	<b>3,423,620,329</b>		
(Forward)						





2012						
Related Party	Category/ Transaction	Amount/Volume	Outstanding Balance		Terms	Conditions
			Statement of Financial Position	Statement of Comprehensive Income		
<b>Associate:</b>						
Due from related parties	Advances	P-	P361,346		On demand; Non-interest bearing	Unsecured; Not impaired
<b>Other Related Parties:</b>						
Due from related parties	Advances	-	590,701,750		On demand; Non-interest bearing	Unsecured; Not impaired
	Management fees	21,011,919		P21,011,919		
	Rent income	27,159,294		27,159,294		
Due to related parties	Advances	-	275,361,861		On demand; Non-interest bearing	Unsecured
	Interest expense	10,855,905		10,855,905		
Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income)	Expenses	5,053,000		5,053,000		
<b>Other Related Parties (transactions which are not eliminated):</b>						
Due from related parties	Advances	-	1,328,454,712		On demand; Non-interest bearing	Unsecured; Not impaired
Due to related parties	Advances	-	1,730,641,441		4 to 31 days; Interest bearing with interest rates ranging from 3.0% to 4.5%	Unsecured



2011						
Related Party	Category/ Transaction	Amount/Volume	Outstanding Balance		Terms	Conditions
			Statement of Financial Position	Statement of Comprehensive Income		
<b>Subsidiaries*:</b>						
Due from related parties	Advances	₱137,922,258	₱1,655,770,662		On demand; Non-interest bearing	Unsecured; Not impaired
	Interest income	64,643,811		₱64,643,811		
	Management fees	490,000,000		490,000,000		
	Rent income	114,364,695		114,364,695		
	Other income	34,074,286		34,074,286		
	Rent expense	15,797,877		15,797,877		
Due to related parties	Advances	171,214,166	2,769,871,542		On demand; Non-interest bearing	Unsecured
	Management fees	60,000,000		60,000,000		
Cash in bank	Deposits	31,822,480,421	–		On demand	Unsecured
Cash equivalents	Money market placements	97,736,607,459	1,238,830,978		1 to 39 days; Interest bearing with interest rate ranging from 1.5% to 4.6%	Unsecured
	Interest receivable / Interest income	281,583,125	1,311,546	281,583,125	1 to 39 days; Interest bearing with interest rate ranging from 1.5% to 4.6%	
Dividend receivable/ Dividend income	Dividends	4,350,810,709	1,287,913,306	4,350,810,709		
<b>Associate:</b>						
Due from related parties	Advances	–	382,731		On demand; Non-interest bearing	Unsecured; Not impaired
<b>Other Related Parties:</b>						
Due from related parties	Advances	–	514,187,798		On demand; Non-interest bearing	Unsecured; Not impaired
	Rent income	27,100,232		27,100,232		

(Forward)



2011						
Outstanding Balance						
Related Party	Category/ Transaction	Amount/Volume	Statement of Financial Position	Statement of Comprehensive Income	Terms	Conditions
Due to related parties	Advances	₱-	₱280,768,168		On demand; Non-interest bearing	Unsecured; Not impaired
	Interest expense	13,017,045		₱13,017,045		
Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income)	Expenses	4,860,000		4,860,000		
<b>Other Related Parties (transactions which are not eliminated)</b>						
Due from related parties	Advances	-	1,356,382,048		On demand; Non-interest bearing	Unsecured; Not impaired
Due to related parties	Advances	-	1,626,363,887		7 to 31 days; Interest bearing with interest rates ranging from 2.1% to 4.6%	Unsecured

\* Balances includes transactions from January 1, 2011 to October 26, 2011. Subsequent to October 26, 2011, the Parent Company does not consider Digitel and its subsidiary Digital Mobile Philippines, Inc. (DMPI), as related parties.



Related Party	2010		Statement of Comprehensive Income
	Category/ Transaction	Amount/Volume	
<b>Subsidiaries:</b>			
Dividend income	Dividends	₱22,857,249,862	₱22,857,249,862
Interest income - Advances	Revenue	1,001,761,963	1,001,761,963
Management fees	-do-	442,000,177	442,000,177
Interest income - MMPs	-do-	52,795,309	52,795,309
Other income	-do-	33,153,651	33,153,651
Rent income	-do-	13,705,512	13,705,512
Interest expense	Expenses	96,379,815	96,379,815
Rent expense	-do-	12,704,212	12,704,212
<b>Associates:</b>			
Dividend income	Dividends	109,426,787	109,426,787
Interest expense	Expenses	11,128,270	11,128,270
<b>Other Related Parties:</b>			
Rent income	Revenue	1,125,000	1,125,000
Other income	-do-	3,655,877	3,655,877
Interest expense	Expenses	45,023,064	45,023,064
Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income)	-do-	2,980,000	2,980,000



The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries as discussed in Note 23 to the consolidated financial statements. No fees are charged for these guarantee agreements. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries.

Interest earned by the Parent Company on transactions with related parties amounted to nil, ₱3.7 million and ₱929.8 million in 2012, 2011 and 2010, respectively, while interest income earned by the Parent Company from the bonds issued by Digitel amounted to nil, ₱61.0 million and ₱72.0 million in 2011 and 2010, respectively. Interest expense incurred amounted to ₱78.3 million in 2012, ₱82.5 million in 2011 and ₱214.9 million in 2010.

In January 2012, the Parent Company acquired all of the debt and equity securities of CAI classified as financial assets at FVPL and AFS investments with carrying values of ₱3.3 billion and ₱110.4 million, respectively, for a total consideration of ₱3.4 billion. As a result of the transaction, CAI recognized gain from sale of its financial assets amounting to ₱5.8 million.

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

*Transactions with the retirement plan*

The retirement fund of the Group's employees amounted to ₱1.5 billion and ₱1.5 billion as of December 31, 2012 and 2011, respectively (Note 37). The fund is being managed by JG Summit Multi-Employer Retirement Plan, a corporation created for the purpose of managing the funds of the Group, with RBC as the trustee.

				2012			
				Outstanding Balance			
	Category / Transaction	Amount / Volume	Statement of Financial Position	Statement of Comprehensive Income	Terms	Conditions	
Due from retirement plan	Advances	₱-	₱377,472,476		On demand; Non-interest bearing	Unsecured; Not impaired	
Due to retirement plan	-do-	209,764,980	1,680,330,862	₱67,414,884	4 to 31 days; Interest bearing with interest rates ranging from 3.0% to 4.5%	Unsecured	
				2011			
				Outstanding Balance			
	Category / Transaction	Amount / Volume	Statement of Financial Position	Statement of Comprehensive Income	Terms	Conditions	
Due from retirement plan	Advances	₱-	₱354,307,128		On demand; Non-interest bearing	Unsecured; Not impaired	
Due to retirement plan	-do-	69,451,979	1,635,701,788	₱69,451,979	7 to 31 days; Interest bearing with interest rates ranging from 2.1% to 4.6%	Unsecured	



*Compensation of key management personnel*

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

The compensation of the Group's key management personnel by benefit type follows:

	2012	2011	2010
Short-term employee benefits	<b>₱1,017,081,160</b>	₱925,213,965	₱1,044,246,522
Post-employment benefits	<b>105,999,049</b>	134,565,142	44,702,038
	<b>₱1,123,080,209</b>	₱1,059,779,107	₱1,088,948,560

#### 41. 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.

#### 42. Leases

URC

*Operating Lease Commitments - Group as a Lessee*

The URC Group leases land where certain of its facilities are located. The operating lease agreements are for periods ranging from one to five years from dates of the contracts and are renewable under certain terms and conditions. The URC Group's rentals incurred on these leases (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱70.7 million, ₱62.4 million and ₱55.0 million in 2012, 2011 and 2010, respectively.

Future minimum lease payments under noncancellable operating leases of the URC Group follow:

	2012	2011	2010
Within one year	<b>₱16,140,911</b>	₱16,953,651	₱16,953,651
After one year but not more than five years	<b>64,563,644</b>	67,814,604	67,814,604
	<b>₱80,704,555</b>	₱84,768,255	₱84,768,255

*Operating Lease Commitments - Group as a Lessor*

The URC Group has entered into one-year renewable, noncancellable leases with various related parties covering certain land and buildings where office spaces are located.

Total rental income earned from investment properties (included under 'Others' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱64.7 million, ₱52.8 million and ₱56.6 million in 2012, 2011 and 2010, respectively. Direct operating expenses (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) arising from investment properties amounted to ₱2.6 million in 2012 and ₱0.2 million in 2011 and 2010.



Future minimum lease receivables under noncancellable operating leases of the URC Group that are due within one year amounted to ₱65.3 million, ₱65.8 million and ₱57.1 million in 2012, 2011 and 2010, respectively.

*Finance Lease Commitments - Group as a Lessee*

Some of the URC Group's subsidiaries were granted land usage rights from private entities. The land usage right represents the prepaid amount of land lease payments. The right is currently being amortized by the URC Group on a straight-line basis over the term of the right ranging from 30 to 50 years. The amortization on these leases (included under 'General and administrative expenses' in the consolidated statements of comprehensive income) amounted to ₱3.7 million, ₱3.7 million and ₱2.9 million in 2012, 2011 and 2010, respectively.

