
2011 ANNUAL REPORT / JG SUMMIT HOLDINGS, INC.

# 2011 ANNUAL REPORT


MAKING LIFE BETTER

JG SUMMIT
HOLDINGS, INC.

JG SUMMIT HOLDINGS, INC.
43F Robinsons-Equitable Tower
ADB Avenue corner P. Poveda Street
Pasig City, Metro Manila
Philippines

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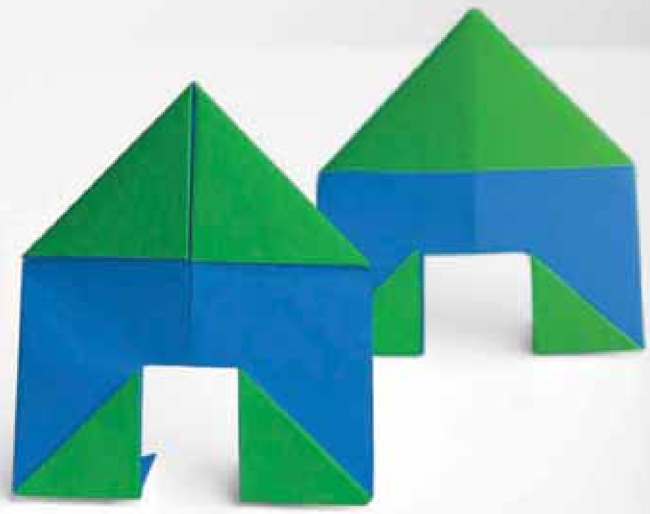


## JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

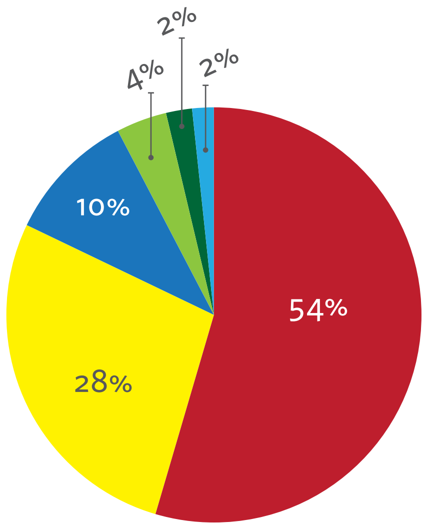
# FINANCIAL HIGHLIGHTS

DECEMBER 31 (IN MILLION PESOS EXCEPT PER SHARE AND STATISTICAL DATA)

| | | | 2011 VS 2010 INCREASE (DECREASE) | |
|---|---|---|---|---|
| | 2011 | 2010 | AMOUNT | % |
| **FOR THE YEAR** | | | | |
| Revenues | 123,057 | 105,199 | 17,857 | 17% |
| Net Income (equity holders of the parent) | | | | |
| From Continuing Operations | 8,477 | 15,575 | (7,098) | -46% |
| From Disontinued Operations | 13,036 | 746 | 12,289 | 1647% |
| | 21,513 | 16,322 | 5,191 | 32% |
| **AS OF THE YEAR** | | | | |
| Total Assets | 314,808 | 326,324 | (11,515) | -4% |
| Total Liabilities | 134,410 | 176,863 | (42,454) | -24% |
| Total Equity | 180,399 | 149,460 | 30,938 | 21% |
| **PER SHARE** | | | | |
| Basic Earnings | 3.19 | 2.42 | 0.77 | 32% |
| Book Value | 20.96 | 17.44 | 3.52 | 20% |
| **OTHER FINANCIAL DATA** | | | | |
| Current Ratio | 1.53 | 1.61 | (0.08) | -5% |
| Gearing Ratio | 0.50 | 0.76 | (0.25) | -34% |
| Net Debt Equity Ratio | 0.18 | 0.37 | (0.18) | -50% |
| **EBIT AND EBITDA** | | | | |
| EBIT | 17,044 | 20,608 | | |
| EBITDA | 25,366 | 28,278 | | |

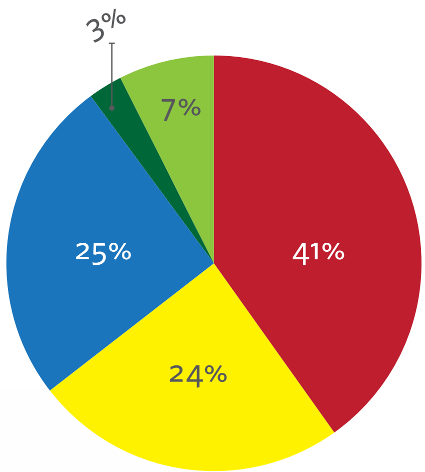
## Revenue Contribution

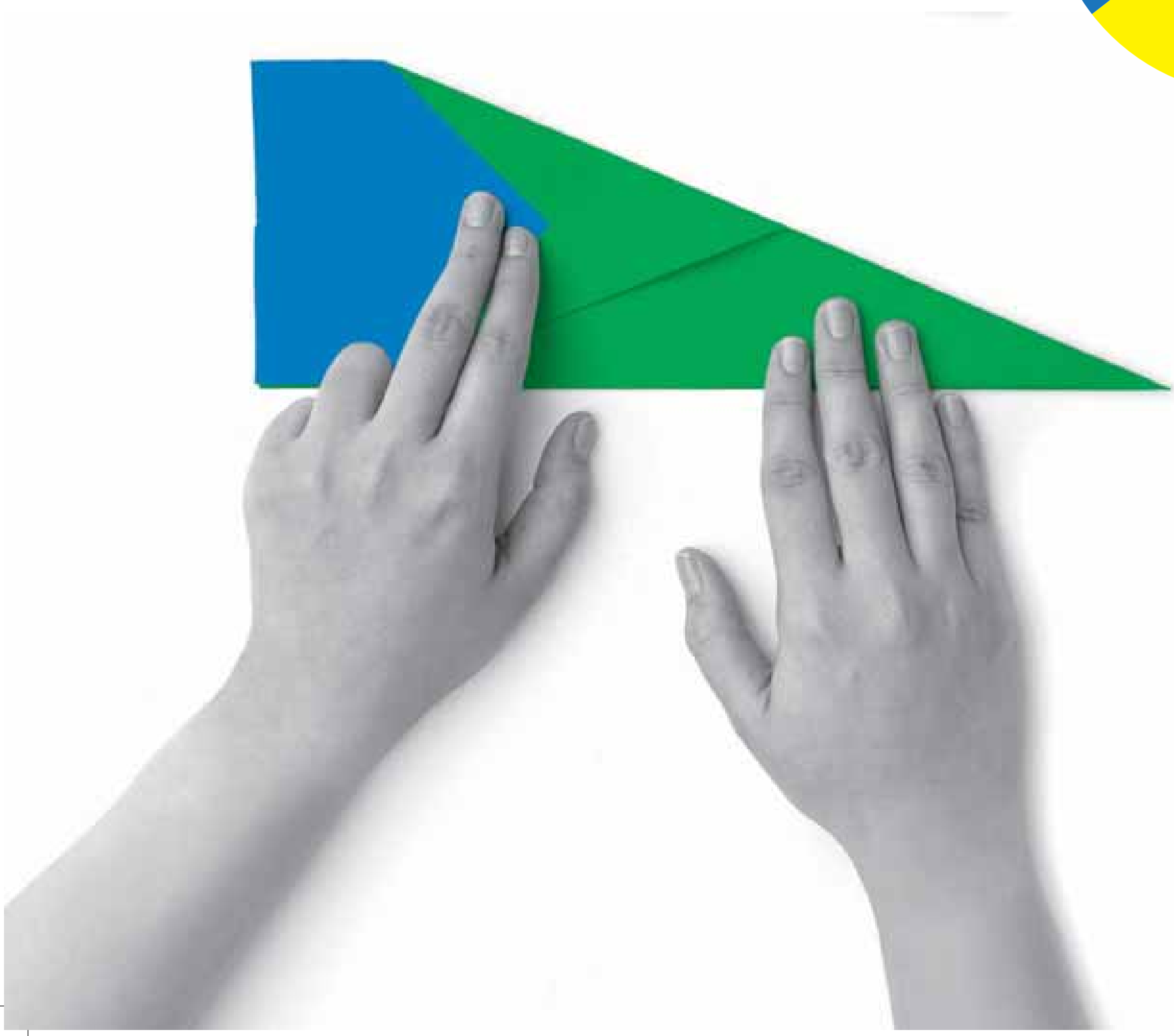
| | |
|---|---|
| Food, Agro-industrial and Commodities businesses | 67,168 |
| Air Transportation | 33,935 |
| Real Estate and Hotels | 12,594 |
| Petrochemicals | 4,782 |
| Banking | 2,360 |
| Other Businesses | 2,218 |
| | 123,057 |




## EBITDA Contribution

| | |
|---|---|
| Food, Agro-industrial and Commodities businesses | 10,181 |
| Air Transportation | 6,203 |
| Real Estate and Hotels | 6,467 |
| Banking | 663 |
| Other Businesses | 1,852 |
| | 25,366 |



Message from the

# CHAIRMAN AND CHIEF EXECUTIVE OFFICER

and the

# PRESIDENT AND CHIEF OPERATING OFFICER

*Dear Fellow Shareholders,*

We are pleased to report that your company, **JG Summit Holdings, Inc**., posted another record breaking year in 2011. Net income attributable to equity holders of the parent company amounted to PhP21.51 billion in 2011, representing a 31.8% increase from last year's PhP16.32 billion. The surge in earnings was primarily due to the gain arising from the sale of our stake in Digital Telecommunications Philippines, Inc. (Digitel) to Philippine Long Distance Telephone Company (PLDT) which amounted to PhP13.04 billion. Profits from continuing operations, however, dipped 45.6% to PhP8.48 billion from PhP15.58 billion in 2010 because of high input costs, foreign exchange (forex) movements and capital markets volatility.

The Eurozone debt crisis and the slowdown in the US economy contributed to the volatility of the fixed income and the forex markets, and this negatively affected the value of the Group's financial assets. Tensions in the Middle East and structural changes in the demand and supply of fossil fuels, on the other hand, exerted continuing upward pressure on the price of crude oil, and this in turn affected the profit margins of Cebu Air. Cost inputs for our food business continued to remain elevated and as such, the margins of URC were also negatively affected. Revenue growth however, remained buoyant on the back of the successful launch of new snack and beverage products, the delivery of five new aircraft which expanded Cebu Pacific Air's routes, and the resilient rise in rental income from our hotels, shopping malls and office buildings. Rising overseas Filipino workers (OFW) remittances, tourist arrivals and the continuing expansion of the business process outsourcing (BPO) industry, remain the major factors supporting the growth of consumer of demand in the macro economy.

Despite the challenging macro-economic environment, our company has achieved key milestones in 2011 that boosted the Group's financial standing:

- We successfully sold our stake in Digitel to **PLDT**, valuing Digitel at PhP74.1 billion, the largest ever acquisition transaction in Philippine corporate history. As a result, we generated nearly US$600m in cash from the sale of our Option shares to NTT and First Pacific, and acquired an 8% stake in PLDT from the share-swap portion of the transaction. A portion of the cash proceeds were used to prepay the US$300m syndicated loan due on 16 June 2013.

- **Robinsons Land Corporation (RLC)** was recently awarded by Asiamoney as the "Best Managed Company in the Philippines under the Small Cap Category". In 2011, RLC successfully raised PhP13.65 billion in gross proceeds from the 1:2 stock rights offering priced at PhP10.00 per share. Proceeds from the rights offering increased RLC's ability to enhance its existing land bank and the completion of its various development projects.

- **Cebu Air, Inc. (Cebu Pacific)** also received similar accolades as the "2011 LCC of the year" while President and CEO Lance Gokongwei was named "LCC CEO of the year" during the February 2012 Low Cost Airlines World, Asia Pacific Conference. Cebu Pacific remains as the country's No. 1 domestic airline in terms of total number of passengers flown with 46.0% market share as per the Civil Aeronautics Board (CAB) in 2011.

- Despite the macro-economic challenges in 2011, **URC International** posted another strong growth in revenues at 39% to US$443m, nearly a six-fold increase from the US$80m revenues generated in fiscal year (FY) 2003. Now recognized for its growing presence in the Philippines and in Asia, URC was added to the MSCI benchmark index in the second half of last year.

JG Summit's Core Earnings before taxes, excluding the extraordinary gains from sale of Digitel, the effects of foreign exchange and market valuation losses, declined by 14.2% to PhP15.39 billion in 2011 from PhP17.93 billion in 2010. Elevated prices of URC's cost inputs and high jet fuel prices for Cebu Air, are behind this decline in consolidated core EBIT.

Consolidated revenues grew by 17.0% YoY to a record level of PhP123.06 billion from last year's PhP105.20 billion as all subsidiaries posted impressive revenue growth. Our equity income from associates and joint ventures, however, declined 19.9% from PhP2.77 billion to PhP2.22 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.

Consolidated EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) for the year dropped 10.3% to PhP25.37 billion from last year's PhP28.28 billion due mainly to stubbornly high input costs as mentioned above.

As of end December 2011, the Group's balance sheet remained strong, with a current ratio of 1.53:1. Boosted by the US$595 million proceeds from the PLDT shares option sale, the Group's financial gearing ratio significantly improved from 0.76:1 in 2010 to 0.50:1 in 2011 and net debt to equity from 0.37:1 in 2010 to 0.18:1 this year.

The Group's capital expenditure (capex) in 2011 amounted to PhP29.38 billion, a 46.0% increase from last year's capex spending of PhP20.13 billion. RLC registered the biggest capex spending for 2011 funded partly from the proceeds of the rights issue, accounting for 37.7% of the total followed by JGS Petrochem at 28.0% for the on-going construction of the naphtha cracker plant. URC and Cebu Pacific accounted for the third and fourth biggest capex spending at 15.5% and 14.4%, respectively, for the expansion of URC's regional capacities and for the continued refleeting program of Cebu Pacific.

Below is a brief discussion on each of the subsidiaries' operating performance:

**URC** reported 16.4% growth in net sales and services to record high PhP67.17 billion for FY ending 30 September 2011 from PhP57.72 billion in FY 2010, led by the International branded consumer group and its sugar division. URC remained as the biggest revenue contributor of the Group accounting for 54.6% of the Group's total revenues in 2011. On high input costs, EBIT (earnings before interest and taxes) margin fell by 300bps. With this, EBITDA declined by 7.3% to PhP10.16 billion from PhP10.96 billion in 2010. Net income attributable to equity holders of the parent declined 40.7% to PhP4.64 billion from PhP7.82 billion last year because of a mark to market loss of PhP1.16 billion this year compared to a mark to market gain of PhP2.01 billion last year. Despite the weak earnings performance, the company's net income was the largest contributor to the Group's net income from continuing operations at 35.1% in 2011. On weak earnings, return on average equity (ROAE) managed to stay at double-digit but lower at 11.3% in FY 2011 from 20.3% in FY 2010.

**Cebu Pacific** posted 16.7% growth in gross revenues in 2011 to PhP33.94 billion from Php29.09 billion, mainly attributed to the 14.1% increase in passenger volume. This accounted for 27.6% of the Group's total revenues in 2011 and was the second largest revenue contributor of the Group. However, costs and operating expenses increased faster than revenue growth at 34.3% to PhP30.41 billion in 2011 due to the 39.3% increase in average aviation fuel prices. As a result, EBIT and EBITDAR (earnings before interest, taxes, depreciation and amortization and rent expenses) declined by 45.3% and 22.4% to PhP3.53 billion and PhP7.88 billion, respectively. Net income for the year amounted to PhP3.62 billion, 47.6% lower than the net income of PhP6.92 billion in 2010. Cebu Pacific is the second biggest contributor of the Group's net income from continuing operations at 28.7%. With the drop in net earnings in 2011 and its IPO in October 2010, CEB's ROAE declined but still higher than industry averate at 19.6% in 2011 from 55.0% in 2010.

Lance Y. Gokongwei
President and COO

**Robinsons Land Corporation (RLC)** generated a historical high net income attributable to equity holders of the parent of PhP3.97 billion in its FY ending 30 September 2011. This is an increase of 10.6% from last year's PhP3.59 billion due to the strong performance of all of the company's business units. This accounted for about 28.6% of the Group's net income from continuing operations in 2011. Revenues grew by 19.0% to PhP12.59 billion from PhP10.58 billion in FY 2010 RLC's consolidated revenues accounted for 10.2% share of the Group's revenues. EBIT and EBITDA stood at PhP4.35 billion and PhP6.47 billion or an increase of 12.6% and 11.9% from 2010 levels, respectively. With the recapitalization from the stock rights offering in Apr 2011, RLC's ROAE slightly drop but still stayed at double-digit to 10.2% in FY 2011 from 13.0% the previous year.

**JG Summit Petrochemicals Corporation's (JGSPC)** revenues surged by 44.6% for FY 2011 ending September to Php4.78 billion on the back of 42.7% increase in sales volume and higher selling prices of its Polypropylene and Polyethylene resins. EBIT and EBITDA, however, posted higher losses due to inventory write-offs and higher volume consumed and prices of bunker fuel. As a result of this, net loss was likewise higher at PhP383.97 million from net loss of PhP102.15 million in FY 2010.

**Robinsons Bank Corporation (RBC)** registered net earnings of PhP384.38 million in 2011, a 26.7% expansion from last year. The increase is mainly due to higher interest income and trading gains. As of end December 2011, total resources of the bank amounted to PhP31.52 billion from end 2010 level of PhP24.80 billion. Loans increased to PhP13.18 billion from last year's PhP10.49 billion, deposit liabilities grew by 35.8% to PhP25.19 billion and NPL ratio declined from 5.7% to 3.2%. The bank's capital adequacy ratio is very solid at 29.1%, significantly higher than the Bangko Sentral ng Pilipinas' requirement of 10.0% and the industry's average of 16.4%.

Equity in net earnings from associated companies and joint ventures decreased by 19.9% to PhP2.22 billion in 2011 from PhP2.77 billion in 2010. The decline of the equity income is principally due to **United Industrial Corporation, Ltd (UIC).** The Singapore based property company posted a 15.5% drop in net income from operations to S$200.23 million in 2011 from S$237.01 million in 2010 primarily due to the 59.0% decline in residential condo sales. Since the group's policy for the valuation of property, plant and equipment is based on cost method, the equity income taken up by the group represents the adjustment amounts after reversal of the effect in the income statement of the revaluation of the said assets.

James L. Go
Chairman and CEO

## OUTLOOK

The year 2012 is going to be another challenging year for the Group. The increase in fuel prices remains unabated. Nonetheless, we are seeing bright spots in the horizon such as the expanding tourist arrivals with government putting more focus on attracting foreign visitors, sustained growth in OFW remittances, soaring BPO sector and rising private investments. These factors will help support the growth of our businesses this year.

From the proceeds of the PLDT share option sale, the Group's net gearing declined to 18% from 37% prior to the PLDT deal. Having low gearing coupled with rising cash flows from the annual cash dividends that we expect to receive from subsidiaries and our investment in PLDT, the Group is in enviable position to expand the existing businesses, fund bulk of the construction of the naphtha cracker plant and enter into new ventures.

In our food business, we expect **URC** International to continue to be the main driver for growth in FY2012. With the strong sales performance of white coffee mixes and Chicharron ni Mang Juan, the domestic branded food group is expected to post double-digit growth in revenues in FY2012 from an only 6.8% growth in FY 2011. With the drop in prices of some key commodities, margins and earnings are expected to partially recover this year. We retired the US$200m, 8.25% bond on 20 Jan 2012 by repaying a net amount of US$187.6m using a combination of cash and revolving credit. This has further boosted the balance sheet of URC. URC will take on major initiatives this year to further expand the business and improve our margins. We will protect margins by closely monitoring the commodity prices and implement pricing actions when warranted and launch higher priced products to balance our sales mix. Moreover, URC has earmarked US$120 million in capex spending for this fiscal year, 20% higher than last year, the bulk of which is set aside for the branded food business as we expect greater traction from the international business and renewed growth in our domestic business.

In our **airline business**, we will continue to pursue a growth strategy of increasing flight frequencies and adding new destinations while keeping our unit cost as one of the lowest in the world. We are taking net delivery of 46 new Airbus planes on programmed basis over the next nine years, bringing the total number of our fleet to 83 by 2021. We will continue to look for ways to improve yields by focusing on increasing our ancillary revenues. The competitive landscape is expected to become tougher while jet fuel prices have remained high. Early in the year, we announced that we will be flying to longer distances. Unique to the Philippines is a large and growing overseas Filipino population. Of the top 10 medium to long haul markets from the Philippines, only two destinations are served by home-based carrier. Further, several of these destinations have no direct service. To cater to this underserved market, we will initially lease four Airbus A330-300 for our medium to long haul flights, with the first two to be delivered in the second half of 2013. Taking the same strategy as the short-haul, we will offer fares that are discounted at 30-35% compared to full-serviced carriers. We can achieve this by having the highest seat configuration and by flying direct to these destinations.

Funded in part by stock rights proceeds, cash on hand and internally generated funds, **RLC**'s landbank increased by almost 100 hectares on a net basis to 465 hectares as of end September 2011. This level of landbank is suitable for four to five years of development. We will open three new malls in FY2012 in Magnolia, Quezon City; Puerto Princesa, Palawan and Calasiao, Pangasinan and expand two of our existing malls, thereby increasing our GLA for the shopping malls by 12%. For FY 2013, four new malls are slated to be opened, in addition to the expansion of an existing mall. Four Go Hotels will be opened in FY 2012, increasing the number of our hotel rooms by 38% to 1,505. Go Hotels Palawan, Dumaguete and Tacloban were opened in February, March and April of this year, respectively. Go Hotels Bacolod will follow soon. Construction of the two new office buildings, Cyberscape Alpha and Cybergate Beta, are scheduled to be completed by mid-2013. With demand for office spaces from the BPO industry estimated at 300,000 to 350,000 sqm a year as per an independent study, we will try to cash-in on this demand by scouting for additional land to purchase to build more office buildings.

**PLDT** remains a core portfolio investment of the Group as we still expect growth in the business. We are the single largest Filipino shareholder with our 8% stake in PLDT. Cost efficiencies, network optimization and acceleration in the roll-out of the latest telecoms technology are expected to be realized with the merged company. PLDT is going to be dividends accretive to the Group. In the last five years, PLDT declared 100% of its core earnings as cash dividends.

Construction of our **naphtha cracker** plant is on track. Commercial operation for the plant is scheduled sometime in 1Q 2014. The Petrochem business is going to be the fourth largest leg of the group with expected turnover of US$1 billion per annum once production is at full steam. Total project cost is estimated to reach US$800m which includes the cracker, the expansion of our existing polyethelene capacity from 200,000 metric tons (MT) to 320,000MT and tankage facilities for crude C4 exports. Our petrochemical plants will provide at least two thirds of the country's total demand for polypropylene and polyethylene resins. JGSPC is expected to export approximately 25% of its polymer output on its first year of operations.

**RobinsonsBank** finally acquired its commercial banking license in mid 2011. In addition to the Bank's organic growth in the traditional banking business of lending, branch banking and treasury operations, RobinsonsBank aims to become a significant player in the banking industry via mergers and acquisitions. With high capital adequacy ratio, the Bank is poised to grow further in the coming years.

## ACKNOWLEDGEMENT

We could not have achieved all of this if not for your trust and confidence in the management and staff of the Group. We would like to thank each and everyone who have helped push the company to new highs. We hope that you will continue to be with us as we journey forward and venture into new opportunities.

**James L. Go**
Chairman and CEO

**Lance Y. Gokongwei**
President and COO

# JG SUMMIT BUSINESSES

# JG SUMMIT HOLDINGS, INC.

# Making Life Better

JG SUMMIT HOLDINGS, INC. (JGS) is one of the largest and most diverse conglomerates in the Philippines today, with vast business interests in food manufacturing, real estate development and management, air transportation, telecommunications, petrochemicals and banking services. JG Summit's businesses are leaders in their respective industries, proof of more than 50 years of valuable business experience. It conducts business throughout the Philippines and in the ASEAN region

The business of JG Summit started in the 50s when Universal Corn Products, Inc. (now Universal Robina Corporation) was established to operate a cornstarch plant in Manila. Since then, JG Summit has pioneered breakthroughs, broadened its enterprise and stayed at the forefront in every phase of the country's rise to development - the entrepreneur who invested in agribusiness and the manufacture of feeds and prime food commodities; the visionary who channeled resources and expanded into financial services and property, all backbones of a growing economy; the captain of industry who invested in telecommunications, petrochemicals and air transportation, all requisites for industrialization; the innovator, who continually provides value and fun in snacking; and the new regional multinational, who has embraced the challenge of global competitiveness with zeal.

JG Summit has six (6) core businesses: branded consumer, agro-industrial and commodity food products through Universal Robina Corporation; real estate and property development through Robinsons Land Corporation and United Industrial Corporation (in Singapore); telecommunications through Philippine Long Distance Telephone Company; petrochemicals through JG Summit Petrochemicals Corporation and JG Summit Olefins Corporation; air transportation services through Cebu Air, Inc.; and financial services through Robinsons Bank Corporation.

JG Summit's place in Philippine business has for its cornerstone a business portfolio of market leaders, a solid financial position, a formidable management team, and a vision of leading the country to global competitiveness and making life better for every Filipino.

# A Landmark Telco Transaction

On 26 October 2011, the Philippine Long Distance Telephone Company (PLDT) has successfully completed the acquisition of a majority interest in Digital Telecommunications Philippines, Inc. (Digitel) from JG Summit Holdings, Inc. and other shareholders of Digitel, in a landmark share swap transaction, valuing the latter at PhP69.2 billion.

Together with 3.277 billion shares representing 51.55% of Digitel's outstanding common stock, PLDT also acquired the zero-coupon bonds issued by Digitel Group to JG Summit, which were assumed to be convertible or exchangeable into 18.6 billion Digitel shares, and assumed PhP34.1 billion in advances made by JG Summit to Digitel Group (collectively, the "Enterprise Assets"). As payment for the Enterprise Assets, PLDT issued 27,679,210 new shares of common stock at the issue price of PhP2,500 per PLDT share. As a result, the JG Summit Group held approximately 12.9% of PLDT's expanded outstanding common stock.

## LOCK-UP AND OPTION AGREEMENTS

The PLDT shares that were issued as payment for the Enterprise Assets are subject to a lock-up period of one year or until 25 October 2012 during which JG Summit and the other sellers may not transfer or encumber such PLDT shares without the consent of PLDT.

PLDT has granted consents to the potential sale by JG Summit of 5.81 million and 4.56 million PLDT shares under separate option agreements that the company has entered into with an associate company of First Pacific Company Limited and NTT Docomo, Inc., respectively. The sale of the PLDT option shares were consummated in November 2011 for total gross proceeds of nearly US$600 million. The share option sale has brought down JG Summit's stake in PLDT to approximately 8.0% from 12.9%. The company is represented in PLDT's board with one board seat.

## TENDER OFFER

The transaction triggered a mandatory tender offer for the acquisition of the remaining 48.45% of Digitel shares held by the public, PLDT launched a tender offer for such shares that ended on 16 January 2012. Under the terms of the tender offer, Digitel shareholders were given an option to sell at PhP1.6033 per Digitel share or swap their holdings for PLDT common shares at a swap ratio of 1,559.28 Digitel shares for every new PLDT common share. The tender offer was taken up by majority of the shareholders, bringing the total transaction value to PhP74.1 billion and making it the largest buyout in Philippine corporate history.

## IMPACT ON THE TELECOMMUNICATIONS INDUSTRY

With PLDT's successful acquisition of Digitel, the consumers have begun to realize the substantial benefits to be reaped from the combined expertise, resources and capabilities of the PLDT Group and Digitel.

PLDT's Chairman, Manuel V. Pangilinan, remarked: "PLDT is extremely pleased to welcome Digitel to the PLDT Group. PLDT will continue to provide its consumers with the best value in terms of price, quality and range of products and services and we have committed to continue offering "unlimited" type of services in fulfillment of this promise. In addition, Sun subscribers can benefit from PLDT's extensive infrastructure and varied service offerings."

On the other hand, JG Summit Chairman, James L. Go, said of the transaction:"This transaction ensures that Digitel remains in good hands. Together, the PLDT-Digitel Group will be well-positioned to compete not only with formidable existing competitors but with well-funded new entrants as well."

UNIVERSAL ROBINA CORPORATION

UNIVERSAL ROBINA CORPORATION (URC) is one of the leading Southeast Asian food and beverage companies, and is also a major player in agro-industrial & commodity businesses in the Philippines.
The Branded Consumer Foods Group (BCFG) is home to familiar brands like Chippy, Piattos, Magic, Maxx, and Cloud 9, under the Jack 'n Jill mega brand. Jack 'n Jill has grown to represent the simple pleasures, fun and camaraderie of snacking, making the company the leading snackfoods manufacturer in the Philippines.

URC also successfully entered the ready-to-drink beverage market with its flagship product, C2 Green Tea, which is a first mover in the domestic market. The company continues to expand in other Beverage powdered and ready to drink categories such as coffee mixes, energy drinks, milk, water and juice. URC is also present in the Grocery categories through its joint ventures with Nissin of Japan (Nissins-URC) for noodles, and Con-Agra (Hunts-URC) for beans and sauces.

These distinctly Filipino brands are also available outside the Philippines. URC has manufacturing facilities in five countries in Southeast Asia namely Thailand, Vietnam, Malaysia, Indonesia, and China and sales companies in HK and Singapore. Familiar Jack 'n Jill brands like Cloud 9, Cream-O, Magic Flakes, and Roller Coaster are readily available in retail outlets across the ASEAN countries and parts of China. These URC products are also being enjoyed in other parts of the world, with exports to the Middle East, North America, Europe, Korea, Japan and Australia.

URC's Agro-Industrial Group (AIG) is consolidated under the Robina Agri Partners (RAP), which combines the strengths, experience and expertise of Universal Corn Products, Robichem Laboratories, and the Robina Farms poultry and hog divisions, into one team. RAP provides high quality feeds, veterinary medicines, live animals - Hogs and Chicken - to the country's poultry and livestock industries. RAP also provides consumer products, namely premium meats and eggs.

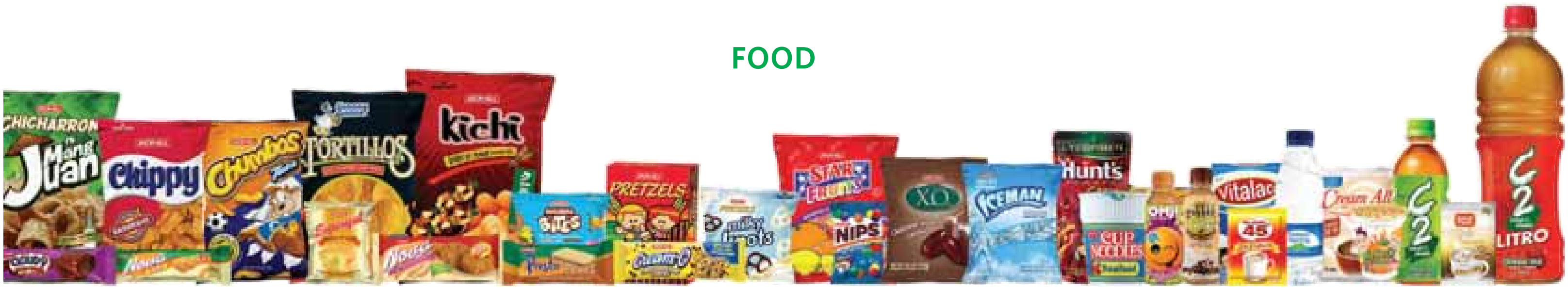
URC's Commodity Foods Group (CFG) is engaged in flour milling, pasta production and distribution under the URC Flour Division, as well as sugarcane milling and raw sugar refining under the URC Sugar Division. URC is also engaged in the manufacturing of product packaging through URC Packaging.

Universal Robina Corporation is committed to bringing Filipino taste and culture worldwide, in line with JG Summit's vision to make life better, not only for Filipinos, but for the rest of the world.

## URC facts

- **URC** started out as a cornstarch manufacturing company in 1954. With Panda Cornstarch as its first brand, URC soon expanded to include the Jack 'n Jill brand of fun snack-foods, Blend 45 and Great Taste coffee, C2 ready-to-drink tea, and many other Filipino favorites
- **URC** launched the first locally manufactured coffee blend in the 1960s with Blend 45. With its distinctly Filipino blend and flavor, it soon became a local favorite. URC also introduce the first 3-in-1 coffee mix with Great Taste.
- **URC**'s first branded snack product was Jack 'n Jill Chiz Curls. It has since been followed by Chippy, Nova, Piattos and many other fun snacks that I have become Filipino favorites for generations.

# FOOD




## BRANDED CONSUMER FOODS GROUP (BCFG)

### SNACKS

Jack 'n Jill Chiz Curls, Jack 'n Jill Chippy,
Jack 'n Jill Nova, Jack 'n Jill Piattos,
Jack 'n Jill Roller Coaster, Jack 'n Jill Potato Chips,
Granny Goose Tortillos

### CANDIES

Jack 'n Jill Maxx, Jack 'n Jill XO,
Jack 'n Jill Dynamite

### CHOCOLATES

Jack 'n Jill Cloud 9, Jack 'n Jill Nips

### BISCUITS

Jack 'n Jill Magic Flakes, Jack 'n Jill Cream-O,
Jack 'n Jill Dewberry, Jack 'n Jill Pretzels

### BAKERY

Jack 'n Jill Quake

### BEVERAGE

Great Taste, Blend 45, Refresh, C2 Green Tea,
Hidden Spring

### NOODLES

Payless

### JOINT VENTURES

Nissin, Hunts

## URC PACKAGING

Manufactures and sells bi-axially oriented polypropylene (BOPP) films primarily used in the packaging industry

## AGRO-INDUSTRIAL - ROBINA AGRI PARTNERS (RAP)

### UNIVERSAL CORN PRODUCTS (UCP)

Produces and distributes animal feeds for fish, hogs and poultry

### ROBINA FARMS

Breeds and grows hogs, broiler chicks and layer chicks

### ROBICHEM

Manufactures animal health products

## COMMODITY FOODS GROUP

### URC FLOUR DIVISION

Produces and distributes hard flour, soft flour and specialty flour. It also manufactures and sells pasta products

### URC SUGAR DIVISION

Provides sugarcane milling and raw sugar refining services, trades raw sugar, and sells raw and refined sugar and molasses

- **URC** entered the ready-to-drink market in 2004 with C2 Green Tea. Originally available in lemon and green tea flavors, C2 was a runaway, creating the RTD Tea market in the Philippines and becoming URC's #1 selling brand within 5 years of launce even the the face of still competition from multinational brands.
- **URC** sells more C2 Green Tea in Vietnam than in the Philippines almost 3 to 1. While the initial attempt to sell C2 in more traditional tea flavors of jasmine and lotus did not excite the market, URC's C2 came roaring back using the sweeter fruit-flavored formulation that has endeared Filipino consumers. Vietnam's favorite is C2 Green Tea lemon flavor.
- **URC** expanded in the Asean market in 2000 after the international investments of the Gokongwei family in food manufacturing was folded-in into the company. From an initial of three manufacturing locations in Thailand, China, and Malaysia, two more were added—Indonesia in 2001 and Vietnam in 2005.

# URC Branded Consumer Foods Group: Expanding its Borders

THE BRANDED CONSUMER FOOD PRODUCTS OF URC have long been part of the lives of millions of Filipino consumers. "Jack 'n Jill" and "C2", the URC megabrands, have become by-words whenever Filipinos talk about snackfoods or ready-to-drink beverages, respectively. With its innovative and high quality products, wide distribution, and effective marketing, URC has shaped the local branded foods industry and continues to make its mark up to this day, with successful new products such as Chicharron ni Mang Juan and Great Taste 3-in-1 White Coffee, just to name a couple. It continues to dominate in key categories such as snacks, candies, chocolates, and ready-to-drink tea, and is a strong presence in several others.

In the past few years, URC has significantly expanded in other countries within the region. It has successfully translated the products and expertise that have worked so well in the home market to the different countries under its URC Branded Consumer Foods (BCF) International division.

Fiscal Year 2011 was a banner year for the BCF International business. It drove the overall growth for total URC with its all-time high revenues, registering a stellar growth rate of 39% *(in US Dollar terms)* versus FY 2010, and with almost all countries posting record sales. It also managed to grow absolute profits despite the increase in world input costs, the main challenge for branded consumer foods businesses in 2011. URC Thailand and URC Vietnam beefed up this sales momentum and contributed as much as 75% of revenues. Here are some highlights on the different countries that comprise the business.

### URC VIETNAM

- FY 2011 revenue growth of 52% versus FY 2010; record sales
- The youngest company in the group; the fastest growing and biggest contributor to revenues
- Achieved strong challenger positions in both ready-to-drink tea and biscuits; steadily expanding to other products

### URC THAILAND

- FY 2011 revenue growth of 34% versus FY 2010; record sales
- Solidified its leadership in biscuits and wafers (a huge market in the country) and remains significantly ahead of competitors in terms of market share
- Tallied double-digit growth across all its product categories
- Further strengthened its snackfoods portfolio with successful new product launches such as flat chips, and posted strong sales with its cookies and glucose biscuits

## URC facts

- **URC** continuously innovates and introduces new products both locally and in the region to constantly excite the market. In 2011, URC successfully launched extruded and pelletized snacks called Chicharron ni Mang Juan as well as Great Taste White Coffee mixes, a first in the domestic market.
- **URC** also supports the livestock industry, with Robina Farms, which raises hogs and poultry; Universal Corn Products, which provides a variety of feeding and nutritional needs for them;


## URC MALAYSIA AND SINGAPORE

- FY 2011 revenue growth of 30% versus FY 2010; record sales
- URC Malaysia was the fastest growing company among its peers in the industry
- Significant growth due to renewed focus on strengthening the distribution infrastructure of the company, which further pushed our competitive portfolio of snackfoods products
- Chocolates business, with Cloud 9 and Nips as flagship products, continued to grow rapidly

## URC INDONESIA

- FY 2011 revenue growth of 12% versus FY 2010, putting the business back on the right track
- Successfully refocused our distribution on the more populated areas (Java and Sumatra), which contributed to sales growth and lessening of our selling expenses
- All product categories grew vs. the previous year (FY 2010)
- Projecting significant growth in FY 2012 on the back of new and exciting product offerings as well as further reaping the advantages of a more focused sales strategy

## URC CHINA AND HONG KONG

- FY 2011 revenue growth of 43% versus FY 2010 despite a very competitive environment; record sales
- All product categories grew significantly with Biscuits and Coffee sales more than doubling FY 2010 numbers. Cereals/Oats, continues to be the top category
- On top of its solid sales in its home country, URC China also produced and supplied key products (Biscuits, Coffee and Creamer) to the different URC affiliates, including the Philippines. By augmenting the individual production capacities of the other affiliates, URC's China business contributed to the continued sales momentum of the whole group.