RLC

*Operating Lease Commitments - Group as a Lessee*

The RLC Group entered into long-term operating leases of land with lease terms ranging from 25 to 50 years. These leases include clauses to enable escalation of rental charges on the agreed dates. Total rent expense (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱162.0 million, ₱164.9 million and ₱158.4 million in 2012, 2011 and 2010, respectively.

Future minimum lease payments under noncancellable operating leases of RLC's certain lessee subsidiaries follow:

	2012	2011	2010
Within one year	<b>₱54,522,307</b>	₱51,773,432	₱47,147,298
After one year but not more than five years	<b>247,979,627</b>	236,150,146	213,176,325
Over five years	<b>6,063,324,450</b>	6,129,676,237	6,253,520,299
	<b>₱6,365,826,384</b>	₱6,417,599,815	₱6,513,843,922

*Operating Lease Commitments - Group as a Lessor*

The RLC Group has entered into commercial property leases on its investment property portfolio. These noncancellable leases have remaining lease terms of between one and ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The lease contracts also provide for the percentage rent, which is a certain percentage of actual monthly sales or minimum monthly gross sales, whichever is higher. Total rent income (included under 'Real estate and hotels revenue' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱6.7 billion, ₱6.1 billion and ₱5.6 billion in 2012, 2011 and 2010, respectively. Total percentage rent recognized as income amounted to ₱1.8 billion, ₱1.7 billion and ₱1.6 billion in 2012, 2011 and 2010, respectively.

Future minimum lease receivables under noncancellable operating leases of the RLC Group follow:

	2012	2011	2010
Within one year	<b>₱1,111,914,481</b>	₱1,208,000,779	₱1,128,494,867
After one year but not more than five years	<b>1,921,108,789</b>	2,597,161,871	2,728,725,119
Over five years	<b>380,702,108</b>	463,430,460	587,588,901
	<b>₱3,413,725,378</b>	₱4,268,593,110	₱4,444,808,887



**JGSPC**

*Operating Lease Commitments - Group as a Lessee*

JGSPC has entered into contracts of lease for its Cybergate office and the shuttle bus that transports its employees from Balagtas to Batangas plant. Rental expense charged to operations (included under 'Cost of sales and services' and 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱12.3 million, ₱11.2 million and ₱13.4 million in 2012, 2011 and 2010, respectively.

Future minimum lease payments under the noncancellable lease of JGSPC's office space follow:

	2012	2011	2010
Within one year	₱6,686,500	₱6,021,962	₱5,735,207
After one year but not more than five years	12,901,370	18,723,623	24,745,585
	<b>₱19,587,870</b>	<b>₱24,745,585</b>	<b>₱30,480,792</b>

*Operating Lease Commitments - Group as a Lessor*

JGSPC has entered into commercial property leases. JGSPC has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases. The future minimum rentals under noncancelable operating lease of JGSPC amounted to ₱0.8 million, ₱1.1 million and ₱1.2 million as of December 31, 2012, 2011 and 2010, respectively.

**CAI**

*Operating Aircraft Lease Commitments - Group as a Lessee*

CAI entered into operating lease agreements with certain leasing companies which cover the following aircraft:

*Airbus A320 aircraft*

The following table summarizes the specific lease agreements on the Group's Airbus A320 aircraft:

Date of Lease Agreement	Original Lessors	New Lessors	No. of Units	Lease Term
December 23, 2004	CIT Aerospace International (CITAI)	Wilmington Trust SP Services (Dublin) Limited*	2	May 2005 - May 2012 June 2005 - June 2012
April 23, 2007	Celestial Aviation Trading Limited (CAT 17)	Inishcrean Leasing Limited (Inishcrean)**	1	October 2007 - October 2016
May 29, 2007	CITAI	-	4	March 2008 - March 2014 April 2008 - April 2014 May 2008 - May 2014 October 2008 - October 2014
March 14, 2008	Celestial Aviation Trading Limited (CAT 19)	GY Aviation Lease 0905 Co. Limited***	2	January 2009 - January 2017
March 14, 2008	Celestial Aviation Trading Limited (CAT 23)	-	2	October 2011 - October 2019
July 13, 2011	RBS Aerospace Limited	-	2	March 2012 - February 2018

\* Effective November 21, 2008 for the first aircraft and December 9, 2008 for the second aircraft.

\*\* Effective June 24, 2009

\*\*\* Effective March 25, 2010





On March 14, 2008, CAI entered into an operating lease agreement with CAT 19 for the lease of two Airbus A320 aircraft, which were delivered in 2009. On the same date, CAI also entered into another lease agreement with CAT 23 for the lease of additional Airbus 320 aircraft to be received in 2012. In November 2010, CAI signed an amendment to the operating lease agreements with CAT 23, advancing the delivery of the two Airbus A320 aircraft from 2012 to 2011.

Lease agreements with CITAI, CAT 17 and CAT 19 were amended to effect the novation of lease rights by the original lessors to new lessors as allowed under the existing lease agreements.

On July 13, 2011, CAI entered into an operating lease agreement with RBS Aerospace Ltd. for the lease of two Airbus A320 aircraft, which were delivered in March 2012. This aircraft shall replace the two leased aircraft from Wilmington Trust SP Services (Dublin) Ltd. for which the related lease contracts expired on May 2012 and June 2012.

*Airbus A330 aircraft*

On December 6, 2011, the Group entered into an aircraft operating lease Memorandum of Understanding (MOU) with CIT Aerospace International for the lease of four Airbus A330-300 aircraft, which are scheduled to be delivered from June 2013 to 2014. These aircraft shall be used for the long-haul network expansion programs of the Group.

Future minimum lease payments under the above-indicated operating aircraft leases of CAI follow:

	2012		2011		2010	
	US Dollar	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent
Within one year	US\$54,171,098	₱2,223,723,588	US\$46,796,685	₱2,051,566,670	US\$37,805,531	₱1,657,394,479
After one year but not more than five years	258,475,371	10,610,413,991	303,869,815	13,321,652,690	113,948,252	4,995,491,368
Over five years	333,453,833	13,688,279,865	312,695,865	13,708,586,722	8,408,351	368,622,108
	<b>US\$646,100,302</b>	<b>₱26,522,417,444</b>	<b>US\$663,362,365</b>	<b>₱29,081,806,082</b>	<b>US\$160,162,134</b>	<b>₱7,021,507,955</b>

Lease expense relating to aircraft leases (included in 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱2.0 billion, ₱1.7 billion and ₱1.6 billion in 2012, 2011 and 2010, respectively (Note 31).

*Operating Non-Aircraft Lease Commitments - Group as a Lessee*

CAI has entered into various lease agreements for its hangar, office spaces, ticketing stations and certain equipment. These leases have remaining lease terms ranging from one to ten years. Certain leases include a clause to enable upward revision of the annual rental charge ranging from 5.0% to 10.0%.

Future minimum lease payments under these noncancellable operating leases of CAI follow:

	2012	2011	2010
Within one year	<b>₱108,795,795</b>	₱104,835,557	₱101,622,518
After one year but not more than five years	<b>487,021,206</b>	466,379,370	443,485,392
Over five years	<b>266,875,198</b>	394,888,300	124,367,033
	<b>₱862,692,199</b>	<b>₱966,103,227</b>	<b>₱669,474,943</b>

Lease expenses relating to non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱263.7 million, ₱240.3 million and ₱231.2 million in 2012, 2011 and 2010, respectively.



**RBC and LSB**

*Operating Lease Commitments - Group as a Lessee*

RBC and LSB lease its head office and branch premises for periods ranging from one to ten years, renewable upon mutual agreement of both parties. Various lease contracts include escalation clauses, most of which bear annual rent increase ranging from 5.0% to 10.0%. Rent expense recognized by RBC and LSB (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱95.8 million, ₱81.1 million and ₱71.1 million in 2012, 2011 and 2010, respectively.

Future minimum lease payments under these noncancellable operating leases of RBC and LSB follow:

	2012	2011	2010
Within one year	<b>₱85,806,828</b>	₱61,234,448	₱58,282,212
After one year but not more than five years	<b>176,408,491</b>	134,918,305	106,832,167
Over five years	<b>62,012,908</b>	23,004,308	26,977,792
	<b>₱324,228,227</b>	₱219,157,061	₱192,092,171

**43. Other Commitments and Contingent Liabilities**

Parent Company

On May 4, 2012, the BOD of the Parent Company approved and authorized the Company to act as surety with respect to the credit accommodation of JGSOC from Banco de Oro Unibank, Inc. in the aggregate principal amount of ₱1.0 billion, including the extensions, renewals or modifications of such credit accommodation.

RLC

*Capital Commitments*

RLC has contractual commitments and obligations for the construction and development of investment properties and property and equipment items aggregating ₱4.2 billion, ₱3.9 billion and ₱3.3 billion as of September 30, 2012, 2011 and 2010, respectively. Moreover, RLC has contractual obligations amounting to ₱2.1 billion as of September 30, 2012 and ₱1.6 billion as of September 30, 2011 and 2010, respectively, for the completion and delivery of real estate units that have been presold.