There is much anticipation and excitement for the coming years as URC's presence in the region continues to grow and be recognized. We continue to build our strong footprint in the ASEAN, competing head-on with both large local players and multinationals. With its successful forays into foreign markets, URC has achieved its founder's vision of being a true Philippine multinational.

and Robichem, which takes care of their veterinary requirements. URC ensures healthy, well-tended livestock - justone of the ways URC helps make life better for the Filipino.

- **URC** is a major player in commodity foods, with strong positions in flour milling, sugar milling, and sugar refining. This also ensures consistent supply of these raw materials for URC's branded consumer foods group. URC supplies approximately a tenth of the country's total demand for flour and sugar.

ROBINSONS LAND CORPORATION (RLC) is one of the Philippines' leading real estate developers in terms of revenues, number of projects and total project size. It is engaged in the development and operation of shopping malls, office buildings, hotels, residential mid and high-rise structure and mixed use developments, as well as land and residential housing developments located in key cities and urban areas nationwide. RLC adopts a diversified business model, with both an "investment" component, in which RLC develops, owns and operates commercial real estate projects (principally shopping malls, office buildings and hotels) and a "development" component, in which RLC 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 is one of the country's largest mixed-use property developers. Developments like Robinsons Galleria complex has two office towers, two deluxe hotels, an upscale residential condominium anchored by a flagship shopping mall while Robinsons Place Manila complex has five residential towers fully integrated by another flagship shopping mall. The Forum Robinsons complex houses the flagship Go Hotel, four office buildings, three residential towers and a mall. The Robinsons Magnolia Town Center complex in Quezon City, the fourth mixed-use development in Metro Manila, is slated for opening in the second half of 2012.

Each and every project of Robinsons Land Corporation has led to the rise of thriving, harmonious communities in line with JG Summit's vision to make life better for the Filipino nation.

## RLC facts

- **RLC** was incorporated in June 1980 to serve as the real estate arm of JG Summit Holdings, Inc.

- **RLC** pioneered the mixed-use property development concept in the country where work, relaxation and play can be found in one place. Robinsons Galleria complex, which opened in 1990, is the company's first and premier mixed-use development project where two deluxe hotels, two high rise office towers, an upscale residential condominium, and its flagship mall are all fully integrated. More mixed-use development projects followed thereafter and more are planned for future openings.

- In 1996, the real estate development and hotel management activities of JG Summit group was consolidated under **RLC** through the share swap transactions of two affiliated entities, Manila Midtown Hotels and Land Corporation and Robinsons Inn.

- **RLC** is the first JG Summit company to list in the Philippine Stock Exchange in 1989 and a successful follow-on offering in 2006. It was also the first to list in Philippine Dealing and Exchange Corp. (PDEX) in 2010. RLC carried out three successful stock rights offerings, a first for any JG Summit company.


## RLC's operations are divided into four business divisions.

### COMMERCIAL CENTERS DIVISION

Develops, leases and manages shopping malls throughout the Philippines. As of September 30, 2011, RLC operated 29 shopping malls, comprising six malls in Metro Manila and 23 malls in other urban areas throughout the Philippines.

### OFFICE BUILDINGS DIVISION

Develops office buildings for lease. As of September 30, 2011, this division has eight office buildings located in Metro Manila and Cebu. These office projects are primarily developed as investment properties and leased out to tenants by the company.

### HOTELS DIVISION

Owns and operates hotels within Metro Manila, Cebu City, Tagaytay City and Mandaluyong City. RLC's Hotels Division currently has a portfolio of five hotels, the Crowne Plaza Manila Galleria, Holiday Inn Manila Galleria, Summit Circle Cebu (formerly Cebu Midtown Hotel), Tagaytay Summit Ridge Hotel and Go Hotel Cybergate Plaza.

### RESIDENTIAL DIVISION

Develops and sells residential developments for sale/ pre-sale. The division has in its portfolio 57 residential buildings and 31 housing subdivisions all over the country. RLC's residential division is categorized into four brands – Robinsons Luxuria, Robinsons Residences, Robinsons Communities, and Robinsons Homes.

- **RLC** is a leading office space providers to BPO companies in the country with 193,000 sqm of leasable space from its eight office buildings. It leased out another 52,000 sqm of commercial center space to BPO companies.
- **RLC** is a leading owner and operator of hotels in the Philippines with a total of 1,089 guestrooms. The company successfully opened its first essential services/value hotel chain in the country, Go Hotels, viewed as a complement to its other property developments and also as a good strategic fit to an affiliate company, Cebu Pacific. Four more Go Hotels will open in FY 2012.
- In 2009, **RLC**'s residential division was rebranded and categorized into four brands – Robinsons Luxuria, Robinsons Residences, Robinsons Communities and Robinsons Homes. The four brands vary in product, location, target market, type of development and price ranges to tap a broad range of customers and market.

# Interest Remains Strong for RLC's The Magnolia Residences

MARKET RESPONSE TO THE MAGNOLIA RESIDENCES continues to be very enthusiastic and construction of the first two of four towers is currently in full swing. What was once the location of the popular Magnolia Ice Cream House is now the site of a distinctive new development by Robinsons Land Corporation (RLC). The Magnolia Residences along N. Domingo and Dona Hemady Streets in the vibrant neighborhood of New Manila is now a prime real estate investment option.

The development's strategic location will be hard to beat. The Magnolia Residences is particularly attractive to families with school-aged children because of its proximity to schools like St. Paul University, Jubilee Christian Academy, Xavier School, Immaculate Conception Academy and La Salle Greenhills. In addition, the development's proximity to the LRTII Gilmore station makes travelling east to schools like Ateneo, Miriam and the Center for Culinary Arts; or the University of the East, San Beda, La Consolacion in the opposite direction, a breeze. Top-notch medical facilities such as the St. Luke's Medical Center and Cardinal Santos Hospital are also situated nearby.

The Magnolia Residences will be a self-contained community that is part of a well masterplanned five-hectare property, the Magnolia Town Center. Across the exclusive residential enclave will be a world-class commercial center, Robinsons Magnolia.

The Robinsons Magnolia is set for completion in July 2012 and will provide residents all the features of a full service commercial complex. The mall will house a Supermarket, Department Store, Toys R Us, Handyman and Robinsons Appliance. Robinsons Magnolia is going to be a multi-storey luxurious shopping and entertainment center with a distinct mix of shops and restaurants. It will also have four state-of-the-art cinemas adopting stadium-style seating.

This upscale mall is envisioned to be a home to international and prestigious local brands and famous specialty shops. It will also feature Junior Anchor tenants to showcase a unique collection of deluxe brands and upcoming local retailers.  To complement the high end feel of retail outlets, even the food court design and layout will be competitive with the successful modern food courts found in the region.  There will be an alfresco area to house the specialty food outlets facing the


focal point of the whole commercial center development - 'The Plaza' - a lush park and activity area with an eco-friendly theme where families can reacquaint with the heritage of Magnolia Ice Cream House.

RLC commissioned RTKL, an internationally renowned master-planner, to draft the conceptual drawings for the whole complex while reputable domestic design firms have been tasked to complete the design development.

Certainly, The Magnolia Residences is set to become a first-rate address in Quezon City. It is where residents can opt for custom spaces to suit their requirements. The one- bedroom, two- bedroom, executive two- bedroom and three-bedroom units have been efficiently designed to bring a new beat to traditional city living while at the same time embracing the tempo of the serene and secure neighborhood that is unique to New Manila's upscale neighborhood.

The one- and two-bedroom units are aimed at couples or families that are just starting out while the larger units are perfect for larger families. Balconies are an added feature of selected units and upper-floor unit owners will enjoy panoramic views of the environs such as Greenhills, Horseshoe, Ortigas, New Manila and San Juan.

Adding premium to condominium living, amenities like a sun deck function area, swimming pool, wading pool with jacuzzi, Zen garden, function room, children's playroom, game room, library, multi-purpose room, fitness center, badminton court, rock garden, jogging path, gazebo and a tree house have been incorporated in the development.

To experience what quality living is all about, view The Magnolia Residences model unit at N. Domingo Street, New Manila. To learn more about The Magnolia Residences, visit www.robinsonsresidences.com or call phone numbers 397-0101, 636-0888 or 0922-838-0888.

CEBU PACIFIC (CEB) is the largest airline in the Philippines and one of the fastest growing low-cost carriers in the world. It has a unique low-fare, great-value strategy that allows travelers to enjoy year-round affordable flights to 32 local and 19 international destinations. CEB uses a tiered pricing system that provides ultra-low fares through advanced bookings, making air travel a truly viable option for the Filipino. Cebu Pacific believes that it's time every Juan flies.

More than this, CEB allows everyone to enjoy many firsts in the Philippine aviation industry--innovations such as e-ticketing, web check-in, self check-in, seat selection, prepaid baggage allowance and internet booking through www.cebupacificair.com.

With a fleet of 38 aircraft with an average age of 3.6 years, CEB operates the largest and youngest fleet in the Philippines. To support its growth requirements, CEB will take delivery of 22 more Airbus A320 aircraft in the next five years. In addition, CEB also expects delivery of four Airbus A330 wide-body jets from 2013 to 2014, and 30 Airbus A321neo aircraft between 2017 to 2021. These new aircraft will add more range, flexibility and efficiency to CEB's fleet.

Aside from operating the most domestic flights and routes daily, CEB continues to expand its international presence as it now flies to 19 international destinations in the region, including major cities in China, Korea and Vietnam. As a true innovator in the industry, CEB pioneered direct flights to Cambodia, home of the Angkor World Heritage Site, as well as direct flights between Manila and Hanoi, and between Hong Kong and Kalibo, gateway to the paradise island of Boracay.

CEB continues to work at making more dreams of flight a reality for every Juan, true to JG Summit's vision to make a better life available to the Filipino.

## CEB facts

- **CEB** was established in 1988 and was granted a 40-year congressional franchise to operate regional and domestic air transport services in 1991. In March 1996, the company launched its domestic operations and to date is now the largest national carrier in terms of passengers flown seat capacity, and aircraft fleet.
- In November 2001, **CEB** inaugurated its first international flight from Manila to Hong Kong.
- **CEB** pioneered the no-frills approach in 2005 with the vision of providing great value fares that re-invented the industry and made traveling affordable to everyone.
- In line with its commitment to make air travel more affordable and accessible for everyone, **CEB** offers low fares to the most extensive route network in the Philippines. It operates from four hubs: Manila, Cebu, Clark and Davao.
- **CEB** flies to the most number of ASEAN destinations from the Philippines. CEB also remains to be the only low-cost carrier in the Philippines that flies to all three major North Asian markets of Korea, China and Japan.
- **CEB** lowered its free baggage allowance and introduced the "Go Lite" fares in September 2008 rewarding passengers without check-in luggage with a PhP200 fare discount. In addition, CEB is the first airline to offer e-ticketing, seat


## DOMESTIC DESTINATIONS

- Bacolod
- Boracay (Caticlan)
- Busuanga (Coron)
- Butuan
- Cagayan de Oro
- Cauayan (Isabela)
- Cebu
- Clark
- Cotabato
- Davao
- Dipolog
- Dumaguete
- General Santos
- Iloilo
- Kalibo
- Legazpi
- Laoag
- Manila
- Naga
- Ozamiz
- Pagadian
- Puerto Princesa
- Roxas
- San Jose (Mindoro)
- Siargao
- Surigao
- Tacloban
- Tagbilaran
- Tawi-Tawi
- Tuguegarao
- Virac
- Zamboanga

## INTERNATIONAL DESTINATIONS

- Brunei (Bandar Seri Begawan)
- Cambodia (Siem Reap)
- China (Guanghzhou, Macau, Shanghai, Beijing)
- Hong Kong
- Indonesia (Jakarta)
- Japan (Osaka)
- Korea (Busan, Incheon)
- Malaysia (Kota Kinabalu, Kuala Lumpur)
- Singapore
- Taiwan (Taipei)
- Thailand (Bangkok)
- Vietnam (Ho Chi Minh, Hanoi)

selection and 20% off on excess baggage fees on selected routes for pre-payments made upon booking.

- In 2008, **CEB** was ranked among the top three LCCs in Asia by number of passengers carried. And by 2010, CEB became the country's largest national carrier flying the most number of passengers in and out of the Philippines.
- By the end of 2011, **CEB** had the largest fleet in the Philippines with 37 aircraft.
- **CEB** is the Philippines' largest turbo-prop operator, operating the most inter-island flights to the top tourist destinations in the country. The airline opened Siargao, Pagadian and Cauayan (Isabela) to air travel, and helped lower fares to Coron (Busuanga) and Boracay (Caticlan).
- Among **CEB**'s famous flight and cabin crew are Capt. Brooke Castillo, the first female commercial jet captain in the Philippines, and its Safety Demo dancers who garnered more than 11 million views on YouTube for their fun and innovative dance.
- **CEB** is the only Philippine carrier with a three-year WWF-Philippines commitment for the benefit of the Philippines' Great Reefs (Apo Reef and Tubbataha Reef). This is done through the pioneering climate adaptation program "Bright Skies for Every Juan."
- In 2011, **CEB** broke aviation records again when it flew more than 1 million passengers per month, for five months (April, May, October, November and December).


CEB will lease up to 8 Airbus A330-300 aircraft for its upcoming long-haul flights.

# Cebu Pacific to Launch Budget Long-Haul Flights in Q3 2013


CEB President and CEO, Lance Gokongwei posts the answer to the question "How far can you go?," during the press conference for the airline's long haul operations, which will commence on the second half of 2013.

THE PHILIPPINES' LARGEST NATIONAL FLAG CARRIER, Cebu Pacific (PSE:CEB) will commence long-haul flights in the third quarter of 2013. The airline will lease up to 8 Airbus A330-300 aircraft to serve new markets beyond the range of CEB's current fleet of Airbus A320 aircraft.

The Airbus A330 has a range of up to 11 hours which means CEB could serve markets such as Australia, Middle East, parts of Europe and the US.

"The A330-300 will give us the lowest cost per seat, allowing us to drive long-haul fares 35% lower than those currently offered by other airlines, and as much as 80% lower when CEB offers promo fares. This aircraft type is very well suited to the kind of network we want to build and the routes we want to launch," said Lance Gokongwei, CEB President and CEO.

"We are exploring serving cities where large Filipino communities reside — Europe, Middle East, Oceania and the USA. Data indicates that more than half of Filipinos deployed in these regions take multiple stops and connecting flights because no home carrier can fly them there non-stop," added Gokongwei.

Since its inception in 1996, CEB has posted a good track record in stimulating short-haul travel of Filipinos working and residing overseas. Passenger traffic to and from Hong Kong, where a lot of Filipinos reside and work, grew by 88% since CEB started operating flights from Manila in 2001.

## CEB facts

- In partnership with Canada-based CAE, **CEB** broke ground for the Philippine Academy for Aviation Training, its US$40-US$50 million dollar aviation training joint investment in Clark.
- **CEB** was recently named LCC of the Year, and its President and CEO, Mr Lance, was named LCC CEO of the Year in the Budgies and Travel Awards 2012, covering the entire Asia-Pacific region. It also won the Budgies Friendliest LCC in 2011.
- It was also named the most sociable airline in the world last May 2011 by Planely.com, an air travel-focused social networking site that saw 142 airlines joining its contest. To date, **CEB** has close to 600,000 Facebook fans, more than 370,000 Twitter followers, and close to 880,000 YouTube Channel views.

# PETROCHEMICALS

JG SUMMIT IS A PIONEER in the petrochemical industry in the Philippines, and now has two wholly owned subsidiaries in its 100-hectare fully integrated, world-class, PEZA-accredited petrochemical manufacturing complex in Brgy. Simlong, Batangas City, 120 km. south of Manila. These are JG Summit Petrochemical Corporation (JGSPC) and JG Summit Olefins Corporation (JGSOC).

## JG SUMMIT PETROCHEMICAL CORPORATION

JGSPC is the largest manufacturer of polyolefins in the country. It is the first and only integrated polyethylene (PE) and polypropylene (PP) resin manufacturer in the Philippines. It produces Evalene® branded PE and PP resins using UNIPOL™ technology.

## JG SUMMIT OLEFINS CORPORATION

JGSOC is the country's first naphtha cracker facility. The plant, which is scheduled for commissioning by second half of 2013, is being constructed at a cost of US$700 million. It is designed to primarily produce polymer-grade ethylene and propylene, which will be the feedstock for the existing JGSPC polyolefins plant.

With the integration of JGSPC and JGSOC, JG Summit is expected to boost the Philippine plastics industry's competitiveness by stabilizing the local supply and prices of widely used PE and PP resins.

Once JGSOC starts commercial operations in early 2014, the country will be less dependent on the importation of PE and PP. The domestic petrochemical industry is currently unable to meet the growing demand for PE and PP resins because production is heavily dependent on the availability of imported low-priced ethylene and propylene monomers. With JGSOC producing a continuous domestic supply of ethylene and propylene monomers, locally manufactured resin products will become cost-competitive against imported resin. This will in turn cascade to cost competitive downstream plastic products.

By 2013, JG Summit's petrochemical complex is expected to have the following annual production capacities.

## OLEFINS

320,000 MT of ethylene, 190,000 MT of propylene, 216,000 MT of pyrolysis gas, 110,000 MT to 140,000 MT of crude C4, and other by-products such as methane, pyrolysis fuel oil and acid gases

## EVALENE® RESINS

320,000 MT of high density polyethylene (HDPE) and linear low density polyethylene (LLDPE), and 190,000 MT of homopolymer polypropylene (HomoPP) and random copolymer polypropylene (RacoPP)

Evalene® resins are used as raw material for a broad range of consumer and industrial products.

- In the infrastructure sector, they are molded into pipes for water, gas, chemicals, telecommunications, mining, landfills and sewage projects.
- Evalene® resins are used to manufacture products that are important to agriculture such as mulch, greenhouse and banana plantation films, fishing nets, and onion nets.
- Manufacturing companies use pallets, crates, ropes, tapes and labels made from Evalene® resins.
- Consumers use on a daily basis packaging materials such as thin-walled fast food containers, trays, clear plates, tubs, food keepers, bottles, document cases, caps, woven bags, carrier bags, garbage bags, wet market bags, non-woven eco bags and pails that are produced with Evalene® resins.
- We see Evalene® resins in our homes as they are used to make furniture such as tables, chairs and drawers; houseware and utensils; and appliance parts.
- In the areas of sanitation and public health, Evalene® resins make a contribution too as they are used to produce industrial and landfill liners, and mosquito nets.

Evalene® resins are likewise used by other JG Summit subsidiaries such as Universal Robina Corporation and CFC Clubhouse Property, Inc. as raw material for many of its packaging requirements such as C2 bottle caps, Nissin noodle cups and films.

## JG Summit Petrochemical Corporation / JG Summit Olefins Corporation facts

- JG Summit is the largest integrated olefins and polyolefins manufacturer in the Philippines.
- Integrated petrochemical complex located in the port city of Batangas with one naphtha cracker, two polyethylene plants and one polypropylene plant.
- JGSPC was established and incorporated with the Securities and Exchange Commission in February 24, 1994. It was registered with the Board of Investments in May of the same year.
- Construction of the JGSPC plant began in December 1995.
- JGSPC operations commenced in March 1998.
- In October 2006, JGSPC became wholly owned by JG Summit Holding, Inc.
- JGSPC reached the ‘12 Million Safe Man-Hours Without Lost Time Accident’ milestone on February 10, 2012.
- JGSOC was incorporated on July 31, 2008. It is the only naphtha cracker in the Philippines. Actual engineering works for the project started in the last quarter of 2009.

# Country's First Naphtha Cracker to Start Operations in Early 2014

JG SUMMIT OLEFINS CORP (JGSOC), operator of the country's first naphtha cracking facility costing about US$800 million, will produce for both the domestic and export markets in Asia once it starts commercial operation in the first quarter of 2014.

The company is eyeing Vietnam and China as markets for its products since its production capacity will exceed domestic requirements.

The naphtha cracker is expected to produce 320,000 MT of ethylene; 190,000 MT of propylene; 216,000 MT of pyrolysis gas; and other by products such as methane, pyrolysis fuel oil and acid gases totaling 925,537 MT annually.

The project is also expanding its capacity to produce polyethylene to 310,000 MT annually from the original output of 200,000 MT.

"We have completed the site preparation and are now in the actual construction stage," JG Summit president and chief operating officer Lance Gokongwei said, adding that the major components of the plant such as the furnaces, compressor and power plant have been ordered.

The facility will have its own 4-MW power plant using waste materials from the naphtha unit.

The naphtha cracker project is a back integration facility for the existing polyethylene and polypropylene plants of JG Summit Petrochemical Corp in Barangay Sumulong in Batangas City and will complete the local industry's supply chain.

The project will provide stability to the local petrochemical industry, which has suffered supply shortages, particularly raw materials used in the production of plastic products. It will ensure the availability of resins at competitive prices.

The project is expected to directly employ 500 workers and support services could expand the workforce to 2,000.

JGSOC was registered with the Board of Investment in 2010 as a new producer of ethylene, propylene, PY gas, and other by-products.

As a strategic investment, the project is entitled to tax and non-tax incentives such as income tax holiday of up to six years from January 2014 or from the actual start of commercial operations. The project will also enjoy duty-free importation of equipment and protection from competing imports through a 15 percent tariff on foreign-made resins.

Other incentives include the deduction from taxable income of 50 percent of wages corresponding to the increment of direct labor, employment of foreign nationals, tax credit for taxes and duties on raw materials and supplies, and semi-manufactured products used on its export products.

ROBINSONSBANK

ROBINSONS BANK CORPORATION is a commercial bank, and is owned by JG Summit Holdings, Inc. (JGSHI) — through JG Summit Capital Services Corp. (60%) and by Robinsons Holdings, Inc. (40%).

It is the surviving entity after the Bangko Sentral ng Pilipinas (BSP) in December 2010 and the Securities and Exchange Commission (SEC) in May 2011, respectively, approved the merger of Robinsons Savings Bank and Robinsons Bank Corporation (formerly known as The Royal Bank of Scotland (Phils.)).

Earlier, or around the second quarter of 2010, JG Capital Services and Robinsons Holdings Inc. acquired 99.9% of the shares of The Royal Bank of Scotland (Phils.) and renamed it Robinsons Bank Corporation.

Solid Heritage of RobinsonsBank. Robinsons Bank had always been an attractive alternative in the banking industry in terms of its stability and affiliation with one of the country's leading conglomerates, JG Summit Holdings Inc. With its 60 and continuously expanding branch network nationwide, and 115 strategically located on-site and off-site ATMs under the the Bancnet consortium, the bank delivers hallmark value and convenience to its customers through products and services deliberately crafted to conform to JG Summit's business philosophy to "make life better" for all Filipinos.

With an expanded charter of a commercial bank, Robinsons Bank will continue the solid heritage of its predecessor savings bank even while the organization moves forward and transforms into a stronger entity, more capable to meet the demands of the commercial banking market. The bank's innovative product line includes a broad range of deposit and loans products, trust investments, foreign exchange and securities for retail customers. Recently, the bank introduced its Cardless Banking Facility—which allows clients to do bank transactions via mobile, ATM and Internet. Robinsons Bank also has one of the lowest non-performing loan ratios in the business.

## Robinsons Bank facts

- **Robinsons Bank** 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. RobinsonsBank is in the company of leading and established corporations in the country today.
- In the second quarter of 2010, JG Capital Services and Robinsons Holdings Inc. (RHI) bought 99.9% of the shares of The Royal Bank of Scotland (Phils.). Then with the approval from the BSP in December 2010 and approval from the SEC in May 2011, the surviving entity as a result of the merger with the Savings Bank: **Robinsons Bank Corporation** (formerly known as The Royal Bank of Scotland (Phils.)) emerged as the newest commercial bank (KB) in the industry.
- And as of December 2011, the merged entity, **Robinsons Bank Corporation**, is the 11th largest commercial bank in the Philippines, and 28th among all commercial and universal banks combined.


In greater detail, the following are Robinsons Banks' products and services that are all ready to secure and promote our individual and corporate clients' financial growth:

### DEPOSIT PRODUCTS

- Regular Savings & Checking Account
- Tykecoon Kiddie Savings Account
- Special Savings Account
- Peso Time Deposit
- US Dollar Savings
- Time Deposit Account
- Cardless ATM

### CONSUMER LOAN PRODUCTS

- Home Loan
- Auto Loan, Personal Loan
- PLP-Secured Loan (against Jewelry or Diamond)
- Microfinance and Motorcycle Financing.

### COMMERCIAL LOAN PRODUCTS

- Cash Secured Loan
- Revolving Credit Line
- Medium & Long-term Facilities for small, medium & large industries
- Receivables Financing
- Bills Purchased Line for small, medium & large enterprises

### TREASURY AND TRUST PRODUCTS

- Peso Denominated Government Securities and Other Debt Instruments
- Sale and Purchase of US Dollar Currency
- Unit Investment Trust Funds
- Investment Management Account
- Personal and Corporate Trust
- Employee Benefit Trust
- Escrow
- Custodianship and Mortgage Trust Indenture

### OTHER PRODUCTS

- BRANCH BANKING PRODUCTS/SERVICES
  ATM services, Safety Deposit Box, Bank Settlement Services, Remote Statement Services
- CASH MANAGEMENT SERVICES
  Cash Web, Payroll services (with or without E-wallet), Deposit pick-up services
- BILLS PAYMENT SERVICES
  Via ATM, Over-the-counter, Cardless Banking, Phone Banking
- REMITTANCE SERVICES
  Via western union remittance

# Robinsons Bank Gets KB Status, Net Income Up 27%

ROBINSONS BANK CORPORATION (ROBINSONS BANK) was upgraded to a commercial bank in May 2011, a development that boosted the bank's capacity to compete more vigorously by offering a wider array of financial products and services to its clientele.

The increased lending business and trading gains resulted in a 27 percent rise in the bank's net income of PhP384.4 million last year compared to PhP303.5 million as restated in 2010.

The grant of a commercial banking license enabled Robinsons Bank to offer more services, including foreign letters of credit and other trade instruments as well as the most innovative and technology -driven financial products and services.

These new offerings are in addition to the traditional foreign currency deposit accounts for major currencies, savings and current accounts, trust investments, securities to retail customers, home and auto loans and personal and micro lending products.

The increased lending business, both in the commercial and consumer markets, and intensive marketing programs boosted the bank's net interest income to PhP1.170 billion in 2011.

JG Summit Holdings Inc. in 2010 bought controlling interest in the Royal Bank of Scotland and renamed this Robinsons Bank Corporation. Then upon approval from the Bangko Sentral ng Pilipinas and Securities an Exchange Commission in May 2011, the newly-acquired bank merged with another Gokongwei-owned bank, Robinsons Saving Bank – with the surviving entity (Robinsons Bank Corporation) in a commercial bank status.

The bank is looking to become one of the country's top commercial banks. It aims to further boost its consumer loan portfolio as well as push and promote Internet banking, cash management services and mobile banking channels. It plans to add nine more branches this year, bringing its network to 69. It will also add 28 automated teller machines this year to its current 115 units.

In 2011, the bank's loans grew 26 percent to PhP13.2 billion from 2010. Commercial loans accounted for 66 percent of total loan mix, while consumer loans made up the balance. Deposits reached PhP25.2 billion, up 36 percent from the year before. Non-interest income hit PhP545 million, pushed up by revenue from securities trading.

Operating expenses, meanwhile, grew by 14 percent to PhP1.1 billion, brought about by network expansion, investments in information technology and manpower to position the bank for further growth.

Its non-performing loan ratio—the ratio of bad loans to total loans—stood at 3.36 percent, while capital adequacy ratio—a measure of a bank's financial strength—was at 28.28 percent, with Tier 1 ratio at 29.13 percent.

As of end-December, the bank's total assets totalled PhP31.5 billion, ranking 28th largest among the country's universal and commercial banks in 2011.

# CORE INVESTMENTS

## Philippine Long Distance Telephone Company (PLDT)

PLDT is the leading telecommunications provider in the Philippines through its three major business segments – wireless, fixed line and information and communications technology. PLDT offers a wide range of telecommunications services across the country through its most extensive fiber optic backbone and wireless, fixed line, broadband and satellite networks.

## United Industrial Corporation Limited (UIC)

JG Summit is one of the largest individual shareholders in United Industrial Corporation Limited (UIC), a Singapore listed company, which develops and invests property including commercial office, commercial retail and residential properties. It is the major real estate developer in Singapore. Property investments in China (Beijing, Chengdu, Tianjin and Shanghai) and information technology service are the other business interests of UIC.

# CORPORATE SOCIAL RESPONSIBILITY

## GBF 2011 Projects Focus on Pre-School, College

The Gokongwei Brothers Foundation (GBF) launched three major projects in 2011. Covering the pre-school and college levels, these projects are centered on uplifting the socio-economic condition of Filipinos through education.

GOKONGWEI BROTHERS FOUNDATION

### GBF Grants Multi-million Endowment to DLSU

To further strengthen the field of engineering in our country, GBF gave a significant endowment to the De La Salle University (DLSU), which led to the establishment of the Gokongwei College of Engineering.

"The DLSU Gokongwei College of Engineering is special to the family because we strongly feel that technology and innovation play a huge role in the modernization and advancement of any nation," said GBF Treasurer Lance Gokongwei. "We believe that engineers are required for technologically-adept forward thinking. And this knowledge in engineering gives the country the capital needed to build strong manufacturing sectors that will lead to greater employment."

"This is not merely a sharing of resources; it is a partnership that challenges individuals, particularly in the field of engineering, to work with passion and compassion. It is a partnership that seeks innovative solutions to technology, and it is a partnership that pushes us to further explore our research capabilities so that we can take on the challenges of the global community," said DLSU President Br. Narciso Erguiza, Jr FSC.

DLSU's College of Engineering, established in 1947, is recognized as one of the best learning institutions in the country, having developed the country's first ever solar-powered car in 2007.


DLSU President Br. Narciso Enriquez Jr. with John Gokongwei, Jr., James Go and GBF General Manager Lisa Gokongwei

## GBF Builds Schoolhouses

GBF partnered with the Aklat, Gabay, Aruga tungo sa Pag-Angat at Pag-Asa (AGAPP) Foundation, which is focused on building pre-schools in underprivileged public school compounds. GBF committed to donate 18 schoolhouses within 2011.

AGAPP Foundation worked with the Department of Education and the local government units in selecting the schools that would benefit most from the program. The GBF donations financed the construction of the schoolhouses, instruction materials and school supplies, and teacher training, a critical part of the AGAPP program. "We do not just build the structure, we train the teachers as well and send them to at least two AGAPP-conducted workshops on modern methods of Early Childhood Education. That way we ensure that the benefits of the program are far reaching and effective," says AGAPP Executive Director Gel Caguioa.

## Scholarship for Excellence

GBF launched the Scholarship for Excellence program that granted 50 scholarships to bright and deserving young leaders. Only applicants who belonged to the top 10 percent of their high school batch were accepted. GBF offered the program to graduates of public high schools who would like to pursue the following engineering courses: Civil, Mechanical, Chemical, Electrical, and Electronics & Communications. For this, GBF partnered with top Engineering schools around the country.

In addition, GBF granted another 40 scholarships to the dependents of JG Summit employees for any college degree in their chosen college or university.

GBF General Manager Lisa Gokongwei and GBF Treasurer Lance Gokongwei with AGAPP President Pinky Aquino-Abellada.

# BOARD OF DIRECTORS

John L. Gokongwei, Jr.
CHAIRMAN EMERITUS AND FOUNDER

James L. Go
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Lance Y. Gokongwei
PRESIDENT AND CHIEF OPERATING OFFICER

Robina Y. Gokongwei-Pe
DIRECTOR

Lily G. Ngo-Chua
DIRECTOR

Gabriel C. Singson
DIRECTOR

Patrick Henry C. Go
DIRECTOR

Johnson Robert G. Go, Jr.
DIRECTOR

Jose T. Pardo
DIRECTOR

Cornelio T. Peralta
DIRECTOR

Ricardo J. Romulo
DIRECTOR

# Board of Advisors

Aloysius B. Colayco
COUNTRY CHAIRMAN
JARDINE MATHESON GROUP-PHILIPPINES

Washington Z. SyCip
FOUNDER
THE SGV GROUP
SYCIP, GORRES, VELAYO & CO.

Jimmy T. Tang
PRESIDENT AND CHAIRMAN OF THE BOARD
AVESCO GROUP OF COMPANIES

# Heads of Subsidiaries

## Universal Robina Corporation

Cornelio S. Mapa, Jr.
BRANDED CONSUMER FOODS GROUP - PHILIPPINES

Patrick O. Ng
BRANDED CONSUMER FOODS GROUP - INTERNATIONAL

Ellison Dean C. Lee
FLOUR DIVISION

Renato P. Cabati
SUGAR DIVISION

Vincent Henry C. Go
AGRO-INDUSTRIAL GROUP

# Heads of Subsidiaries

Robinsons Land Corporation

Frederick D. Go

JG Summit Petrochemical Corporation

Patrick Henry C. Go

Robinsons Bank Corporation

Reynold Y. Gerongay

# Adviser

Cebu Air, Inc.

Garry R. Kingshott

# JGSH Executive Officers

James L. Go
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Lance Y. Gokongwei
PRESIDENT AND CHIEF OPERATING OFFICER

Eugenie ML Villena*
SENIOR VICE PRESIDENT AND TREASURER

Constante T. Santos
SENIOR VICE PRESIDENT

Bach Johann M. Sebastian
SENIOR VICE PRESIDENT

Nicasio I. Lim
SENIOR VICE PRESIDENT

Aldrich T. Javellana**
VICE PRESIDENT AND TREASURER

Rosalinda F. Rivera
CORPORATE SECRETARY

Chona R. Ferrer
ASSISTANT TREASURER

*RETIRED AS OF DECEMBER 31, 2011
** EFFECTIVE JANUARY 2, 2012

# FINANCIAL STATEMENTS

**SyCip Gorres Velayo & Co.**
6760 Ayala Avenue
1226 Makati City, Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
JG Summit Holdings, Inc.