CAI

*Capital Expenditure Commitments*

CAI's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱53.2 billion and ₱53.9 billion as of December 31, 2012 and 2011, respectively, which are payable over the following periods:

	December 31, 2012		December 31, 2011	
	US Dollar	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent
Within one year	US\$350,323,073	₱14,380,762,158	US\$245,151,805	₱10,747,455,131
After one year but not more than five years	999,124,578	41,014,063,944	1,039,815,241	45,585,500,185
	<b>US\$1,349,447,651</b>	<b>₱55,394,826,102</b>	US\$1,284,967,046	₱56,332,955,316



*Aircraft and Spare Engine Purchase Commitments*

As of December 31, 2009, CAI has existing commitments to purchase 15 additional new Airbus A320 aircraft, which are scheduled for delivery between 2010 and 2014, and one spare engine to be delivered in 2011. CAI has taken delivery of the initial six aircrafts as scheduled in 2010, 2011 and 2012. In 2011, the spare engine was delivered as scheduled.

In 2010, CAI exercised its option to purchase five Airbus A320 aircraft and entered into a new commitment to purchase two Airbus A320 aircraft to be delivered between 2011 and 2014.

Four of the five additional A320 aircraft were delivered between September 2011 and November 2012.

On May 2011, CAI turned into firm orders its existing options for the seven Airbus A320 aircraft which are scheduled to be delivered in 2015 to 2016.

As of December 31, 2011, CAI has existing commitments to purchase 25 new Airbus A320 aircraft, four of which were delivered on January 30, August 9, October 16 and November 29, 2012, respectively. As of December 31, 2012, CAI has existing commitments to purchase 21 new Airbus A320 aircraft, which are scheduled to be delivered between 2013 and 2016, two of which were delivered on January 18, 2013 and March 7, 2013.

On August 2011, CAI entered in a new commitment to purchase firm orders of thirty new A321 NEO Aircraft and ten addition option orders. These aircraft are scheduled to be delivered from 2017 to 2021. These aircraft shall be used for a longer range network expansion programs. The above-indicated commitments relate to CAI's re-fleeting and expansion programs.

On June 28, 2012, CAI has entered into an agreement with United Technologies International Corporation Pratt & Whitney Division to purchase new PurePower® PW1100G-JM engines for its 30 firm and ten option A321 NEO aircraft to be delivered beginning 2017. The agreement also includes an engine maintenance services program for a period of ten years from the date of entry into service of each engine.

*Service Maintenance Commitments*

On June 21, 2012, CAI has entered into an agreement with Messier-Bugatti-Dowty (Safran group) to purchase wheels and brakes for its fleet of Airbus A319 and A320 aircraft. The contract covers the current fleet, as well as future aircraft to be acquired.

On June 22, 2012, CAI has entered into service contract with Rolls-Royce Total Care Services Limited (Rolls-Royce) for service support for the engines of the A330 aircraft. Rolls-Royce will provide long-term TotalCare service support for the Trent 700 engines on up to eight A330 aircraft.

On July 12, 2012, CAI has entered into a maintenance service contract with SIA Engineering Co. Ltd. for the maintenance, repair and overhaul services of its A319 and A320 aircraft.

Off-Balance Sheet Items

In the normal course of RBC and LSB's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying consolidated financial statements. The subsidiary bank does not anticipate material unreserved losses as a result of these transactions.



Following is a summary of RBC and LSB's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2012	2011
Trust and investment group accounts	<b>₱13,441,544,662</b>	₱19,593,408,084
Spot exchange - foreign currency	<b>1,241,632,683</b>	1,054,980,000
Committed credit lines	<b>1,089,546,254</b>	642,507,471
Domestic standby letters of credit	<b>536,386,478</b>	228,005,282
Contingent - foreign currency swap	<b>335,150,000</b>	335,150,000
Inward bills for collection	<b>189,580,052</b>	51,026,725
Late deposit/payment received	<b>34,063,107</b>	58,453,300
Outward bills for collection	<b>14,334,919</b>	548,036
Items held for safekeeping	<b>68,806</b>	85,847
Other contingent accounts	<b>4,177,240</b>	644,771

#### 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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#### 44. Discontinued Operations

On March 29, 2011, the Group publicly announced its decision to dispose of its entire Telecommunications Segment (Digitel). The segment was not a discontinued operation or classified as held for sale at December 31, 2010 and the comparative consolidated statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to sell this segment early in 2011 following a strategic decision to place greater focus on the Group's other business segments, specifically, food, air transportation, real estate and petrochemicals. The sale was completed on October 26, 2011.

In exchange for the Parent Company's and certain related parties' investments in Digitel which consists of (a) 3.3 billion common shares representing approximately 51.55% of the issued common stock of Digitel; (b) zero-coupon convertible bonds issued by Digitel and its subsidiary to the Parent Company and its subsidiary; and (c) intercompany advances of ₱34.1 billion made by the Parent Company and its subsidiary to Digitel and Subsidiaries, PLDT issued 27.6 million common shares with fair value of around ₱64.5 billion as of the closing date. Said shares are subject to a lock-up period of one year during which the Parent Company and other sellers may not transfer or encumber such PLDT shares without the consent of PLDT. PLDT granted consent to the sale by the Parent Company of 5.8 million and 4.6 million PLDT shares under separate option agreements that the Parent Company had entered into with Philippine associate of First Pacific Company Limited and NTT Docomo, Inc., respectively. Following the sale of those shares in November 2011, the Parent Company owned approximately 8.0% of PLDT's outstanding common shares.



The disposal of investment in Digitel and exercise of the option agreements are linked transactions and were accounted for as a single disposal of a subsidiary.

### Results of Discontinued Operations

The results of the telecommunications segment for the period ended March 31, 2011 and period ended December 31, 2010 follows:

	2011	2010
<b>Revenues</b>		
Sale of goods and services	₱4,524,649,269	₱16,543,916,906
<b>Cost of Sales</b>	496,535,978	2,074,712,276
<b>Gross Income</b>	4,028,113,291	14,469,204,630
<b>Other Operating Expenses</b>		
General and administrative expenses	3,625,943,506	13,017,906,040
Impairment losses and others	59,401,794	359,883,551
	3,685,345,300	13,377,789,591
<b>Operating Income</b>	342,767,991	1,091,415,039
Financing costs and other charges	(116,858,869)	(394,490,003)
Market valuation losses on derivative financial instruments	(43,945,006)	(68,234,326)
Foreign exchange gains (loss)	(33,963,568)	907,458,980
Finance income	1,398,694,829	32,872,466
Others	7,713,286	49,363,271
<b>Income Before Tax from Discontinued Operations</b>	1,554,408,663	1,618,385,427
<b>Provision for Income Tax</b>	12,697,904	655,589,514
<b>Income after Tax from Discontinued Operations</b>	1,541,710,759	962,795,913
<b>Gain from Sale of a Subsidiary, net of tax</b>	11,570,087,639	-
<b>Net Income from Discontinued Operations</b>	₱13,111,798,398	₱962,795,913

### Earnings per share attributable to equity holders of the Parent Company from discontinued operations

	2011	2010
Income from discontinued operations attributable to equity holders of the Parent Company	₱13,035,501,339	₱746,148,184
Weighted average number of common shares	6,739,528,227	6,739,528,227
Basic/dilutive earnings per share	₱1.93	₱0.11



### Cash Flows of Discontinued Operations

The cash flows generated from (used in) discontinued operations of the telecommunications segment for the period ended March 31, 2011 and for the period ended December 31, 2010 follow:

	2011	2010
Net cash flows provided by operating activities	₱1,694,725,821	₱6,969,658,000
Net cash flows used in investing activities	(1,610,371,076)	(9,503,772,000)
Net cash flows provided by (used in) financing activities	(501,724,385)	2,528,650,000
Net cash outflow	(₱417,369,640)	(₱5,464,000)

### Effect of Disposal on the Financial Position of the Group

The impact of the disposal of the telecommunications segment on the financial position of the Group as of December 31, 2011 is as follows:

#### ASSETS

##### Current Assets

Cash and cash equivalents	₱108,084,101
Derivative assets	526,962,185
Receivables - net	2,143,454,654
Inventories	318,844,220
Other current assets	3,458,145,535
<b>Total Current Assets</b>	<b>6,555,490,695</b>

##### Noncurrent Assets

Property, plant and equipment	81,433,722,471
Other noncurrent assets	1,873,542,154
<b>Total Noncurrent Assets</b>	<b>83,307,264,625</b>
	<b>89,862,755,320</b>

#### LIABILITIES

##### Current Liabilities

Accounts payable and accrued expenses	4,398,498,443
Derivative liabilities	215,495,436
Short-term debt	345,040,126
Current portion of long-term debt	2,809,241,235
Other current liabilities	956,243,659
<b>Total Current Liabilities</b>	<b>8,724,518,899</b>

##### Noncurrent Liabilities

Long-term debt - net of current portion	11,140,503,565
Deferred tax liabilities	3,400,285,008
Other noncurrent liabilities	11,468,279,812
<b>Total Noncurrent Liabilities</b>	<b>26,009,068,385</b>
	<b>34,733,587,284</b>

#### NON-CONTROLLING INTEREST

	1,022,135,705
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#### NET ASSETS DISPOSED OF

	54,107,032,331
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#### CONSIDERATION RECEIVED

Fair value of AFS investments (Note 10)	40,134,098,550
Cash consideration	21,202,521,420
Funds under escrow (Note 13)	4,340,500,000
	65,677,119,970
<b>GAIN FROM SALE OF A SUBSIDIARY</b>	<b>₱11,570,087,639</b>



**NET CASH INFLOW FROM DISPOSAL**

Cash consideration received	₱21,202,521,420
Cash and cash equivalents disposed of	108,084,101
	₱21,094,437,319

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**45. Disposal Group Held for Sale**

In September 2010, URC decided to sell its wholly owned subsidiaries Shantou SEZ Toyo and Guangdong Acesfood, both of which are registered in the People's Republic of China.

In July 2011, the sale of Shantou SEZ Toyo and Guangdong Acesfood was fully consummated. URC recognized a combined loss on disposal of subsidiaries of ₱177.8 million (included under 'Other expenses' in profit or loss in the consolidated statement of comprehensive income).

The breakdown of proceeds from the sale of subsidiaries in July 2011 is as follows:

	Shantou SEZ Toyo	Guangdong Acesfood
Proceeds from sale	RMB8.5 million	RMB7.9 million
(in Philippine Peso equivalent)	₱56.1 million	₱51.8 million

The table below shows the summary of the financial information for each subsidiary as of disposal date:

	Shantou SEZ Toyo	Guangdong Acesfood
Receivables	₱183	₱19,760,033
Inventories	486,716	2,950,000
Property, plant and equipment	96,718,200	30,589,490
Other current assets	6,717,919	76,545,689
Accounts payable and other accrued liabilities	-	682,920

Included in the loss on disposal is derecognized goodwill of ₱28.2 million pertaining to the disposed subsidiaries (Note 19).

In 2011, URC recognized impairment loss on trademark of ₱84.0 million (included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income) pertaining to the disposed subsidiaries (Note 18).

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**46. Business Combination**

*Acquisition of LSB*

On August 27, 2012, RBC executed a share purchase agreement (SPA) with the LSB stockholders. As of December 31, 2012, RBC and majority of LSB stockholders had signed on the SPA.

On September 22, 2012, a new set of the BOD members for LSB was elected consisting mostly of RBC's officers.



In October and November 2012, RBC made payments to majority of the LSB stockholders. As of December 31, 2012, the stock transfer books of LSB have not been updated for these payments, although the deeds of absolute sale were already drafted and signed by LSB stockholders who had agreed on the SPA. RBC intends to execute the deed of absolute sale after all documentary and legal requirements have been addressed.

On December 26, 2012, the MB of the BSP approved RBC's acquisition of the 100.00% common shares of LSB.

The fair value of the identifiable assets and liabilities, determined on a provisional basis of LSB, as at December 31, 2012 follow:

	Fair Value Recognized on Acquisition
<b>Assets</b>	
Cash and cash equivalents	₱360,157,091
Available-for-sale investment	2,314,013
Loans and receivables	965,692,025
Property and equipment	43,910,651
Investment property	175,029,262
Bank licenses	620,000,000
Other assets	11,974,787
	2,179,077,829
<b>Liabilities</b>	
Deposit liabilities	2,033,312,019
Redeemable preferred shares	30,700,000
Deferred tax liability	186,000,000
Accrued expense and other liabilities	62,392,816
	2,312,404,835
<b>Total identifiable net liabilities at fair value</b>	<b>(₱133,327,006)</b>

The acquisition resulted in recognition of goodwill determined as follows:

Total acquisition cost	₱111,000,000
Fair value of net liabilities acquired	133,327,006
Goodwill	₱244,327,006

The purchase price allocation has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair value computation and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are loans and receivables, investment property, branch licenses and goodwill.

Cash flow on acquisition follows:

Cash and cash equivalents acquired from LSB	₱360,157,091
Cash paid	(111,000,000)
Net cash inflow	₱249,157,091





As of December 31, 2012, the RBC's investment in LSB consists of:

Acquisition cost	₱111,000,000
Post-acquisition investments: Additional capital infusion	620,000,000
<u>Net cash outflow</u>	<u>₱731,000,000</u>

On August 22, 2012, the BOD of RBC approved the infusion of cash equity to bring LSB's capital adequacy ratio (CAR) to at least 10.00% amounting to ₱620.00 million. On December 19, 2012, RBC infused the ₱620.00 million to LSB (Note 18).

*Acquisition of RBC*

On February 24, 2010, RSBC, the banking arm of the Group, signed a Share Purchase Agreement with the Royal Bank of Scotland Group plc and The Royal Bank of Scotland N.V. for the sale of the latter's share in RBS.

On March 29, 2010, a Deed of Amendment on the Share Purchase Agreement was signed among JGSCSC, RHI, Royal Bank of Scotland Group plc and The Royal Bank of Scotland N.V. Inc. changing the acquirer from RSBC to JGSCSC and RHI.

On May 6, 2010, the Group acquired 60.0% of the voting interest and 52.7% of the non-voting preferred shares of RBS for a purchase price of ₱187.4 million and ₱1.2 billion, respectively.

The fair values of identifiable assets and liabilities of RBS as of acquisition date follows:

Cash and cash equivalents	₱3,015,021,701
Loans and receivables	360,024,228
Other assets	26,529,970
<u>Total assets</u>	<u>3,401,575,899</u>
Deposit liabilities	46,149,245
Bills payable	715,540,540
Other liabilities	329,891,770
<u>Total liabilities</u>	<u>1,091,581,555</u>
Net assets	2,309,994,344
Less share in net identifiable assets of non-voting preferred shares	2,221,394,357
Share in net identifiable assets of common stock	88,599,987
Less non-controlling interest (40.0%)	35,442,664
<u>Total net assets acquired pertaining to 60.0% voting interest</u>	<u>53,157,323</u>
Value of license acquired	134,276,211
<u>Total assets acquired for cash</u>	<u>₱187,433,534</u>
<b>Net cash inflow arising from acquisition of a subsidiary</b>	
Cash and cash equivalents acquired	₱3,015,021,701
Cash consideration	1,357,513,818
	<u>₱1,657,507,883</u>

On May 20, 2010, the BOD and the stockholders of RBS approved the change of name from Royal Bank of Scotland (Philippines) Inc. to Robinsons Bank Corporation.

On July 25, 2012, RBC's BOD approved the 100% acquisition of the controlling interest (both common and preferred shares) in Legazpi Savings Bank, Inc. (LSB). Further, it was resolved that RBC would seek approval from the BSP for the acquisition and other incentives.



On August 15, 2012, the Monetary Board (MB) of the BSP issued its approval in principle of RBC's request to acquire LSB and of all the incentives requested by RBC subject to the submission of the necessary requirements.

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#### 47. Mergers

##### LMI (Surviving Entity) and Certain Subsidiaries

On April 22, 2010, the SEC approved the Plan and Articles of Merger executed on July 2009 and December 22, 2009, respectively, by and among LMI and Adia Development and Management Corporation, Westpoint Industrial Mills Corporation, Cebu Pacific Manufacturing Corporation, Hello Snack Foods Corporation, Savannah Industrial Corporation and Terai Industrial Corporation. The Plan and Articles of Merger were approved by the BOD on July 22, 2009.

##### Plan Merger of the Parent Company and Certain Subsidiaries

On May 7, 2010, the BOD of the Parent Company approved the merger of LMI, JGCC and PPCI (Absorbed Corporations) with and into the Parent Company. On June 28, 2010, the shareholders of the Parent Company approved the Plan of Merger.

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

On May 27, 2011, the SEC approved the merger of the Parent Company and the aforementioned subsidiaries.

##### Plan Merger of RSBC and RBC

On May 25, 2010, the BOD and the stockholders of RSBC approved the following:

- a. Merger of RSBC and RBC under the following salient terms:
  - The shares of the capital stock of RSBC outstanding on the effective date of merger shall be cancelled;
  - All shareholders of RSBC shall become the stockholders of RBC in which all outstanding shares of RSBC shall be cancelled in exchange for Series B Preferred Stock of RBC from the latter's increase in authorized capital stock at the exchange ratio of 4.192 RBC shares for every one share of RSBC;
  - The share of capital stock of RBC issued and outstanding at the effective date of merger shall, together with the Series B Preferred shares to be issued pursuant to above, continue to be the issued and outstanding shares of RBC;
  - The Series B Preferred Stock to be issued by RBC pursuant to the merger shall have a par value of ₱10.0 per share and shall be redeemable at the option of RBC, non-voting, convertible, non-cumulative and preferred as to dividends; and
  - RBC, having the commercial banking license, will be the surviving entity.
- b. Plan of Merger of RSBC and RBC
- c. Articles of Merger of RSBC and RBC
- d. Amendments of RBC's Articles of Incorporation as of the effective date of merger
- e. Amendments to the By-Laws of RBC as of the effective date of merger



On December 9, 2010, the BSP approved the merger of RSBC and RBC. On January 25, 2011, RSBC received the Certificate of Authority issued by the Centralized Application and Licensing Group of the BSP to be filed together with the Plan of Merger and the Articles of Merger of the two banks with the SEC. On May 25, 2011, the SEC approved the merger of RSBC and RBC, RBC, having a commercial banking license, as the surviving entity.

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#### 48. Subsequent Events

The following non-adjusting events happened subsequent to the respective reporting dates of the Parent Company and its subsidiaries:

- a. On December 12, 2012, RLC signed a Memorandum of Understanding (MOU) with Universal Entertainment Corporation (UEC) which is controlled by Mr. Kazuo Okada in relation to the development of a leisure and gaming resort complex. Under the MOU, RLC will acquire a majority stake in Eagle Land Holding Inc. and handle the development of the commercial and residential facilities.