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, 2011 and 2010, 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, 2011, 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, 2011 and 2010, and their financial performance and cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky B. Lee-Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-2 (Group A)
February 11, 2010, valid until February 10, 2013
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2009
June 1, 2009, valid until May 31, 2012
PTR No. 3174802, January 2, 2012, Makati City

May 4, 2012

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

| | December 31 | |
|---|---|---|
| | **2011** | 2010 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 7) | **₱33,895,343,005** | ₱42,110,003,522 |
| Derivative assets (Note 8) | **110,790,850** | 1,075,112,366 |
| Financial assets at fair value through profit or loss (Note 9) | **10,957,955,084** | 10,258,823,027 |
| Available-for-sale investments (Note 10) | **12,271,628,856** | 9,867,273,915 |
| Receivables (Note 11) | **13,629,203,361** | 15,689,046,262 |
| Inventories (Note 12) | **20,443,884,662** | 16,313,054,198 |
| Biological assets (Note 17) | **911,265,129** | 846,876,801 |
| Other current assets (Note 13) | **7,485,389,522** | 6,269,181,429 |
| Total Current Assets | **99,705,460,469** | 102,429,371,520 |
| **Noncurrent Assets** | | |
| Available-for-sale investments (Note 10) | **43,475,735,940** | – |
| Receivables (Note 11) | **11,413,317,152** | 8,937,451,911 |
| Investments in associates and joint ventures (Note 14) | **32,055,963,868** | 30,425,762,248 |
| Property, plant and equipment (Note 16) | **82,395,386,691** | 146,425,537,113 |
| Investment properties (Note 15) | **41,883,671,246** | 32,090,113,137 |
| Goodwill (Note 19) | **798,627,776** | 890,375,020 |
| Biological assets (Note 17) | **459,053,688** | 448,700,235 |
| Intangible assets (Note 18) | **905,540,502** | 993,831,456 |
| Other noncurrent assets (Note 20) | **1,715,660,600** | 3,682,493,759 |
| Total Noncurrent Assets | **215,102,957,463** | 223,894,264,879 |
| | **₱314,808,417,932** | ₱326,323,636,399 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Note 21) | **₱24,978,223,074** | ₱29,552,889,141 |
| Short-term debt (Note 23) | **19,092,634,264** | 15,352,046,410 |
| Derivative liabilities (Note 8) | **85,244,646** | 262,393,820 |
| Income tax payable | **524,843,024** | 462,209,232 |
| Current portion of long-term debt (Note 23) | **13,622,011,230** | 10,602,053,608 |
| Other current liabilities (Note 22) | **6,711,208,267** | 7,254,162,150 |
| Total Current Liabilities | **65,014,164,505** | 63,485,754,361 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Note 23) | **57,895,483,064** | 87,054,044,533 |
| Deferred tax liabilities (Note 37) | **1,069,913,490** | 4,343,058,803 |
| Other noncurrent liabilities (Note 24) | **10,430,036,895** | 21,980,381,349 |
| Total Noncurrent Liabilities | **69,395,433,449** | 113,377,484,685 |
| Total Liabilities | **134,409,597,954** | 176,863,239,046 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2011** | 2010 |
| **Equity** | | |
| Equity attributable to equity holders of the Parent Company: | | |
| Paid-up capital | **₱12,896,988,094** | ₱12,856,988,094 |
| Retained earnings (Note 25) | **109,936,209,748** | 88,970,323,920 |
| Equity reserve (Note 25) | **17,845,476,796** | 18,563,003,092 |
| Other comprehensive income (loss) | **1,579,331,055** | (1,846,478,730) |
| Treasury shares (Note 25) | **(974,690,819)** | (974,690,819) |
| | **141,283,314,874** | 117,569,145,557 |
| Non-controlling interests (Note 25) | **39,115,505,104** | 31,891,251,796 |
| Total Equity | **180,398,819,978** | 149,460,397,353 |
| | **₱314,808,417,932** | ₱326,323,636,399 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **REVENUE** | | | |
| Sale of goods and services: | | | |
| Foods | **₱67,167,630,481** | ₱57,719,996,079 | ₱50,452,959,964 |
| Air transportation | **33,935,402,775** | 29,088,798,959 | 23,311,006,311 |
| Real estate and hotels | **12,594,288,123** | 10,581,142,605 | 10,376,286,528 |
| Petrochemicals | **4,781,883,298** | 3,306,184,683 | 5,570,751,354 |
| Banking (Note 26) | **2,359,933,505** | 1,734,465,754 | 1,134,848,716 |
| Equity in net earnings of associates and joint ventures (Note 14) | **2,217,599,783** | 2,768,724,722 | 3,089,302,759 |
| | **123,056,737,965** | 105,199,312,802 | 93,935,155,632 |
| **COST OF SALES AND SERVICES** (Note 29) | **86,151,260,484** | 66,636,766,298 | 62,746,587,613 |
| **GROSS INCOME** | **36,905,477,481** | 38,562,546,504 | 31,188,568,019 |
| **OTHER OPERATING EXPENSES** | | | |
| General and administrative expenses (Note 30) | **19,531,574,050** | 17,608,251,599 | 16,267,082,415 |
| Impairment losses and others (Note 33) | **329,638,645** | 345,983,265 | 774,348,807 |
| | **19,861,212,695** | 17,954,234,864 | 17,041,431,222 |
| **OPERATING INCOME** | **17,044,264,786** | 20,608,311,640 | 14,147,136,797 |
| **OTHER INCOME (LOSSES)** | | | |
| Financing costs and other charges (Note 34) | **(5,524,734,190)** | (5,692,984,165) | (5,625,251,343) |
| Market valuation gains (losses) on financial assets at fair value through profit or loss (Note 9) | **(1,154,153,883)** | 1,194,186,764 | 1,979,891,923 |
| Finance income (Note 27) | **3,443,238,660** | 2,174,020,038 | 1,527,596,236 |
| Market valuation gains on derivative financial instruments (Note 8) | **498,667,680** | 500,985,612 | 451,835,992 |
| Foreign exchange gains (losses) | **(245,881,638)** | 1,938,838,537 | (525,326,950) |
| Others (Note 28) | **1,326,045,353** | 838,658,136 | 232,248,730 |
| **INCOME BEFORE INCOME TAX** | **15,387,446,768** | 21,562,016,562 | 12,188,131,385 |
| **PROVISION FOR INCOME TAX** (Note 37) | **1,962,532,759** | 1,610,249,143 | 1,286,121,558 |
| **INCOME FROM CONTINUING OPERATIONS** | **13,424,914,009** | 19,951,767,419 | 10,902,009,827 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **DISCONTINUED OPERATIONS** (Note 43) | | | |
| Income after tax from discontinued operations | **₱1,541,710,759** | ₱962,795,913 | ₱865,796,247 |
| Gain from sale of a subsidiary, net of tax | **11,570,087,639** | – | – |
| | **13,111,798,398** | 962,795,913 | 865,796,247 |
| **NET INCOME** | **26,536,712,407** | 20,914,563,332 | 11,767,806,074 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** (Note 35) | | | |
| Net gains on available-for-sale investments (Note 10) | **3,032,890,203** | 271,796,893 | 2,304,956,516 |
| Net gains from cash flow hedges (Note 8) | **364,294,311** | 52,296,125 | 445,661,770 |
| Cumulative translation adjustments | **(136,058,643)** | (91,091,377) | (95,351,176) |
| Net unrealized gains on available-for-sale investments of an associate (Note 10) | **4,508,521** | 175,748 | 2,758,591 |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | **3,265,634,392** | 233,177,389 | 2,658,025,701 |
| **TOTAL COMPREHENSIVE INCOME** | **₱29,802,346,799** | ₱21,147,740,721 | ₱14,425,831,775 |
| **NET INCOME ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent Company | | | |
| Income from continuing operations | **₱8,477,359,822** | ₱15,575,451,617 | ₱7,810,135,490 |
| Income from discontinued operations | **13,035,501,339** | 746,148,184 | 735,506,110 |
| | **21,512,861,161** | 16,321,599,801 | 8,545,641,600 |
| Non-controlling interests (Note 25) | | | |
| Income from continuing operations | **4,947,554,187** | 4,376,315,802 | 3,091,874,337 |
| Income from discontinued operations | **76,297,059** | 216,647,729 | 130,290,137 |
| | **5,023,851,246** | 4,592,963,531 | 3,222,164,474 |
| | **₱26,536,712,407** | ₱20,914,563,332 | ₱11,767,806,074 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent Company | | | |
| Comprehensive income from continuing operations | **₱11,903,169,607** | ₱15,694,957,765 | ₱9,714,497,872 |
| Comprehensive income from discontinued operations | **13,035,501,339** | 746,148,184 | 735,506,110 |
| | **24,938,670,946** | 16,441,105,949 | 10,450,003,982 |
| Non-controlling interests (Note 25) | | | |
| Comprehensive income from continuing operations | **4,787,378,794** | 4,489,987,043 | 3,845,537,656 |
| Comprehensive income from discontinued operations | **76,297,059** | 216,647,729 | 130,290,137 |
| | **4,863,675,853** | 4,706,634,772 | 3,975,827,793 |
| | **₱29,802,346,799** | ₱21,147,740,721 | ₱14,425,831,775 |
| **Earnings Per Share Attributable to Equity Holders of the Parent Company** (Note 38) | | | |
| Basic/diluted earnings per share | **₱3.19** | ₱2.42 | ₱1.26 |
| **Earnings Per Share Attributable to Equity Holders of the Parent Company from continuing operations** (Note 38) | | | |
| Basic/diluted earnings per share | **₱1.26** | ₱2.31 | ₱1.15 |

*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, 2011, 2010 and 2009

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Paid-up Capital | | | Retained Earnings (Note 25) | | | | Other Comprehensive Income (Loss) | | | | | | | |
| | 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 (Losses) on Available-for-Sale Investments (Note 10) | Net Unrealized Losses on Cash Flow Hedge (Note 8) | Total Other Comprehensive Income (Loss) | Treasury Shares | Total | NON-CONTROLLING INTERESTS (Note 25) | TOTAL EQUITY |
| 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 43) | – | – | – | – | – | – | – | – | – | – | – | – | – | (1,022,135,705) | (1,022,135,705) |
| Balance at December 31, 2011 | ₱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 |
| 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) |
| Balance at December 31, 2010 | ₱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 |

For the Years Ended December 31, 2011, 2010 and 2009

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Paid-up Capital | | | Retained Earnings (Note 25) | | | | Other Comprehensive Income (Loss) | | | | | | | |
| | 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 (Losses) On Available-for-Sale Investments (Note 10) | Net Unrealized Losses on Cash Flow Hedge (Note 8) | Total Other Comprehensive Income (Loss) | Treasury Shares | Total | NON-CONTROLLING INTERESTS (Note 25) | TOTAL EQUITY |
| Balance at January 1, 2009 | ₱6,895,273,657 | ₱5,961,714,437 | ₱12,856,988,094 | ₱50,021,172,588 | ₱14,625,685,264 | ₱64,646,857,852 | ₱– | (₱1,665,749,434) | (₱1,342,345,620) | (₱862,252,206) | (₱3,870,347,260) | (₱721,848,289) | ₱72,911,650,397 | ₱19,750,489,997 | ₱92,662,140,394 |
| Total comprehensive income (loss) | – | – | – | 8,545,641,600 | – | 8,545,641,600 | – | (81,077,271) | 1,539,777,883 | 445,661,770 | 1,904,362,382 | – | 10,450,003,982 | 3,975,827,793 | 14,425,831,775 |
| Appropriation of retained earnings (Note 25) | – | – | – | (22,009,600,000) | 22,009,600,000 | – | – | – | – | – | – | – | – | – | – |
| Cash dividends (Note 25) | – | – | – | (203,915,750) | – | (203,915,750) | – | – | – | – | – | – | (203,915,750) | – | (203,915,750) |
| Cash dividends paid to non-controlling interests (Note 25) | – | – | – | – | – | – | – | – | – | – | – | – | – | (468,346,673) | (468,346,673) |
| Purchase of subsidiaries' treasury shares (Note 25) | – | – | – | – | – | – | – | – | – | – | – | – | – | (1,256,286,392) | (1,256,286,392) |
| Adjustment on subscription receivables (Note 25) | – | – | – | – | – | – | – | – | – | – | – | – | – | (264,928,699) | (264,928,699) |
| Balance at December 31, 2009 | ₱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 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before tax from continuing operations | **₱15,387,446,768** | ₱21,562,016,562 | ₱12,188,131,385 |
| Income before tax from discontinued operations (Note 43) | **13,124,496,302** | 1,618,385,427 | 796,904,585 |
| Income before tax | **28,511,943,070** | 23,180,401,989 | 12,985,035,970 |
| Adjustments for: | | | |
| Depreciation and amortization of: | | | |
| Property, plant and equipment (Note 16) | **6,512,514,134** | 10,290,890,787 | 9,024,316,157 |
| Investment properties (Note 15) | **1,777,866,356** | 1,604,096,198 | 1,425,959,484 |
| Deferred subscriber acquisition and retention costs (Note 20) | **–** | 1,505,116,389 | 1,202,867,577 |
| Biological assets (Note 17) | **26,163,535** | 139,105,194 | 158,024,602 |
| Intangible assets (Note 18) | **5,176,189** | 7,035,669 | 7,492,937 |
| Market valuation loss (gain) on: | | | |
| Financial assets at fair value through profit or loss (Note 9) | **1,154,153,883** | (1,194,186,764) | (1,979,891,923) |
| Derivative instruments (Note 8) | **(498,667,680)** | (432,751,286) | (349,787,107) |
| Interest expense (Note 34) | **5,309,762,126** | 5,932,066,425 | 6,029,448,280 |
| Interest income (Note 27) | **(3,443,238,660)** | (2,216,082,709) | (1,563,859,497) |
| Foreign exchange loss (gain) | **245,881,638** | (2,846,297,517) | 21,627,447 |
| Equity in net income of associates and joint ventures (Note 14) | **(2,217,599,783)** | (2,768,724,722) | (3,089,302,759) |
| Inventory obsolescence and market decline (Note 33) | **63,784,807** | 17,580,211 | 60,223,436 |
| Provision for impairment losses on (Note 33): | | | |
| Receivables | **102,517,878** | 688,286,605 | 765,594,017 |
| Intangible assets | **84,014,765** | – | – |
| Goodwill | **63,500,000** | – | – |
| Property, plant and equipment | **10,065,297** | – | – |
| Investment properties | **619,075** | – | – |
| Other assets | **5,136,823** | – | – |
| Impairment loss on available-for-sale investments (Note 33) | **–** | – | 247,812,797 |
| Loss (gain) arising from changes in fair value less estimated costs to sell of swine stocks (Note 17) | **128,310,166** | 44,745,566 | (96,802,397) |
| Loss (gain) on sale of: | | | |
| Subsidiary, net of tax (Note 43) | **(11,570,087,639)** | – | – |
| Financial assets at fair value through profit or loss and available-for-sale investments (Note 28) | **(75,965,234)** | (173,368,876) | (37,584,955) |
| Investment in an associate | **–** | – | (9,118,793) |
| Investment properties | **(26,115,273)** | (5,190,424) | 29,814,936 |
| Property, plant and equipment | **(20,421,141)** | (14,597,827) | (21,414,507) |
| Net assets of disposal group classified as held-for-sale | **177,789,396** | 31,708,814 | – |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| Dividend income (Note 28) | **(₱244,958,962)** | (₱192,886,520) | (₱152,951,456) |
| Amortization of debt issuance costs | **97,865,070** | 76,087,507 | 71,203,771 |
| Dividends on cumulative redeemable preferred shares (Note 34) | **–** | – | 174,417,813 |
| Gain on initial recognition of investment properties | **–** | (2,531,342) | (1,147,334) |
| Operating income before changes in working capital accounts | **26,180,009,836** | 33,670,503,367 | 24,901,978,496 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in the amounts of: | | | |
| Derivative assets | **1,303,994,907** | 173,722,661 | (673,228,430) |
| Financial assets at fair value through profit or loss | **(1,839,785,644)** | (1,965,483,498) | (632,408,303) |
| Receivables | **(2,773,503,329)** | (1,824,255,758) | (959,621,140) |
| Inventories | **(4,343,996,577)** | (3,254,831,582) | 1,756,251,389 |
| Biological assets | **(229,215,482)** | 86,451,589 | (183,841,848) |
| Other current assets | **(452,742,999)** | 4,591,740 | 2,367,464,490 |
| Increase (decrease) in the amounts of: | | | |
| Accounts payable and accrued expenses | **(2,740,763,852)** | (4,587,209,987) | 6,258,517,590 |
| Other current liabilities | **487,696,047** | 1,262,875,932 | 911,256,433 |
| Net cash generated from operations | **15,591,692,907** | 23,566,364,464 | 33,746,368,677 |
| Interest paid | **(5,261,630,380)** | (5,702,116,987) | (5,806,714,009) |
| Interest received | **3,439,307,660** | 1,943,595,642 | 1,531,231,130 |
| Income taxes paid | **(1,838,068,705)** | (1,673,749,172) | (831,574,760) |
| Dividends received | **244,958,962** | 192,886,520 | 152,951,456 |
| Net cash provided by operating activities | **12,176,260,444** | 18,326,980,467 | 28,792,262,494 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Property, plant and equipment (Note 16) | **(17,719,764,211)** | (15,912,854,294) | (19,576,384,822) |
| Investment properties (Note 15) | **(11,658,048,371)** | (4,216,551,087) | (3,301,728,976) |
| Available-for-sale investments | **(27,629,769,590)** | (14,157,195,773) | (1,841,424,158) |
| Held-to-maturity investments | **–** | (207,553,359) | (475,467,772) |
| Investments in associates and joint ventures (Note 14) | **(172,144,748)** | (594,409,921) | (275,708,252) |
| Intangible assets (Note 18) | **(900,000)** | (800,000) | (2,193,640) |
| Subsidiaries, net of cash acquired (Note 45) | **–** | 1,657,507,883 | – |
| Proceeds from sale of: | | | |
| Available-for-sale investments | **24,957,489,920** | 15,937,923,027 | 2,373,454,519 |
| Property, plant and equipment | **76,338,289** | 228,007,033 | 135,698,280 |
| Investment properties | **124,178,837** | 28,386,973 | 48,346,627 |
| Investment in an associate | **–** | – | 9,481,415 |
| Net assets of disposal group classified as held for sale | **107,920,453** | 255,954,535 | – |
| Decrease (increase) in the amounts of other noncurrent assets | **(149,919,315)** | (1,166,755,628) | (1,829,684,268) |
| Return of investment from an associate (Note 14) | **20,522,040** | 179,812,500 | – |
| Dividends received on investments in associates and joint ventures (Note 14) | **575,078,473** | 697,648,858 | 766,973,931 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| Proceeds from disposal of a subsidiary, net of cash disposed of (Note 43) | **₱21,094,437,319** | ₱– | ₱– |
| Proceeds from maturity of held-to-maturity investments | **–** | – | 18,142,786 |
| Net cash used in investing activities | **(10,374,580,904)** | (17,270,879,253) | (23,950,494,330) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of: | | | |
| Short-term debt | **21,733,209,557** | 18,691,647,718 | 17,733,868,806 |
| Long-term debt | **–** | 5,161,318,927 | 28,376,697,021 |
| Settlements of: | | | |
| Short-term debt | **(17,588,328,230)** | (17,299,675,315) | (28,910,393,171) |
| Long-term debt | **(15,650,333,104)** | (5,807,962,530) | (7,665,856,364) |
| Proceeds from sale of interest in Cebu Air, Inc. | **–** | 24,527,649,549 | – |
| Proceeds from issue of common shares (inclusive of additional paid-in capital) of a subsidiary (Note 25) | **5,298,191,460** | – | – |
| Proceeds from issue of preferred shares (Note 25) | **40,000,000** | – | – |
| Redemption of cumulative redeemable preferred shares | **–** | – | (2,107,818,750) |
| Increase in other noncurrent liabilities | **(433,736,865)** | (526,974,790) | 1,150,597,947 |
| Purchase of subsidiaries' treasury shares and others (Note 25) | **(288,849,407)** | (608,184,546) | (1,256,286,392) |
| Dividends paid to non-controlling interests (Note 25) | **(2,579,518,135)** | (1,217,749,826) | (468,346,673) |
| Dividends paid on: | | | |
| Common shares (Note 25) | **(543,775,333)** | (339,859,583) | (203,915,750) |
| Preferred shares (Note 25) | **(3,200,000)** | – | – |
| Cumulative redeemable preferred share | **–** | – | (174,417,813) |
| Net cash provided by (used in) financing activities | **(10,016,340,057)** | 22,580,209,604 | 6,474,128,861 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(8,214,660,517)** | 23,636,310,818 | 11,315,897,025 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **42,110,003,522** | 18,473,692,704 | 7,157,795,679 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱33,895,343,005** | ₱42,110,003,522 | ₱18,473,692,704 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

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

The Parent Company is the holding company of the JG Summit Group (the Group). The Group has 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 43).

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.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

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

The consolidated financial statements of the Group are presented in Philippine peso (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 |
|---|---|---|
| **Parent Company** | | |
| JG Summit Cayman Limited | Cayman Islands | Philippine Peso |
| JG Summit Philippines, Ltd. and Subsidiaries | | |
| JG Summit Philippines, Ltd. | -do- | -do- |
| JGSH Philippines Ltd. | British Virgin Islands | -do- |
| Multinational Finance Group, Ltd. | -do- | -do- |
| Telegraph Development, Ltd. | Singapore | -do- |
| Summit Top Investment, Ltd. | -do- | -do- |
| **URC Group** | | |
| Universal Robina (Cayman), Limited | Cayman Islands | -do- |
| URC Philippines, Limited | British Virgin Islands | -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- |
| Panyu Peggy Foods Co., Ltd. | -do- | -do- |
| Advanson International Pte. Ltd. (Advanson) and Subsidiary | Singapore | Singapore Dollar |
| Advanson International Pte. Ltd. | -do- | -do- |
| 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 Network Pte. Ltd. and Subsidiaries | Singapore | Singapore Dollar |
| Acesfood Holdings Pte. Ltd. | -do- | -do- |
| 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:

| | | Effective Percentage of Ownership | | |
|---|---|---|---|---|
| | Country of | December 31 | | |
| Subsidiaries | Incorporation | **2011** | 2010 | 2009 |
| **Food** | | | | |
| URC and Subsidiaries | Philippines* | **64.17** | 64.14 | 63.87 |
| **Air Transportation** | | | | |
| CP Air Holdings, Inc. (CPAHI) and Subsidiaries | -do- | **100.00** | 100.00 | 100.00 |
| Cebu Air, Inc. (CAI) and Subsidiaries | -do- | **67.23** | 65.53 | 100.00 |
| Pacific Virgin Islands Holdings, Co., Ltd. | British Virgin Islands | **100.00** | 100.00 | 100.00 |
| **Telecommunications** | | | | |
| Digital Telecommunications Phils., Inc. (Digitel) and Subsidiaries** | Philippines | – | 49.57 | 49.82 |
| **Real Estate and Hotels** | | | | |
| Robinsons Land Corporation (RLC) and Subsidiaries | -do- | **60.97** | 60.40 | 60.11 |
| **Petrochemicals** | | | | |
| JG Summit Petrochemical Corporation (JGSPC) | -do- | **100.00** | 100.00 | 100.00 |
| JG Summit Olefins Corporation (JGSOC) | -do- | **100.00** | 100.00 | 100.00 |
| **Banking** | | | | |
| Robinsons Savings Bank Corporation (RSBC)**** | -do- | – | 100.00 | 100.00 |
| Robinsons Bank Corporation (RBC) | -do- | **60.00** | 60.00 | – |
| **Supplementary Businesses** | | | | |
| Express Holdings, Inc. (EHI) and a Subsidiary | -do- | **100.00** | 100.00 | 100.00 |
| Summit Forex Brokers Corporation | -do- | **100.00** | 100.00 | 100.00 |
| JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries | -do- | **100.00** | 100.00 | 100.00 |
| JG Summit Capital Markets Corporation (JGSMC) | -do- | **100.00** | 100.00 | 100.00 |
| Summit Point Services Ltd. | -do- | **100.00** | 100.00 | 100.00 |
| Summit Internet Investments, Inc. | -do- | **100.00** | 100.00 | 100.00 |
| JG Summit (Cayman), Ltd. (JGSCL) | Cayman Islands | **100.00** | 100.00 | 100.00 |
| JG Summit Philippines Ltd. (JGSPL) and Subsidiaries | -do- | **100.00** | 100.00 | 100.00 |
| JGSH Philippines Ltd. | British Virgin Islands | **100.00** | 100.00 | 100.00 |
| Multinational Finance Group, Ltd. | -do- | **100.00** | 100.00 | 100.00 |
| Telegraph Development, Ltd. | Singapore | **100.00** | 100.00 | 100.00 |
| Summit Top Investment, Ltd. | British Virgin Islands | **100.00** | 100.00 | 100.00 |
| JG Summit Limited (JGSL) | -do- | **100.00** | 100.00 | 100.00 |
| Unicon Insurance Brokers Corporation | Philippines | **100.00** | 100.00 | 100.00 |
| Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries | -do- | **100.00** | – | – |
| Fruits of the East, Inc. | -do- | **100.00** | – | – |
| Hometel Integrated Management Corporation | -do- | **100.00** | – | – |
| King Leader Philippines, Inc. | -do- | **100.00** | – | – |
| Samar Commodities Trading and Industrial Corporation | -do- | **100.00** | – | – |
| Tropical Aqua Resources | -do- | **100.00** | – | – |
| United Philippines Oil Trading, Inc. | -do- | **100.00** | – | – |

(Forward)

| Subsidiaries | Country of Incorporation | Effective Percentage of Ownership December 31 2011 | 2010 | 2009 |
|---|---|---|---|---|
| JG Cement Corporation (JGCC)***** | Philippines | − | 100.00 | 100.00 |
| Premiere Printing Company, Inc.(PPCI) ***** | -do- | − | 100.00 | 100.00 |
| Litton Mills, Inc. (LMI) ***** | -do- | − | 100.00 | 100.00 |
| Adia Development and Management Corporation (ADMC)*** | -do- | − | − | 100.00 |
| Cebu Pacific Manufacturing Corporation (CPMC)*** | -do- | − | − | 100.00 |
| Hello Snack Foods Corporation (HSFC)*** | -do- | − | − | 100.00 |
| Savannah Industrial Corporation (Savannah)*** | -do- | − | − | 100.00 |
| Terai Industrial Corporation (TIC)*** | -do- | − | − | 100.00 |
| Westpoint Industrial Mills Corporation (WIMC)*** | -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 Digitel Group). As disclosed above, the Digitel Group is a 49.57% and 49.82% owned subsidiary as of December 31, 2010 and 2009, respectively. In 2011, the Group sold all of its investments in the shares of stock of Digitel 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.*

*** *These subsidiaries were merged with LMI in 2010.*

**** *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.*

***** *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) and Vector Aircraft Leasing Limited (VALL). SLL, CALL, ILL, BLL, SALL and VALL are SPEs in which the Group does not have equity interest. SLL, CALL, ILL, BLL, SALL and VALL 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 |
|---|---|
| **Food** | |
| URC and Subsidiaries | September 30 |
| **Real Estate and Hotels** | |
| RLC and Subsidiaries | -do- |
| **Petrochemicals** | |
| JGSPC | -do- |
| JGSOC | -do- |
| **Textiles** | |
| LMI* | -do- |
| **Supplementary Business** | |
| 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 from January 1, 2010

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

Business Combinations prior to January 1, 2010
In comparison to the above-mentioned requirements, the following differences applied:

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

- When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended PFRS, PAS and Philippine Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) which were adopted as of January 1, 2011.

*Amendments to Standards*
- PAS 24, *Related Party Transactions* (Amendment)
  The amendment clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The information required by the Standard are disclosed in Note 39.

*Improvements to PFRS (issued 2010)*
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view of removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in certain changes to the note disclosures but had no impact on the financial position or performance of the Group.

- PFRS 7, *Financial Instruments: Disclosures*
  The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group has reflected the revised disclosure requirements in Note 4.

- PAS 1, *Presentation of Financial Statements*
  The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in Note 35.

The issuance of and amendments to the following standards and interpretations which became effective as of January 1, 2011 did not have any impact on the accounting policies, financial position and performance and financial statement disclosures of the Group:

- PAS 32, *Financial Instruments: Presentation* (Amendment)
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (Determining the fair value of award credits)
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Other amendments resulting from the 2010 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 3, *Business Combinations* (Measurement options available for non-controlling interest)
- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

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

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

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

*Embedded derivatives*

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

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

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

**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 derivates 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 noncurrent liabilities' in the consolidated statement of financial position) and amortized using the straight-line method.

*Deposits from real estate buyers*

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

Reclassification of Financial Assets

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

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

The Group 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 20.0% 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.

<u>Derecognition of Financial Instruments</u>
*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.

<u>Offsetting Financial Instruments</u>
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.

<u>Inventories</u>
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.

Assets Held for Sale
The Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets, and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

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

cannot be measured, in which case the investment property acquired is measured at the carrying amount of 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.

<u>Investment in Associates and Joint Ventures</u>
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.

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

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

<u>Borrowing Costs</u>
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.

<u>Biological Assets</u>
The biological assets of the Group are divided into two major categories with sub-categories as follows:

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

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

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

Agricultural produce is the harvested product of the Group's biological assets. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when the biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less 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 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.

<u>Bank Licenses</u>
Bank licenses arose 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.

<u>Intangible Assets</u>
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 subcriber'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 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 'Other 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.

*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 profit or loss in the consolidated statement of comprehensive income.

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.

Related Party Relationships and Transactions

Related party relationship exists when one party has the ability to control, direct, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions.  Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders.  In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

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.

<u>Income Taxes</u>

*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. Otherwise, no deferred tax liability is set-up.

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 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. 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.

<u>Leases</u>
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 for the adoption of Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on the consolidated financial statements.

*Effective 2012*

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PAS 12, *Income Taxes - Recovery of Underlying Assets*
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

*Effective 2013*

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*
  The amendments to PAS 1 change the grouping of items presented in Other comprehensive income. Items that could be reclassified or "recycled" to profit or loss in the consolidated statement of comprehensive income at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- PAS 19, *Employee Benefits* (Amendments)
  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 re-wording. The Group is currently assessing the impact of the amendments to PAS 19. The amendments become effective for annual periods beginning on or after January 1, 2013.

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

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

  The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12. 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.

- PFRS 11, *Joint Arrangements*
  The standard replaces PAS 31, *Interests in Joint Ventures* and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests with Other Entities*
  The standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- 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. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard 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 costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

*Effective 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

*Effective 2015*

- PFRS 9, *Financial Instruments: Classification and Measurement*
  The standard as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. 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 classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  The implementation of this interpretation is deferred until the final *Review Standard* is issued by International Accounting Standards Board (IASB) and after an evaluation on the requirements and guidance in the standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed. This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

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

## 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.

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

c. *Determination of fair values of financial instruments*

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

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

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:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Revenue | **₱4,079,748,167** | ₱2,720,062,815 | ₱3,903,963,162 |
| Cost and expenses | **2,664,371,840** | 1,745,032,612 | 2,304,166,017 |

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: these leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease and the related lease terms do not approximate the EUL of the assets being leased. 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 subsidiaries*

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

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.* *Assets 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 42).

<u>Estimates</u>

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:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Revenue | **₱4,079,748,167** | ₱2,720,062,815 | ₱3,903,963,162 |
| Cost and expenses | **2,664,371,840** | 1,745,032,612 | 2,304,166,017 |

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

  The balances of the Group's unearned telecommunications revenue are disclosed in Note 22 to the consolidated financial statements.

  Digitel's agreements with local and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by management. Initial recognition of revenue is based on observed traffic in the network, since normal historical experience adjustments are not material to the consolidated financial statements. The differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates will not result in material adjustments in future periods.

  The total unsettled net inbound traffic revenue from local and foreign traffic carriers (included under 'Receivables' in the consolidated statements of financial position) are shown in Note 11, while the total unsettled net outbound traffic revenue to local and foreign carriers (included under 'Accounts payable and accrued expenses') are shown in Note 21.

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 2011 and 2010, the Group did not recognize impairment losses on its AFS debt investments. In 2009, the Group recognized provision for impairment losses on AFS debt investments, included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income amounting to ₱185.5 million (Notes 10 and 33).

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 2011 and 2010, the Group did not recognize impairment losses on its AFS equity investments. In 2009, the Group recognized provision for impairment losses amounting to ₱62.3 million on its AFS equity investments (Notes 10 and 33).

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 33 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 33 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 property and leased aircraft to its original condition and to bear the costs of dismantling and deinstallation at the end

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

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

The carrying value 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, 2011 and 2010, the balance of the Group's depreciable assets are disclosed in the respective notes to the consolidated financial statements.

g. *Estimation 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 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 loss 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 ₱128.3 million and ₱44.7 million in 2011 and 2010, respectively, while the Group recognized gains arising from changes in the fair market values of biological assets (included in 'Cost of sales and services' in profit or loss in the consolidated statements of comprehensive income) amounting to ₱96.8 million in 2009 (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 36). 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 out flows using the interest rate of Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date.

As of December 31, 2011 and 2010, the balance of the Group's present value of defined benefit obligations and other employee benefits is shown in Note 36.

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 2011, 2010 and 2009 is disclosed in Note 33 to the consolidated financial statements.

As of December 31, 2011 and 2010, the balances of the Group's nonfinancial assets, net of accumulated depreciation, amortization and impairment loss follow:

| | 2011 | 2010 |
|---|---|---|
| Property, plant and equipment (Note 16) | **₱82,395,386,691** | ₱146,425,537,113 |
| Investment properties (Note 15) | **41,883,671,246** | 32,090,113,137 |
| Investments in associates and joint ventures (Note 14) | **32,055,963,868** | 30,425,762,248 |
| Goodwill (Note 19) | **798,627,776** | 890,375,020 |
| Intangible assets (Note 18) | **905,540,502** | 993,831,456 |

*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, 2011 and 2010, the Group's recognized deferred tax assets are shown in Note 37.

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 37).

As of December 31, 2011 and 2010, the total amounts of temporary differences, for which the Group did not recognize any deferred tax assets are shown in Note 37.

## 4. Financial Risk Management Objectives and Policies

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

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:

| | 2011 | | | |
|---|---|---|---|---|
| | **Gross Maximum Exposure** | **Fair Value of Collateral or Credit Enhancement** | **Net Exposure** | **Financial Effect of Collateral or Credit Enhancement** |
| Loans and receivables | | | | |
| Cash and cash equivalents* | **₱33,114,293,878** | **₱2,800,000,000** | **₱30,314,293,878** | **₱2,800,000,000** |
| Trade receivables | **9,216,879,739** | **161,411,682** | **9,055,468,057** | **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 | **2,308,878,490** | **16,098,704** | **2,292,779,786** | **16,098,704** |
| Total credit risk exposure | **₱57,082,618,901** | **₱10,547,807,978** | **₱48,684,352,253** | **₱8,398,266,648** |

* *Excludes cash on hand amounting to □781,049,127*

| | 2010 | | | |
|---|---|---|---|---|
| | Gross Maximum Exposure | Fair Value of Collateral or Credit Enhancement | Net Exposure | Financial Effect of Collateral or Credit Enhancement |
| Loans and receivables | | | | |
| Cash and cash equivalents* | ₱41,326,235,582 | ₱1,561,000,000 | ₱39,765,235,582 | ₱1,561,000,000 |
| Trade receivables | 12,035,940,022 | 136,918,451 | 11,899,021,571 | 136,918,451 |
| Finance receivables: | | | | |
| Commercial | 5,707,520,977 | 4,613,433,938 | 1,094,087,039 | 4,613,433,938 |
| Real estate | 2,180,067,491 | 5,952,419,475 | – | 2,180,067,491 |
| Consumption | 1,985,635,932 | 2,010,963,051 | – | 1,985,635,932 |
| Other receivables | 2,465,740,847 | 10,878,743 | 2,454,862,104 | 10,878,743 |
| Total credit risk exposure | ₱65,701,140,851 | ₱14,285,613,658 | ₱55,213,206,296 | ₱10,487,934,555 |

* *Excludes cash on hand amounting to □783,767,940*

*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, 2011 and 2010, before taking into account any collateral held or other credit enhancements, is categorized by geographic location as follows:

| | 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 | 1,384,933,600 | 361,585,694 | 86,388,927 | – | – | 1,832,908,221 |
| | 22,092,297,073 | 2,433,408,634 | 123,023,160 | 62,443,721 | 50,806,861 | 24,761,979,449 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement 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 statement of financial position) | 4,340,529,990 | – | – | – | – | 4,340,529,990 |
| | ₱113,096,200,613 | ₱7,348,492,950 | ₱1,571,450,749 | ₱4,851,717,468 | ₱2,750,747,304 | ₱129,618,609,084 |

*Others include South American countries (i.e., Argentina and Mexico)*

*** Excludes cash on hand amounting to □781,049,127*

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Philippines | Asia (excluding Philippines) | United States | Europe | Others* | Total |
| Cash and cash equivalents** | ₱38,536,685,766 | ₱2,789,202,071 | ₱– | ₱347,745 | ₱– | ₱41,326,235,582 |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | 2,053,479,607 | 915,147,740 | 440,633,307 | 1,736,314,362 | 1,383,320,729 | 6,528,895,745 |
| Government | 948,259,200 | 190,065,964 | – | – | 151,597,035 | 1,289,922,199 |
| | 3,001,738,807 | 1,105,213,704 | 440,633,307 | 1,736,314,362 | 1,534,917,764 | 7,818,817,944 |
| Equity securities: | | | | | | |
| Quoted | 282,608,536 | 232,563,353 | 926,758,141 | 712,119,753 | 285,950,784 | 2,440,000,567 |
| Unquoted | – | 4,516 | – | – | – | 4,516 |
| | 282,608,536 | 232,567,869 | 926,758,141 | 712,119,753 | 285,950,784 | 2,440,005,083 |
| | 3,284,347,343 | 1,337,781,573 | 1,367,391,448 | 2,448,434,115 | 1,820,868,548 | 10,258,823,027 |
| Derivative assets: | | | | | | |
| Not designated as accounting hedges | 775,813,090 | 260,937,463 | – | 149,428,054 | – | 1,186,178,607 |
| | 4,060,160,433 | 1,598,719,036 | 1,367,391,448 | 2,597,862,169 | 1,820,868,548 | 11,445,001,634 |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Government | 3,914,067,346 | 158,773,681 | – | – | 703,024,560 | 4,775,865,587 |
| Private | 358,919,596 | 379,175,308 | 761,354,929 | 2,046,873,879 | 51,586,412 | 3,597,910,124 |
| | 4,272,986,942 | 537,948,989 | 761,354,929 | 2,046,873,879 | 754,610,972 | 8,373,775,711 |
| Equity securities: | | | | | | |
| Quoted | 208,296,083 | 943,694,250 | – | – | 114,532,000 | 1,266,522,333 |
| Unquoted | 226,975,871 | – | – | – | – | 226,975,871 |
| | 435,271,954 | 943,694,250 | – | – | 114,532,000 | 1,493,498,204 |
| | 4,708,258,896 | 1,481,643,239 | 761,354,929 | 2,046,873,879 | 869,142,972 | 9,867,273,915 |
| Receivables: | | | | | | |
| Trade receivables | 8,092,204,526 | 1,409,714,130 | 192,447,000 | 61,997,364 | – | 9,756,363,020 |
| Finance receivables | 9,687,998,417 | – | – | – | – | 9,687,998,417 |
| Due from related parties | 589,129,115 | 431,557,672 | 1,206,127,120 | – | – | 2,226,813,907 |
| Interest receivable | 470,727,566 | 27,862,137 | 58,487,433 | 57,885,218 | 96,441,305 | 711,403,659 |
| Other receivables | 1,502,354,788 | 275,132,149 | 67,607,101 | 38,721,498 | – | 1,883,815,536 |
| | 20,342,414,412 | 2,144,266,088 | 1,524,668,654 | 158,604,080 | 96,441,305 | 24,266,394,539 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement of financial position) | 517,759,627 | – | – | 9,240,000 | – | 526,999,627 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) | 87,976,029 | – | – | – | – | 87,976,029 |
| | ₱68,253,255,163 | ₱8,013,830,434 | ₱3,653,415,031 | ₱4,812,927,873 | ₱2,786,452,825 | ₱87,519,881,326 |

* *Others include South American countries (i.e., Argentina and Mexico)*

** *Excludes cash on hand amounting to ₱783,767,940*

ii. Concentration by industry

The tables below show the industry sector analysis of the Group's financial assets as of December 31, 2011 and 2010, before taking into account any collateral held or other credit enhancements.

| | December 31, 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 |
| | – | – | – | – | 6,906,703,782 | 229,098,008 | 61,791,064 | – | 144,373,507 | – | 3,615,988,723 | 10,957,955,084 |
| 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)

| | December 31, 2011 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Manufacturing | Real Estate, Renting and Related Business Activities | Wholesale and Retail Trade | Private House-holds | 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 | 392,341,441 | – | – | – | 8,167,635 | – | – | – | – | 1,069,529,101 | 1,832,908,221 |
| | 5,820,082,415 | 8,074,346,168 | 2,264,664,821 | – | 851,359,493 | 1,512,878,881 | 139,419,983 | 420,300,694 | 1,739,431,290 | – | 3,939,495,704 | 24,761,979,449 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement 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 statement of financial position) | – | – | – | – | 4,340,500,000 | – | – | – | – | – | 29,990 | 4,340,529,990 |
| | ₱5,821,188,757 | ₱8,299,942,599 | ₱2,264,664,821 | ₱– | ₱49,071,799,438 | ₱30,667,443,428 | ₱336,305,847 | ₱420,300,694 | ₱1,900,685,005 | ₱– | ₱30,836,278,495 | ₱129,618,609,084 |