RLC will likewise acquire a minority stake in Tiger Resorts Leisure and Entertainment, which was awarded the provisional license to own, develop and operate an integrated mixed-use resort and gaming complex called Manila Bay Resorts.

The MOU is subject to due diligence by RLC. As of the approval date of the consolidated financial statements, the due diligence undertaken by RLC on the MOU has not been completed and still on-going.

- b. On January 11, 2013, the BOD of JGSPC and JGSOC approved and authorized the additional subscription of shares in the amount of ₱361,820,934 and ₱1,389,391,412, respectively. Deposits for future subscription amounting to ₱5,318,209,341 of JGSPC and ₱18,883,914,117 of JGSOC will be applied against subscriptions made.
- c. On January 16, 2013, JGSH Philippines, Limited, 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.
- d. On January 16, 2013, JGSH Philippines, Ltd. entered into an interest rate swap transaction with a bank, with a total notional amount of US\$250.0 million. The interest rate swap has a term of five years and the interest exchange is every 16th of April, July, October, and January. The quarterly interest payments are guaranteed by the Parent Company.
- e. On January 18, 2013, JGSPL redeemed at their principal amount the US\$300.0 million, 8.0% guaranteed notes issued in January 2006. The notes are originally guaranteed by the Parent Company.
- f. On January 24, 2013, JGSH Philippines, Limited issued US\$750.0 million, 4.375% senior unsecured notes due 2023. The notes are unconditionally and irrevocably guaranteed by the Parent Company.
- g. In February 2013, CAI has pre-terminated its existing fuel derivative contracts with its counterparties and recognized realized mark-to-market gain amounting ₱163.8 million from the transaction. However, as of December 31, 2012, CAI recognized unrealized gain of



₱102.7 million from the positive fair value change from its fuel derivatives. As such, CAI will realize ₱61.1 million as net realized gain from the transaction.

- h. On March 8, 2013, the CAI's BOD appropriated ₱2.5 billion from the unrestricted retained earnings as of December 31, 2012 for purposes of its re-fleeting program. The appropriated amount will be used for settlement of pre-delivery payments and aircraft lease commitments in 2013.

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#### 49. Supplemental Disclosures to Cash Flow Statements

The principal noncash activities of the Group are as follows:

- a. In 2011, the Group disposed the following assets in exchange for investments in PLDT shares with a fair value of ₱64.3 billion at the time of sale:
  - a. 3,151,310,882 common shares of DTPI with carrying value of ₱3.0 billion
  - b. Zero-coupon convertible bonds due 2013 and 2014 with carrying value of ₱19.1 billion
  - c. Intercompany advances with carrying value of ₱34.1 billion

Also, part of the proceeds of the exercise of put option by the Parent Company was deposited in an escrow account which was in accordance with the agreement with PLDT.

- b. Movements in the cumulative translation adjustment amounted to ₱222.1 million, ₱136.1 million and ₱91.1 million in 2012, 2011 and 2010, respectively.
- c. In 2012, 2011 and 2010, the Group capitalized depreciation as part of the cost of new born biological assets (suckling) amounting to ₱137.5 million, ₱140.1 million and ₱139.1 million, respectively.
- d. In 2012, 2011 and 2010, the Group foreclosed some assets, which are recorded under 'Investment properties' in the consolidated statements of financial position, amounting to ₱18.0 million, ₱11.9 million and ₱16.0 million, respectively.
- e. In 2011, the Group recognized additional ARO asset and ARO liability amounting to ₱279.9 million for the costs of restoration of two aircraft. In 2010, the additions in 'Passenger aircraft' include increase in ARO asset amounting to ₱705.7 million due to change in accounting estimates.
- f. As of December 31, 2010, the Group had non-cash investing activities pertaining to additions to accrued project cost of ₱4.0 billion, and capitalized borrowing costs of ₱0.8 billion.
- g. On February 28, 2010, the Group sold an engine for ₱89.5 million with a book value of ₱72.2 million to a third party maintenance service provider (buyer). The transaction was settled through direct offset against the Group's US dollar-denominated liability to the buyer amounting to ₱88.3 million.
- h. On December 31, 2011 and 2010, the Group recognized a liability based on the schedule of pre-delivery payments amounting to ₱564.2 million and ₱286.0 million, respectively, with a corresponding debit to 'Construction-in progress'. The liability was paid on January 3, 2012 and January 3, 2011, respectively.



- i. In 2012, 2011 and 2010, the Group acquired a total of ten (10) passenger aircraft by assuming direct liabilities. This transaction is considered as a non-cash financing activity.
- j. The Group participated in the Global Bond Exchange offered by the Republic of the Philippines on September 20, 2010 and swapped its HTM investments amounting to ₱280.9 million. The remaining HTM investments of the Group amounting to ₱753.4 million was reclassified from HTM investments category to AFS investments.

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**50. Approval for the Release of the Consolidated Financial Statements**

The accompanying consolidated financial statements of the Group were approved and authorized for issue by the BOD on March 14, 2013.





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

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
JG Summit Holdings, Inc.  
43rd Floor, Robinsons-Equitable Tower  
ADB Avenue corner Poveda Road, Pasig City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of JG Summit Holdings, Inc. and Subsidiaries (the Group) as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated March 14, 2013. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

  
Vicky Lee Salas  
Partner

CPA Certificate No. 86838  
SEC Accreditation No. 0115-AR-3 (Group A),  
February 14, 2013, valid until February 13, 2016  
Tax Identification No. 129-434-735  
BIR Accreditation No. 08-001998-53-2012,  
April 11, 2012, valid until April 10, 2015  
PTR No. 3669690, January 2, 2013, Makati City

March 14, 2013



**JG SUMMIT HOLDINGS, INC.**  
**43<sup>rd</sup> Floor, Robinsons-Equitable Tower**  
**ADB Avenue corner Poveda Road, Pasig City**

**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**AS OF DECEMBER 31, 2012**

Unappropriated retained earnings, beginning	₱16,562,073,130
Adjustments on beginning balance:	
Deferred tax assets	(177,784,448)
<hr/>	
Unappropriated retained earnings, as adjusted, beginning	16,384,288,682
Add: Net income actually earned during the year	
Net income during the period closed to retained earnings	4,818,526,592
Less: Non-actual/unrealized income, net of tax	
Unrealized foreign exchange gain – net	(45,622,080)
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Net income actually earned during the year	4,772,904,512
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Less: Dividends declared during the year	(1,093,950,665)
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Unappropriated retained earnings, as adjusted, end	₱20,063,242,529
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*NOTE: As discussed in Note 17 of the Parent Company's Audited Financial Statements, it is the Company's Policy to maintain a debt-to-equity ratio of not greater than 2.0:1.0. Further, the Parent Company issued guarantees on certain loan obligations and capital commitments of the Group.*

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS**

**List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2012**

	Adopted	Not Early Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>				
Conceptual Framework Phase A: Objectives and qualitative characteristics	✓			
<b>PFRSs Practice Statement Management Commentary</b>	✓			
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>				
First-time Adoption of Philippine Financial Reporting Standards	✓			
Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate				✓
Amendments to PFRS 1: Additional Exemptions for First-time Adopters				✓
Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters				✓
Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters				✓
Amendments to PFRS 1: Government Loans				✓
<b>PFRS 2</b>				
Share-based Payment				✓
Amendments to PFRS 2: Vesting Conditions and Cancellations				✓
Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions				✓
<b>PFRS 3 (Revised)</b>				
Business Combinations	✓			
<b>PFRS 4</b>				
Insurance Contracts	✓			
Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓			
<b>PFRS 5</b>				
Non-current Assets Held for Sale and Discontinued Operations	✓			
<b>PFRS 6</b>				
Exploration for and Evaluation of Mineral Resources				✓
<b>PFRS 7</b>				
Financial Instruments: Disclosures	✓			
Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			



		Adopted	Not Early Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets				✓
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities		✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓		
<b>PFRS 8</b>	Operating Segments	✓			
<b>PFRS 9</b>	Financial Instruments		✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓		
<b>PFRS 10</b>	Consolidated Financial Statements		✓		
<b>PFRS 11</b>	Joint Arrangements		✓		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities		✓		
<b>PFRS 13</b>	Fair Value Measurement		✓		
<b>Philippine Accounting Standards</b>					
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓			
	Amendment to PAS 1: Capital Disclosures	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation				✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income		✓		
<b>PAS 2</b>	Inventories	✓			
<b>PAS 7</b>	Statement of Cash Flows	✓			
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
<b>PAS 10</b>	Events after the Reporting Period	✓			
<b>PAS 11</b>	Construction Contracts	✓			
<b>PAS 12</b>	Income Taxes	✓			
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓			
<b>PAS 16</b>	Property, Plant and Equipment	✓			
<b>PAS 17</b>	Leases	✓			
<b>PAS 18</b>	Revenue	✓			