* *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*

| | December 31, 2010 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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** | ₱– | ₱– | ₱– | ₱– | ₱41,326,235,582 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱41,326,235,582 |
| Financial assets at FVPL: | | | | | | | | | | | | |
| Held-for-trading: | | | | | | | | | | | | |
| Debt securities: | | | | | | | | | | | | |
| Private | – | 668,627,033 | – | – | 1,898,825,150 | 466,811,399 | – | – | 97,740,506 | – | 3,396,891,657 | 6,528,895,745 |
| Government | – | – | – | – | 1,138,031,535 | – | – | – | – | – | 151,890,664 | 1,289,922,199 |
| | – | 668,627,033 | – | – | 3,036,856,685 | 466,811,399 | – | – | 97,740,506 | – | 3,548,782,321 | 7,818,817,944 |
| Equity securities: | | | | | | | | | | | | |
| Quoted | – | – | – | – | 1,797,137,222 | 221,399,960 | – | – | – | – | 421,463,385 | 2,440,000,567 |
| Unquoted | – | – | – | – | – | – | – | – | – | – | 4,516 | 4,516 |
| | – | – | – | – | 1,797,137,222 | 221,399,960 | – | – | – | – | 421,467,901 | 2,440,005,083 |
| | – | 668,627,033 | – | – | 4,833,993,907 | 688,211,359 | – | – | 97,740,506 | – | 3,970,250,222 | 10,258,823,027 |
| Derivative financial assets: | | | | | | | | | | | | |
| Not designated as accounting hedges | – | – | 316,134,415 | – | 215,757,167 | – | – | – | 489,917,466 | – | 164,369,559 | 1,186,178,607 |
| | – | 668,627,033 | 316,134,415 | – | 5,049,751,074 | 688,211,359 | – | – | 587,657,972 | – | 4,134,619,781 | 11,445,001,634 |
| AFS investments: | | | | | | | | | | | | |
| Debt securities: | | | | | | | | | | | | |
| Government | – | – | – | – | 2,231,875,899 | – | – | – | – | – | 2,543,989,688 | 4,775,865,587 |
| Private | – | – | – | – | 1,565,038,308 | 659,476,908 | – | – | 465,152,683 | – | 908,242,225 | 3,597,910,124 |
| | – | – | – | – | 3,796,914,207 | 659,476,908 | – | – | 465,152,683 | – | 3,452,231,913 | 8,373,775,711 |
| Equity securities: | | | | | | | | | | | | |
| Quoted | – | – | – | – | 283,997,793 | – | – | – | – | – | 982,524,540 | 1,266,522,333 |
| Unquoted | – | – | – | – | 226,378,200 | – | – | – | – | – | 597,671 | 226,975,871 |
| | – | – | – | – | 510,375,993 | – | – | – | – | – | 983,122,211 | 1,493,498,204 |
| | – | – | – | – | 4,307,290,200 | 659,476,908 | – | – | 465,152,683 | – | 4,435,354,124 | 9,867,273,915 |
| Receivables: | | | | | | | | | | | | |
| Trade receivables | 3,602,661,658 | 3,224,224,250 | 391,595,000 | 529,640,000 | 15,928,000 | 1,085,750,660 | – | 109,100,070 | 9,591,000 | – | 787,872,382 | 9,756,363,020 |
| Finance receivables | 673,003,502 | 1,735,623,721 | 1,053,797,696 | – | 5,901,428 | 547,082,329 | 131,865,566 | 638,407,682 | 867,173,173 | – | 4,035,143,320 | 9,687,998,417 |
| Interest receivable | 239,293 | 3,083,985 | – | – | 325,686,369 | 13,520,964 | – | – | 5,682,987 | – | 363,190,061 | 711,403,659 |
| Due from related parties | 29,349,376 | 854,449,405 | 6,891,517 | – | 33,251,887 | 54,269,012 | – | 114,990,272 | 1,332,197 | – | 1,132,280,241 | 2,226,813,907 |
| Other receivables | 403,272,120 | 338,869,216 | 3,613,000 | – | – | 95,309,702 | – | 69,166,837 | – | – | 973,584,661 | 1,883,815,536 |
| | 4,708,525,949 | 6,156,250,577 | 1,455,897,213 | 529,640,000 | 380,767,684 | 1,795,932,667 | 131,865,566 | 931,664,861 | 883,779,357 | – | 7,292,070,665 | 24,266,394,539 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement of financial position) | 903,835 | 497,229,677 | – | – | – | 9,240,000 | – | – | – | – | 19,626,115 | 526,999,627 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) | – | – | – | – | – | – | – | – | – | – | 87,976,029 | 87,976,029 |
| | ₱4,709,429,784 | ₱7,322,107,287 | ₱1,772,031,628 | ₱529,640,000 | ₱51,064,044,540 | ₱3,152,860,934 | ₱131,865,566 | ₱931,664,861 | ₱1,936,590,012 | ₱– | ₱15,969,646,714 | ₱87,519,881,326 |

* *Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.*
** *Excludes cash on hand amounting to* □*783,767,940*

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:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | Past Due | |
| | High Grade | Standard Grade | Substandard Grade | Unrated | or Individually Impaired | Total |
| 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** |
| 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 | **754,634,362** | **982,343,233** | **353,233** | **–** | **291,006,598** | **2,028,337,426** |
| | **10,779,850,770** | **9,709,679,602** | **1,251,018,657** | **953,094,598** | **3,201,194,015** | **25,894,837,642** |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement 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 statement of financial position) | **4,340,500,000** | **29,990** | **–** | **–** | **–** | **4,340,529,990** |
| | **₱90,865,606,948** | **₱29,702,943,064** | **₱3,016,371,448** | **₱3,965,351,802** | **₱3,201,194,015** | **₱130,751,467,277** |

* *Excludes cash on hand amounting to □781,049,127*

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | Past Due | |
| | High Grade | Standard Grade | Substandard Grade | Unrated | or Individually Impaired | Total |
| Cash and cash equivalents* | ₱39,610,076,426 | ₱1,716,159,156 | ₱– | ₱– | ₱– | ₱41,326,235,582 |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | 2,961,243,455 | 2,839,306,600 | 728,345,690 | – | – | 6,528,895,745 |
| Government | – | 1,289,922,199 | – | – | – | 1,289,922,199 |
| | 2,961,243,455 | 4,129,228,799 | 728,345,690 | – | – | 7,818,817,944 |
| Equity securities: | | | | | | |
| Quoted | 1,643,767,874 | 579,623,461 | 216,609,232 | – | – | 2,440,000,567 |
| Unquoted | – | – | – | 4,516 | – | 4,516 |
| | 1,643,767,874 | 579,623,461 | 216,609,232 | 4,516 | – | 2,440,005,083 |
| | 4,605,011,329 | 4,708,852,260 | 944,954,922 | 4,516 | – | 10,258,823,027 |
| Derivative financial assets: | | | | | | |
| Not designated as accounting hedges | 1,083,907,607 | 102,271,000 | – | – | – | 1,186,178,607 |
| | 5,688,918,936 | 4,811,123,260 | 944,954,922 | 4,516 | – | 11,445,001,634 |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Government | 4,088,364,939 | 477,913,755 | – | 209,586,893 | – | 4,775,865,587 |
| Private | 1,536,305,455 | 1,116,893,217 | 558,975,244 | 87,446,901 | 298,289,307 | 3,597,910,124 |
| | 5,624,670,394 | 1,594,806,972 | 558,975,244 | 297,033,794 | 298,289,307 | 8,373,775,711 |
| Equity securities: | | | | | | |
| Quoted | 208,296,083 | 1,058,226,250 | – | – | – | 1,266,522,333 |
| Unquoted | – | – | – | 226,975,871 | – | 226,975,871 |
| | 208,296,083 | 1,058,226,250 | – | 226,975,871 | – | 1,493,498,204 |
| | 5,832,966,477 | 2,653,033,222 | 558,975,244 | 524,009,665 | 298,289,307 | 9,867,273,915 |
| Receivables: | | | | | | |
| Trade receivables | 5,362,426,113 | 2,148,474,778 | 229,846,876 | – | 4,295,192,255 | 12,035,940,022 |
| Finance receivables | 1,496,414,620 | 7,729,760,939 | 346,452,826 | – | 625,585,031 | 10,198,213,416 |
| Due from related parties | 1,137,529,412 | 1,089,284,495 | – | – | – | 2,226,813,907 |
| Interest receivable | 480,334,593 | 230,827,935 | – | – | 241,131 | 711,403,659 |
| Other receivables | 615,836,467 | 944,120,863 | 31,547,850 | – | 514,132,033 | 2,105,637,213 |
| | 9,092,541,205 | 12,142,469,010 | 607,847,552 | – | 5,435,150,450 | 27,278,008,217 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement of financial position) | 506,469,677 | 20,529,950 | – | – | – | 526,999,627 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) | – | 87,976,029 | – | – | – | 87,976,029 |
| | ₱60,730,972,721 | ₱21,431,290,627 | ₱2,111,777,718 | ₱524,014,181 | ₱5,733,439,757 | ₱90,531,495,004 |

* *Excludes cash on hand amounting to* ₱*783,767,940*

*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:

| **Grades** | **Categories** | **Description** |
|---|---|---|
| High grade | | |
| *Risk rating 1* | Excellent | Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events. |
| *Risk rating 2* | Super Prime | Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events. |
| *Risk rating 3* | Prime | Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business/ economic conditions. |
| *Risk rating 4* | 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 |
| *Risk rating 5* | Good | More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes |

(Forward)

| Grades | Categories | Description |
|---|---|---|
| Standard | | |
| *Risk rating 6* | 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. |
| *Risk rating 7* | Average | Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavorable economic period would create deterioration beyond acceptable levels. |
| Standard | | |
| *Risk rating 8* | Fair | Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavorable economic/ market conditions would create an immediate deterioration of cash flow beyond acceptable levels. |
| Sub-standard grade | | |
| *Risk rating 9* | Marginal | Elevated level of probability of default, with limited margin; repayment source is adequate to marginal. |
| *Risk rating 10* | 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. |
| *Risk rating 11* | 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. |
| *Risk rating 12* | 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 | | |
| *Risk rating 13* | Doubtful | Weaknesses similar to "Substandard", but with added characteristics that make liquidation highly improbable. |
| *Risk rating 14* | 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, 2011 and 2010 follow:

| | **2011** | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Past Due But Not Impaired** | | | | | |
| | **Neither Past Due Nor Impaired** | **Less than 30 Days** | **30 to 60 Days** | **61 to 90 Days** | **Over 90 Days** | **Past Due and Impaired** | **Total** |
| 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 | **1,737,330,828** | **47,572,239** | **25,691,062** | **3,491,416** | **38,469,358** | **175,782,523** | **2,028,337,426** |
| | **₱22,693,643,627** | **₱615,608,127** | **₱151,865,231** | **₱95,060,373** | **₱1,147,270,293** | **₱1,191,389,991** | **₱25,894,837,642** |

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Past Due But Not Impaired | | | | | |
| | Neither Past Due Nor Impaired | Less than 30 Days | 30 to 60 Days | 61 to 90 Days | Over 90 Days | Past Due and Impaired | Total |
| Trade receivables | ₱8,135,182,336 | ₱349,751,606 | ₱511,312,358 | ₱387,729,409 | ₱372,387,311 | ₱2,279,577,002 | ₱12,035,940,022 |
| Finance receivables | 9,248,852,787 | 20,509,472 | 11,185,427 | 120,084,858 | 287,365,873 | 510,214,999 | 10,198,213,416 |
| Due from related parties | 2,226,813,907 | – | – | – | – | – | 2,226,813,907 |
| Interest receivable | 711,162,528 | 241,131 | – | – | – | – | 711,403,659 |
| Others | 1,520,846,209 | 59,979,990 | 24,085,074 | 161,721,779 | 117,182,484 | 221,821,677 | 2,105,637,213 |
| | ₱21,842,857,767 | ₱430,482,199 | ₱546,582,859 | ₱669,536,046 | ₱776,935,668 | ₱3,011,613,678 | ₱27,278,008,217 |

*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, 2011 and 2010:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **On Demand** | **Up to 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **More Than 5 Years** | **Total** |
| **Financial Assets** | | | | | | |
| 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** |
| 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** | **44,649,089,926** |
| | **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) | **29,990** | **–** | **4,340,500,000** | **–** | **–** | **4,340,529,990** |
| | **₱14,388,212,432** | **₱31,894,328,590** | **₱19,782,141,760** | **₱11,868,084,312** | **₱64,723,060,930** | **₱142,655,828,025** |

(Forward)

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **On Demand** | **Up to 3 Months** | **3 to 12 Months** | **More than 1 to 5 Years** | **More Than 5 Years** | **Total** |
| 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 real estate buyers and lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position) | – | 90,061,557 | 930,179,010 | 3,211,182,591 | 21,084,551 | 4,252,507,709 |
| 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 | ₱23,213,292,656 | ₱60,151,006,126 | ₱6,399,317,499 | ₱128,320,249,271 |
| **Off-balance sheet** | | | | | | |
| 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.*

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | On Demand | Up to 3 Months | 3 to 12 Months | More than 1 to 5 Years | More Than 5 Years | Total |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | ₱15,339,127,692 | ₱21,555,519,444 | ₱5,399,110,620 | ₱– | ₱– | ₱42,293,757,756 |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | 51,745,229 | 81,363,733 | 7,061,527,111 | – | – | 7,194,636,073 |
| Government | – | 33,438,623 | 282,808,334 | 312,750,450 | 1,338,688,650 | 1,967,686,057 |
| | 51,745,229 | 114,802,356 | 7,344,335,445 | 312,750,450 | 1,338,688,650 | 9,162,322,130 |
| Equity securities: | | | | | | |
| Quoted | – | 65,889,872 | 2,088,159,911 | – | 285,950,784 | 2,440,005,083 |
| Unquoted | – | – | 4,516 | – | – | 4,516 |
| | – | 65,889,872 | 2,088,164,427 | – | 285,950,784 | 2,440,005,083 |
| | 51,745,229 | 180,692,228 | 9,432,499,872 | 312,750,450 | 1,624,639,434 | 11,602,327,213 |
| Derivative financial assets: | | | | | | |
| Not designated as accounting hedges | – | 252,383,064 | 351,587,670 | 582,774,974 | – | 1,186,745,708 |
| | 51,745,229 | 433,075,292 | 9,784,087,542 | 895,525,424 | 1,624,639,434 | 12,789,072,921 |

(Forward)

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | On Demand | Up to 3 Months | 3 to 12 Months | More than 1 to 5 Years | More Than 5 Years | Total |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Government | ₱– | ₱167,716,105 | ₱3,469,773,351 | ₱420,607,735 | ₱1,801,560,956 | ₱5,859,658,147 |
| Private | – | 129,844,052 | 3,470,924,545 | 26,481,478 | 400,364,250 | 4,027,614,325 |
| | – | 297,560,157 | 6,940,697,896 | 447,089,213 | 2,201,925,206 | 9,887,272,472 |
| Equity securities: | | | | | | |
| Quoted | – | 71,488,207 | 1,080,502,126 | – | 114,532,000 | 1,266,522,333 |
| Unquoted | – | – | 210,597,671 | 16,378,200 | – | 226,975,871 |
| | – | 71,488,207 | 1,291,099,797 | 16,378,200 | 114,532,000 | 1,493,498,204 |
| | – | 369,048,364 | 8,231,797,693 | 463,467,413 | 2,316,457,206 | 11,380,770,676 |
| Receivables: | | | | | | |
| Trade receivables | 3,271,935,698 | 4,277,519,373 | 1,494,628,707 | 626,256,127 | 86,023,115 | 9,756,363,020 |
| Finance receivables | 186,089,039 | 961,128,130 | 1,572,539,808 | 5,678,235,721 | 5,088,047,548 | 13,486,040,246 |
| Due from related parties | 2,112,817,872 | 24,214,357 | 89,781,678 | – | – | 2,226,813,907 |
| Interest receivable | 339,027,005 | 292,579,061 | 79,797,593 | – | – | 711,403,659 |
| Other receivables | 472,297,245 | 158,776,059 | 858,534,113 | 652,110,572 | 102,201,181 | 2,243,919,170 |
| | 6,382,166,859 | 5,714,216,980 | 4,095,281,899 | 6,956,602,420 | 5,276,271,844 | 28,424,540,002 |
| Refundable security deposits | 273,500,223 | 11,186,473 | 33,559,418 | 163,103,787 | 45,649,726 | 526,999,627 |
| Other receivables (included under 'Other noncurrent assets' in the consolidated statement of financial position) | 76,597,929 | – | – | 11,378,100 | – | 87,976,029 |
| | ₱22,123,137,932 | ₱28,083,046,553 | ₱27,543,837,172 | ₱8,490,077,144 | ₱9,263,018,210 | ₱95,503,117,011 |
| 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') | ₱4,819,445,225 | ₱7,535,900,632 | ₱4,649,995,018 | ₱4,450,351,757 | ₱1,009,026,159 | ₱22,464,718,791 |
| Short-term debt | – | 15,368,138,209 | – | – | – | 15,368,138,209 |
| Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position) | 6,115,394,776 | 1,675,754,989 | 805,023,852 | 1,406,718,140 | – | 10,002,891,575 |
| Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position) | 1,078,713,944 | 373,647,753 | 174,243 | – | – | 1,452,535,940 |
| Deposits from real estate buyers and lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position) | – | 194,515,293 | 535,831,126 | 3,067,415,775 | 714,441,501 | 4,512,203,695 |
| Derivative financial liability (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position) | – | 13,094,803 | 249,299,017 | 546,764,107 | – | 809,157,927 |
| Long-term debt (including current portion) | – | 2,315,090,104 | 14,149,789,615 | 80,600,292,665 | 20,915,037,758 | 117,980,219,142 |
| | ₱12,013,553,945 | ₱27,467,141,783 | ₱20,390,112,871 | ₱90,071,542,444 | ₱22,683,505,418 | ₱172,589,856,461 |
| **Off-balance sheet** | | | | | | |
| Commitments* | ₱– | ₱– | ₱6,711,777,434 | ₱24,777,021,191 | ₱– | ₱31,488,798,625 |

* *Pertains to 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, 2011, 2010 and 2009, approximately 32.2%, 30.3% and 30.1%, respectively, of the Group's total sales are denominated in currencies other than the functional currency. In addition, approximately 48.6% and 71.6% of total debt are denominated in US Dollar as of December 31, 2011 and 2010, 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, 2011 and 2010:

| | 2011 | | |
|---|---|---|---|
| | **US Dollar** | **Other Currencies*** | **Total** |
| **Assets** | | | |
| 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** |
| | **18,114,000,624** | **8,728,758,959** | **26,842,759,583** |
| **Liabilities** | | | |
| 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) | **40,279,468,269** | **–** | **40,279,468,269** |
| Other noncurrent liabilities | **670,810,817** | **–** | **670,810,817** |
| | **57,069,238,889** | **9,359,855,787** | **66,429,094,676** |
| Net Foreign Currency-Denominated Liabilities | **(₱38,955,238,265)** | **(₱631,096,828)** | **(₱39,586,335,093)** |

* *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*

| | 2010 | | |
|---|---|---|---|
| | US Dollar | Other Currencies* | Total |
| **Assets** | | | |
| Cash and cash equivalents | ₱4,632,314,076 | ₱1,049,069,341 | ₱5,681,383,417 |
| Financial assets at FVPL | 8,372,787,677 | 92,459,548 | 8,465,247,225 |
| AFS investments | 6,159,491,706 | 681,714,760 | 6,841,206,466 |
| Receivables | 1,385,157,734 | 2,352,930,584 | 3,738,088,318 |
| Derivative assets | 1,061,647,025 | – | 1,061,647,025 |
| Other current assets | 31,205,461 | – | 31,205,461 |
| Other noncurrent assets | 175,013,052 | 2,257,526 | 177,270,578 |
| | 21,817,616,731 | 4,178,431,759 | 25,996,048,490 |
| **Liabilities** | | | |
| Accounts payable and accrued expenses | 4,599,401,357 | 2,537,626,831 | 7,137,028,188 |
| Short-term debt | 5,570,577,662 | 6,396,967,482 | 11,967,545,144 |
| Derivative liability | 547,032,270 | – | 547,032,270 |
| Long-term debt (including current portion) | 64,401,379,652 | – | 64,401,379,652 |
| Other noncurrent liabilities | 923,451,375 | – | 923,451,375 |
| | 76,041,842,316 | 8,934,594,313 | 84,976,436,629 |
| Net Foreign Currency-Denominated Liabilities | (₱54,224,225,585) | (₱4,756,162,554) | (₱58,980,388,139) |

* *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, 2011 and 2010 follow:

| | **2011** | 2010 |
|---|---|---|
| US dollar-Philippine peso exchange rate | **₱43.84 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 ₱43.72 and ₱43.88 to US$1.00 as of September 30, 2011 and 2010, 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, 2011 and 2010.

| | **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) |

| | 2009 | |
|---|---|---|
| Reasonably Possible Changes in US Dollar-Philippine Peso Exchange Rates | Change in Income Before Income Tax | Change in Equity |
| 10.8% | (₱6,446,215,997) | ₱138,266,250 |
| (10.8) | 6,446,215,997 | (138,266,250) |

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 2011, 2010 and 2009, 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 ₱16.1 million, ₱28.6 million and ₱38.6 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 ₱793.1 million, ₱20.6 million and ₱8.1 million as of December 31, 2011, 2010 and 2009, 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 financial instruments presented by maturity profile:

**2011**

| | **<1 year** | **>1-<2 years** | **>2-<3 years** | **>3-<4 years** | **>4-<5 years** | **>5 years** | **Total (In US Dollar)** | **Total (in Philippine Peso)** | **Debt Issuance Costs** | **Carrying Value (in Philippine Peso)** | **Fair Value** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Long-term debt | | | | | | | | | | | |
| Foreign currencies: | | | | | | | | | | | |
| *Floating rate* | | | | | | | | | | | |
| 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) | | | | | | | | | | | |
| *Fixed rate* | | | | | | | | | | | |
| 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: | | | | | | | | | | | |
| *Floating rate* | | | | | | | | | | | |
| 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%) | | | | | | | | | | | |
| *Fixed rate* | | | | | | | | | | | |
| 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** |

2010

| | <1 year | >1-<2 years | >2-<3 years | >3-<4 years | >4-<5 years | >5 years | Total (In US Dollar) | Total (in Philippine Peso) | Debt Issuance Costs | Carrying Value (in Philippine Peso) | Fair Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Long-term debt | | | | | | | | | | | |
| Foreign currencies: | | | | | | | | | | | |
| *Floating rate* | | | | | | | | | | | |
| US Dollar loans | US$82,295,907 | US$72,880,475 | US$371,967,803 | US$63,055,577 | US$52,559,070 | US$147,808,596 | US$790,567,428 | ₱34,658,476,061 | ₱901,854,106 | ₱33,756,621,955 | ₱33,991,244,717 |
| Interest rate (LIBOR plus margin) | | | | | | | | | | | |
| *Fixed rate* | | | | | | | | | | | |
| US Dollar loans | 45,497,730 | 225,256,064 | 290,783,126 | 37,174,793 | 37,948,215 | 109,860,431 | 746,520,359 | 32,734,956,244 | 46,377,747 | 32,688,578,497 | 36,438,487,013 |
| Interest rate (3.7% to 12.0%) | | | | | | | | | | | |
| Local currencies: | | | | | | | | | | | |
| *Floating rate* | | | | | | | | | | | |
| Philippine Peso loans | ₱– | ₱– | ₱2,000,000,000 | ₱– | ₱– | ₱– | – | 2,000,000,000 | – | 2,000,000,000 | 1,835,380,756 |
| Interest rate (3M MART 1 + 1.0-2.0%) | | | | | | | | | | | |
| *Fixed rate* | | | | | | | | | | | |
| Philippine Peso loans | 7,401,385 | 3,007,956,489 | 4,318,553,226 | 22,009,194,718 | – | – | – | 29,343,105,818 | 132,208,129 | 29,210,897,689 | 31,401,394,228 |
| Interest rate (6.4% to 8.8% ) | | | | | | | | | | | |
| | | | | | | | US$1,537,087,787 | ₱98,736,538,123 | ₱1,080,439,982 | ₱97,656,098,141 | ₱103,666,506,714 |

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 | |
|---|---|---|
| | **2011** | 2010 |
| **+150 basis points (bps)** | **(₱148,440,282)** | (₱104,871,775) |
| **-150 bps** | **148,440,282** | 104,871,775 |

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

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

| | | **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** | **–** | **(669,920,918)** |
| | **(1.5)** | **–** | **791,934,829** |
| Derivative financial assets: | | | |
| Not designated as accounting hedges* | **1.5** | **15,040,205** | **(1,342,704)** |
| | **(1.5)** | **(6,207,242)** | **3,559,309** |

** The sensitivity analysis only includes swaps and assumes parallel yield curve shifts for both PHP and USD rates.*

| | | 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 |
| Derivative financial assets: | | | |
| Not designated as accounting hedges* | 1.5 | 2,343,244 | – |
| | (1.5) | (327,626,972) | – |

** The sensitivity analysis only includes swaps and assumes parallel yield curve shifts for both PHP and USD rates.*

| | | 2009 | |
|---|---|---|---|
| | Reasonably Possible Changes in Market Prices | Change in Income Before Income Tax | Change in Equity |
| Derivative financial assets: | | | |
| Designated as accounting hedges* | 1.5% | ₱– | ₱7,444,169 |
| | (1.5) | – | (7,444,169) |
| FVPL | 1.5 | (363,027,817) | – |
| | (1.5) | 411,774,502 | – |
| AFS | 1.5 | – | (403,396,607) |
| | (1.5) | – | 458,748,396 |
| Derivative financial assets: | | | |
| Not designated as accounting hedges* | 1.5 | 927,799,086 | – |
| | (1.5) | (209,878,556) | – |

** The sensitivity analysis only includes swaps and assumes parallel yield curve shifts for both PHP and USD rates.*

*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 ₱1.1 billion in 2011, ₱1.0 billion in 2010 and ₱0.9 billion in 2009, 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 date 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):

| | 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** |

| | 2010 | | | |
|---|---|---|---|---|
| | Average | High | Low | December 31 |
| Instruments sensitive to local interest rates | ₱56.83 | ₱96.59 | ₱9.93 | ₱10.63 |
| Instruments sensitive to foreign interest rates | 27.50 | 63.03 | 7.18 | 7.18 |

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

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

RBC also uses the repricing gap report. The repricing gap report is a tool used by RBC for measuring market risk arising from non-trading portfolios. Although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that 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 targets are set for time bands up to one year.

The table below demonstrates the sensitivity of net interest income to reasonably possible changes in interest rates:

| | **2011** | | | | | |
|---|---|---|---|---|---|---|
| | **Change in basis points** | **Net interest income estimated effect (in millions)** | **Change in basis points** | **Net interest income estimated effect (in millions)** | **Change in basis points** | **Net interest income estimated effect (in millions)** |
| PhP | **+50** | **₱22.12** | **+100** | **₱44.24** | **+150** | **₱66.35** |
| | **-50** | **(22.12)** | **-100** | **(44.24)** | **-150** | **(66.35)** |
| USD | **+50** | **(3.04)** | **+100** | **(6.07)** | **+150** | **(9.11)** |
| | **-50** | **3.04** | **-100** | **6.07** | **-150** | **9.11** |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Change in basis points | Net interest income estimated effect (in millions) | Change in basis points | Net interest income estimated effect (in millions) | Change in basis points | Net interest income estimated effect (in millions) |
| PhP | +50 | ₱22.71 | +100 | ₱45.43 | +150 | ₱68.14 |
| | -50 | (22.71) | -100 | (45.43) | -150 | (68.14) |
| USD | +50 | (1.70) | +100 | (3.40) | +150 | (5.10) |
| | -50 | 1.70 | -100 | 3.40 | -150 | 5.10 |

In addition, the table below demonstrates the sensitivity of equity to reasonably possible changes in interest rates.

| | **2011** | | | | | |
|---|---|---|---|---|---|---|
| | **Change in basis points** | **Equity estimated effect (in millions)** | **Change in basis points** | **Equity estimated effect (in millions)** | **Change in basis points** | **Equity estimated effect (in millions)** |
| PhP | **+50** | **(₱185.53)** | **+100** | **(₱360.03)** | **+150** | **(₱524.33)** |
| | **-50** | **197.48** | **-100** | **407.90** | **-150** | **632.36** |
| USD | **+50** | **(47.02)** | **+100** | **(91.61)** | **+150** | **(133.95)** |
| | **-50** | **49.61** | **-100** | **102.01** | **-150** | **157.40** |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Change in basis points | Equity estimated effect (in millions) | Change in basis points | Equity estimated effect (in millions) | Change in basis points | Equity estimated effect (in millions) |
| PhP | +50 | (₱21.10) | +100 | (₱41.62) | +150 | (₱61.56) |
| | -50 | 21.72 | -100 | 44.06 | -150 | 67.06 |
| USD | +50 | (33.66) | +100 | (65.00) | +150 | (94.23) |
| | -50 | 36.19 | -100 | 75.14 | -150 | 117.13 |

*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.

## 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 6.1% to 7.1% in 2011 and 8.0% to 10.0% in 2010.

*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. The Group used discount rate of 5.0% in 2011. In 2010, discount rates used ranged from 4.3% to 8.7%.

*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 0.2% to 7.1% in 2011 and 0.3% to 10.0% in 2010.

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

As of December 31, 2011 and 2010, 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.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| Loans and receivables: | | | | |
| Trade receivables | **₱8,696,770,491** | **₱8,370,810,859** | ₱9,756,363,020 | ₱9,656,500,995 |
| Finance receivables | **12,160,584,030** | **12,466,282,512** | 9,687,998,417 | 9,730,442,208 |
| Other receivables | **1,810,567,109** | **1,890,398,754** | 1,883,815,536 | 1,733,451,218 |
| | **22,667,921,630** | **22,727,492,125** | 21,328,176,973 | 21,120,394,421 |
| Refundable security deposits (included under 'Other current assets' and 'Other noncurrent assets' in the consolidated statements of financial position) | **413,198,162** | **373,731,733** | 526,999,627 | 523,338,615 |
| | **₱23,081,119,792** | **₱23,101,223,858** | ₱21,855,176,600 | ₱21,643,733,036 |
| **Financial Liabilities** | | | | |
| 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) | **₱7,702,783,632** | **₱7,743,748,398** | ₱9,749,514,636 | ₱9,455,069,817 |
| Deposits from real estate buyers and lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statements of financial position) | **3,581,696,892** | **3,486,439,743** | 3,588,112,422 | 3,393,480,211 |
| Long-term debt (including current portion) | **71,517,494,294** | **74,640,154,594** | 97,656,098,141 | 103,666,506,714 |
| | **₱82,801,974,818** | **₱85,870,342,735** | ₱110,993,725,199 | ₱116,515,056,742 |

*Fair Value Hierarchy of Financial Instruments*

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

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

| | December 31, 2011 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| **Financial Assets** | | | |
| Financial assets at FVPL: | | | |
| Held-for-trading: | | | |
| Debt securities: | | | |
| Private | **₱7,354,988,626** | **₱40,497,717** | **₱7,395,486,343** |
| Government | **1,273,482,420** | **–** | **1,273,482,420** |
| | **8,628,471,046** | **40,497,717** | **8,668,968,763** |
| Equity securities: | | | |
| Quoted | **2,231,686,695** | **–** | **2,231,686,695** |
| | **10,860,157,741** | **40,497,717** | **10,900,655,458** |
| Derivative financial assets: | | | |
| Not designated as accounting hedges | **–** | **283,287,725** | **283,287,725** |
| | **10,860,157,741** | **323,785,442** | **11,183,943,183** |
| 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** |
| | **₱66,590,456,666** | **₱323,785,442** | **₱66,914,242,108** |
| **Financial Liabilities** | | | |
| Financial liabilities at FVPL: | | | |
| Derivative financial liabilities: | | | |
| Not designated as accounting hedges | **₱–** | **₱303,930,885** | **₱303,930,885** |

| | December 31, 2010 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| **Financial Assets** | | | |
| Financial assets at FVPL: | | | |
| Held-for-trading: | | | |
| Debt securities: | | | |
| Private | ₱6,471,600,623 | ₱– | ₱6,471,600,623 |
| Government | 1,289,922,199 | – | 1,289,922,199 |
| | 7,761,522,822 | – | 7,761,522,822 |
| Equity securities: | | | |
| Quoted | 2,440,000,567 | – | 2,440,000,567 |
| | 10,201,523,389 | – | 10,201,523,389 |
| Derivative financial assets: | | | |
| Not designated as accounting hedges | – | 1,186,178,607 | 1,186,178,607 |
| | 10,201,523,389 | 1,186,178,607 | 11,387,701,996 |
| AFS investments: | | | |
| Debt securities: | | | |
| Government | 4,775,865,587 | – | 4,775,865,587 |
| Private | 3,597,910,124 | – | 3,597,910,124 |
| | 8,373,775,711 | – | 8,373,775,711 |
| Equity securities: | | | |
| Quoted | 1,266,522,333 | – | 1,266,522,333 |
| | 9,640,298,044 | – | 9,640,298,044 |
| | ₱19,841,821,433 | ₱1,186,178,607 | ₱21,028,000,040 |
| **Financial Liabilities** | | | |
| Financial liabilities at FVPL: | | | |
| Derivative financial liabilities: | | | |
| Not designated as accounting hedges | ₱– | ₱262,393,820 | ₱262,393,820 |
| Designated as accounting hedges | – | 546,764,107 | 546,764,107 |
| | ₱– | ₱809,157,927 | ₱809,157,927 |

In 2011 and 2010, there were no transfers among the three levels of the fair value hierarchy.

## 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 follow:

- 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), and other industrial chemicals.
- 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.
- Other supplementary businesses - printing services, textile, insurance brokering, foreign exchange and securities dealing.

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

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

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', 'Earnings before interest and income taxes (EBIT)' and 'Earnings before interest, income taxes and depreciation/amortization (EBITDA)' as of and for the years ended December 31, 2011, 2010 and 2009.

The Group's operating segment information follows:

| | December 31, 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CONTINUING OPERATIONS | | | | | | | | | |
| | Foods, Agro-Industrial and Commodities | Air Transportation | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | TOTAL | DISCONTINUED OPERATIONS Telecommunications | TOTAL OPERATIONS |
| **Revenue** | | | | | | | | | | |
| Sale of goods and services: | | | | | | | | | | |
| External customers | ₱67,167,630,481 | ₱33,935,402,775 | ₱12,594,288,123 | ₱4,781,883,298 | ₱2,359,933,505 | ₱– | ₱– | ₱120,839,138,182 | ₱4,524,649,269 | ₱125,363,787,451 |
| Intersegment revenue | – | – | – | 990,764,289 | – | – | (990,764,289) | – | – | – |
| | 67,167,630,481 | 33,935,402,775 | 12,594,288,123 | 5,772,647,587 | 2,359,933,505 | – | (990,764,289) | 120,839,138,182 | 4,524,649,269 | 125,363,787,451 |
| Equity in net income of associates and joint ventures | 25,469,633 | 42,318,202 | 2,037,713,779 | – | – | 112,098,169 | – | 2,217,599,783 | – | 2,217,599,783 |
| **Total revenue** | 67,193,100,114 | 33,977,720,977 | 14,632,001,902 | 5,772,647,587 | 2,359,933,505 | 112,098,169 | (990,764,289) | 123,056,737,965 | 4,524,649,269 | 127,581,387,234 |
| Cost of sales and services (Note 29) | 50,645,273,658 | 23,562,125,309 | 6,458,368,346 | 5,792,194,377 | 684,063,083 | – | (990,764,289) | 86,151,260,484 | 496,535,978 | 86,647,796,462 |
| **Gross income** | ₱16,547,826,456 | ₱10,415,595,668 | ₱8,173,633,556 | (₱19,546,790) | ₱1,675,870,422 | ₱112,098,169 | ₱– | 36,905,477,481 | 4,028,113,291 | 40,933,590,772 |
| General and administrative expenses (Note 30) | | | | | | | | 19,531,574,050 | 3,625,943,506 | 23,157,517,556 |
| Impairment losses and others (Note 33) | | | | | | | | 329,638,645 | 59,401,794 | 389,040,439 |
| **Operating income** | | | | | | | | 17,044,264,786 | 342,767,991 | 17,387,032,777 |
| Financing cost and other charges (Note 34) | | | | | | | | (5,524,734,190) | (116,858,869) | (5,641,593,059) |
| Finance income (Note 27) | | | | | | | | 3,443,238,660 | 1,398,694,829 | 4,841,933,489 |
| Other operating income (Note 28) | | | | | | | | 1,326,045,353 | 7,713,286 | 1,333,758,639 |
| **Core earnings** | | | | | | | | 16,288,814,609 | 1,632,317,237 | 17,921,131,846 |
| Market valuation loss on financial assets | | | | | | | | (655,486,203) | (43,945,006) | (699,431,209) |
| Foreign exchange loss | | | | | | | | (245,881,638) | (33,963,568) | (279,845,206) |
| **Income before income tax** | | | | | | | | 15,387,446,768 | 1,554,408,663 | 16,941,855,431 |
| Provision for income tax (Note 37) | | | | | | | | 1,962,532,759 | 12,697,904 | 1,975,230,663 |
| **Income after income tax** | | | | | | | | 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 |
| **Net income** | | | | | | | | ₱13,424,914,009 | ₱13,111,798,398 | ₱26,536,712,407 |
| **Net income (loss) of equity holders of the Parent Company** | ₱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 |
| **Earnings before interest and income tax** | ₱6,888,747,621 | ₱3,570,146,011 | ₱4,353,793,757 | (₱268,017,986) | ₱579,539,354 | ₱1,920,056,029 | ₱– | ₱17,044,264,786 | ₱342,767,991 | ₱17,387,032,777 |
| Depreciation and amortization (Notes 15, 16, 17, 18, 20 and 32) | 3,292,308,003 | 2,632,410,923 | 2,113,120,088 | 146,162,144 | 83,639,461 | 54,079,595 | – | 8,321,720,214 | 1,546,551,044 | 9,868,271,258 |
| **Earnings before interest, income taxes and depreciation/amortization (EBITDA)** | ₱10,181,055,624 | ₱6,202,556,934 | ₱6,466,913,845 | (₱121,855,842) | ₱663,178,815 | ₱1,974,135,624 | ₱– | ₱25,365,985,000 | ₱1,889,319,035 | ₱27,255,304,035 |

(Forward)

| | December 31, 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CONTINUING OPERATIONS | | | | | | | | | |
| | Foods, Agro-Industrial and Commodities | Air Transportation | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | TOTAL | DISCONTINUED OPERATIONS Telecommunications | TOTAL OPERATIONS |
| **Other information** | | | | | | | | | | |
| Non-cash expenses other than depreciation and amortization (Note 33): | | | | | | | | | | |
| Impairment losses on receivables (Note 11) | ₱5,625,813 | ₱611,385 | ₱770,804 | ₱6,911,560 | ₱88,598,316 | ₱– | ₱– | ₱102,517,878 | ₱59,401,794 | ₱161,919,672 |
| Impairment losses on intangible assets and goodwill (Notes 18 and 19) | 147,514,765 | – | – | – | – | – | – | 147,514,765 | – | 147,514,765 |
| Inventory obsolescence and market decline (Note 12) | 4,005,060 | – | – | 59,779,747 | – | – | – | 63,784,807 | – | 63,784,807 |
| Impairment losses on property, plant and equipment (Note 16) | 10,065,297 | – | – | – | – | – | – | 10,065,297 | – | 10,065,297 |
| Impairment losses on investment properties (Note 15) | – | – | – | – | 619,075 | – | – | 619,075 | – | 619,075 |
| Impairment losses on other noncurrent assets (Note 20) | – | – | – | – | 5,136,823 | – | – | 5,136,823 | – | 5,136,823 |
| | ₱167,210,935 | ₱611,385 | ₱770,804 | ₱66,691,307 | ₱94,354,214 | ₱– | ₱– | ₱329,638,645 | ₱59,401,794 | ₱389,040,439 |

| | December 31, 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CONTINUING OPERATIONS | | | | | | | | | |
| | Foods, Agro-Industrial and Commodities | Air Transportation | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | TOTAL | DISCONTINUED OPERATIONS Telecommunications | TOTAL OPERATIONS |
| **Revenue** | | | | | | | | | | |
| Sale of goods and services: | | | | | | | | | | |
| External customers | ₱57,719,996,079 | ₱29,088,798,959 | ₱10,581,142,605 | ₱3,306,184,683 | ₱1,734,465,754 | ₱– | ₱– | ₱102,430,588,080 | ₱16,543,916,906 | ₱118,974,504,986 |
| Intersegment revenue | – | – | – | 566,078,600 | – | – | (566,078,600) | – | – | – |
| | 57,719,996,079 | 29,088,798,959 | 10,581,142,605 | 3,872,263,283 | 1,734,465,754 | – | (566,078,600) | 102,430,588,080 | 16,543,916,906 | 118,974,504,986 |
| Equity in net income of associates and joint ventures | 26,194,500 | 25,248,534 | 2,648,908,487 | – | – | 68,373,201 | – | 2,768,724,722 | – | 2,768,724,722 |
| **Total revenue** | 57,746,190,579 | 29,114,047,493 | 13,230,051,092 | 3,872,263,283 | 1,734,465,754 | 68,373,201 | (566,078,600) | 105,199,312,802 | 16,543,916,906 | 121,743,229,708 |
| Cost of sales and services (Note 29) | 41,113,405,237 | 16,792,906,706 | 5,131,720,440 | 3,745,456,507 | 419,356,008 | – | (566,078,600) | 66,636,766,298 | 2,074,712,276 | 68,711,478,574 |
| **Gross income** | ₱16,632,785,342 | ₱12,321,140,787 | ₱8,098,330,652 | ₱126,806,776 | ₱1,315,109,746 | ₱68,373,201 | ₱– | 38,562,546,504 | 14,469,204,630 | 53,031,751,134 |
| General and administrative expenses (Note 30) | | | | | | | | 17,608,251,599 | 13,017,906,040 | 30,626,157,639 |
| Impairment losses and others (Note 33) | | | | | | | | 345,983,265 | 359,883,551 | 705,866,816 |
| **Operating income** | | | | | | | | 20,608,311,640 | 1,091,415,039 | 21,699,726,679 |
| Financing cost and other charges (Note 34) | | | | | | | | (5,692,984,165) | (394,490,003) | (6,087,474,168) |
| Finance income (Note 27) | | | | | | | | 2,174,020,038 | 32,872,466 | 2,206,892,504 |
| Other operating income (Note 28) | | | | | | | | 838,658,136 | 49,363,271 | 888,021,407 |
| **Core earnings** | | | | | | | | 17,928,005,649 | 779,160,773 | 18,707,166,422 |
| Market valuation gain (loss) on financial assets | | | | | | | | 1,695,172,376 | (68,234,326) | 1,626,938,050 |
| Foreign exchange gain | | | | | | | | 1,938,838,537 | 907,458,980 | 2,846,297,517 |
| **Income before income tax** | | | | | | | | 21,562,016,562 | 1,618,385,427 | 23,180,401,989 |
| Provision for income tax (Note 37) | | | | | | | | 1,610,249,143 | 655,589,514 | 2,265,838,657 |
| **Net income** | | | | | | | | ₱19,951,767,419 | ₱962,795,913 | ₱20,914,563,332 |
| **Net income (loss) from equity holders of the Parent Company** | ₱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 |
| **Earnings before interest and income tax** | ₱7,678,208,385 | ₱6,475,374,244 | ₱3,867,898,445 | (₱90,617,302) | ₱342,860,225 | ₱2,334,587,643 | ₱– | ₱20,608,311,640 | ₱1,091,415,039 | ₱21,699,726,679 |
| Depreciation and amortization (Notes 15, 16, 17, 18, 20 and 32) | 3,419,905,367 | 2,100,929,764 | 1,912,198,868 | 131,665,885 | 65,085,613 | 39,407,744 | – | 7,669,193,241 | 5,877,050,996 | 13,546,244,237 |
| **Earnings before interest, income taxes and depreciation/amortization (EBITDA)** | ₱11,098,113,752 | ₱8,576,304,008 | ₱5,780,097,313 | ₱41,048,583 | ₱407,945,838 | ₱2,373,995,387 | ₱– | ₱28,277,504,881 | ₱6,968,466,035 | ₱35,245,970,916 |
| **Other information** | | | | | | | | | | |
| Non-cash expenses other than depreciation and amortization (Note 33): | | | | | | | | | | |
| Impairment losses on receivables (Note 11) | ₱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 (Note 12) | 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 |

| | December 31, 2009 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CONTINUING OPERATIONS | | | | | | | | | |
| | Foods, Agro-Industrial and Commodities | Air Transportation | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | TOTAL | DISCONTINUED OPERATIONS Telecommunications | TOTAL OPERATIONS |
| **Revenue** | | | | | | | | | | |
| Sale of goods and services: | | | | | | | | | | |
| External customers | ₱50,452,959,964 | ₱23,311,006,311 | ₱10,376,286,528 | ₱5,570,751,354 | ₱1,134,848,716 | ₱– | ₱– | ₱90,845,852,873 | ₱14,020,021,311 | ₱104,865,874,184 |
| Intersegment revenue | – | – | – | 564,551,354 | – | – | (564,551,354) | – | – | – |
| | 50,452,959,964 | 23,311,006,311 | 10,376,286,528 | 6,135,302,708 | 1,134,848,716 | – | (564,551,354) | 90,845,852,873 | 14,020,021,311 | 104,865,874,184 |
| Equity in net income (loss) of associates and joint ventures | 25,246,000 | (25,474,123) | 2,903,040,251 | – | – | 186,490,631 | – | 3,089,302,759 | – | 3,089,302,759 |
| **Total revenue** | 50,478,205,964 | 23,285,532,188 | 13,279,326,779 | 6,135,302,708 | 1,134,848,716 | 186,490,631 | (564,551,354) | 93,935,155,632 | 14,020,021,311 | 107,955,176,943 |
| Cost of sales and services (Note 29) | 37,477,094,637 | 14,420,146,122 | 5,036,271,310 | 6,092,856,205 | 284,770,693 | – | (564,551,354) | 62,746,587,613 | 1,656,424,753 | 64,403,012,366 |
| **Gross income** | ₱13,001,111,327 | ₱8,865,386,066 | ₱8,243,055,469 | ₱42,446,503 | ₱850,078,023 | ₱186,490,631 | ₱– | 31,188,568,019 | 12,363,596,558 | 43,552,164,577 |
| General and administrative expenses (Note 30) | | | | | | | | 16,267,082,415 | 11,037,702,389 | 27,304,784,804 |
| Impairment losses and others (Note 33) | | | | | | | | 774,348,807 | 299,281,443 | 1,073,630,250 |
| **Operating income** | | | | | | | | 14,147,136,797 | 1,026,612,726 | 15,173,749,523 |
| Financing cost and other charges (Note 34) | | | | | | | | (5,625,251,343) | (684,673,612) | (6,309,924,955) |
| Finance income (Note 27) | | | | | | | | 1,527,596,236 | 36,263,261 | 1,563,859,497 |
| Other operating income(Note 28) | | | | | | | | 232,248,730 | 17,051,592 | 249,300,322 |
| **Core earnings** | | | | | | | | 10,281,730,420 | 395,253,967 | 10,676,984,387 |
| Market valuation gain (loss) on financial assets | | | | | | | | 2,431,727,915 | (102,048,885) | 2,329,679,030 |
| Foreign exchange gain (loss) | | | | | | | | (525,326,950) | 503,699,503 | (21,627,447) |
| **Income before income tax** | | | | | | | | 12,188,131,385 | 796,904,585 | 12,985,035,970 |
| Provision for (benefit from) income tax (Note 37) | | | | | | | | 1,286,121,558 | (68,891,662) | 1,217,229,896 |
| **Net income** | | | | | | | | ₱10,902,009,827 | ₱865,796,247 | ₱11,767,806,074 |
| **Net income (loss) from equity holders of the Parent Company** | ₱2,482,978,163 | ₱3,257,833,344 | ₱4,865,312,459 | (₱511,103,296) | ₱202,811,777 | (₱1,982,226,173) | (₱505,470,784) | ₱7,810,135,490 | ₱735,506,110 | ₱8,545,641,600 |
| **Earnings before interest and income tax** | ₱4,650,690,173 | ₱3,138,568,639 | ₱4,110,947,313 | ₱30,828,344 | ₱241,993,240 | ₱1,974,109,088 | ₱– | ₱14,147,136,797 | ₱1,026,612,726 | ₱15,173,749,523 |
| Depreciation and amortization (Notes 15, 16, 17, 18, 20 and 32) | 3,196,942,269 | 1,917,683,713 | 1,668,846,295 | 127,702,927 | 55,780,264 | 32,556,875 | – | 6,999,512,343 | 4,819,148,414 | 11,818,660,757 |
| **Earnings before interest, income taxes and depreciation/amortization (EBITDA)** | ₱7,847,632,442 | ₱5,056,252,352 | ₱5,779,793,608 | ₱158,531,271 | ₱297,773,504 | ₱2,006,665,963 | ₱– | ₱21,146,649,140 | ₱5,845,761,140 | ₱26,992,410,280 |
| **Other information** | | | | | | | | | | |
| Non-cash expenses other than depreciation and amortization (Note 33): | | | | | | | | | | |
| Impairment losses on receivables (Note 11) | ₱228,279,324 | ₱209,662,427 | ₱1,000,601 | ₱– | ₱37,565,551 | ₱430,771 | ₱– | ₱476,938,674 | ₱288,655,343 | ₱765,594,017 |
| Realized loss on AFS investments (Note 10) | 185,454,636 | – | – | – | – | 62,358,161 | – | 247,812,797 | – | 247,812,797 |
| Inventory obsolescence and market decline (Note 12) | – | – | – | 49,597,336 | – | – | – | 49,597,336 | 10,626,100 | 60,223,436 |
| | ₱413,733,960 | ₱209,662,427 | ₱1,000,601 | ₱49,597,336 | ₱37,565,551 | ₱62,788,932 | ₱– | ₱774,348,807 | ₱299,281,443 | ₱1,073,630,250 |

Other information on the Group’s operating segment follows:

**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** | **₱55,871,946,737** | **₱65,118,791,480** | **₱12,746,546,689** | **₱31,515,878,991** | **₱153,364,856,958** | **(₱72,183,286,824)** | **₱314,808,417,932** | **₱–** | **₱314,808,417,932** |
| 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** | **₱44,159,471,451** | **₱26,082,193,270** | **₱4,314,877,711** | **₱26,170,627,184** | **₱71,431,296,718** | **(₱64,096,040,787)** | **₱134,409,597,954** | **₱–** | **₱134,409,597,954** |
| Capital expenditures (Notes 15 and 16) | **₱4,559,453,861** | **₱9,685,660,582** | **₱11,082,104,773** | **₱8,233,931,355** | **₱166,238,050** | **₱1,103,993,948** | **₱–** | **₱34,831,382,569** | **₱1,280,729,400** | **₱36,112,111,969** |

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 (Note 14) | ₱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 | ₱50,116,559,705 | ₱53,101,135,224 | ₱7,679,208,825 | ₱24,590,673,476 | ₱157,085,570,977 | (₱122,514,595,174) | ₱235,425,728,399 | ₱90,897,908,000 | ₱326,323,636,399 |
| Short-term debt (Note 23) | ₱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 (Note 23) | ₱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 | ₱39,729,399,583 | ₱25,363,707,010 | ₱9,687,852,790 | ₱19,955,942,974 | ₱88,934,335,230 | (₱121,190,325,898) | ₱86,009,846,046 | ₱90,853,393,000 | ₱176,863,239,046 |
| Capital expenditures (Notes 15 and 16) | ₱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 |

December 31, 2009

| | 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 | ₱88,302,733 | ₱366,355,686 | ₱26,626,094,598 | ₱– | ₱– | ₱1,011,126,142 | ₱– | ₱28,091,879,159 | ₱– | ₱28,091,879,159 |
| Segment assets | ₱60,917,950,331 | ₱35,591,204,150 | ₱51,479,307,022 | ₱5,248,099,544 | ₱16,893,565,238 | ₱164,601,785,584 | (₱140,577,520,694) | ₱194,154,391,175 | ₱83,725,608,216 | ₱277,879,999,391 |
| Short-term debt | ₱5,665,218,301 | ₱– | ₱– | ₱2,168,777,981 | ₱– | ₱4,913,434,449 | ₱– | ₱12,747,430,731 | ₱1,212,643,276 | ₱13,960,074,007 |
| Long-term debt | ₱12,246,869,931 | ₱17,110,126,732 | ₱15,115,000,000 | ₱– | ₱– | ₱39,911,277,821 | ₱– | ₱84,383,274,484 | ₱13,359,923,482 | ₱97,743,197,966 |
| Segment liabilities | ₱24,431,619,892 | ₱30,770,012,847 | ₱25,912,830,845 | ₱7,157,097,505 | ₱14,880,400,126 | ₱96,237,964,699 | (₱108,780,982,692) | ₱90,608,943,222 | ₱82,376,561,514 | ₱172,985,504,736 |
| Capital expenditures | ₱3,874,730,827 | ₱3,417,786,209 | ₱3,851,120,580 | ₱149,606,829 | ₱60,602,281 | ₱76,093,420 | ₱– | ₱11,429,940,146 | ₱11,455,872,915 | ₱22,885,813,061 |

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 revenue' deducted by the 'Financing cost and other charges'. EBIT is computed by reconciling the finance cost and other charges and provision for income tax to the net income attributable to equity holders of the Parent Company while EBITDA is computed by adding back to the EBIT the depreciation and amortization expenses during the period.

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

Segment Liabilities
Segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which, are eliminated. The Group also reports, 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.

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:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Domestic | **₱83,492,489,141** | ₱73,358,458,236 | ₱65,646,831,027 |
| Foreign | **39,564,248,824** | 31,840,854,566 | 28,288,324,605 |
| | **₱123,056,737,965** | ₱105,199,312,802 | ₱93,935,155,632 |

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:

| | **2011** | 2010 |
|---|---|---|
| Domestic | **₱119,709,649,378** | ₱177,225,341,831 |
| Foreign | **39,528,685,895** | 36,789,883,404 |
| | **₱159,238,335,273** | ₱214,015,225,235 |

## 7. Cash and Cash Equivalents

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Cash on hand | **₱781,049,127** | ₱783,767,940 |
| Cash in banks | **8,350,559,234** | 12,564,138,386 |
| Cash equivalents | **24,763,734,644** | 28,762,097,196 |
| | **₱33,895,343,005** | ₱42,110,003,522 |

Cash in bank earns interest at the respective bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group, and earn annual interest ranging from 0.2% to 4.9%, 0.3% to 4.8% and 0.1% to 7.3% in 2011, 2010 and 2009, 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, 2011 and 2010. The notional amount is the basis upon which changes in the value of derivatives are measured.

| | December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Notional Amounts | | | | | |
| | US Dollar | Euro | Philippine Peso | Philippine Peso Equivalent | Derivative Assets | Derivative Liabilities |
| **Derivatives Not Designated as Accounting Hedges** | | | | | | |
| Freestanding: | | | | | | |
| Interest rate swaps | **US$180,000,000** | **€–** | **₱2,000,000,000** | **₱9,891,200,000** | **₱172,496,875** | **₱218,686,239** |
| Commodity options* | – | – | – | – | **16,880,208** | **60,857,586** |
| Foreign currency forwards | **10,980,390** | **900,000** | – | **532,538,518** | **7,076,882** | **1,395,542** |
| Currency options | – | **900,000** | – | **51,158,520** | **7,552,893** | **22,991,518** |
| Cross currency swaps | **7,687,500** | – | – | **395,565,163** | **79,280,867** | – |
| | **US$198,667,890** | **€1,800,000** | **₱2,000,000,000** | **₱10,870,462,201** | **₱283,287,725** | **₱303,930,885** |
| **Presented in the consolidated statements of financial position as:** | | | | | | |
| 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.*

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Notional Amounts | | | | | |
| | US Dollar | Euro | Philippine Peso | Philippine Peso Equivalent | Derivative Assets | Derivative Liabilities |
| **Derivatives Not Designated as Accounting Hedges** | | | | | | |
| Freestanding: | | | | | | |
| Interest rate swaps | US$200,630,192 | €– | ₱2,000,000,000 | ₱10,795,627,617 | ₱111,066,241 | ₱431,768,813 |
| Commodity options* | – | – | – | – | 489,917,466 | – |
| Foreign currency forwards | 6,885,000 | 19,512,607 | – | 1,434,223,278 | 2,419,926 | 595,499 |
| Currency options | – | 300,000 | – | 17,410,050 | – | 12,499,304 |
| Cross currency swaps | 12,723,500 | – | – | 645,604,563 | 102,271,000 | – |
| Embedded: | | | | | | |
| Currency forwards | 247,395,482 | – | – | 10,845,817,931 | 480,503,974 | – |
| | 467,634,174 | 19,812,607 | 2,000,000,000 | 23,738,683,439 | 1,186,178,607 | 444,863,616 |
| **Derivatives Designated as Accounting Hedges** | | | | | | |
| Freestanding: | | | | | | |
| Interest rate swaps | 200,000,000 | – | – | 8,768,000,000 | – | 364,294,311 |
| | US$667,634,174 | €19,812,607 | ₱2,000,000,000 | ₱32,506,683,439 | ₱1,186,178,607 | ₱809,157,927 |
| **Presented in the consolidated statements of financial position as:** | | | | | | |
| Current | | | | | ₱1,075,112,366 | ₱262,393,820 |
| Noncurrent (Notes 20 and 24) | | | | | 111,066,241 | 546,764,107 |
| | | | | | ₱1,186,178,607 | ₱809,157,927 |

**Nominal quantity amounted to 845,000 US barrels as of December 31, 2010.*

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

- Interest rate swaps
  On May 28, 2008, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of ₱2.0 billion to hedge its interest rate exposures on the Inverse Floating Rate Notes bearing an interest of 15.7% less 3-month (3M) benchmark rate (PDST-F). The interest rate swap has a term of five years and interest exchange is every 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 Note based on 3M PSDT-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, 2011 and 2010, the positive fair values of this interest rate swap agreement amounted to ₱172.5 million and ₱111.1 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 US$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, 2011 and 2010, the outstanding notional amount is US$60.0 million and US$100.0 million, respectively.

  As of December 31, 2011 and 2010, the negative fair values of this interest rate swap amounted to ₱72.9 million and ₱182.5 million, respectively.

  On October 6, 2008, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of US$54.1 million to hedge its interest rate exposures on the long-term USD floating rate liability. The interest rate swap has a term of eight years and interest exchange is every 29th day of March and 28th day of September.

  In 2010, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of US$46.5 million to hedge its interest rate exposures on the long-term USD floating rate liability. The interest rate swap has a term of eight years and interest exchange is every 28th day of June and 29th day of December. As of December 31, 2010, the negative fair value of this interest rate swap with outstanding notional amount of US$100.6 million amounted to ₱249.3 million. In 2011, the derivative liability was derecognized as part of the Group's disposal of its entire ownership interest in Digitel.

- Commodity options
  The Group entered into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are

accounted for directly as a credit to or charge against profit or loss. As of December 31, 2011 and 2010, the Group has outstanding fuel hedging transactions with notional quantity of 600,000 US barrels and 845,000 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. The options can be exercised at various calculation dates with specified quantities on each calculation date. As of December 31, 2011, the options have various maturity dates through December 31, 2012.

As of December 31, 2011, the positive and negative fair values of the commodity options amounted to ₱16.9 million and ₱60.9 million, respectively. As of December 31, 2010, the positive fair value of the commodity options amounted to ₱489.9 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 and US$6.9 million and €19.5 million as of December 31, 2010. The positive and negative fair values of these foreign currency forwards amounted to ₱7.1 million and ₱1.4 million and ₱2.4 million and ₱0.6 million as of December 31, 2011 and 2010, 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 and €0.3 million as of December 31, 2011 and 2010, respectively. The positive and negative fair values of these currency options amounted to ₱7.6 million and ₱23.0 million and nil and ₱12.5 million as of December 31, 2011 and 2010, respectively.

- Currency swaps
  On January 27, 2010, July 16, 2009 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, 2011 and 2010, the positive fair value of the currency swaps amounted to ₱79.3 million and ₱102.3 million, respectively, and the outstanding notional amount is US$7.7 million and US$12.7 million, respectively.

- Embedded forwards
  The Group has derivatives embedded in some of its contracts. Such derivatives pertain to embedded currency forwards noted in purchase, sales and service contracts, denominated in a currency which is not the functional currency of a substantial party to the contract or routine currency of the transaction for the contracts. The total outstanding notional amount of currency forwards embedded in nonfinancial contracts amounted to US$247.4 million as of December 31, 2010. The nonfinancial contracts consist mainly of foreign currency-denominated purchase orders with various expected delivery dates. The nonfinancial contracts have various expected delivery dates ranging from 12 to 40 months.

  As of December 31, 2010, the positive fair value of the embedded forwards amounted to ₱480.5 million. In 2011, the derivative asset was derecognized as part of the Group's disposal of its entire ownership interest in Digitel.

*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 swap 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.

  As of December 31, 2010, the negative fair value of the swaps amounted to ₱364.3 million and the outstanding notional amount is US$120.0 million.

Hedge Effectiveness Results
As of December 31, 2011 and 2010, the net effective fair value changes on the Group's cash flow hedges that were deferred in other comprehensive income under 'Net unrealized gain (loss) on cash flow hedge' amounted to ₱175.8 million and ₱52.3 million, respectively.

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.

In December 2011, the Group opted to discontinue the use of hedge accounting, thus 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 gain on derivative financial instruments' in the consolidated statements of comprehensive income.

As of December 31, 2011, the negative fair value of the swaps amounted to ₱145.8 million and the outstanding notional amount is US$120.0 million.

Net Unrealized Loss on Cash Flow Hedge
Movements in the net unrealized loss on cash flow hedge consist of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Balance at beginning of year | **(₱364,294,311)** | (₱416,590,436) | (₱862,252,206) |
| Net changes shown in other comprehensive income (Note 35): | | | |
| Net changes in fair value of derivatives taken to other comprehensive income | **175,838,098** | 52,296,125 | 248,808,336 |
| Amounts transferred to profit or loss | **188,456,213** | – | 196,853,434 |
| | **364,294,311** | 52,296,125 | 445,661,770 |
| Balance at end of year | **₱–** | (₱364,294,311) | (₱416,590,436) |

*Fair value changes on derivatives*
The net movements in fair value of the Group's derivative financial instruments follow:

| | **2011** | 2010 |
|---|---|---|
| Balance at beginning of year: | | |
| Derivative assets | **₱1,186,178,607** | ₱663,231,959 |
| Derivative liabilities | **(809,157,927)** | (750,340,498) |
| | **377,020,680** | (87,108,539) |
| Net changes in fair value of derivatives taken to profit or loss: | | |
| Continuing operations | **498,667,680** | 500,985,612 |
| Discontinued operations (Note 43) | **(43,945,006)** | (68,234,326) |
| Net changes in fair value of derivatives taken to other comprehensive income | **175,838,098** | 52,296,125 |
| Fair value of settled instruments | **(807,983,448)** | (20,918,192) |
| Effect of disposal of a subsidiary | **(220,241,164)** | – |
| | **(397,663,840)** | 464,129,219 |
| Balance at end 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 |

The net changes in fair value of derivatives taken to profit or loss are included under 'Market valuation gain 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:

| | **2011** | 2010 |
|---|---|---|
| Debt securities: | | |
| Private | **₱7,452,781,453** | ₱6,528,895,745 |
| Government | **1,273,482,420** | 1,289,922,199 |
| | **8,726,263,873** | 7,818,817,944 |
| Equity securities: | | |
| Quoted | **2,231,686,695** | 2,440,000,567 |
| Unquoted | **4,516** | 4,516 |
| | **2,231,691,211** | 2,440,005,083 |
| | **₱10,957,955,084** | ₱10,258,823,027 |

In 2011, the Group has recognized net market valuation loss on financial assets at FVPL amounting to ₱1.2 billion. In 2010 and 2009, the Group recognized net market valuation gains on financial assets at FVPL amounting to ₱1.2 billion and ₱2.0 billion, respectively.

Interest income on FVPL consists of (Note 27):

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Debt securities: | | | |
| Private | **₱658,507,026** | ₱585,286,153 | ₱698,650,939 |
| Government | **94,821,394** | 104,017,469 | 64,450,422 |
| | **₱753,328,420** | ₱689,303,622 | ₱763,101,361 |

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 statements 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, 2011*** | September 30, 2010* | September 30, 2009* | September 30, 2008* |
|---|---|---|---|---|
| Private bonds | **₱2,451,989,177** | ₱3,238,990,528 | ₱3,851,715,862 | ₱3,296,606,883 |
| Government securities | **2,165,354,695** | 2,543,989,688 | 2,559,491,290 | 2,224,382,820 |
| Equity securities | **872,487,250** | 943,694,250 | 896,441,088 | 783,853,000 |
| | **₱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 gain (loss) on financial assets at FVPL' in the 2008 consolidated statements of comprehensive income.

Had the reclassification not been made, the Group's consolidated net income would have included an additional market valuation loss on financial assets at FVPL amounting to ₱0.4 billion in 2011 and an additional market valuation gain on financial assets at FVPL amounting to ₱0.4 billion and ₱1.1 billion, respectively, in 2010 and 2009.

After reclassification, the reclassified financial assets contributed the following amounts to income before income taxes for the years ended December 31, 2011, 2010 and 2009, respectively:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Increase (reduction) in: | | | |
| Interest income | **₱7,474,245** | ₱16,478,340 | ₱15,402,694 |
| Foreign exchange gains (losses) | **(23,298,431)** | (42,496,452) | 7,907,802 |
| Provision for impairment losses | **–** | – | (185,454,636) |

The reclassification was compliant with the criteria and rules set forth in SEC Memorandum Circular No. 10, Series of 2008, on Amendments to PAS 39 and PFRS 7, as issued by the Philippine Securities and Exchange Commission (SEC).

10. **Available-for-Sale Investments**

This account consists of investments in:

| | **2011** | 2010 |
|---|---|---|
| Debt securities: | | |
| Government | **₱7,613,169,977** | ₱4,775,865,587 |
| Private | **3,440,104,893** | 3,597,910,124 |
| | **11,053,274,870** | 8,373,775,711 |
| Equity securities: | | |
| Quoted | **44,677,024,055** | 1,266,522,333 |
| Unquoted | **17,065,871** | 226,975,871 |
| | **44,694,089,926** | 1,493,498,204 |
| | **₱55,747,364,796** | ₱9,867,273,915 |

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

| | **2011** | 2010 |
|---|---|---|
| Current portion | **₱12,271,628,856** | ₱9,867,273,915 |
| Noncurrent portion | **43,475,735,940** | – |
| | **₱55,747,364,796** | ₱9,867,273,915 |

In 2011, the Group disposed its entire investment in Digitel 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 an ₱11.6 billion gain in the consolidated statements of comprehensive income, booked under 'Gain from sale of a subsidiary' under discontinued operations (Note 43). 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. The Group has classified the remaining PLDT shares as AFS investments which have a carrying value of ₱43.5 billion as of December 31, 2011.

As of December 31, 2010, AFS investments include the investments reclassified from HTM investments, with carrying value of ₱753.4 million at the time of reclassification, as a result of the Group's participation in the Bond Exchange Program.

In 2011 and 2010, the Group did not recognize any permanent decline in value on its AFS investments. In 2009, the Group recognized permanent decline on its AFS investments under private debt securities amounting to ₱185.5 million and under quoted equity securities amounting to ₱62.3 million (included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income) (Note 33).

Interest income recognized on AFS debt investments are as follows (Note 27):

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Debt securities: | | | |
| Government | **₱536,727,522** | ₱353,189,546 | ₱125,210,572 |
| Private | **254,549,893** | 323,429,132 | 292,158,000 |
| | **₱791,277,415** | ₱676,618,678 | ₱417,368,572 |

Movements in the net unrealized gain (loss) on AFS investments follow:

| | 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 35): | | | |
| 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 28) | **(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 (Note 35) | **4,508,521** | **–** | **4,508,521** |
| | **3,148,023,902** | **(110,625,178)** | **3,037,398,724** |
| Balance at end of year | **₱3,464,471,152** | **₱92,464,968** | **₱3,556,936,120** |

| | 2010 | | |
|---|---|---|---|
| | Parent Company | Non-controlling Interests | Total |
| Balance at beginning of year | ₱197,432,263 | ₱50,132,492 | ₱247,564,755 |
| Net changes shown in other comprehensive income (Note 35): | | | |
| 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 28) | (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 35) | 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 |

| | 2009 | | |
|---|---|---|---|
| | Parent Company | Non-controlling Interests | Total |
| Balance at beginning of year | (₱1,342,345,620) | (₱717,804,732) | (₱2,060,150,352) |
| Net changes shown in other comprehensive income (Note 35): | | | |
| Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries | 1,385,740,601 | 699,500,070 | 2,085,240,671 |
| Realized loss (gain) on sale of AFS investments (Note 28) | (29,534,936) | 1,437,984 | (28,096,952) |
| Reclassification adjustments for losses determined to be permanent decline included in profit or loss (Notes 33 and 35) | 180,813,627 | 66,999,170 | 247,812,797 |
| | 1,537,019,292 | 767,937,224 | 2,304,956,516 |
| Net changes in fair value of AFS investments of an associate (Note 35) | 2,758,591 | – | 2,758,591 |
| | 1,539,777,883 | 767,937,224 | 2,307,715,107 |
| Balance at end of year | ₱197,432,263 | ₱50,132,492 | ₱247,564,755 |

## 11. Receivables

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Finance receivables | **₱12,577,903,770** | ₱10,198,213,416 |
| Trade receivables | **9,216,879,739** | 12,035,940,022 |
| Due from related parties (Note 39) | **1,356,382,048** | 2,226,813,907 |
| Interest receivable | **715,334,659** | 711,403,659 |
| Other receivables | **2,308,878,490** | 2,465,740,847 |
| | **26,175,378,706** | 27,638,111,851 |
| Less allowance for impairment losses | **1,132,858,193** | 3,011,613,678 |
| | **₱25,042,520,513** | ₱24,626,498,173 |

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

| | **2011** | 2010 |
|---|---|---|
| Current portion | **₱13,629,203,361** | ₱15,689,046,262 |
| Noncurrent portion | **11,413,317,152** | 8,937,451,911 |
| | **₱25,042,520,513** | ₱24,626,498,173 |

Noncurrent receivables consist of:

| | **2011** | 2010 |
|---|---|---|
| Trade receivables | **₱1,189,418,089** | ₱589,558,480 |
| Finance receivables | **10,223,899,063** | 8,347,893,431 |
| | **₱11,413,317,152** | ₱8,937,451,911 |

Trade Receivables
Included in trade receivables are installment contract receivables of the real estate segment of the Group amounting to ₱2.5 billion as of December 31, 2011 and 2010. 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% based on the remaining principal balance. Interest income earned from installment contract receivables amounted to ₱227.6 million, ₱234.2 million and ₱111.1 million in 2011, 2010 and 2009, respectively (Note 27).

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

Finance Receivables
Breakdown of finance receivables, which represent receivables from customers of RBC, follows:

| | **2011** | 2010 |
|---|---|---|
| Receivables from customers: | | |
| Commercial | **₱7,763,177,168** | ₱5,707,520,977 |
| Real estate | **2,614,517,808** | 2,180,067,491 |
| Consumption | **2,064,871,818** | 1,985,635,932 |
| Domestic bills purchased | **135,745,968** | 325,494,068 |
| | **12,578,312,762** | 10,198,718,468 |
| Less unearned interest and discounts | **408,992** | 505,052 |
| | **₱12,577,903,770** | ₱10,198,213,416 |

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, 2011 and 2010 amounted to ₱110.8 million and ₱128.2 million, respectively.

Interest income on finance receivables, included under 'Banking revenue' and 'Finance income' in profit or loss in the consolidated statements of comprehensive income, consists of (Notes 26 and 27):

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Receivables from customers: | | | |
| Commercial | **₱531,137,224** | ₱419,193,811 | ₱336,696,334 |
| Consumption | **368,913,374** | 312,436,100 | 292,560,298 |
| Real estate | **231,570,335** | 190,097,977 | 152,171,504 |
| Domestic bills purchased | **754,832** | 1,127,396 | 1,099,216 |
| Unquoted debt securities | **43,563,929** | 9,075,686 | 141,025 |
| Sales contract receivable | **1,034,341** | 1,434,874 | – |
| | **₱1,176,974,035** | ₱933,365,844 | ₱782,668,377 |

Interest income on impaired loans in 2011, 2010 and 2009 amounted to ₱11.7 million, ₱10.3 million and ₱27.8 million, respectively.

Others
Other receivables include unquoted debt securities, claims receivables, creditable withholding tax and other receivables. Unquoted debt securities amounting to ₱602.6 million and ₱500.2 million as of December 31, 2011 and 2010, respectively, pertain to investments in private bonds with local companies and are presented net of unamortized discount amounting to ₱2.4 million and ₱4.8 million, respectively. Unquoted debt securities earn interest at annual fixed rates ranging from 0.0% to 8.9% in 2011 and 2010.

As of December 31, 2011 and 2010, claims receivables amounted to ₱224.6 million and ₱183.3 million, respectively, and creditable withholding tax amounted to ₱268.9 million and ₱265.9 million, respectively.

Allowance for Impairment Losses on Receivables
Changes in the allowance for impairment losses on receivables follow:

| | 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 (Note 43) | **(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** |

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Individual Assessment | | | Collective Assessment | | |
| | Trade Receivables | Finance Receivables | Other Receivables | Trade Receivables | Finance Receivables | Total |
| Balance at beginning of year | ₱677,794,332 | ₱98,554,451 | ₱108,643,961 | ₱1,947,243,604 | ₱89,447,959 | ₱2,921,684,307 |
| Beginning balance of the acquired subsidiary (Note 45) | – | 180,413,407 | 1,571,213 | – | – | 181,984,620 |
| Provision for impairment losses | 55,321,567 | 117,602,538 | 124,276,860 | 357,402,880 | 33,682,760 | 688,286,605 |
| Accounts written-off | (200,024,919) | – | (12,670,357) | (545,227,793) | (9,486,116) | (767,409,185) |
| Effect of changes in foreign currency rates | (12,932,669) | – | – | – | – | (12,932,669) |
| Balance at end of year | ₱520,158,311 | ₱396,570,396 | ₱221,821,677 | ₱1,759,418,691 | ₱113,644,603 | ₱3,011,613,678 |

Breakdown of provision for impairment losses on receivables follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Continuing operations (Note 33) | **₱102,517,878** | ₱330,883,725 | ₱476,938,674 |
| Discontinued operations (Note 43) | **59,401,794** | 357,402,880 | 288,655,343 |
| | **₱161,919,672** | ₱688,286,605 | ₱765,594,017 |

## 12. **Inventories**

This account consists of inventories held as follows:

| | **2011** | 2010 |
|---|---|---|
| At cost: | | |
| Raw materials | **₱3,598,336,480** | ₱2,968,663,884 |
| Finished goods | **3,017,249,923** | 2,592,851,886 |
| | **6,615,586,403** | 5,561,515,770 |
| At NRV: | | |
| Subdivision land, condominium and residential units for sale | **8,491,028,487** | 6,197,307,815 |
| Spare parts, packaging materials and other supplies | **2,997,982,794** | 3,168,516,970 |
| Work-in-process | **486,414,046** | 123,324,844 |
| By-products | **18,070,095** | 34,418,138 |
| | **11,993,495,422** | 9,523,567,767 |
| Materials in-transit | **1,834,802,837** | 1,227,970,661 |
| | **₱20,443,884,662** | ₱16,313,054,198 |

Under the terms of agreements covering liabilities under trust receipts amounting to ₱4.2 billion and ₱2.1 billion as of December 31, 2011 and 2010, respectively, certain inventories 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 trusteed 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 ₱470.1 million, ₱459.7 million and ₱438.4 million in 2011, 2010 and 2009, 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:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Continuing operations (Note 33) | **₱63,784,807** | ₱15,099,540 | ₱49,597,336 |
| Discontinued operations (Note 43) | **–** | 2,480,671 | 10,626,100 |
| | **₱63,784,807** | ₱17,580,211 | ₱60,223,436 |

In 2009, the Group recognized losses on its inventories which were severely damaged by a typhoon amounting to ₱0.1 billion (included under 'Other income (loss)' in profit or loss in the consolidated statements of comprehensive income).