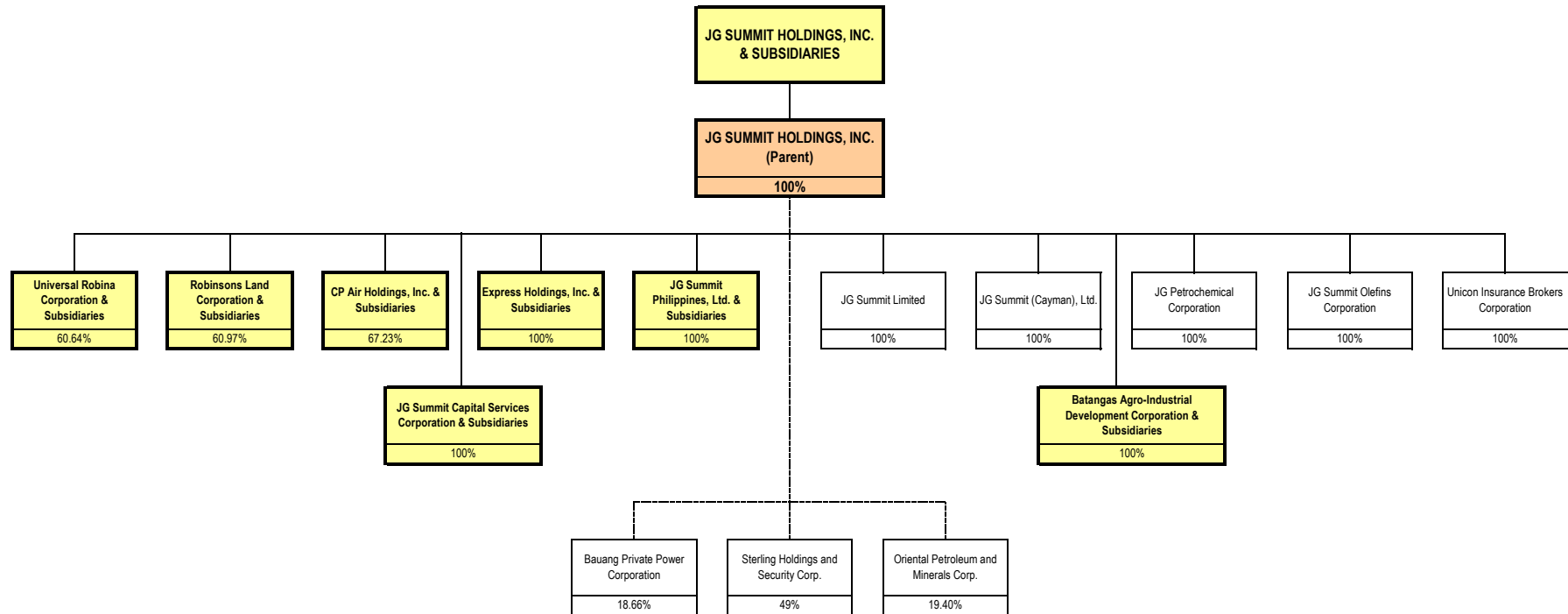
		Adopted	Not Early Adopted	Not Adopted	Not Applicable
PAS 19	Employee Benefits	✓			
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓			
PAS 19 (Amended)	Employee Benefits		✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance				✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓			
	Amendment: Net Investment in a Foreign Operation	✓			
PAS 23 (Revised)	Borrowing Costs	✓			
PAS 24 (Revised)	Related Party Disclosures	✓			
PAS 26	Accounting and Reporting by Retirement Benefit Plans				✓
PAS 27	Consolidated and Separate Financial Statements	✓			
PAS 27 (Amended)	Separate Financial Statements		✓		
PAS 28	Investments in Associates	✓			
PAS 28 (Amended)	Investments in Associates and Joint Ventures		✓		
PAS 29	Financial Reporting in Hyperinflationary Economies				✓
PAS 31	Interests in Joint Ventures	✓			
PAS 32	Financial Instruments: Disclosure and Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation				✓
	Amendment to PAS 32: Classification of Rights Issues	✓			
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓		
PAS 33	Earnings per Share	✓			
PAS 34	Interim Financial Reporting	✓			
PAS 36	Impairment of Assets	✓			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
PAS 38	Intangible Assets	✓			
PAS 39	Financial Instruments: Recognition and	✓			

		Adopted	Not Early Adopted	Not Adopted	Not Applicable
	Measurement				
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓			
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions				✓
	Amendments to PAS 39: The Fair Value Option	✓			
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓			
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓			
	Amendment to PAS 39: Eligible Hedged Items				✓
<b>PAS 40</b>	Investment Property	✓			
<b>PAS 41</b>	Agriculture	✓			
<b>Philippine Interpretations</b>					
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities				✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments				✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓			
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds				✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment				✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies				✓
<b>IFRIC 8</b>	Scope of PFRS 2				✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓			
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓			

		Adopted	Not Early Adopted	Not Adopted	Not Applicable
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓			
<b>IFRIC 11</b>	PFRS 2 - Group and Treasury Share Transactions				✓
<b>IFRIC 12</b>	Service Concession Arrangements				✓
<b>IFRIC 13</b>	Customer Loyalty Programmes				✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓			
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓			
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation				✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners				✓
<b>IFRIC 18</b>	Transfers of Assets from Customers				✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments				✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine		✓		
<b>SIC-7</b>	Introduction of the Euro				✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities				✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities	✓			
	Amendment to SIC - 12: Scope of SIC 12	✓			
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers				✓
<b>SIC-15</b>	Operating Leases - Incentives				✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders				✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease				✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.				✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services				✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs				✓

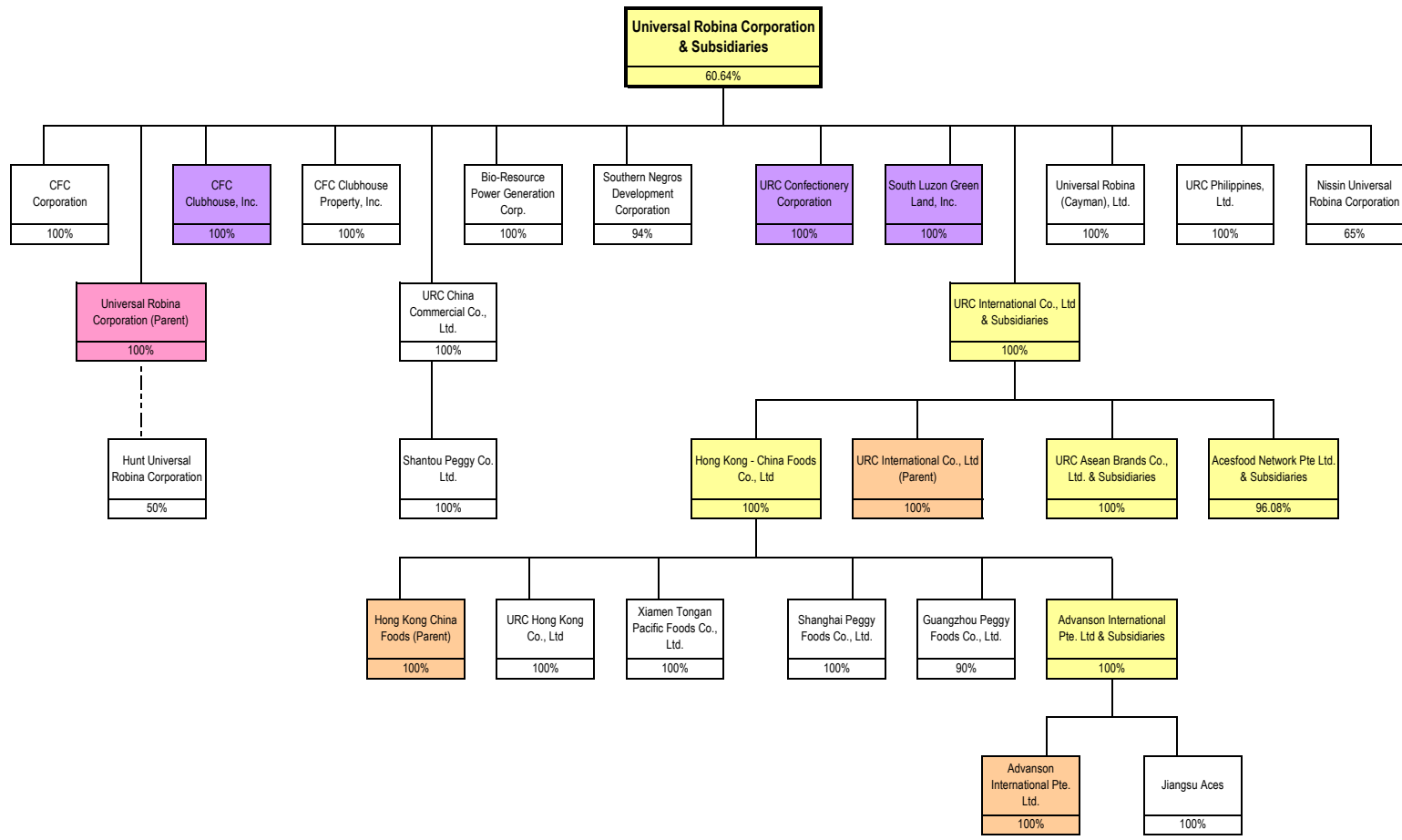
**JG SUMMIT HOLDINGS, INC.**  
**43rd Floor, Robinsons-Equitable Tower**  
**ADB Avenue corner Poveda Road, Pasig City**