13. **Other Current Assets**

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Funds under escrow (Note 43) | **₱4,340,500,000** | ₱– |
| Input value-added tax (VAT) | **1,698,955,523** | 4,734,148,479 |
| Advances to suppliers | **932,900,119** | 622,669,290 |
| Prepaid expenses | **451,387,692** | 870,463,452 |
| Utility deposits | **3,519,980** | 5,740,785 |
| Restricted cash in bank | **61,251** | 21,966,461 |
| Others | **58,064,957** | 14,192,962 |
| | **₱7,485,389,522** | ₱6,269,181,429 |

Funds under Escrow

As part of the Sale and Purchase Agreement (SPA) entered into by the Parent Company and PLDT (the Parties), an Escrow Agreement was executed on November 10, 2011 by the Parties with a third party Bank (Escrow Agent) which states that upon exercise of the options by the Parties, the Parent Company will deliver an amount of ₱4.3 billion to the Escrow Agent. The Escrow account is interest bearing and has a 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 Digitel Group are met. As of May 4, 2012, the Parent Company's management and the buyer are in the process of completing post-closing exercise, which is customary in nature.

Input VAT

As of December 31, 2011 and 2010, the gross amount of output VAT deducted from input VAT amounted to ₱3.3 billion and ₱5.6 billion, respectively. The Group believes that the amount of input VAT is fully realizable in the future.

Prepaid Expenses

This includes:

| | **2011** | 2010 |
|---|---|---|
| Prepaid rent | **₱179,403,127** | ₱307,122,061 |
| Prepaid insurance | **124,986,548** | 119,503,439 |
| Prepaid advertising | **38,619,931** | 31,174,783 |
| Prepaid taxes | **35,338,582** | 284,975,016 |
| Prepaid office supplies | **4,427,028** | 4,120,510 |
| Other prepaid expenses | **68,612,476** | 123,567,643 |
| | **₱451,387,692** | ₱870,463,452 |

Restricted Cash in Bank

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

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

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Acquisition cost: | | |
| Balance at beginning of year | **₱19,727,475,601** | ₱19,312,878,180 |
| Additional investments | **172,144,748** | 594,409,921 |
| Effect of disposal of a subsidiary | **(292,869,840)** | – |
| Return of investment from an associate | **(20,522,040)** | (179,812,500) |
| Balance at end of year | **19,586,228,469** | 19,727,475,601 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **10,998,327,321** | 8,927,251,457 |
| Equity in net earnings | **2,217,599,783** | 2,768,724,722 |
| Effect of disposal of a subsidiary | **43,415,334** | – |
| Cash dividends received | **(575,078,473)** | (697,648,858) |
| Balance at end of year | **12,684,263,965** | 10,998,327,321 |
| Share in net unrealized gain on AFS investments of an associate: | | |
| Balance at beginning of year | **1,536,336** | 1,360,588 |
| Share in net changes in fair value of AFS investments of an associate | **4,508,521** | 175,748 |
| Balance at end of year | **6,044,857** | 1,536,336 |
| Cumulative translation adjustment | **76,876,974** | 75,711,565 |
| | **32,353,414,265** | 30,803,050,823 |
| Less allowance for impairment losses | **297,450,397** | 377,288,575 |
| | **₱32,055,963,868** | ₱30,425,762,248 |

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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | | | (In Million Pesos) | |
| **Associates** | | | | |
| Foreign: | | | | |
| United Industrial Corp., Limited (UICL) | **36.09** | 35.99 | **₱31,036.5** | ₱29,361.3 |
| Domestic: | | | | |
| Cebu Light Industrial Park, Inc. (CLIPI) | **20.00** | 20.00 | **65.0** | 55.4 |
| Oriental Petroleum and Minerals Corporation (OPMC) | **19.40** | 19.40 | **415.2** | 334.5 |
| Jobstreet.com Philippines, Inc. (JPI) | **40.00** | 40.00 | **39.8** | 25.4 |
| Sterling Holdings and Security Corporation (SHSC) | **49.00** | 49.00 | **–** | – |
| Bauang Private Power Corporation (BPPC)/First Private Power Corporation (FPPC) | **18.66** | 18.66 | **–** | 190.1 |
| | | | **31,556.5** | 29,966.7 |
| **Joint Ventures** | | | | |
| Domestic: | | | | |
| SIA Engineering (Philippines) Corp. (SIAEP) | **23.53** | 22.94 | **244.0** | 252.5 |
| Aviation Partnership (Philippines) Corp. (APPC) | **32.95** | 32.11 | **131.7** | 117.1 |
| Hunt-Universal Robina Corporation (HURC) | **32.08** | 32.07 | **90.0** | 89.5 |
| Philippine Academy for Aviation Training (PAAT) | **40.34** | – | **33.8** | – |
| Digitel Crossing (DC) | **–** | 19.83 | **–** | – |
| | | | **499.5** | 459.1 |
| | | | **₱32,056.0** | ₱30,425.8 |

Investment in UICL

UICL follows the revaluation method of measuring investment properties while the Group follows the cost method of measuring its 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:

| | **2011** | 2010 |
|---|---|---|
| Current assets | **₱36,424,858,560** | ₱27,678,586,135 |
| Noncurrent assets | **208,384,343,431** | 208,758,782,594 |
| Current liabilities | **37,311,631,376** | 33,194,307,055 |
| Noncurrent liabilities | **21,932,845,398** | 25,187,533,925 |
| Non-controlling interest | **52,371,826,869** | 52,258,990,698 |
| Revenue | **45,794,324,786** | 33,673,880,390 |
| Cost of sales | **25,684,149,658** | 19,128,414,463 |
| Net income | **18,118,998,882** | 7,510,333,330 |

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, 2011 and 2010, the Group's investments in the following listed investee companies have a fair value of:

| | **2011** | 2010 |
|---|---|---|
| UICL | **₱45,886,710,309** | ₱41,704,635,852 |
| OPMC | **650,728,898** | 504,506,623 |

Investment in CLIPI

The Group's investment in CLIPI includes deposits for future subscription on 20.0% of the latter's proposed increase in authorized capital stock amounting to ₱12.0 million. Such increase in CLIPI's authorized capital stock has not been effected as of December 31, 2011 and 2010.

Summarized below is the financial information of the significant associates of the Group:

| | **2011** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Statement of Financial Position** | | | | **Statement of Comprehensive Income** | | |
| **Associate** | **Current Assets** | **Noncurrent Assets** | **Current Liabilities** | **Noncurrent Liabilities** | **Revenue** | **Costs and Expenses** | **Net Income** |
| OPMC | **₱1,660,462,665** | **₱1,799,397,588** | **₱526,511,429** | **₱155,841,248** | **₱1,076,964,560** | **₱659,319,065** | **₱417,645,495** |
| CLIPI | **600,472,986** | **292,839,283** | **526,826,163** | **41,409,115** | **199,256,325** | **147,636,362** | **51,619,963** |
| JPI | **350,553,619** | **15,429,221** | **327,072,098** | **3,517,695** | **286,621,377** | **160,850,804** | **71,769,739** |

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Statement of Financial Position | | | | Statement of Comprehensive Income | | |
| **Associate** | Current Assets | Noncurrent Assets | Current Liabilities | Noncurrent Liabilities | Revenue | Costs and Expenses | Net Income (Loss) |
| OPMC | ₱996,088,684 | ₱1,481,703,049 | ₱24,844,435 | ₱132,875,182 | ₱773,041,782 | ₱255,859,337 | ₱149,491,920 |
| CLIPI | 526,682,111 | 339,241,517 | 586,755,828 | 2,301,973 | 94,342,162 | 84,397,904 | 9,102,149 |
| BPPC | 251,028,366 | 423,801 | 13,639,150 | – | 455,088,194 | 388,586,375 | (7,252,272) |
| JPI | 233,638,685 | 11,678,023 | 202,057,745 | 3,299,855 | 227,025,603 | 111,681,941 | 69,004,713 |

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.

In 2011 and 2010, the Group received return of capital from FPPC/BPPC in the amount of ₱20.5 million and ₱179.8 million, respectively.

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*

The investment in PAAT represents 40.3% investments by the Group in PAAT. 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. As of December 31, 2011, the Group's investment in PAAT amounted to ₱33.8 million, net of subscription payable of ₱101.3 million. On January 27, 2012, PAAT was formally incorporated.

*DC*

Under the terms of the JV agreement on DC, the Group shall invest a total of US$12.0 million, representing a 40.0% interest in the JV. As of December 31, 2010, the Group's investment cost and accumulated equity in net losses of DC amounted to ₱292.2 million and ₱43.4 million, respectively. The carrying value of the Group's investment in DC amounting to ₱249.5 million has been fully impaired as of December 31, 2010. In 2011, the investment in DC was derecognized as part of the Group's disposal of its entire ownership interest in Digitel.

The summary of information below is adjusted to the proportionate share of the Group in the assets and liabilities as at December 31, 2011 and 2010 and the income and expenses of the jointly controlled entities for the years ended December 31, 2011 and 2010.

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Statement of Financial Position | | | | Statement of Comprehensive Income | | |
| **Joint Venture** | **Current Assets** | **Noncurrent Assets** | **Current Liabilities** | **Noncurrent Liabilities** | **Revenue** | **Costs and Expenses** | **Net Income (Loss)** |
| APPC | **₱130,640,715** | **₱17,484,399** | **₱58,939,161** | **₱–** | **₱166,527,392** | **₱118,104,727** | **₱34,386,685** |
| 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)** |

| Joint Venture | 2010 Statement of Financial Position Current Assets | Noncurrent Assets | Current Liabilities | Noncurrent Liabilities | Statement of Comprehensive Income Revenue | Costs and Expenses | Net Income (Loss) |
|---|---|---|---|---|---|---|---|
| APPC | ₱124,981,674 | ₱16,303,322 | ₱64,137,903 | ₱− | ₱138,906,299 | ₱120,927,529 | ₱17,978,770 |
| HURC | 103,644,873 | 1,474,011 | 79,348,562 | 649,426 | 215,778,002 | 123,270,308 | 17,477,037 |
| SIAEP | 45,559,234 | 144,268,970 | 31,214,911 | − | 1,052,392 | 5,235,854 | (4,183,462) |
| DC | 39,203,398 | 82,324,256 | 10,168,472 | 10,260,009 | 21,965,803 | 20,943,062 | 4,770,891 |

## 15. Investment Properties

Movements in this account follow:

| **2011** | **Land and Land Improvements** | **Buildings and Improvements** | **Construction In-Progress** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| 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** |
| **Accumulated Depreciation and Amortization** | | | | |
| 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** |
| **Allowance for Impairment Losses** | | | | |
| Provision for impairment losses (Note 33) | **619,075** | **–** | **–** | **619,075** |
| **Net Book Value at End of Year** | **₱18,654,419,125** | **₱17,937,785,190** | **₱5,291,466,931** | **₱41,883,671,246** |

| 2010 | Land and Land Improvements | Buildings and Improvements | Construction In-Progress | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at beginning of year | ₱10,111,824,149 | ₱26,213,113,183 | ₱2,651,257,533 | ₱38,976,194,865 |
| Additions | 1,707,728,663 | 917,470,013 | 1,591,352,411 | 4,216,551,087 |
| Retirement/disposals | (24,000,472) | − | − | (24,000,472) |
| Transfers/other adjustments | 21,307,075 | 2,742,466,842 | (2,747,807,748) | 15,966,169 |
| Balance at end of year | 11,816,859,415 | 29,873,050,038 | 1,494,802,196 | 43,184,711,649 |
| **Accumulated Depreciation and Amortization** | | | | |
| Balance at beginning of year | 46,387,003 | 9,444,919,234 | − | 9,491,306,237 |
| Depreciation and amortization | 4,799,085 | 1,599,297,113 | − | 1,604,096,198 |
| Retirements/disposals | (803,923) | − | − | (803,923) |
| Balance at end of year | 50,382,165 | 11,044,216,347 | − | 11,094,598,512 |
| **Net Book Value at End of Year** | ₱11,766,477,250 | ₱18,828,833,691 | ₱1,494,802,196 | ₱32,090,113,137 |

Investment properties consist mainly of land held for appreciation, shopping malls and 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.

Borrowing Costs
Borrowing costs capitalized to subdivision land, condominium and residential units for sale and investment properties under construction amounted to ₱1.0 billion in 2011 and 2010 and ₱0.6 million in 2009. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2011, 2010 and 2009 ranges from 7.5% to 12.0%.

Fair Value of Investment Properties
The fair value of investment properties, which has been determined based on valuations performed by an independent and professional property appraiser 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, 2011 and 2010 amounted to ₱51.1 billion and ₱50.1 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 profit or loss in the consolidated statements of comprehensive income amounted to ₱6.2 billion, ₱5.6 billion and ₱5.2 billion in 2011, 2010 and 2009, 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 ₱2.2 billion, ₱1.8 billion and ₱1.6 billion in 2011, 2010 and 2009, respectively.

Depreciation and Amortization
The breakdown of consolidated depreciation and amortization on investment properties follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Depreciation and amortization expense included under: | | | |
| Cost of services (Note 29) | **₱1,756,889,603** | ₱1,596,776,495 | ₱1,420,605,645 |
| General and administrative expenses (Note 30) | **20,976,753** | 7,319,703 | 5,353,839 |
| | **₱1,777,866,356** | ₱1,604,096,198 | ₱1,425,959,484 |

Collaterals
As of December 31, 2011 and 2010, 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, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Improvements | Buildings and Improvements | Machinery and Equipment | Telecommunications Equipment | Investment in Cable Systems | Sub-total |
| **Cost** | | | | | | |
| 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 43) | (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 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| 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 43) | – | (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 |
| **Allowance for impairment losses** | | | | | | |
| Provision for impairment losses (Note 33) | – | – | 10,065,297 | – | – | 10,065,297 |
| **Net Book Value at End of Year** | ₱2,990,961,338 | ₱8,590,466,107 | ₱17,186,017,627 | ₱– | ₱– | ₱28,767,445,072 |

| | December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Transportation, Furnishing and Other Equipment | Passenger Aircraft and Other Flight Equipment | Construction In-progress | Equipment In-transit | Total |
| **Cost** | | | | | |
| Balance at beginning of year | ₱9,572,560,515 | ₱37,801,123,369 | ₱36,581,784,809 | ₱386,517,787 | ₱230,267,766,646 |
| Additions | 526,472,077 | 5,656,557,836 | 14,361,998,726 | 102,358,702 | 24,454,063,598 |
| Effect of disposal of a subsidiary (Note 43) | (4,898,964,587) | – | (31,905,616,838) | – | (120,839,359,205) |
| Transfers, disposals and other adjustments | (90,938,223) | 1,894,273,973 | (1,582,986,772) | (386,517,787) | (395,358,609) |
| Balance at end of year | 5,109,129,782 | 45,351,955,178 | 17,455,179,925 | 102,358,702 | 133,487,112,430 |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | 6,914,130,420 | 8,634,228,218 | – | – | 83,842,229,533 |
| Depreciation and amortization | 548,642,626 | 2,589,737,564 | – | – | 7,683,496,002 |
| Effect of disposal of a subsidiary (Note 43) | (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 | 11,213,050,584 | – | – | 51,081,660,442 |
| **Allowance for impairment losses** | | | | | |
| Provision for impairment losses (Note 33) | – | – | – | – | 10,065,297 |
| **Net Book Value at End of Year** | ₱1,931,498,398 | ₱34,138,904,594 | ₱17,455,179,925 | ₱102,358,702 | ₱82,395,386,691 |

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Improvements | Buildings and Improvements | Machinery and Equipment | Telecommunications Equipment | Investment in Cable Systems | Sub-total |
| **Cost** | | | | | | |
| Balance at beginning of year | ₱3,732,515,791 | ₱18,137,067,379 | ₱43,120,859,847 | ₱49,897,066,990 | ₱758,846,202 | ₱115,646,356,209 |
| Additions | 396,225,368 | 836,673,048 | 1,605,317,626 | 321,534,312 | – | 3,159,750,354 |
| Transfers, disposals and other adjustments | (106,077,114) | 397,395,108 | 353,098,550 | 26,443,376,406 | 31,880,653 | 27,119,673,603 |
| Balance at end 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 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at beginning of year | 399,166,287 | 7,420,637,719 | 25,887,769,257 | 27,382,972,193 | 192,698,516 | 61,283,243,972 |
| Depreciation and amortization | 59,266,548 | 828,018,941 | 2,767,259,768 | 3,508,427,387 | 45,499,857 | 7,208,472,501 |
| Disposals and other adjustments | 132,613,275 | 46,375,885 | (393,201,691) | 16,366,953 | – | (197,845,578) |
| Balance at end of year | 591,046,110 | 8,295,032,545 | 28,261,827,334 | 30,907,766,533 | 238,198,373 | 68,293,870,895 |
| **Net Book Value at End of Year** | ₱3,431,617,935 | ₱11,076,102,990 | ₱16,817,448,689 | ₱45,754,211,175 | ₱552,528,482 | ₱77,631,909,271 |

| | December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Transportation, Furnishing and Other Equipment | Passenger Aircraft and Other Flight Equipment | Construction In-progress | Equipment In-transit | Total |
| **Cost** | | | | | |
| Balance at beginning of year | ₱8,119,061,420 | ₱32,613,670,640 | ₱49,636,832,786 | ₱432,441,740 | ₱206,448,362,795 |
| Additions | 801,089,415 | 5,017,924,206 | 16,827,344,744 | 589,722,381 | 26,395,831,100 |
| Transfers, disposals and other adjustments | 652,409,680 | 169,528,523 | (29,882,392,721) | (635,646,334) | (2,576,427,249) |
| Balance at end of year | 9,572,560,515 | 37,801,123,369 | 36,581,784,809 | 386,517,787 | 230,267,766,646 |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | 5,994,344,963 | 6,865,298,784 | – | – | 74,142,887,719 |
| Depreciation and amortization | 1,022,490,135 | 2,059,928,151 | – | – | 10,290,890,787 |
| Disposals and other adjustments | (102,704,678) | (290,998,717) | – | – | (591,548,973) |
| Balance at end of year | 6,914,130,420 | 8,634,228,218 | – | – | 83,842,229,533 |
| **Net Book Value at End of Year** | ₱2,658,430,095 | ₱29,166,895,151 | ₱36,581,784,809 | ₱386,517,787 | ₱146,425,537,113 |

Construction in-Progress

*DTPI*

Projects under construction consists of a cellular tower where relays, routers, power transmission including a generator set, base station and subsystems may be found in a typical infrastructure. These facilities, when rolled out, are subjected to rigid testing for serviceability and traffic utilization, including its ability to inter-operate with other network elements, thereby ensuring seamless inter-connectivity (voice and data). These projects are turn-key and must await final acceptance and certification before the projects under construction qualifying as available for use are transferred to the related 'Property, plant and equipment', when the construction or installation and related activities necessary to prepare the asset for their intended use are completed, and the asset are ready for commercial service.

In 2011, the above construction in-progress was derecognized as part of the Group's disposal of its entire ownership interest in Digitel.

*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, 2011 and 2010, the Group's capitalized pre-delivery payments as construction in-progress amounted to ₱6.9 billion and ₱4.8 billion, respectively.

*JGSOC*

Construction in-progress amounting to ₱6.7 billion and ₱1.2 billion as of December 31, 2011 and 2010, 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 ₱67.0 million and ₱11.6 million as of December 31, 2011 and 2010, respectively, represents the expansion of PE and PP plant.

Borrowing Costs

Borrowing costs capitalized as part of property, plant and equipment under construction amounted to nil and ₱1.6 million in 2011 and 2010, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2010 was 8.8%.

Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on property, plant and equipment follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Continuing operations: | | | |
| General and administrative expenses (Note 30) | **₱3,079,058,001** | ₱2,500,489,561 | ₱2,298,354,099 |
| Cost of sales (Note 29) | **3,158,287,988** | 3,168,777,966 | 2,932,577,881 |
| Cost of services (Note 29) | **275,168,145** | 249,688,653 | 177,103,340 |
| Discontinued operations (Note 43) | **1,170,981,868** | 4,371,934,607 | 3,616,280,837 |
| | **₱7,683,496,002** | ₱10,290,890,787 | ₱9,024,316,157 |

Investment in Cable Systems

Investment in cable systems represents Digitel's indefeasible rights of use of circuits in certain cable systems. In 2011, investment in cable systems was derecognized as part of the Group's disposal of its entire ownership interest in Digitel.

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 (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 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, 2011 and 2010, the carrying amounts of the securing assets (included under 'Property, plant and equipment' in the consolidated statements of financial position) amounted to ₱30.4 billion and ₱26.6 billion, respectively.

*Others*

Certain property, plant and equipment of URC with an aggregate net book value of ₱34.3 million and ₱46.6 million have been pledged as security for certain long-term debt as of December 31, 2011 and 2010, respectively (Note 23).

Operating Fleet

As of December 31, 2011 and 2010, the Group's operating fleet follows:

| | **2011** | 2010 |
|---|---|---|
| Owned (Note 23): | | |
| Airbus A319 | **10** | 10 |
| Airbus A320 | **8** | 5 |
| ATR 72-500 | **8** | 7 |
| Under operating lease (Note 41): | | |
| Airbus A320 | **11** | 9 |
| | **37** | 31 |

The additions in 'Passenger aircraft' includes capitalized asset retirement obligation related to new operating lease agreements amounting to ₱279.9 million and nil in 2011 and 2010, respectively. Moreover, a change in accounting estimates increased ARO asset by ₱705.7 million in 2010 with recognition of ARO liability (Note 24).

## 17. Biological Assets

The composition and movements in this account follow:

| | **December 31, 2011** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Swine (At Fair Value Less Estimated Costs to Sell)** | | | **Poultry (At Cost)** | | | |
| | **Breeder** | **Commercial** | **Sub-total** | **Breeder** | **Commercial** | **Sub-total** | **Total** |
| **Cost** | | | | | | | |
| 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** |
| **Accumulated Depreciation** | | | | | | | |
| 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)** |
| **Net Book Value at End of Year** | **₱383,306,167** | **₱850,256,410** | **₱1,233,562,577** | **₱75,747,521** | **₱61,008,719** | **₱136,756,240** | **₱1,370,318,817** |

| | December 31, 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Swine (At Fair Value Less Estimated Costs to Sell) | | | Poultry (At Cost) | | | |
| | Breeder | Commercial | Sub-total | Breeder | Commercial | Sub-total | Total |
| **Cost** | | | | | | | |
| Balance at beginning of year | ₱423,205,686 | ₱1,007,768,708 | ₱1,430,974,394 | ₱184,271,162 | ₱52,859,437 | ₱237,130,599 | ₱1,668,104,993 |
| Additions | 324,040,327 | 2,442,514,305 | 2,766,554,632 | 22,487,266 | 165,074,879 | 187,562,145 | 2,954,116,777 |
| Disposal | (334,426,674) | (2,634,447,729) | (2,968,874,403) | (61,277,633) | (158,256,271) | (219,533,904) | (3,188,408,307) |
| Balance at end of year | 412,819,339 | 815,835,284 | 1,228,654,623 | 145,480,795 | 59,678,045 | 205,158,840 | 1,433,813,463 |
| **Accumulated Depreciation** | | | | | | | |
| Balance at beginning of year | 40,929,558 | – | 40,929,558 | 61,296,050 | – | 61,296,050 | 102,225,608 |
| Depreciation | 29,767,994 | – | 29,767,994 | 109,337,200 | – | 109,337,200 | 139,105,194 |
| Disposal | (33,210,065) | – | (33,210,065) | (114,629,876) | – | (114,629,876) | (147,839,941) |
| Balance at end of year | 37,487,487 | – | 37,487,487 | 56,003,374 | – | 56,003,374 | 93,490,861 |
| Losses arising from changes in fair value less estimated costs to sell | (16,109,038) | (28,636,528) | (44,745,566) | – | – | – | (44,745,566) |
| **Net Book Value at End of Year** | ₱359,222,814 | ₱787,198,756 | ₱1,146,421,570 | ₱89,477,421 | ₱59,678,045 | ₱149,155,466 | ₱1,295,577,036 |

The Group has about 206,201 and 170,624 heads of swine as of December 31, 2011 and 2010, respectively, and about 470,969 and 478,236 heads of poultry as of December 31, 2011 and 2010, respectively.

Total biological assets shown in the consolidated statements of financial position follow:

| | **2011** | 2010 |
|---|---|---|
| Current portion | **₱911,265,129** | ₱846,876,801 |
| Noncurrent portion | **459,053,688** | 448,700,235 |
| | **₱1,370,318,817** | ₱1,295,577,036 |

## 18. Intangible Assets

The composition and movements in this account follow:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **Technology Licenses** | **Licenses** | **Software Costs** | **Trademarks** | **Product Formulation** | **Total** |
| **Cost** | | | | | | |
| 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** |
| Balance at end of year | **552,331,752** | **235,592,879** | **72,161,135** | **335,539,346** | **425,000,000** | **1,620,625,112** |
| **Accumulated Amortization and Impairment Loss** | | | | | | |
| 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** |
| Balance at end of year | **552,331,752** | **–** | **67,436,912** | **11,301,181** | **–** | **631,069,845** |
| **Impairment Losses Due to Disposal of Investment in Subsidiaries** (Notes 33 and 44) | **–** | **–** | **–** | **84,014,765** | **–** | **84,014,765** |
| **Net Book Value at End of Year** | **₱–** | **₱235,592,879** | **₱4,724,223** | **₱240,223,400** | **₱425,000,000** | **₱905,540,502** |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Technology Licenses | Licenses | Software Costs | Trademarks | Product Formulation | Total |
| **Cost** | | | | | | |
| Balance at beginning of year | ₱552,331,752 | ₱99,616,679 | ₱72,161,135 | ₱335,539,346 | ₱425,000,000 | ₱1,484,648,912 |
| Additions | – | 135,076,200 | – | – | – | 135,076,200 |
| Balance at end of year | 552,331,752 | 234,692,879 | 72,161,135 | 335,539,346 | 425,000,000 | 1,619,725,112 |
| **Accumulated Amortization and Impairment Loss** | | | | | | |
| Balance at beginning of year | 552,331,752 | – | 59,607,145 | 6,919,090 | – | 618,857,987 |
| Amortization | – | – | 4,268,033 | 2,767,636 | – | 7,035,669 |
| Balance at end of year | 552,331,752 | – | 63,875,178 | 9,686,726 | – | 625,893,656 |
| **Net Book Value at End of Year** | ₱– | ₱234,692,879 | ₱8,285,957 | ₱325,852,620 | ₱425,000,000 | ₱993,831,456 |

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 'Branch licenses' of RBC.

In 2010, the amount of ₱134.3 million was assigned to 'Licenses' as part of the acquisition by the Group of RBC (formerly Royal Bank of Scotland (Philippines), Inc. (RBS)) from Royal Bank of Scotland Group plc and The Royal Bank of Scotland N.V. (Note 45).

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.

## 19. Goodwill

Movements in the Group's Goodwill account follow:

| | **2011** | 2010 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of year | **₱1,075,014,724** | ₱1,075,014,724 |
| Disposal of investment | **(28,247,244)** | – |
| Balance at end of year | **1,046,767,480** | 1,075,014,724 |
| **Accumulated Impairment Losses** | | |
| Balance at beginning of year | **184,639,704** | 184,639,704 |
| Provision for impairment losses (Note 33) | **63,500,000** | – |
| Balance at end of year | **248,139,704** | 184,639,704 |
| **Net Book Value at End of Year** | **₱798,627,776** | ₱890,375,020 |

The Group's goodwill pertains to: (a) the acquisition of Advanson in December 2007, (b) the acquisition of Acesfood in May 2007, (c) 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 (d) 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 33). 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 44).

## 20. **Other Noncurrent Assets**

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Security and miscellaneous deposits | **₱486,258,247** | ₱581,938,092 |
| Deferred tax assets (Note 37) | **242,595,026** | 231,357,830 |
| Derivative assets (Note 8) | **172,496,875** | 111,066,241 |
| Input VAT | **150,799,015** | – |
| Deferred subscriber acquisition and retention costs | **–** | 1,454,924,519 |
| Pension assets (Note 36) | **–** | 77,904,820 |
| Others | **663,511,437** | 1,225,302,257 |
| | **₱1,715,660,600** | ₱3,682,493,759 |

Security Deposits

As of December 31, 2010, security deposits include deposits amounting to ₱273.5 million which relate to the Group's leased buildings, cellsite lots and commercial spaces. These will be collected in full or offset against rent payable at the end of the lease terms subject to adjustments by the lessor to cover damages incurred on the properties. In 2011, these security deposits were derecognized as part of the Group's disposal of its entire ownership interest in Digitel.

Deferred Subscriber Acquisition and Retention Costs

Changes in deferred subscriber acquisition and retention costs follow:

| | **2011** | 2010 |
|---|---|---|
| Balance at beginning of year | **₱1,454,924,519** | ₱1,510,120,411 |
| Deferral of subscriber acquisition and retention costs | **297,522,051** | 1,449,920,497 |
| Amortization | **(375,569,176)** | (1,505,116,389) |
| Effect of disposal of a subsidiary | **(1,376,877,394)** | – |
| Balance at end of year | **₱–** | ₱1,454,924,519 |

Others

Others include repossessed chattels and utility deposits.

In 2011, 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 ₱5.1 million (Note 33).

21. **Accounts Payable and Accrued Expenses**

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Trade payables | **₱8,267,951,604** | ₱8,451,724,454 |
| Accrued expenses | **8,193,504,665** | 9,591,950,670 |
| Deposit liabilities | **6,326,435,391** | 8,561,959,697 |
| Due to related parties (Note 39) | **631,507,140** | 532,241,305 |
| Airport and other related fees payable | **330,044,660** | 435,286,079 |
| Withholding taxes payable | **107,597,736** | 358,995,687 |
| Output VAT | **8,957,536** | 265,529,734 |
| Dividends payable | **8,689,011** | 7,568,707 |
| Other payables | **1,103,535,331** | 1,347,632,808 |
| | **₱24,978,223,074** | ₱29,552,889,141 |

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:

| | **2011** | 2010 |
|---|---|---|
| Landing and take-off, navigational charges, and other aircraft-related expenses | **₱1,701,604,461** | ₱1,478,647,591 |
| Accrued interest payable | **1,244,509,791** | 1,387,850,779 |
| Advertising and promotions | **1,240,988,242** | 2,207,835,484 |
| Compensation and benefits | **957,869,667** | 1,055,626,303 |
| Taxes and licenses | **790,682,556** | 782,987,412 |
| Import bills payable | **604,225,375** | 223,552,924 |
| Contracted services | **522,201,437** | 567,831,599 |
| Utilities | **248,324,819** | 514,151,938 |
| Rental expense | **209,234,327** | 519,505,480 |
| Freight and handling costs | **160,409,857** | 167,692,606 |
| Insurance | **91,624,863** | 92,181,719 |
| Royalties | **14,997,384** | 301,330,370 |
| Other accrued expenses | **406,831,886** | 292,756,465 |
| | **₱8,193,504,665** | ₱9,591,950,670 |

Other accrued expenses include accruals for travel and transportation, repairs and maintenance and other professional services.

Deposit Liabilities
Deposit liabilities represent the savings, demand and time deposit liabilities of RBC. Of the total deposit liabilities of RBC as of December 31, 2011 and 2010, 70.4% and 66.5%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities of RBC incur interest at annual fixed rates of up to 2.8% for both years.

As of December 31, 2011 and 2010, under existing BSP regulations, non-FCDU deposit liabilities are subject to statutory reserve of 2.0% and liquidity reserve of 6.0% for both years. As of December 31, 2011 and 2010, RBC is in compliance with such regulation.

The liquidity and statutory reserves of RBC as reported to the BSP are as follows:

| | **2011** | 2010 |
|---|---|---|
| Cash and other cash items | **₱669,931,514** | ₱516,719,879 |
| Due from BSP | **3,047,421,010** | 194,660,936 |
| | **₱3,717,352,524** | ₱711,380,815 |

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 follow (Note 29):

| | **2011** | 2010 |
|---|---|---|
| Savings | **₱500,579,872** | ₱11,467,073 |
| Time | **145,802,586** | 277,310,307 |
| Demand | **15,092,128** | 102,875,442 |
| | **₱661,474,586** | ₱391,652,822 |

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 consists of management bonus and royalty payables.

## 22. Other Current Liabilities

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| Unearned revenue | **₱5,253,433,343** | ₱5,295,750,754 |
| Deposits from real estate buyers | **845,695,426** | 1,011,306,997 |
| Customer's deposits | **246,517,350** | 625,289,500 |
| Advances from agents and others | **191,017,007** | 159,557,017 |
| Deposits from lessees | **174,545,141** | 162,257,882 |
| | **₱6,711,208,267** | ₱7,254,162,150 |

Unearned Revenue
The unearned revenue account pertains to the Group's unearned air transportation revenue in 2011 and unearned air transportation revenue and unearned telecommunications revenue in 2010.

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

As of December 31, 2011 and 2010, the Group's unearned air transportation revenue amounted to ₱5.3 billion and ₱4.6 billion, respectively.

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

As of December 31, 2010, the Group's unearned telecommunications revenue amounted to ₱689.4 million. In 2011, unearned telecommunications revenue was derecognized as part of the Group's disposal of its entire ownership interest in Digitel.

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 Debt

Short-term Debt
Short-term debt consists of:

| | **2011** | 2010 |
|---|---|---|
| Parent Company: | | |
| Foreign currency - with interest rate of 1.1% in 2011 | **₱3,726,400,000** | ₱– |
| Philippine Peso - with interest rate of 3.0% in 2010 | – | 679,400,000 |
| | **3,726,400,000** | 679,400,000 |
| Subsidiaries: | | |
| Foreign currencies - with interest rates ranging from 0.4% to 4.4% in 2011 and 0.3% to 2.5% in 2010 | **13,862,966,061** | 11,967,545,114 |
| Philippine Peso - with interest rates ranging from 4.0% to 4.5% in 2011 and 4.5% to 5.6% in 2010 | **1,503,268,203** | 2,705,101,266 |
| | **15,366,234,264** | 14,672,646,410 |
| | **₱19,092,634,264** | ₱15,352,046,410 |

As of December 31, 2011 and 2010, short-term debt of certain subsidiaries include trust receipts and acceptances payable amounting to ₱4.2 billion and ₱2.1 billion, respectively. The trust receipts and acceptances payable are secured by the trusteed inventories (Note 12).

In 2011, 2010 and 2009, the Group has incurred interest expense on short-term notes amounting to ₱264.3 million, ₱253.8 million and ₱949.6 million, respectively (Note 34).

Long-term Debt

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

| | Maturities | Interest Rates | **2011** | 2010 |
|---|---|---|---|---|
| Parent Company: | | | | |
| Fixed Rate Retail Bonds | 2014 | 8.25% | **₱8,933,149,468** | ₱8,913,511,988 |
| Fixed Rate Corporate Notes | 2013 | 8.00% | **4,294,472,920** | 4,286,316,088 |
| Bayerische HypoVereinsbank AG (HypoVereinsbank) loan | 2011 | 3.72% | **−** | 375,431,950 |
| | | | **13,227,622,388** | 13,575,260,026 |
| Subsidiaries: | | | | |
| Foreign currencies: | | | | |
| JGSPL | | | | |
| US$300.0 million guaranteed notes | 2013 | 8.00% | **11,209,767,749** | 11,078,059,256 |
| US$300.0 million guaranteed term loan facility | 2013 | USD LIBOR + 2.45% | **−** | 13,079,544,763 |
| URCPL | | | | |
| US$200.0 million guaranteed notes | 2012 | 8.25% | **8,197,807,089** | 8,215,279,157 |
| Digitel | | | | |
| Term loan facilities | Various dates through 2015 | USD LIBOR + 0.30% to 2.70% | **−** | 15,261,864,425 |
| Zero-coupon convertible bonds | 2013 | 12.00% | **−** | 2,312,197 |
| CAI | | | | |
| ECA loans (Note 16) | Various dates through 2018 | 3.37% to 5.83% | **10,896,597,403** | 10,630,161,421 |
| | | 0.85% to 2.05% in 2011 and 0.86% to 2.54% in 2010 (US Dollar LIBOR 6 months or 3 months plus margin) | **7,696,377,955** | 5,150,528,642 |
| Commercial loan from foreign banks | Various dates through 2017 | 4.11% to 5.67% in 2011 and in 2010 | **2,079,277,203** | 2,387,334,644 |
| | | 1.65% to 1.71% in 2011 and 1.64% to 2.12% in 2010 (US Dollar LIBOR 6 months plus margin) | **199,640,872** | 264,683,997 |
| | | | **40,279,468,271** | 66,069,768,502 |
| Philippine Peso: | | | | |
| URC | | | | |
| ₱3.0 billion loan facility | 2014 | 8.75% | **2,984,699,202** | 2,977,963,795 |
| Philippine Sugar Corporation restructured loan | 2013 | 7.50% | **25,704,433** | 33,105,818 |
| RLC | | | | |
| ₱5.0 billion loan facility | 2014 | 8.50% | **5,000,000,000** | 5,000,000,000 |
| ₱5.0 billion loan facility | 2014 | 8.25% | **5,000,000,000** | 5,000,000,000 |
| ₱3.0 billion loan facility | 2012 | 6.38% | **3,000,000,000** | 3,000,000,000 |
| ₱2.0 billion bonds | 2013 | 15.70% - PDST-F rate | **2,000,000,000** | 2,000,000,000 |
| | | | **18,010,403,635** | 18,011,069,613 |
| | | | **58,289,871,906** | 84,080,838,115 |
| | | | **71,517,494,294** | 97,656,098,141 |
| Less current portion | | | **13,622,011,230** | 10,602,053,608 |
| | | | **₱57,895,483,064** | ₱87,054,044,533 |

Except for the balances of subsidiaries reporting at September 30 fiscal year end, the foreign exchange rate used to revalue the foreign currency borrowings was ₱43.84 to US$1.00 in December 31, 2011 and 2010. The foreign exchange rates used by the subsidiaries reporting at fiscal year end were ₱43.72 to US$1.00 and ₱43.88 to US$1.00 in September 30, 2011 and 2010, respectively

Long-term debt to foreign banks is shown net of unamortized debt issuance costs totaling ₱19.7 million (US$0.5 million) and ₱948.2 million (US$21.6 million) as of December 31, 2011 and 2010, respectively. Unamortized debt issuance cost related to peso-denominated long-term debt amounted to ₱97.7 million and ₱132.2 million as of December 31, 2011 and 2010, respectively.