**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**



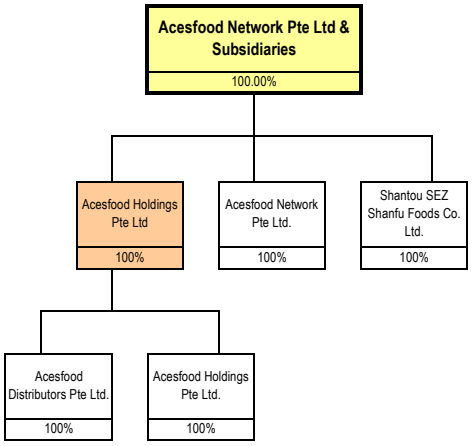
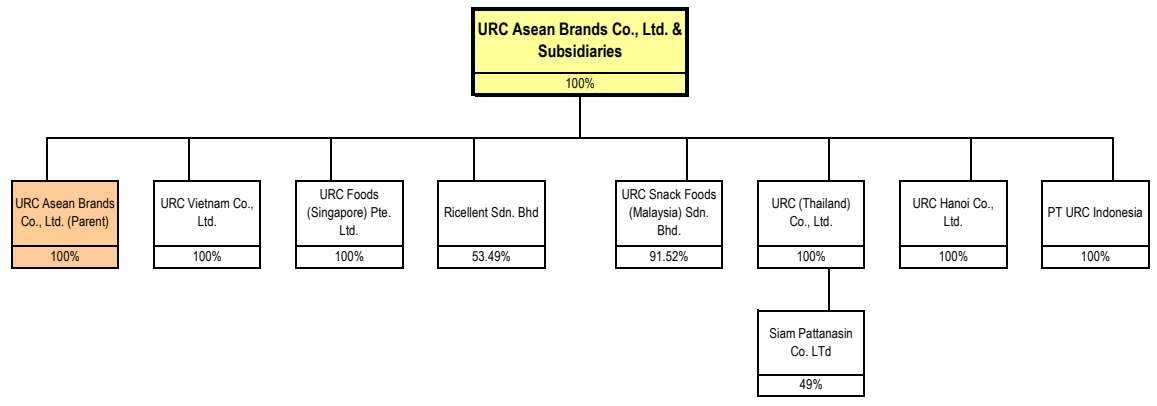
**NOTE:** Please see separate sheets for the organizational structures of the various consolidation groups.

<b>LEGEND:</b>	
—————	Subsidiary
- - - - -	Associate
- - - - -	Joint Venture



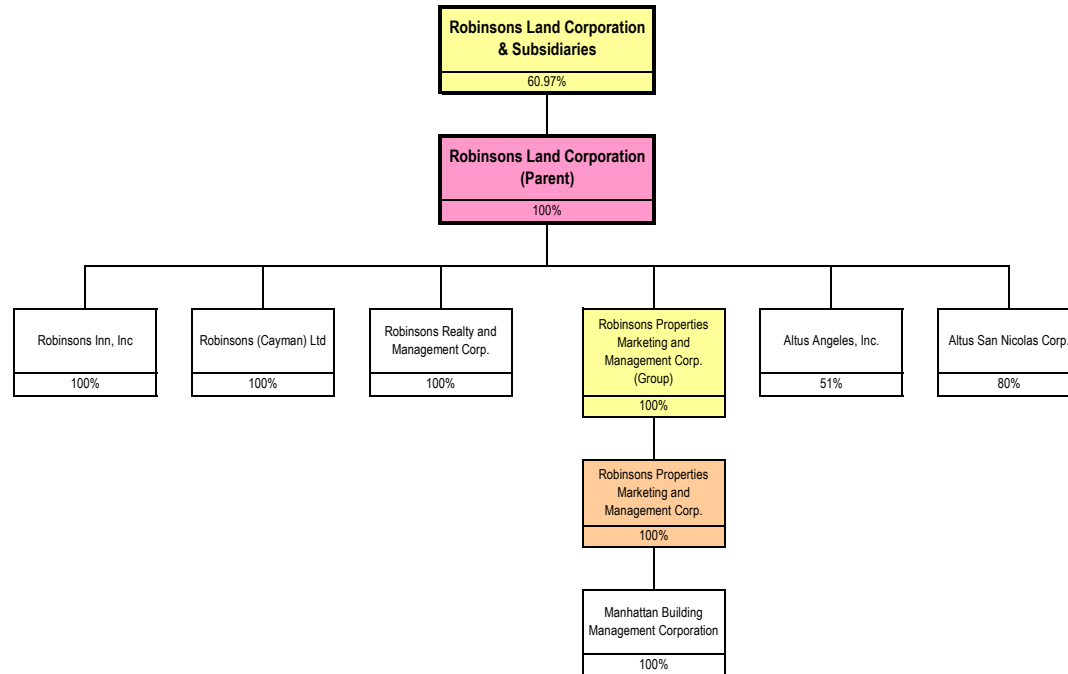
**NOTE:** Please see next sheet for the organizational structures of the URC Asean Brands and Acesfood Network consolidation groups.

LEGEND:	
—————	Subsidiary
-----	Associate
- - - - -	Joint Venture



**LEGEND:**

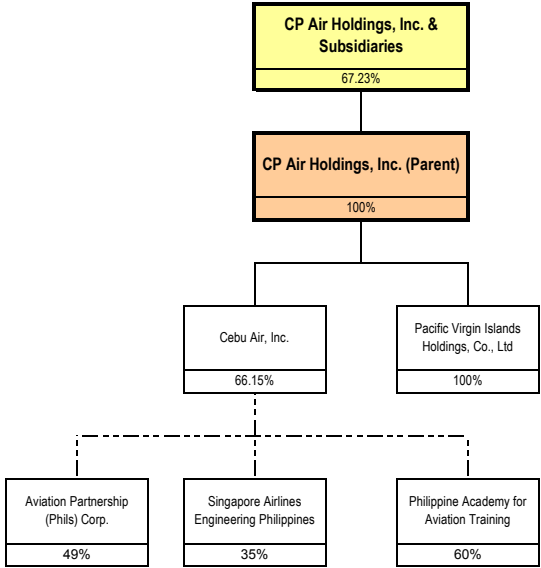
- Subsidiary
- Associate
- - - - - Joint Venture



**LEGEND:**

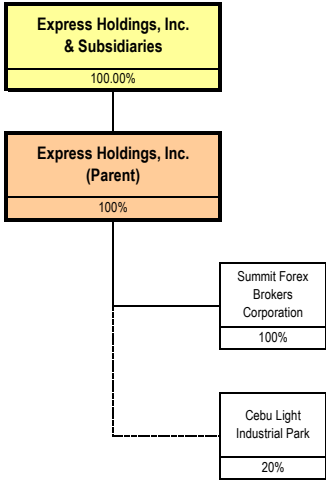
- Subsidiary
- Associate
- - - - - Joint Venture