Except for the liability under the minimum capacity purchase agreement, repayments of the long-term debt (gross of debt issuance costs) follow:

| | **2011** | 2010 |
|---|---|---|
| Due in: | | |
| 2011 | **₱–** | ₱10,870,674,413 |
| 2012 | **13,676,929,895** | 21,346,566,015 |
| 2013 | **20,012,873,193** | 24,851,953,936 |
| 2014 | **24,474,400,064** | 26,403,294,121 |
| 2015 | **2,456,666,932** | 4,343,676,955 |
| Thereafter | **11,014,051,942** | 10,920,372,683 |
| | **₱71,634,922,026** | ₱98,736,538,123 |

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:

In 2011, the Parent Company had completed the repayment of the HypoVereinsbank facility, which had an outstanding balance of ₱375.4 million (US$8.6 million) as of December 31, 2010.

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 2011, 2010 and 2009, the interest expense recognized related to this loan amounted to ₱353.0 million, ₱350.4 million and ₱300.4 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 US$ LIBOR plus 2.45% Guaranteed Term Loan Facility Due 2013*

In June 2008, JGSPL issued US$300.0 million US$ LIBOR plus 2.45% guaranteed notes, due on June 16, 2013, which are unconditionally and irrevocably guaranteed by the Parent Company. Unless previously redeemed, the US$ LIBOR plus 2.45% guaranteed notes will be repaid in five equal semi-annual installments amounting to US$60.0 million beginning on the 6th interest period until maturity.

In December 2011, JGSPL exercised its option to settle the loan in full prior to maturity date.

*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. Unless previously purchased and cancelled, 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.

These corporate notes contain negative covenants which include among others maintenance of the guarantor of a debt-to-equity ratio of not greater than 2.0 to 1.0.

*Reacquisition of bonds*

On October 29, 2008, the Group reacquired a portion of its bonds payable with a face value of ₱241.7 million (US$5.0 million) for a total proceeds of ₱228.0 million (US$4.5 million). The Group recognized gain on reacquisition of bonds amounting to ₱20.8 million (included under 'Others - net' in profit or loss in the consolidated statements of comprehensive income).

On February 20, 2010, the Group made a partial principal repayment on its bonds payable with a face value of ₱342.8 million (US$7.4 million).

*Digitel Zero Coupon Convertible Bonds*

On December 8, 2003, Digitel issued zero coupon convertible bonds due 2013 (Digitel Bonds) with face value of US$31.1 million and issue price of US$10.0 million. Unless previously converted, cancelled or redeemed, the bonds are convertible into Digitel's common shares at ₱1.0 par value at the end of the tenth year after the issue date and are redeemable at the option of Digitel, in whole or in part, at the end of each year starting one year after the issue date and every year thereafter at the following redemption dates and values:

| Redemption Date | Redemption Value[(a)] |
|---|---|
| End of 1st year from issue date | US$35.29 |
| End of 2nd year from issue date | 38.75 |

(Forward)

| Redemption Date | Redemption Value[a] |
|---|---|
| End of 3rd year from issue date | 42.63 |
| End of 4th year from issue date | 46.97 |
| End of 5th year from issue date | 51.83 |
| End of 6th year from issue date | 57.28 |
| End of 7th year from issue date | 63.38 |
| End of 8th year from issue date | 70.21 |
| End of 9th year from issue date | 77.87 |
| End of 10th year from issue date | 86.44 |

[a]*Per US$100 of face value*

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

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

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

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

*DCPL Bonds Due 2014*

In November 2004, Digitel Capital Philippines Ltd (DCPL), a subsidiary of Digitel, issued bonds to JGSPL due 2014 with face value of US$590.1 million and issue price of US$190.0 million. The proceeds of the bonds were used for Digitel's expansion projects. The issuance of DCPL Bonds was approved by Digitel's shareholders in it special stockholders' meeting held on May 28, 2001. The subscription of DCPL Bonds was also approved by the Parent Company's BOD on December 5, 2003, which was ratified by the Parent Company's shareholders in its meeting held on July 22, 2004. This transaction being among entities under common control has been agreed by the Parent Company, DCPL and JGSPL, as an equity transaction.

The DCPL bonds are exchangeable to common shares of Digitel based on the redemption values as determined on specified dates. In anticipation of the plan or intent to convert or redeem the bonds in 2011, the issuer and bondholder agreed to bring the bond carrying value to its redemption value as at December 31, 2010.

*Digitel Term Loan Facilities*
Digitel and its wholly owned subsidiary, Digitel Mobile Phils., Inc. (DMPI), entered into various term loan facility agreements to finance various purchase and supply agreements. Said term loan facilities are as follow:

- Digitel US$14.0 million HypoVereinsbank loan

  In January 2001, Digitel and HypoVereinsbank signed a buyer's credit agreement to finance the export contract of Digitel with a certain foreign supplier. HypoVereinsbank agreed to make available the total amount of US$14.0 million, in two tranches of US$11.8 million and US$2.2 million. The amount is used to finance 85.0% of the export contract value totaling US$16.5 million. Said loan is payable in 14 equal, consecutive, semi-annual installments beginning six months after the final acceptance of all units purchased but not later than June 30, 2002. Digitel will pay interest equivalent to USD LIBOR plus 0.75%.

- Digitel US$43.5 million Nordea Bank AG (Nordea) loan

  On January 12, 2004, Digitel entered into an export credit facility with Nordea in the aggregate principal amount of up to US$43.5 million. Under the export credit facility, Nordea shall make available the amount of the loan for the sole purpose of financing up to (i) 85.0% of the offshore contract value amounting to US$40.6 million, and (ii) 85.0% of the Swedish Export Credits Guarantee Board (EKN) premium. The interest payable on the loan shall be the USD LIBOR plus 0.75% per annum. The loan is payable in 14 consecutive equal semi-annual installments, the first of which shall fall due on March 15, 2005, subject to EKN's rules and regulations.

- DMPI US$20.0 million Nordic Investment Bank (Nordic) loan

  On October 12, 2004, DMPI entered into a term loan facility with Nordic in the amount of up to US$20.0 million, guaranteed by Digitel and the Parent Company. The loan shall bear interest equivalent to the sum of USD LIBOR plus 2.70% per annum. The loan is payable in 12 consecutive equal semi-annual installments on the payment dates starting on March 15, 2006 and ending on September 15, 2011.

- DMPI US$23.6 million Societe Generale (SG) and Calyon loan

  On April 11, 2005, DMPI entered into an equipment supply contract with a certain foreign supplier for the supply of equipment, software and offshore services (the Equipment supply contract). Under the terms and conditions of the Export Credit Agreement, SG and Calyon agreed to make available a credit of up to US$23.6 million. The amount shall be used to finance the Equipment Supply Contract, to the extent covered by the insurance of SINOSURE, a credit insurance agency. The aggregate amount of all disbursements under the facility shall be payable in 14 consecutive equal semi-annual installments, the first one of which will become due six months after repayment date and thereafter, each of them falling due on the following interest payment date. DMPI shall pay interest equivalent to USD LIBOR plus 0.60% per annum.

- DMPI US$19.0 million Calyon and SG loan

  On May 5, 2005, DMPI entered into a supply and service contract with Alcatel CIT and Alcatel Philippines Inc. for the supply of various telecommunications materials, software and services for the Global System for Mobile Communication (GSM) Cellular Mobile Short-term Core Extension Project (the Supply and Service Contract). Under the terms and conditions of the loan, Calyon and SG agreed to make available a credit of up to US$19.0 million. The amount shall be used to finance the Supply and Service Contract, to the extent covered by the insurance of COFACE, a French credit insurance agency. The aggregate amount of all disbursements under the Loan shall be payable in 14 consecutive equal semi-annual installments, the first one of which will become due six months after the starting date for repayment date and thereafter, each of them falling due on the following interest payment date. DMPI shall pay interest equivalent to USD LIBOR plus 0.40% per annum.

- DMPI US$18.7 million Nordea loan

  On April 4, 2006, DMPI entered into a loan facility with Nordea. Under the terms of the facility, Nordea shall make available the amounts of (i) US$17.1 million and (ii) 100.00% of the premium payable to EKN, the aggregate amounts not to exceed the commitment of US$18.7 million. The Nordea loan is guaranteed by Digitel and the Parent Company. The loan bears interest equivalent to the sum of USD LIBOR plus 0.35% per annum. The loan is payable in 18 consecutive equal semi-annual installments, the first of which shall fall due on October 30, 2006, subject to EKN's rules and regulations.

- DMPI US$12.7 million SG and Calyon loan

  On March 9, 2006, DMPI entered into a purchase agreement with Huawei Technologies Co., Ltd., for the supply of equipment and software for the GSM services in the National Capital Region (the Phase 6A 200 Sites Project). Under the terms and conditions of the loan, SG and Calyon agreed to make available a credit of up to US$12.7 million. The amount shall be used to finance the Phase 6A 200 Sites Project, to the extent covered by the insurance of SINOSURE, a credit insurance agency.

  The loan is payable in 14 consecutive equal semi-annual installments, the first one of which will become due six months after the starting date for repayment and thereafter, each of them falling due on the following interest payment date.

- DMPI ING Bank N.V. (ING) loans

  In 2006, DMPI entered into various purchase agreements with certain suppliers and service contractors.

  Pursuant to the aforementioned purchase agreements, DMPI entered into a loan agreement with ING where ING agreed to make available amounts up to US$61.2 million to finance the purchase agreements.

  The amounts loaned from ING shall be paid in 14 consecutive equal semi-annual installments (the start payment dates for which the various drawdowns are stipulated in the contract). The loans bear interest equivalent to the sum of USD LIBOR plus margins ranging from 0.30% to 0.60% per annum.

- DMPI US$27.9 million ING Amsterdam Loans

  On December 14, 2007, DMPI entered into a purchase agreements with Huawei Technologies Co., Ltd. The purchase agreements relate to the supply of equipment, hardware, software, and services for the Phase 7 CORE Expansion, Phase 1 3G Network and Phase 7 Intelligent Network Expansion.

  Pursuant to the aforementioned purchase agreements, DMPI entered into loan agreements in 2008 with ING Amsterdam where the latter agreed to make available amounts up to US$34.2 million to finance the purchase agreements.

The amounts loaned from ING is payable in 14 consecutive equal semi-annual installments starting 18 months from the date of signing of contract. The loan is guaranteed by the Parent Company.

- DMPI US$96.6 million Nordea Bank and ING Bank Loan

  On April 28, 2009, DMPI entered in to a loan facility with Nordea and ING Bank. Under the terms of facility, Nordea and ING shall finance up to US$71.6 million, being 85.0% of the Export Contract Value purchase by DMPI from Ericsson Inc. covering certain equipment and US$24.7 million, being 29.6% of the Export Contract Value for local costs incurred to Ericsson Inc.

  The amount owned is payable in 17 consecutive equal semi-annual payments at a fixed rate of 3.68% per annum plus a risk premium in respect of Nordea and ING at a rate of 0.75% plus 0.2% margin per annum calculated on the loan. The loan is guaranteed by Digitel and the Parent Company.

- DMPI US$40.6 million Hongkong and Shanghai Banking Corporation Limited (HSBC)

  In 2009, DMPI entered into a loan facility wherein HSBC will finance the payments to be made by DMPI for the supply of equipment and services availed by DMPI with Huawei Technologies Co., Ltd. for the Phase 7 South Luzon Base Station Expansion Project.

  The loaned amount will be paid in 14 equal semi-annual installments with an interest rate of 1.8% per annum plus LIBOR. The loan is guaranteed by the Parent Company.

- DMPI US$49.9 million China CITIC loan

  In 2009, DMPI entered into a loan facility with China CITIC for the supply of the equipment, software, and related materials for the Phase 2 3G Expansion, transmission for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects. The loaned amount will be paid in 14 equal semi-annual installments with an interest rate of 1.8% per annum plus LIBOR. The loan is guaranteed by the Parent Company.

The foregoing liabilities of Digitel, except for the liability under the minimum purchase agreement are guaranteed up to a certain extent by Digitel's majority stockholders and the Parent Company. In addition, the covering loan agreements of such liabilities contain covenants which, among others, restrict the incurrence of loans or debts not in the ordinary course of business, merger or disposition of any substantial portion of Digitel's assets, distribution of capital or profits, redemption of any of its issued shares, and reduction of Digitel's registered and paid-up capital.

As a result of the disposal of Digitel, as discussed in Note 43 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 5.76%.
- 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.

*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.

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 seven Airbus A320 aircraft, follow:

- Term of 12 years starting from the delivery date of each Airbus 319 and Airbus A320 aircraft, and 10 years from the delivery date of each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the first four Airbus A319 aircraft, eight ATR 72-500 turboprop aircraft and four 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 and BLL 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 SALL and VALL for the seven Airbus A320 aircraft is US Dollar LIBOR 3 months plus margin.
- As provided under the ECA-backed facility, CALL, BLL, SLL, SALL and VALL 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 and VALL 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 becomes insolvent; (e) failure to discharge any attachment or sequestration order against CALL's, BLL's, SLL's, SALL's and VALL'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, 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 ₱34.3 million and ₱46.6 million as of December 31, 2011 and 2010, 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 ₱1.4 million and ₱1.9 million as of December 31, 2011 and 2010, respectively.

*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 ₱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 and other related charges on long-term debts follows:

| | **2011** | 2010 | 2009 |
|---|---:|---:|---:|
| Continuing operations (Note 34) | **₱4,696,891,236** | ₱4,965,239,282 | ₱3,929,451,088 |
| Discontinued operations (Note 43) | **90,813,031** | 280,435,831 | 585,493,258 |
| | **₱4,787,704,267** | ₱5,245,675,113 | ₱4,514,944,346 |

In 2011, 2010 and 2009, the Group recognized amortization of bond issue costs amounting to ₱125.7 million, ₱104.0 million and ₱91.4 million, respectively.

## 24. **Other Noncurrent Liabilities**

This account consists of:

| | **2011** | 2010 |
|---|---|---|
| ARO (Notes 16 and 34) | **₱2,437,668,334** | ₱2,572,134,065 |
| Deposits from lessees | **1,820,384,583** | 1,692,237,015 |
| Deposit liabilities | **1,376,348,241** | 1,187,554,939 |
| Accrued rent expense | **1,080,362,640** | 977,436,619 |
| Due to related parties (Note 39) | **994,856,747** | 920,294,635 |
| Deposits from real estate buyers | **741,071,742** | 722,310,528 |
| Accrued maintenance cost | **670,810,817** | 923,451,428 |
| Derivative liabilities (Note 8) | **218,686,239** | 546,764,107 |
| Pension liabilities (Note 36) | **455,086,450** | 543,271,577 |
| Accrued project costs | **–** | 10,708,408,526 |
| Others | **634,761,102** | 1,186,517,910 |
| | **₱10,430,036,895** | ₱21,980,381,349 |

ARO

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

In 2010, the Group employed third party professionals to re-evaluate the Group's estimates on ARO. In relation to this, the Group recorded additional ARO asset and liability amounting to ₱705.7 million.

Movements in the Group's ARO follow:

| | **2011** | 2010 |
|---|---|---|
| Balance at beginning of year | **₱2,572,134,065** | ₱1,585,192,428 |
| Accretion expense from: | | |
| Continuing operations (Note 34) | **191,472,734** | 170,402,866 |
| Discontinued operations (Note 43) | **21,553,220** | 42,282,032 |
| Capitalized to property, plant and equipment (Note 16) | **279,926,767** | 68,605,494 |
| Payments of restorations during the year | **(103,876,326)** | – |
| Effect of disposal of a subsidiary | **(523,542,126)** | – |
| Additional provision for the year | **–** | 705,651,245 |
| Balance at end of year | **₱2,437,668,334** | ₱2,572,134,065 |

Deposits from Lessees

Deposits from lessees represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of lease term. The Group recognized discount on deposits from lessees amounting to ₱114.0 million and ₱97.0 million as of December 31, 2011 and 2010, respectively. The related interest expense on the discount amounted to ₱72.6 million,₱71.3 million and ₱68.6 million in 2011, 2010 and 2009, respectively (Note 34). 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 ₱104.0 million, ₱84.0 million and ₱91.0 million as of December 31, 2011, 2010 and 2009, respectively. The rental income on amortization of unearned rental income amounted to ₱70.0 million, ₱72.0 million and ₱53.0 million in 2011, 2010 and 2009, respectively.

Deposit Liabilities
Deposit liabilities represent time deposit liabilities of RBC with maturities of beyond 12 months from reporting date. Of the total deposit liabilities of RBC as of December 31, 2011 and 2010, 70.4% and 66.5%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities bear annual fixed interest rates of up to 2.8% in 2011 and 2010.

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

'Deposits from real estate buyers' are cash collections in excess of the receivables recognized under the percentage-of-completion method which amounted to ₱1.6 billion and ₱1.7 billion as of December 31, 2011 and 2010, respectively.

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

Accrued Project Costs
Accrued project costs represented costs of unbilled materials, equipment and labor relating to telecommunications projects which were already eligible for capitalization as of December 31, 2010. The determination of costs to be capitalized is based on the contract price multiplied by the percentage of shipped materials and/or delivered services.

## 25. Equity

Details of the Group capital stock follow:

Authorized Capital Stock

| | | **2011** | |
|---|---|---|---|
| | **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** |

| | | 2010 | |
|---|---|---|---|
| | Par Value | Shares | Amount |
| Common shares | ₱1.00 | 12,850,800,000 | ₱12,850,800,000 |
| Preferred non-voting shares | 1.00 | 2,000,000,000 | 2,000,000,000 |
| | | 14,850,800,000 | ₱14,850,800,000 |

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

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| Common shares | | | | |
| Issued and fully paid | **6,895,273,657** | **₱6,895,273,657** | 6,895,273,657 | ₱6,895,273,657 |
| Less treasury shares | **155,745,430** | **974,690,819** | 155,745,430 | 974,690,819 |
| Total issued and outstanding | **6,739,528,227** | **₱5,920,582,838** | 6,739,528,227 | ₱5,920,582,838 |
| Preferred voting | | | | |
| Issued and outstanding | **4,000,000,000** | **₱40,000,000** | – | ₱– |

*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.

On January 27, 2011, the stockholders of the Parent Company 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).

On July 26, 2011, the SEC approved the Parent Company's increase in authorized capital stock.

*Treasury shares*

In 2010, a subsidiary acquired 57,663,430 number of shares of common stock of the Parent Company for an amount of ₱252.8 million.

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 | – |
| 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, 2011, 2010 and 2009:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Common shares | **1,171** | 1,233 | 1,349 |
| Preferred voting shares | **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:

| | 2011 | 2010 |
|---|---|---|
| (a) Gross debt | | |
| Short-term debt (Note 23) | **₱19,092,634,264** | ₱15,352,046,410 |
| Long-term debt (Note 23) | **71,517,494,294** | 97,656,098,141 |
| Derivative liabilities (Note 8) | **303,930,885** | 809,157,927 |
| | **₱90,914,059,443** | ₱113,817,302,478 |
| (b) Capital | **₱180,398,819,978** | ₱149,460,397,353 |
| (c) Debt-to-capital ratio (a/b) | **0.50:1** | 0.76:1 |

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

Regulatory Capital

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

RBC's regulatory capital consists of Tier 1 (core) capital, which comprises share capital and retained earnings including current year profit less required deductions such as deferred income tax and unsecured credit accommodations to directors, officers, stockholders and related interest (DOSRI). Certain adjustments are made to PFRS-based results and reserves as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes, among others, general loan loss provision. The risk based capital ratio of RBC is expressed as a percentage of qualifying capital to risk weighted assets, which are computed based on BSP regulations.

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

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

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

The following table sets the regulatory capital of RBC as reported to the BSP (in millions):

| | **2011** | 2010* |
|---|---|---|
| Tier 1 capital | **₱4,822** | ₱2,337 |
| Tier 2 capital | **145** | – |
| Gross qualifying capital | **4,967** | 2,337 |
| Less required deductions | **–** | – |
| Total qualifying capital | **₱4,967** | ₱2,337 |
| Risk weighted assets | **₱17,048** | ₱1,742 |
| Tier 1 capital ratio | **28.28%** | 134.16% |
| Tier 2 capital ratio | **0.85%** | – |
| Risk-based capital adequacy ratio | **29.13%** | 134.16% |

* *Pertains to RBC only, which is prior to the merger.*

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 principle.

As of December 31, 2011 and 2010, the Group had complied with all externally imposed capital requirements.

<u>Restricted Retained Earnings</u>

*Parent Company*

In 2003, the Parent Company's BOD approved the appropriation of retained earnings amounting to ₱8.0 billion for payment of various bonds of certain wholly owned subsidiaries.

On December 28, 2009, the Parent Company's BOD approved the additional appropriation of retained earnings amounting to ₱15.0 billion, which shall be used for the settlement of the Parent Company's various obligations and capital expenditure commitments.

On December 30, 2010, the Parent Company's BOD approved the additional appropriation of retained earnings amounting to ₱19.0 billion, which shall be used for the settlement of the Parent Company's various obligations and capital expenditure commitments.

*URC*

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

In 2011, URC's BOD approved the additional appropriation of retained earnings amounting to ₱5.0 billion which was allotted for URC's expansion plans. On the same date, however, the BOD of URC also approved the reversal of the previously appropriated retained earnings amounting to ₱3.0 billion.

*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.

*CAI*
On December 9, 2011, CAI's BOD approved the appropriation of retained earnings amounting to ₱933.5 million from the unrestricted retained earnings for purposes of CAI's re-fleeting program.

*RBC*
As of December 31, 2011, 2010 and 2009, RBC's surplus reserve amounted to ₱108.6 million, ₱103.9 million and ₱98.9 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 2011 and 2010 and ₱3.9 million in 2009.

*EHI*
As of December 31, 2011, 2010 and 2009, EHI's appropriated retained earnings amounted to ₱35.0 million to be used for investment purposes.

*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 ₱46.3 billion, ₱30.9 billion and ₱34.4 billion as of December 31, 2011, 2010 and 2009, 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.

<u>Cash Dividends</u>
*Parent Company*
Details of the Parent Company's dividend declarations on its common stock follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Date of declaration | **July 7, 2011** | June 28, 2010 | June 26, 2009 |
| Dividend per share | **₱0.08** | ₱0.05 | ₱0.03 |
| Total dividends | **₱543.8 million** | ₱339.9 million | ₱203.9 million |
| Date of record | **July 27, 2011** | July 16, 2010 | July 24, 2009 |
| Date of payment | **August 22, 2011** | August 6, 2010 | August 19, 2009 |

Details of the Parent Company's dividend declaration on its preferred stock follow:

| | |
|---|---|
| Date of declaration | July 7, 2011 |
| Dividend per share | ₱0.0008 |
| Total dividends | ₱3.2 million |
| Date of record | July 27, 2011 |
| Date of payment | 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:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Date of declaration | **May 11, 2011** | April 15, 2010 | April 16, 2009 |
| Dividend per share | **₱1.90** | ₱0.94 | ₱0.25 |
| Total dividends | **₱3.9 billion** | ₱1.9 billion | ₱0.5 billion |
| Date of record | **May 31, 2011** | May 5, 2010 | May 15, 2009 |
| Date of payment | **June 27, 2011** | May 20, 2010 | June 10, 2009 |

*RLC*

Details of RLC's dividend declarations follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Date of declaration | **May 11, 2011** | April 15, 2010 | April 16, 2009 |
| Dividend per share | **₱0.36** | ₱0.48 | ₱0.25 |
| Total dividends | **₱1.5 billion** | ₱1.3 billion | ₱0.7 billion |
| Date of record | **May 31, 2011** | May 5, 2010 | May 15, 2009 |
| Date of payment | **June 27, 2011** | May 20, 2010 | June 10, 2009 |

*CAI*

Details of CAI's dividend declaration in 2011 follow:

| | |
|---|---|
| Date of declaration | March 17, 2011 |
| Dividend per share – regular | ₱2.00 |
| Total dividends – regular | ₱1.2 billion |
| Dividend per share – special | ₱1.00 |
| Total dividends – special | ₱0.6 billion |
| Date of record | April 14, 2011 |
| Date of payment | May 12, 2011 |

Treasury Shares

The Group has outstanding 155.7 million treasury shares amounting to ₱974.7 million as of December 31, 2011 and 2010 and 98.1 million treasury shares amounting to ₱721.8 million as of December 31, 2009.

Equity Reserve

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. The net gain from CAI's IPO will only be recycled to profit or loss in the consolidated statements of comprehensive income in the event that the Group will lose its control over CAI.

Non-controlling Interests

Below is the rollfoward of non-controlling interests:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Beginning balance | **₱31,891,251,796** | ₱21,736,756,026 | ₱19,750,489,997 |
| Total comprehensive income: | | | |
| Net income attributable to non-controlling interests | **5,023,851,246** | 4,592,963,531 | 3,222,164,474 |
| Other comprehensive income attributable to non-controlling interests: | | | |
| Net gain (loss) on AFS investments | **(110,625,178)** | 152,957,654 | 767,937,224 |
| Cumulative translation adjustments | **(49,550,215)** | (39,286,413) | (14,273,905) |
| | **(160,175,393)** | 113,671,241 | 753,663,319 |
| | **4,863,675,853** | 4,706,634,772 | 3,975,827,793 |
| Cash dividends paid to non-controlling interests | **(2,579,518,135)** | (1,217,749,826) | (468,346,673) |
| Additional non-controlling interests in subsidiaries | **952,889,242** | 7,383,795,370 | – |
| Increase in subsidiaries' treasury shares | **(288,849,407)** | (718,184,546) | (1,256,286,392) |
| Issuance of capital stock of a subsidiary | **5,298,191,460** | – | – |
| Adjustment on subscription receivables | **–** | – | (264,928,699) |
| Effect of disposal of a subsidiary (Note 43) | **(1,022,135,705)** | – | – |
| | **₱39,115,505,104** | ₱31,891,251,796 | ₱21,736,756,026 |

The increase in non-controlling interests amounting to ₱0.9 billion in 2011 was mainly attributable to the merger of RSB to 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, 2009, the Parent Company bought 5,592,600 shares at a cost of ₱69.0 million.

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. The purchase increased the outstanding treasury shares to 156.6 million shares, equivalent to 7.0% of its outstanding shares.

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.

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 share. 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, 2011, CAI has repurchased a total of 7,283,220 shares.

As a result of the above transactions, the Parent Company and the non-controlling interests recognized loss amounting to ₱717.5 million and ₱288.8 million in 2011, repectively, which are charged directly to 'Equity reserve' account attributable to the equity holders of the Parent Company and the non-controlling interests.

*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:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Interest income (Note 27) | **₱1,831,335,393** | ₱1,361,977,076 | ₱1,015,457,670 |
| Trading and securities gains | **415,861,968** | 251,580,794 | 32,077,313 |
| Service fees and commission income | **112,736,144** | 120,907,884 | 87,313,733 |
| | **₱2,359,933,505** | ₱1,734,465,754 | ₱1,134,848,716 |

## 27. Interest Income

This account consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Interest income from: | | | |
| Cash in banks and cash equivalents | **₱2,290,811,698** | ₱835,915,600 | ₱323,006,288 |
| Finance receivables (Note 11) | **1,176,974,035** | 933,365,844 | 782,668,377 |
| AFS debt investments (Note 10) | **791,277,415** | 676,618,678 | 417,368,572 |
| Investments in financial assets at FVPL (Note 9) | **753,328,420** | 689,303,622 | 763,101,361 |
| Installment contract receivables (Note 11) | **227,648,380** | 234,195,441 | 111,115,924 |
| Others | **34,534,105** | 166,597,929 | 145,793,384 |
| | **₱5,274,574,053** | ₱3,535,997,114 | ₱2,543,053,906 |

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Finance income | **₱3,443,238,660** | ₱2,174,020,038 | ₱1,527,596,236 |
| Banking revenue (Note 26) | **1,831,335,393** | 1,361,977,076 | 1,015,457,670 |
| | **₱5,274,574,053** | ₱3,535,997,114 | ₱2,543,053,906 |

## 28. Other Operating Income

This account consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Dividend income | **₱244,958,962** | ₱192,886,520 | ₱152,951,456 |
| Realized gain on sale of AFS investments (Note 10) | **69,390,963** | 72,954,396 | 28,096,952 |
| Gain on sale of financial assets at FVPL | **6,574,271** | 100,414,480 | 9,488,003 |
| Others | **1,005,121,157** | 472,402,740 | 41,712,319 |
| | **₱1,326,045,353** | ₱838,658,136 | ₱232,248,730 |

Others include rent income, commission income from insurance brokerage business and gain (loss) on sale of PPE.

## 29. Cost of Sales and Services

This account consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Raw materials used | **₱42,213,713,864** | ₱33,909,798,842 | ₱31,322,026,530 |
| Direct labor | **2,473,797,570** | 1,978,803,934 | 1,900,284,484 |
| Overhead cost | **11,546,679,551** | 9,392,906,165 | 8,342,982,808 |
| Total manufacturing cost | **56,234,190,985** | 45,281,508,941 | 41,565,293,822 |
| Work-in-process | **(363,089,202)** | (2,202) | 42,205,137 |
| Cost of goods manufactured | **55,871,101,783** | 45,281,506,739 | 41,607,498,959 |
| Finished goods | **(424,398,037)** | (988,723,595) | 1,397,900,529 |
| Cost of sales | **55,446,703,746** | 44,292,783,144 | 43,005,399,488 |
| Cost of services | **30,704,556,738** | 22,343,983,154 | 19,741,188,125 |
| Cost of sales and services | **₱86,151,260,484** | ₱66,636,766,298 | ₱62,746,587,613 |

Overhead costs are broken down as follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Utilities and rental | **₱5,005,830,664** | ₱3,128,070,940 | ₱2,627,422,993 |
| Depreciation and amortization | **3,159,902,443** | 3,171,545,602 | 2,935,345,517 |
| Repairs and maintenance | **1,387,402,899** | 1,255,770,951 | 1,108,490,964 |
| Personnel | **1,173,551,341** | 1,237,064,340 | 1,071,950,477 |
| Rental | **146,735,657** | 130,391,613 | 140,328,813 |
| Handling and delivery charges | **113,895,035** | 97,648,773 | 92,264,695 |
| Royalties | **74,091,734** | 73,810,601 | 106,148,087 |
| Research and development | **43,950,080** | 58,033,639 | 50,164,915 |
| Others | **441,319,698** | 240,569,706 | 210,866,347 |
| | **₱11,546,679,551** | ₱9,392,906,165 | ₱8,342,982,808 |

Cost of services is broken down as follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Air transportation | **₱23,562,125,309** | ₱16,792,906,706 | ₱14,420,146,122 |
| Real estate | **5,448,778,564** | 4,134,814,048 | 4,130,396,012 |
| Hotel operations | **1,009,589,782** | 996,906,392 | 905,875,298 |
| Banking | **684,063,083** | 419,356,008 | 284,770,693 |
| | **₱30,704,556,738** | ₱22,343,983,154 | ₱19,741,188,125 |

## 30. General and Administrative Expenses

This account consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Advertising and promotions | **₱4,393,143,054** | ₱4,339,125,593 | ₱3,702,495,055 |
| Outside services | **3,322,782,943** | 2,762,986,817 | 2,454,603,684 |
| Depreciation and amortization (Notes 15, 16 and 32) | **3,100,034,754** | 2,507,809,264 | 2,303,707,938 |
| Personnel (Note 31) | **2,931,474,386** | 2,588,241,218 | 2,427,305,298 |
| Aircraft and engine lease | **1,718,431,374** | 1,604,855,579 | 1,723,886,536 |
| Travel and transportation | **635,641,616** | 530,926,801 | 515,131,758 |
| Rental | **606,043,577** | 569,734,389 | 557,883,250 |
| Taxes, licenses and fees | **568,622,031** | 533,516,620 | 365,175,179 |
| Sales commission | **411,452,597** | 320,782,375 | 282,921,729 |
| Insurance | **379,133,542** | 298,113,871 | 237,540,588 |
| Utilities and supplies | **339,371,168** | 321,622,004 | 267,515,066 |
| Repairs and maintenance | **254,124,725** | 227,460,319 | 246,191,959 |
| Communication | **142,188,028** | 129,017,772 | 169,890,461 |
| Entertainment, amusement and recreation (Note 37) | **81,436,864** | 66,402,052 | 74,168,730 |
| Others | **647,693,391** | 807,656,925 | 938,665,184 |
| | **₱19,531,574,050** | ₱17,608,251,599 | ₱16,267,082,415 |

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

## 31. Personnel Expenses

Personnel expenses consist of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Salaries and wages | **₱5,142,455,441** | ₱4,807,208,089 | ₱4,027,015,093 |
| Other employee benefits | **1,265,073,668** | 964,244,051 | 1,031,452,960 |
| Pension expense (Note 36) | **195,742,829** | 141,965,379 | 155,565,792 |
| | **₱6,603,271,938** | ₱5,913,417,519 | ₱5,214,033,845 |

The breakdown of personnel expenses follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Cost of sales and services | **₱3,671,797,552** | ₱3,325,176,301 | ₱2,786,728,547 |
| General and administrative expenses (Note 30) | **2,931,474,386** | 2,588,241,218 | 2,427,305,298 |
| | **₱6,603,271,938** | ₱5,913,417,519 | ₱5,214,033,845 |

## 32. **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:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Continuing operations | | | |
| Cost of sales and services | **₱5,221,685,460** | ₱5,161,383,977 | ₱4,695,804,405 |
| General and administrative expenses (Note 30) | **3,100,034,754** | 2,507,809,264 | 2,303,707,938 |
| Discontinued operations | **1,546,551,044** | 5,877,050,996 | 4,819,148,414 |
| | **₱9,868,271,258** | ₱13,546,244,237 | ₱11,818,660,757 |

## 33. **Impairment Losses and Others**

This account consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Provision for impairment losses on: | | | |
| Receivables | **₱102,517,878** | ₱330,883,725 | ₱476,938,674 |
| Intangible assets | **84,014,765** | – | – |
| Goodwill | **63,500,000** | – | – |
| Property, plant and equipment | **10,065,297** | – | – |
| Investment properties | **619,075** | – | – |
| Other noncurrent assets | **5,136,823** | – | – |
| Inventory obsolescence and market decline | **63,784,807** | 15,099,540 | 49,597,336 |
| Permanent decline in value of AFS investments (Notes 10 and 35) | **–** | – | 247,812,797 |
| | **₱329,638,645** | ₱345,983,265 | ₱774,348,807 |

## 34. **Financing Costs and Other Charges**

This account consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Interest expense | **₱5,309,762,126** | ₱5,582,121,320 | ₱5,376,570,040 |
| Bank charges and others | **214,972,064** | 110,862,845 | 74,263,490 |
| Dividends on cumulative redeemable preferred shares | **–** | – | 174,417,813 |
| | **₱5,524,734,190** | ₱5,692,984,165 | ₱5,625,251,343 |

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Long-term debt (Note 23) | **₱4,696,891,236** | ₱4,965,239,282 | ₱3,929,451,088 |
| Short-term debt (Note 23) | **264,330,251** | 253,777,149 | 949,601,373 |
| Accretion of ARO | **191,472,734** | 170,402,866 | 107,095,744 |
| Advances from affiliates | **82,469,024** | 120,299,521 | 244,974,361 |
| Others | **74,598,881** | 72,402,502 | 145,447,474 |
| | **₱5,309,762,126** | ₱5,582,121,320 | ₱5,376,570,040 |

Amortization of debt issuance costs included in the consolidated statements of comprehensive income amounted to ₱125.7 million in 2011, ₱104.0 million in 2010 and ₱91.4 million in 2009.

Dividends on cumulative redeemable preferred shares represent 12.0% and 11.8% dividend for Tranche 1 Series A and Tranche 2 Series A, respectively, of the Group's nonconvertible, nonvoting, nonparticipating, cumulative and redeemable preferred shares. On July 29, 2009 and August 5, 2009, the Parent Company redeemed its issued cumulative preferred shares designated as Tranche 1 Series A and Tranche 2 Series A, respectively, with a price amounting to ₱2.1 billion.

Others include interest expense on amortization of discount on deposits from lessees amounting to ₱72.6 million, ₱71.3 million and ₱68.6 million in 2011, 2010 and 2009, respectively (Note 24).

## 35. Components of Other Comprehensive Income

Below is the composition of the Group's 'Other comprehensive income':

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Cumulative translation adjustments | **(₱136,058,643)** | (₱91,091,377) | (₱95,351,176) |
| Net gains on AFS investments (Note 10): | | | |
| Net changes in fair value during the period | **3,102,281,166** | 344,751,289 | 2,085,240,671 |
| Reclassification adjustment included in profit or loss arising from: | | | |
| Disposal of AFS investments | **(69,390,963)** | (72,954,396) | (28,096,952) |
| Permanent decline in fair value | **–** | – | 247,812,797 |
| | **3,032,890,203** | 271,796,893 | 2,304,956,516 |
| Net gains from cash flow hedge (Note 8): | | | |
| Net changes in fair value of derivatives taken to other comprehensive income | **175,838,098** | 52,296,125 | 248,808,336 |
| Amounts transferred to profit or loss | **188,456,213** | – | 196,853,434 |
| | **364,294,311** | 52,296,125 | 445,661,770 |
| Net changes in fair value of AFS investments of an associate (Note 10) | **4,508,521** | 175,748 | 2,758,591 |
| | **₱3,265,634,392** | ₱233,177,389 | ₱2,658,025,701 |

The income tax effects relating to other comprehensive income are as follow:

| | **2011** | | |
|---|---|---|---|
| | **Before tax** | **Tax Benefit** | **Net of tax** |
| AFS investments of Parent Company and its subsidiaries | **₱3,020,137,300** | **₱12,752,903** | **₱3,032,890,203** |
| Net movement on 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 |
| AFS investments of Parent Company and its subsidiaries | ₱287,618,959 | ₱15,822,066 | ₱271,796,893 |
| Net movement on 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 |

| | 2009 | | |
|---|---|---|---|
| | Before tax | Tax Benefit | Net of tax |
| AFS investments of Parent Company and its subsidiaries | ₱2,302,785,316 | ₱2,171,200 | ₱2,304,956,516 |
| Net movement on cash flow hedge | 445,661,770 | – | 445,661,770 |
| Cumulative translation adjustments | (95,351,176) | – | (95,351,176) |
| Net changes in fair value of AFS investments of an associate (Note 10) | 2,758,591 | – | 2,758,591 |
| | ₱2,655,854,501 | ₱2,171,200 | ₱2,658,025,701 |

36. **Employee Benefits**

Pension Plans
Except for URC and RLC, the Parent Company and certain consolidated subsidiaries have unfunded, noncontributory, defined benefit pension plans covering substantially all of their regular employees. The plans provide for retirement, separation, disability and death benefits to its members. The benefits are based on a defined formula with minimum lump-sum guarantee of 22.5 days pay per year of service.