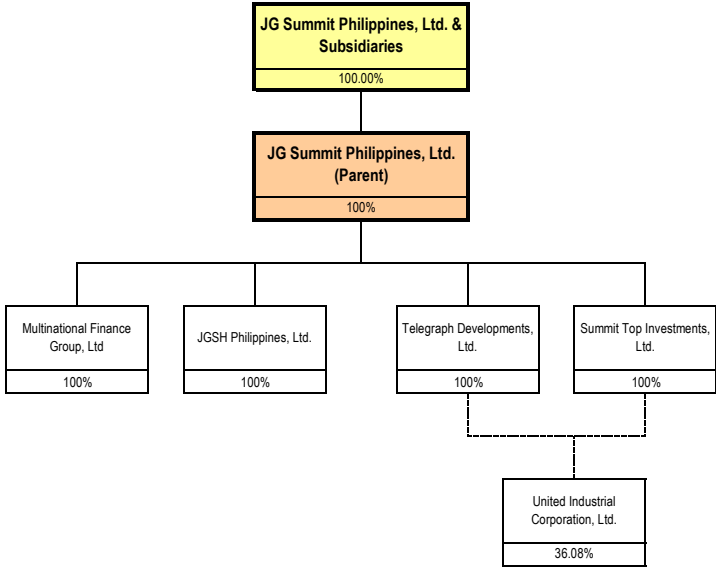


**LEGEND:**

- Subsidiary
- - - - - Associate
- . - . - Joint Venture

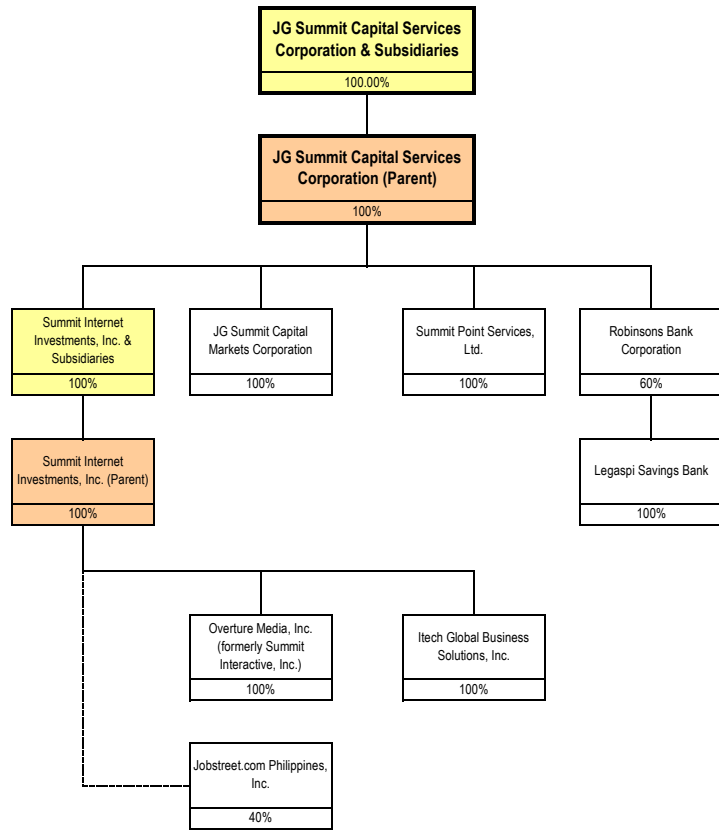


<b>LEGEND:</b>	
————	Subsidiary
-----	Associate
- - - - -	Joint Venture



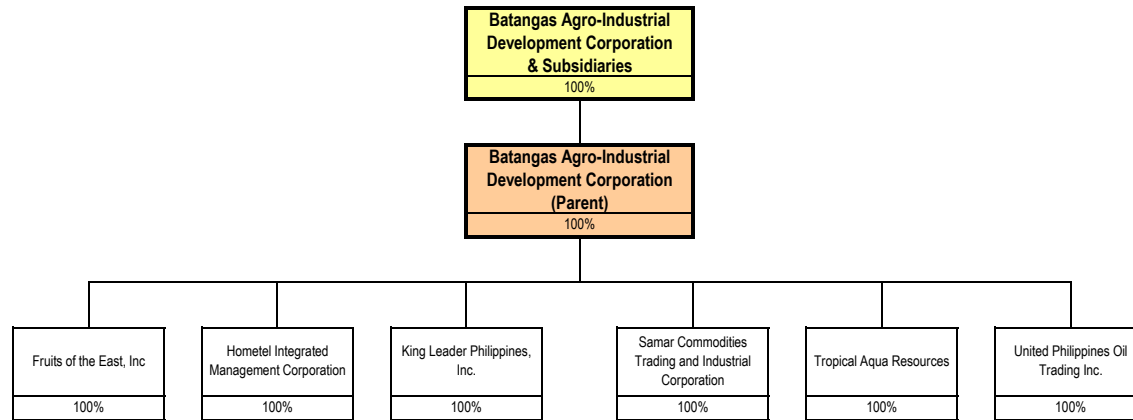
**LEGEND:**

- Subsidiary
- Associate
- - - - - Joint Venture



**LEGEND:**

- Subsidiary
- Associate
- - - - - Joint Venture



**LEGEND:**

- Subsidiary
- Associate
- - - - - Joint Venture

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE A - FINANCIAL ASSETS**  
**DECEMBER 31, 2012**

Name of Issuing Entity and Description of Each Issue	Amount Shown in the Balance Sheet/Notes	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
<b>Financial Assets at Fair Value Through Profit or Loss</b>			
Various/Private Bonds	₱9,490,640,714	₱9,490,640,714	₱606,351,348
Various/Government Bonds	3,601,933,831	3,601,933,831	189,857,833
Various Equity Quoted Securities	2,137,860,739	2,137,860,739	136,699,529
Various Equity Unquoted Securities	3,079	-	-
	₱15,230,438,363	₱15,230,435,284	₱932,908,710
<b>Available-for-Sale Investments</b>			
Various/Private Bonds	₱3,087,495,880	₱3,087,495,880	₱275,016,991
Various/Government Bonds	8,038,973,592	8,038,973,592	520,370,550
Philippine Long Distance Telephone Corp.	43,757,557,795	43,757,557,795	2,949,696,234
Various Equity Quoted Securities	1,460,895,065	1,460,895,065	109,712,996
Various Equity Unquoted Securities	17,065,871	-	-
	₱56,361,988,203	₱56,344,922,332	₱3,854,796,771
<b>Other Receivables</b>			
Unquoted Private Debt Securities <sup>1</sup>	555,000,000	-	48,543,639
	₱72,147,426,566	₱71,575,357,616	₱4,836,249,120

*NOTE:*

*1) The unquoted securities are carried at cost since 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.*

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES**  
**AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2012**

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Write Offs	Balance at End of Period		
					Current	Noncurrent	Total
NONE TO REPORT							

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Name and Designation of Debtor	Balance at Beginning of Period	Additions			Balance at End of Period		
			Collections	Write Offs	Current	Noncurrent	Total
Batangas Agro-Industrial Development Corporation ( <i>Subsidiary</i> )	₱10,290,180	₱541,476	₱-	₱-	₱10,831,656	₱-	₱10,831,656
CP Air Holdings, Inc. and Subsidiaries ( <i>Subsidiary</i> )	1,564,019	2,731,457	-	-	4,295,476	-	4,295,476
Express Holdings, Inc. ( <i>Subsidiary</i> )	648,965,446	439,025,792	(858,439,917)	-	229,551,321	-	229,551,321
JG Summit Holdings, Inc. ( <i>Parent</i> )	2,779,371,542	957,018,519	(574,139,593)	-	3,162,250,468	-	3,162,250,468
JG Summit Petrochemical Corporation ( <i>Subsidiary</i> )	62,482,227	932,098,623	-	-	994,580,850	-	994,580,850
Robinsons Bank Corporation ( <i>Subsidiary</i> )	812,316	494,713	(264,706)	-	1,042,323	-	1,042,323
Robinsons Land Corporation and Subsidiaries ( <i>Subsidiary</i> )	128,449,300	135,806,874	(167,267,922)	-	96,988,252	-	96,988,252
Summit Internet Investments, Inc. and Subsidiaries ( <i>Subsidiary</i> )	2,825,645	20,811	-	-	2,846,456	-	2,846,456
Universal Robina Corporation and Subsidiaries ( <i>Subsidiary</i> )	873,637,232	164,867,946	(140,030,020)	-	898,475,158	-	898,475,158
	<b>₱4,508,397,907</b>	<b>₱2,632,606,211</b>	<b>(₱1,740,142,158)</b>	<b>₱-</b>	<b>₱5,400,861,960</b>	<b>₱-</b>	<b>₱5,400,861,960</b>



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**  
**DECEMBER 31, 2012**

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Accounts	Other Changes Additions (Deductions)	Ending Balance
Bank and branch licenses	₱235,592,879	₱622,400,000	₱-	₱-	₱-	₱857,992,879
Software costs	4,724,223	6,539,647	(3,548,311)	314,143	-	8,029,702
Trademarks	240,223,400	-	-	-	(190,223,400)	50,000,000
Product formulation	425,000,000	-	-	-	-	425,000,000
Technology licenses	-	-	-	-	-	-
	<u>₱905,540,502</u>	<u>₱628,939,647</u>	<u>(₱3,548,311)</u>	<u>₱314,143</u>	<u>(₱190,223,400)</u>	<u>₱1,341,022,581</u>

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2012**

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown under Caption "Current Portion of Long Term Debt" in Related Balance Sheet	Amount Shown under Caption "Long-Term Debt" in Related Balance Sheet	Remarks
Guaranteed Notes Due 2013	\$300,000,000	₱10,510,654,954	₱—	
CAI - Export Credit Agency (ECA) Loan	—	2,452,857,815	18,693,097,108	
CAI - Commercial Loan from Foreign Banks	—	316,584,540	1,461,819,735	
Fixed Retail Bonds	—	(23,215,133)	8,977,716,104	Note 1
Fixed Rate Corporate Notes	—	4,303,314,929	—	
Fixed Corporate Notes Due 2014	—	(6,277,237)	2,996,733,163	
Hongkong and Shanghai Banking Corp. Ltd.	—	2,000,000,000	—	
Retail Bonds	—	—	5,000,000,000	
Retail Bonds	—	—	5,000,000,000	
	<u>\$300,000,000</u>	<u>₱19,553,919,868</u>	<u>₱42,129,366,110</u>	

*NOTES:*

1) The terms, interest rate, collaterals and other relevant information are shown in the Notes to Consolidated Financial Statements.

2) The negative amounts represent debt issuance costs to be amortized the following year.

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
**DECEMBER 31, 2012**

<b>Name of Related Party</b>	<b>Balance at Beginning of the Period</b>	<b>Balance at End of the Period</b>
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NONE TO REPORT

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**DECEMBER 31, 2012**

<b>Name of issuing entity of securities guaranteed by the Company for which this statement is filed</b>	<b>Title of issue of each class of securities guaranteed</b>	<b>Total amount guaranteed and outstanding</b>	<b>Amount owned by person for which this statement is filed</b>	<b>Nature of guarantee</b>
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NONE TO REPORT

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2012**

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by		
				Affiliates	Directors, Officers and Employees	Others
Common Shares at ₱1 par value	12,850,800,000	6,797,191,657	–	–	1,709,333,979	5,087,857,678
Preferred Voting Shares at ₱0.01 par value	4,000,000,000	40,000,000	–	–	–	40,000,000
Preferred Non-voting Shares at ₱1 par value	2,000,000,000	–	–	–	–	–

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**FINANCIAL RATIOS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

<u>Financial Ratios</u>	<b>2012</b>	2011
<b>Profitability Ratio</b>		
Operating margin	<b>15%</b>	14%
<b>Liquidity Ratio</b>		
Current ratio	<b>1.10</b>	1.53
<b>Capital Structure Ratios</b>		
Gearing ratio	<b>0.41</b>	0.50
Net debt to equity ratio	<b>0.20</b>	0.18
Asset to equity ratio	<b>1.71</b>	1.74
Interest rate coverage ratio	<b>7.07</b>	4.73