URC and RLC have funded, noncontributory, defined benefit pension plans covering all their regular employees. The pension fund are being administered and managed by certain stockholders as trustees. URC and RLC, however, reserve 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.

Total pensions assets and liabilities recognized in the consolidated statements of financial position follow:

| | **2011** | 2010 |
|---|---|---|
| Pension assets (Note 20) | **₱–** | ₱77,904,820 |
| Pension liabilities (Note 24) | **455,086,450** | 543,271,577 |

The amounts recognized as pension liabilities of the Parent Company, RLC and certain subsidiaries follow:

| | **2011** | 2010 |
|---|---|---|
| Present value of defined benefit obligation | **₱625,405,444** | ₱770,190,122 |
| Fair value of plan assets | **52,103,163** | 56,813,768 |
| Unfunded status | **573,302,281** | 713,376,354 |
| Unrecognized actuarial gains | **(134,588,722)** | (170,104,777) |
| Pension liabilities at end of year | **₱438,713,559** | ₱543,271,577 |

URC's pension assets (liabilities) on its pension plan follow:

| | **2011** | 2010 |
|---|---|---|
| Present value of funded obligation | **₱1,351,799,927** | ₱1,220,977,777 |
| Fair value of plan assets | **1,221,431,248** | 1,247,197,112 |
| Funded status (unfunded obligation) | **(130,368,679)** | 26,219,335 |
| Unrecognized actuarial losses | **113,995,788** | 72,951,908 |
| Less asset not recognized due to limit | **–** | 21,266,423 |
| Net plan asset (liability) | **(₱16,372,891)** | ₱77,904,820 |
| Asset limit to be recognized in the consolidated statements of financial position | **₱–** | ₱77,904,820 |
| Net plan assets in excess of the asset ceiling limit (not recognized in the consolidated statements of financial position) | **₱–** | ₱21,266,423 |

Asset limits recognized in the consolidated statements of financial position were determined as follow:

| | **2011** | 2010 |
|---|---|---|
| (a) Retirement asset | **₱–** | ₱77,904,820 |
| (b) Asset ceiling limit | | |
| i. Unrecognized actuarial losses | **–** | 72,951,908 |
| ii. Present value of available reduction in future contributions | **–** | 26,219,335 |
| Limit | **–** | 99,171,243 |
| Lower of (a) and (b) | **₱–** | ₱77,904,820 |

Movements in the fair value of plan assets follow:

| | **2011** | | |
|---|---|---|---|
| | **URC** | **RLC** | **Total** |
| Balance at beginning of year | **₱1,247,197,112** | **₱56,813,768** | **₱1,304,010,880** |
| Expected return on plan assets | **48,391,248** | **(2,499,806)** | **45,891,442** |
| Actual contributions | **–** | **6,503,240** | **6,503,240** |
| Benefits paid | **(90,431,051)** | **(15,585,482)** | **(106,016,533)** |
| Actuarial gains | **16,273,939** | **6,871,443** | **23,145,382** |
| Balance at end of year | **₱1,221,431,248** | **₱52,103,163** | **₱1,273,534,411** |
| Actual return on plan assets | **₱64,665,187** | **₱–** | **₱64,665,187** |

| | 2010 | | |
|---|---|---|---|
| | URC | RLC | Total |
| Balance at beginning of year | ₱1,354,691,200 | ₱60,559,560 | ₱1,415,250,760 |
| Expected return on plan assets | 67,734,560 | (3,039,272) | 64,695,288 |
| Actual contributions | – | 8,117,961 | 8,117,961 |
| Benefits paid | (142,232,831) | (11,253,211) | (153,486,042) |
| Actuarial gains (losses) | (32,995,817) | 2,428,730 | (30,567,087) |
| Balance at end of year | ₱1,247,197,112 | ₱56,813,768 | ₱1,304,010,880 |
| Actual return on plan assets | ₱34,738,743 | ₱– | ₱34,738,743 |

There are no reimbursement rights recognized as a separate asset as of December 31, 2011 and 2010.

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 to be settled.

Net plan assets consist of the following:

| | **2011** | | | |
|---|---|---|---|---|
| | **URC** | | **RLC** | |
| | **Amount** | **%** | **Amount** | **%** |
| Cash | **₱35,992** | **–** | **₱189,176** | **0.36** |
| Receivables (Note 39) | **1,575,702,384** | **129.00** | **65,981,946** | **126.64** |
| Liabilities (Note 39) | **(354,307,128)** | **(29.00)** | **(14,067,959)** | **(27.00)** |
| | **₱1,221,431,248** | **100.00** | **₱52,103,163** | **100.00** |

| | 2010 | | | |
|---|---|---|---|---|
| | URC | | RLC | |
| | Amount | % | Amount | % |
| Cash | ₱544,419 | 0.04 | ₱225,331 | 0.40 |
| Receivables (Note 39) | 1,553,392,757 | 124.55 | 65,034,281 | 114.47 |
| Liabilities (Note 39) | (306,740,064) | (24.59) | (8,445,844) | (14.87) |
| | ₱1,247,197,112 | 100.00 | ₱56,813,768 | 100.00 |

RLC expects to contribute about ₱7.0 million into the pension fund for the year ending 2012.

Changes in the present value of the Group's defined benefit obligations follow:

| | **2011** | | |
|---|---|---|---|
| | **URC** | **Others*** | **Total** |
| Balance at beginning of year | **₱1,220,977,777** | **₱770,190,122** | **₱1,991,167,899** |
| Current service cost | **69,431,700** | **57,281,582** | **126,713,282** |
| Interest cost | **94,503,680** | **38,689,401** | **133,193,081** |
| Benefits paid | **(90,431,051)** | **(29,858,414)** | **(120,289,465)** |
| Actuarial losses – net | **57,317,821** | **80,887,447** | **138,205,268** |
| Effect of disposal of a subsidiary | **–** | **(291,784,694)** | **(291,784,694)** |
| Balance at end of year | **₱1,351,799,927** | **₱625,405,444** | **₱1,977,205,371** |

* *Others include RLC, which has a funded, noncontributory, defined benefit pension plan, and the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans*

| | 2010 | | |
|---|---|---|---|
| | URC | Others* | Total |
| Balance at beginning of year | ₱1,038,335,900 | ₱526,194,596 | ₱1,564,530,496 |
| Current service cost | 59,860,000 | 61,697,357 | 121,557,357 |
| Interest cost | 102,068,419 | 57,511,969 | 159,580,388 |
| Benefits paid | (142,232,831) | (29,551,494) | (171,784,325) |
| Actuarial losses – net | 162,946,289 | 94,311,623 | 257,257,912 |
| Effect of curtailment | – | 60,026,071 | 60,026,071 |
| Balance at end of year | ₱1,220,977,777 | ₱770,190,122 | ₱1,991,167,899 |

* *Others include RLC, which has a funded, noncontributory, defined benefit pension plan, and the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans*

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 31):

| | **2011** | | |
|---|---|---|---|
| | **URC** | **Others*** | **Total** |
| Current service cost | **₱69,431,700** | **₱57,281,582** | **₱126,713,282** |
| Interest cost | **94,503,680** | **38,689,401** | **133,193,081** |
| Expected return on plan assets | **(48,391,248)** | **2,499,806** | **(45,891,442)** |
| Net actuarial losses (gains) recognized during the year | **(21,266,423)** | **2,942,656** | **(18,323,767)** |
| Amortization of increase in liability | **–** | **51,675** | **51,675** |
| Total pension expense | **₱94,277,709** | **₱101,465,120** | **₱195,742,829** |
| Pension expense recorded under: | | | |
| Continuing operations | **₱94,277,709** | **₱101,465,120** | **₱195,742,829** |
| Discontinued operations | **–** | **–** | **–** |

* *Others include RLC, which has a funded, noncontributory, defined benefit pension plan, and the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans*

| | 2010 | | |
|---|---|---|---|
| | URC | Others* | Total |
| Current service cost | ₱59,860,000 | ₱61,697,357 | ₱121,557,357 |
| Interest cost | 102,068,419 | 57,511,969 | 159,580,388 |
| Expected return on plan assets | (67,734,560) | 3,039,272 | (64,695,288) |
| Net actuarial losses (gains) recognized during the year | (31,080,477) | 620,990 | (30,459,487) |
| Total pension expense | ₱63,113,382 | ₱122,869,588 | ₱185,982,970 |
| Pension expense recorded under: | | | |
| Continuing operations | ₱63,113,382 | ₱78,851,997 | ₱141,965,379 |
| Discontinued operations | – | 44,017,591 | 44,017,591 |

* *Others include RLC, which has a funded, noncontributory, defined benefit pension plan, and the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans*

| | 2009 | | |
|---|---|---|---|
| | URC | Others* | Total |
| Current service cost | ₱32,126,200 | ₱48,871,988 | ₱80,998,188 |
| Interest cost | 92,085,900 | 42,127,835 | 134,213,735 |
| Expected return on plan assets | (73,766,600) | (3,166,100) | (76,932,700) |
| Net actuarial losses (gains) recognized during the year | 52,346,900 | (8,432,713) | 43,914,187 |
| Effect of curtailment | – | (6,155,870) | (6,155,870) |
| Amortization of increase in liability | – | 86,125 | 86,125 |
| Total pension expense | ₱102,792,400 | ₱73,331,265 | ₱176,123,665 |
| Pension expense recorded under: | | | |
| Continuing operations | ₱102,792,400 | ₱52,773,392 | ₱155,565,792 |
| Discontinued operations | – | 20,557,873 | 20,557,873 |

* *Others include RLC, which has a funded, noncontributory, defined benefit pension plan, and the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans*

The assumptions used to determine pension benefits of the Group follow:

| | **2011** | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| | **URC** | **Others*** | URC | Others* | URC | Others* |
| Retirement age | **60** | **60** | 60 | 60 | 60 | 60 |
| Average remaining working life (in years) | **11** | **11** | 9 | 10 | 11 | 5 to 19 |
| Discount rate | **7.2%** | **7.2%** | 7.7% | 8.2% | 9.8% | 11.2% |
| Salary rate increase | **5.5%** | **5.5%** | 5.5% | 5.0% | 5.5% | 5.5% to 7.5% |
| Expected rate of return on plan assets | **4.0%** | **4.5%** | 3.9% | 5.5% | 5.0% | 5.0% |

* *Others include RLC, which has a funded, noncontributory, defined benefit pension plan, and the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans*

Amounts for the current annual period and previous four annual periods are as follows:

| | URC | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| Defined benefit obligation | **₱1,351,799,927** | ₱1,220,977,777 | ₱1,038,335,854 | ₱1,113,492,800 | ₱934,438,200 |
| Plan assets | **1,221,431,248** | 1,247,197,112 | 1,354,691,166 | 1,341,210,300 | 1,218,540,900 |
| Deficit (surplus) | **₱130,368,679** | (₱26,219,335) | (₱316,355,312) | (₱227,717,500) | (₱284,102,700) |
| Experience adjustments on: | | | | | |
| Plan assets | **₱16,273,939** | (₱32,995,817) | ₱6,390,700 | (₱5,111,600) | (₱18,194,700) |
| Plan liabilities | **(1,502,508)** | (3,797,073) | (7,144,800) | (176,556,600) | 78,783,300 |

| | Others* | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| Defined benefit obligation | **₱625,405,444** | ₱770,190,122 | ₱526,194,596 | ₱379,041,001 | ₱336,173,450 |
| Plan assets | **52,103,163** | 56,813,768 | 60,559,560 | 57,568,490 | 104,000 |
| Deficit | **₱573,302,281** | ₱713,376,354 | ₱465,635,036 | ₱321,472,511 | ₱336,069,450 |
| Experience adjustments on: | | | | | |
| Plan assets | **₱6,871,443** | ₱2,428,730 | ₱12,070 | ₱7,876,242 | ₱251,500 |
| Plan liabilities | **(9,648,177)** | (20,389,616) | 81,239,100 | (3,194,328) | 81,519,200 |

* *Others include RLC, which has a funded, noncontributory, defined benefit pension plan, and the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans*

## 37. Income Taxes

Provision for income tax from continuing operations consists of:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Corporate | **₱1,514,167,521** | ₱1,529,848,866 | ₱1,013,723,819 |
| Final | **382,382,532** | 64,035,658 | 37,298,648 |
| Deferred | **65,982,706** | 16,364,619 | 235,099,091 |
| | **₱1,962,532,759** | ₱1,610,249,143 | ₱1,286,121,558 |

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 beginning January 1, 2009.

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 2011, 2010 and 2009 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 ₱81.4 million, ₱66.4 million and ₱74.2 million in 2011, 2010 and 2009, respectively (Note 30).

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):

| | 2011 | 2010 |
|---|---|---|
| Deferred tax assets on: | | |
| Unrealized foreign exchange loss | **₱92,377,935** | ₱121,633,292 |
| Unfunded profit sharing | **50,882,812** | 39,296,193 |
| Unfunded pension benefits | **13,055,074** | 10,812,937 |
| Allowance for impairment losses on receivables and property, plant and equipment | **3,981,523** | 2,470,321 |
| Others | **90,230,032** | 82,445,187 |
| | **250,527,376** | 256,657,930 |
| Deferred tax liabilities on: | | |
| Unrealized foreign exchange gain | **(7,034,387)** | (11,649,234) |
| Unrealized gain on AFS investments | **(897,963)** | (13,650,866) |
| | **(7,932,350)** | (25,300,100) |
| Net deferred tax asset | **₱242,595,026** | ₱231,357,830 |

Components of the Group's net deferred tax liabilities reported in the consolidated statements of financial position follow:

| | 2011 | 2010 |
|---|---|---|
| Deferred tax assets on: | | |
| ARO liability | **₱731,300,500** | ₱664,825,542 |
| Accrued rent expense | **351,900,680** | 328,377,115 |
| Allowance for impairment losses on receivables and property, plant and equipment | **203,513,671** | 704,723,126 |
| Unfunded pension benefits | **109,177,767** | 122,376,264 |
| Accrued interest expense | **98,798,026** | 77,337,747 |
| NOLCO | **79,851,428** | 656,840,056 |
| MCIT carryforward | **59,107,325** | 33,112,332 |
| Unrealized loss on financial assets at FVPL | **43,066,411** | 1,163,530 |
| Foreign subsidiaries | **22,141,945** | 5,120,386 |
| Allowance for inventory obsolescence | **22,200,106** | 44,994,505 |
| Unrealized foreign exchange loss | **–** | 65,442,455 |
| Others | **10,972,325** | 12,162,695 |
| | **1,732,030,184** | 2,716,475,753 |

(Forward)

| | **2011** | 2010 |
|---|---|---|
| Deferred tax liabilities on: | | |
| Double depreciation | **(₱566,416,958)** | (₱194,506,665) |
| Unamortized capitalized interest | **(528,633,025)** | (1,841,191,115) |
| Unrealized foreign exchange gain | **(506,818,185)** | (2,553,673,703) |
| Excess of financial gross profit over taxable gross profit | **(450,812,458)** | (347,012,563) |
| ARO asset | **(220,320,170)** | (248,190,060) |
| Undistributed income of foreign subsidiaries | **(202,060,961)** | (173,950,361) |
| Accrued rent income | **(105,349,086)** | (119,379,817) |
| Borrowing cost | **(71,832,394)** | (71,832,394) |
| Gain arising from changes in fair value less estimated costs to sell of swine stocks | **(61,224,081)** | (99,717,131) |
| Foreign subsidiaries | **(35,345,959)** | (49,226,416) |
| Unamortized debt issuance costs | **(28,065,344)** | (269,870,172) |
| Market valuation gain on derivative instrument | **(18,429,190)** | (364,791,144) |
| Deferred subscriber acquisition costs | **–** | (440,895,000) |
| Others | **(6,635,863)** | (285,298,015) |
| | **(2,801,943,674)** | (7,059,534,556) |
| Net deferred tax liabilities | **(₱1,069,913,490)** | (₱4,343,058,803) |

In 2011, the Group derecognized an amount of ₱3.4 billion deferred tax liabilities as part of the Group's disposal of its entire ownership interest in Digitel.

Certain subsidiaries did not recognize any deferred tax assets on the following temporary differences on account of the subsidiaries' respective ITH. In addition, management of these subsidiaries 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.

Details of unrecognized deferred tax assets follow:

| | **2011** | 2010 |
|---|---|---|
| Allowance for impairment losses | **₱1,040,745,690** | ₱1,075,249,892 |
| NOLCO | **572,758,972** | 812,858,504 |
| Difference between cost and NRV of inventories | **39,473,275** | 21,786,847 |
| Accrued pension costs | **20,926,760** | 18,850,002 |
| MCIT | **11,777,750** | 10,422,190 |
| Depreciation of investment properties and repossessed chattels | **4,887,627** | 2,324,282 |
| Unrealized loss on net derivative liability | **4,633,859** | – |
| Unrealized foreign exchange losses | **–** | 4,214,018 |
| | **₱1,695,203,933** | ₱1,945,705,735 |

Reconciliation between the Group's statutory income tax rate and the effective income tax rate follows:

| | 2011 | 2010 (As restated – Note 43) | 2009 (As restated – Note 43) |
|---|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% | 30.00% |
| Tax effects of: | | | |
| Equity in net earnings of affiliates | **(4.32)** | (3.85) | (8.87) |
| Nontaxable income | **(0.48)** | (0.27) | (0.44) |
| Changes in unrecognized deferred tax assets | **(0.74)** | (0.29) | (0.59) |
| Income subjected to lower tax rates | **(4.39)** | (1.18) | (3.50) |
| Board of Investments (BOI) tax credits and others | **(7.25)** | (10.85) | (1.59) |
| Nondeductible interest expense | **1.67** | 0.45 | 1.47 |
| Others | **(1.74)** | (6.54) | (5.93) |
| Effective income tax rate | **12.75%** | 7.47% | 10.55% |

38. **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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Income from continuing operations attributable to equity holders of the Parent Company | **₱8,477,359,822** | ₱15,575,451,617 | ₱7,810,135,490 |
| Less: Dividends on preferred shares | **3,200,000** | – | – |
| Income from continuing operations attributable to holders of common shares of the Parent Company | **8,474,159,822** | 15,575,451,617 | 7,810,135,490 |
| Income from discontinued operations attributable to equity holders of the Parent Company | **13,035,501,339** | 746,148,184 | 735,506,110 |
| Income attributable to holders of common shares of the Parent Company | **₱21,509,661,161** | ₱16,321,599,801 | ₱8,545,641,600 |
| Weighted average number of common shares | **6,739,528,227** | 6,739,528,227 | 6,797,191,657 |
| Basic/dilutive earnings per share | **₱3.19** | ₱2.42 | ₱1.26 |

Earnings per share attributable to equity holders of the Parent Company from continuing operations

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Income from continuing operations attributable to equity holders of the Parent Company | **₱8,477,359,822** | ₱15,575,451,617 | ₱7,810,135,490 |
| Less: Dividends on preferred shares | **3,200,000** | – | – |
| Income from continuing operations attributable to holders of common shares of the Parent Company | **₱8,474,159,822** | ₱15,575,451,617 | ₱7,810,135,490 |
| Weighted average number of common shares | **6,739,528,227** | 6,739,528,227 | 6,797,191,657 |
| Basic/dilutive earnings per share | **₱1.26** | ₱2.31 | ₱1.15 |

There were no potential dilutive common shares in 2011, 2010 and 2009.

## 39. 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.

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the following were the significant related party transactions which were carried out based on terms agreed with related parties:

| Related Party | Relationship | Financial Statement Account | Nature* | 2011 | 2010 |
|---|---|---|---|---|---|
| JGSCSC | Subsidiary | Due to related parties | Various | **₱2,636,754,938** | ₱2,465,771,172 |
| RBC | -do- | Cash and cash equivalents | Various | **1,238,830,978** | 534,416,396 |
| | | Due from related parties | | **812,316** | 535,087 |
| URC | -do- | Due from related parties | Various | **873,635,247** | 836,779,941 |
| EHI | -do- | Due from related parties | Various | **648,965,446** | 650,578,113 |
| JGSCMC | -do- | Due to related parties | Various | **80,952,601** | 81,183,700 |
| RLC | -do- | Due from related parties | Various | **80,153,700** | 342,954,804 |
| CAI | -do- | Due from related parties | Various | **1,564,020** | – |
| | | Due to related parties | Various | – | 623,923 |
| JGSCL | -do- | Due from related parties | Various | **34,666** | 9,703,751,100 |
| DMPI | -do- | Due from related parties | Various | – | 13,344,189,935 |
| DTPI | -do- | Due from relatedparties | Various | – | 9,333,704,850 |
| | | Unquoted debt security | Various | – | 1,127,073,530 |
| JGSPC | -do- | Due from related parties | Various | – | 4,021,097,465 |
| CPAHI | -do- | Due from related parties | Various | – | 1,107,394,090 |
| LMI | -do- | Due to related parties | Various | – | 1,140,619,132 |
| WIMC | -do- | Due from related parties | Various | – | 138,227,946 |
| URC Retirement Plan | Affiliate | Due to related parties | Various | **1,588,329,983** | 1,536,795,008 |
| Robinsons, Inc. | -do- | Due from related parties | Various | **224,295,013** | 223,924,790 |
| Robinsons Supermarket Corporation | -do- | Due from related parties | Various | **94,296,047** | 85,531,438 |

(Forward)

| Related Party | Relationship | Financial Statement Account | Nature* | 2011 | 2010 |
|---|---|---|---|---|---|
| Robinsons Holdings, Inc. | -do- | Due from related parties | Various | **₱65,814,836** | ₱65,814,532 |
| Shrine Galleria Corporation | -do- | Due from related parties | Various | **52,545,489** | 52,545,489 |
| Chic Center | -do- | Due from related parties | Various | **52,084,980** | 51,971,537 |
| Gokongwei Brothers Foundation, Inc. | -do- | Due from related parties | Various | **18,593,240** | 13,780,513 |
| OPMC | Associate | Due from related parties | Various | **382,731** | 602,666 |
| Others | Various | Due from related parties | Various | **9,791,654** | 69,229,080 |
| | Various | Due to related parties | Various | **332,932,171** | 577,815,013 |

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. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries. Certain advances are treated as loans and are charged with interest. The Group has entered into transactions with associates and other related parties principally consisting of sales, purchases, advances and reimbursement of expenses, regular banking transactions and management and administrative service agreements.

Interest earned by the Parent Company on transactions with related parties amounted to ₱3.7 million, ₱929.8 million and ₱648.3 million in 2011, 2010 and 2009, respectively, while interest income earned by the Parent Company from the bonds issued by Digitel amounted to ₱61.0 million, ₱72.0 million and ₱71.7 million in 2011, 2010 and 2009, respectively. Interest expense incurred amounted to ₱82.5 million in 2011, ₱214.9 million in 2010 and ₱299.0 million in 2009.

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

Related party transactions which are not eliminated follow:

| | 2011 | 2010 |
|---|---|---|
| Due from related parties (Note 11) | **₱1,356,382,048** | ₱2,226,813,907 |
| Due to related parties | | |
| Current (Note 21) | **631,507,140** | 532,241,305 |
| Noncurrent (Note 24) | **994,856,747** | 920,294,635 |

The Group's significant transactions with related parties which are not eliminated follow:

(a) Sales to related parties (which include affiliates Robinson's Supermarket, Robinsons Convenience Store, HURC and Robinsons Handyman) amounted to ₱0.9 billion, ₱1.4 billion and ₱0.8 billion in 2011, 2010 and 2009, respectively. Trade receivables from HURC amounted to ₱148.3 million and ₱25.3 million as of December 31, 2011 and 2010, respectively.

(b) As of December 31, 2011 and 2010, URC's plan assets include amounts due to URC totaling ₱354.3 million and ₱306.7 million, respectively (Note 36). As of December 31, 2011 and 2010, the Group's plan assets also include amounts due from JGSHI totaling ₱1.6 billion (Note 36). Due from JGSHI included in URC's plan assets are short-term in nature and incurs interest ranging from 2.1% to 4.6% in 2011, 2.0% to 4.5% in 2010 and 3.5% to 7.3% in 2009. The term of the said receivables range from 7-31 days.

(c) The 40.0% non-controlling interest in RBC represents the percentage ownership of Robinsons Holdings, Inc. (RHI), an affiliate of the Group (Note 45).

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

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

The compensation of the Group's key management personnel by benefit type follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Short-term employee benefits | **₱925,213,965** | ₱1,044,246,522 | ₱999,120,546 |
| Post-employment benefits | **134,565,142** | 44,702,038 | 48,648,082 |
| | **₱1,059,779,107** | ₱1,088,948,560 | ₱1,047,768,628 |

## 40. 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.

## 41. 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 ₱62.4 million, ₱55.0 million and ₱54.3 million in 2011, 2010 and 2009, respectively.

Future minimum lease payments under noncancellable operating leases of the URC Group follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Within one year | **₱16,953,651** | ₱16,953,651 | ₱17,207,956 |
| After one year but not more than five years | **67,814,604** | 67,814,604 | 68,831,823 |
| | **₱84,768,255** | ₱84,768,255 | ₱86,039,779 |

*Operating Lease Commitments - Group as a Lessor*
The URC Group has entered into a one-year renewable, noncancellable lease 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 ₱52.8 million, ₱56.6 million and ₱56.8 million in 2011, 2010 and 2009, 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 ₱0.2 million in 2011, 2010 and 2009.

Future minimum lease receivables under noncancellable operating leases of the URC Group that are due within one year amounted to ₱65.8 million, ₱57.1 million and ₱57.4 million in 2011, 2010 and 2009, 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 ₱164.9 million, ₱158.4 million and ₱156.1 million in 2011, 2010 and 2009, respectively.

Future minimum lease payments under noncancellable operating leases of RLC's certain lessee subsidiaries follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Within one year | **₱51,773,432** | ₱47,147,298 | ₱48,004,527 |
| After one year but not more than five years | **236,150,146** | 213,176,325 | 202,539,847 |
| Over five years | **6,129,676,237** | 6,253,520,299 | 6,306,558,981 |
| | **₱6,417,599,815** | ₱6,513,843,922 | ₱6,557,103,355 |

*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 ₱6.1 billion, ₱5.6 billion and ₱5.1 billion in 2011, 2010 and 2009, respectively. Total percentage rent recognized as income amounted to ₱1.7 billion, ₱1.6 billion and ₱1.4 billion in 2011, 2010 and 2009, respectively.

Future minimum lease receivables under noncancellable operating leases of the RLC Group follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Within one year | **₱1,208,000,779** | ₱1,128,494,867 | ₱943,532,729 |
| After one year but not more than five years | **2,597,161,871** | 2,728,725,119 | 1,354,524,223 |
| Over five years | **463,430,460** | 587,588,901 | 71,111,376 |
| | **₱4,268,593,110** | ₱4,444,808,887 | ₱2,369,168,328 |

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 ₱11.2 million, ₱13.4 million and ₱10.5 million in 2011, 2010 and 2009, respectively.

Future minimum lease payments under the noncancellable lease of JGSPC's office space follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Within one year | **₱6,021,962** | ₱5,735,207 | ₱4,739,843 |
| After one year but not more than five years | **18,723,623** | 24,745,585 | – |
| | **₱24,745,585** | ₱30,480,792 | ₱4,739,843 |

*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 ₱1.1 million and ₱1.2 million as of December 31, 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 | Lessor | No. of Units | Lease Term |
|---|---|---|---|
| December 23, 2004 | CIT Aerospace International (CITAI) | 2 | May 2005 - May 2012<br>June 2005 - June 2012 |
| April 23, 2007 | Celestial Aviation Trading 17 Limited (CAT 17) | 1 | October 2007 - October 2016 |
| May 29, 2007 | CITAI | 4 | March 2008 - March 2014<br>April 2008 - April 2014<br>May 2008 - May 2014<br>October 2008 - October 2014 |
| March 14, 2008 | Celestial Aviation Trading 19 Limited (CAT 19) | 2 | January 2009 - January 2017 |
| March 14, 2008 | Celestial Aviation Trading 23 Limited (CAT 23) | 2 | October 2011 - October 2019 |
| July 13, 2011 | RBS Aerospace Limited | 2 | March 2012 - February 2018 |

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 will expire in May 2012 and June 2012.

Future minimum lease payments under the above-indicated operating aircraft leases of CAI follow:

| | **2011** | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| | **US Dollar** | **Philippine Peso Equivalent** | US Dollar | Philippine Peso Equivalent | US Dollar | Philippine Peso Equivalent |
| Within one year | **US$46,796,685** | **₱2,051,566,670** | US$37,805,531 | ₱1,657,394,479 | US$33,749,946 | ₱1,559,247,505 |
| After one year but not more than five years | **303,869,815** | **13,321,652,690** | 113,948,252 | 4,995,491,368 | 118,485,725 | 5,474,040,495 |
| Over five years | **312,695,865** | **13,708,586,722** | 8,408,351 | 368,622,108 | 25,541,363 | 1,180,010,971 |
| | **US$663,362,365** | **₱29,081,806,082** | US$160,162,134 | ₱7,021,507,955 | US$177,777,034 | ₱8,213,298,971 |

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 ₱1.7 billion, ₱1.6 billion and ₱1.7 billion in 2011, 2010 and 2009, respectively (Note 30).

*Boeing 757 aircraft*

On August 22, 2001, CAI entered into aircraft operating lease agreements with PALSI, Inc. (PALSI) and Pegasus Aviation IV, Inc. (Pegasus) for the lease of one B757-236 aircraft from each company. The respective lease terms are for a period of seven years. The delivery dates of the aircrafts which were leased from Pegasus and PALSI were December 13, 2001 and February 18, 2002, respectively. The lease agreements expired on December 13, 2008 and February 18, 2009, and the two aircraft were returned to the lessors in June and October 2009.

Under the aforementioned aircraft lease agreements, CAI paid PALSI and Pegasus monthly maintenance expenses based on billing statements (included in the 'Accounts payable and accrued expenses' in the consolidated statements of financial position) throughout the lease term.

On March 18, 2006, CAI entered into a sub-lease agreement with Air Slovakia for the sub-lease of the two B757-236 aircraft which were leased from PALSI and Pegasus. The sub-lease agreements were for a period of two years, which expired on February 18, 2009 and December 13, 2008. Rent income earned (included in the consolidated statements of comprehensive income) under the aforementioned sub-lease agreement amounted to ₱131.7 million in 2009.

*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.

*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:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Within one year | **₱104,835,557** | ₱101,622,518 | ₱92,283,350 |
| After one year but not more than five years | **466,379,370** | 443,485,392 | 406,896,291 |
| Over five years | **394,888,300** | 124,367,033 | 230,752,642 |
| | **₱966,103,227** | ₱669,474,943 | ₱729,932,283 |

Lease expenses relating to non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱240.3 million, ₱231.2 million and ₱239.7 million in 2011, 2010 and 2009, respectively.

Digitel

*Operating Lease Commitments - Group as a Lessee*

Digitel leases certain premises for some of its telecommunications facilities and equipment and for most of its business centers and cell sites. The operating lease agreements are for periods ranging from 1 to 30 years from the date of the contracts and are renewable under certain terms and conditions. The agreements generally require certain amounts of deposit and advance rentals, which are shown as part of 'Other current assets' and 'Other noncurrent assets' in the consolidated statements of financial position. Digitel's rentals incurred on these leases, included under discontinued operations in the consolidated statements of comprehensive income, amounted to ₱438.2 million, ₱1.5 billion and ₱1.3 billion in 2011, 2010 and 2009, respectively.

Future minimum lease payments under these noncancellable operating leases of Digitel follow:

| | 2010 | 2009 |
|---|---|---|
| Within one year | ₱1,043,756,189 | ₱893,270,149 |
| After one year but not more than five years | 5,464,040,282 | 4,857,427,267 |
| Over five years | 2,574,333,405 | 3,157,624,336 |
| | ₱9,082,129,876 | ₱8,908,321,752 |

RBC

*Operating Lease Commitments - Group as a Lessee*

RBC leases 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 (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱81.1 million, ₱71.1 million and ₱61.0 million in 2011, 2010 and 2009, respectively.

Future minimum lease payments under these noncancellable operating leases of RBC follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Within one year | **₱61,234,448** | ₱58,282,212 | ₱42,040,155 |
| After one year but not more than five years | **134,918,305** | 106,832,167 | 53,848,469 |
| Over five years | **23,004,308** | 26,977,792 | 4,731,106 |
| | **₱219,157,061** | ₱192,092,171 | ₱100,619,730 |

## 42. Other Commitments and Contingent Liabilities

RLC

*Capital Commitments*

RLC has contractual commitments and obligations for the construction and development of investment properties and property and equipment items aggregating ₱3.9 billion, ₱3.3 billion and ₱2.9 billion as of September 30, 2011, 2010 and 2009, respectively. Moreover, RLC has contractual obligations amounting to ₱1.6 billion, ₱1.6 billion and ₱1.5 billion as of September 30, 2011, 2010 and 2009, 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 ₱68.8 billion as of December 31, 2011 which are payable over the following periods:

| | **US Dollar** | **Philippine Peso Equivalent** |
|---|---|---|
| Within one year | **US$245,151,805** | **₱10,747,455,131** |
| After one year but not more than five years | **1,324,854,931** | **58,081,640,175** |
| | **US$1,570,006,736** | **₱68,829,095,306** |

*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. 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.

In 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 26 new Airbus A320 aircraft, three of which were delivered on January 25, September 29 and December 8, 2011, respectively. The remaining 23 Airbus A320 aircraft are scheduled to be delivered between 2012 and 2016, one of which was already delivered in January 2012. The spare engine was delivered as scheduled in 2011.

In 2007, CAI has committed to purchase six ATR 72-500 turboprop aircraft and has exercised an option to purchase additional four ATR 72-500 turboprop aircraft. These turboprop aircraft will cater to destinations in the country's smaller airports. CAI has taken delivery of the initial six aircraft in 2008 and the remaining two were received during the first quarter of 2009. One ATR 72-500 turboprop aircraft was delivered in March 2011 to replace the aircraft disposed last November 2010. CAI terminated the purchase commitment for one ATR 72-500 turboprop aircraft.

In August 2011, CAI entered in a new commitment to purchase firm orders of 30 new A321 NEO Aircraft and ten additional option orders. These aircraft are scheduled to be delivered from 2017 to 2021. These aircraft shall be used for a longer range of network expansion programs.

The above-indicated commitments relate to CAI's re-fleeting and expansion programs.

Off-Balance Sheet Items
In the normal course of RBC'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's commitments and contingent liabilities at their equivalent peso contractual amounts:

| | **2011** | 2010 |
|---|---:|---:|
| Trust and investment group accounts | **₱19,593,408,084** | ₱12,325,143,897 |
| Spot exchange - foreign currency | **1,054,980,000** | – |
| Committed credit lines | **642,507,471** | – |
| Contingent - foreign currency swap | **335,150,000** | 557,741,200 |
| Domestic standby letters of redit | **228,005,282** | – |
| Late deposit/payment received | **58,453,300** | 10,178,403 |
| Inward bills for collection | **51,026,725** | – |
| Outward bills for collection | **548,036** | 548,037 |
| Items held for safekeeping | **85,847** | 52,282 |
| Other contingent accounts | **644,771** | 82,570 |

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.

## 43. **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 investments 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 periods ended December 31, 2010 and 2009 follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **Revenues** | | | |
| Sale of goods and services | **₱4,524,649,269** | ₱16,543,916,906 | ₱14,020,021,311 |
| **Cost of Sales** | **496,535,978** | 2,074,712,276 | 1,656,424,753 |
| **Gross Income** | **4,028,113,291** | 14,469,204,630 | 12,363,596,558 |
| **Other Operating Expenses** | | | |
| General and administrative expenses | **3,625,943,506** | 13,017,906,040 | 11,037,702,389 |
| Impairment losses and others | **59,401,794** | 359,883,551 | 299,281,443 |
| | **3,685,345,300** | 13,377,789,591 | 11,336,983,832 |
| **Operating Income** | **342,767,991** | 1,091,415,039 | 1,026,612,726 |
| Financing costs and other charges | **(116,858,869)** | (394,490,003) | (684,673,612) |
| Market valuation losses on derivative financial instruments | **(43,945,006)** | (68,234,326) | (102,048,885) |
| Foreign exchange gains (loss) | **(33,963,568)** | 907,458,980 | 503,699,503 |
| Finance income | **1,398,694,829** | 32,872,466 | 36,263,261 |
| Others | **7,713,286** | 49,363,271 | 17,051,592 |
| **Income Before Tax from Discontinued Operations** | **1,554,408,663** | 1,618,385,427 | 796,904,585 |
| **Provision for (Benefit from) Income Tax** | **12,697,904** | 655,589,514 | (68,891,662) |
| **Income after Tax from Discontinued Operations** | **1,541,710,759** | 962,795,913 | 865,796,247 |
| **Gain from Sale of a Subsidiary, net of tax** | **11,570,087,639** | – | – |
| **Net Income from Discontinued Operations** | **₱13,111,798,398** | ₱962,795,913 | ₱865,796,247 |

Earnings per share attributable to equity holders of the Parent Company from discontinued operations

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Income from discontinued operations attributable to equity holders of the Parent Company | **₱13,035,501,339** | ₱746,148,184 | ₱735,506,110 |
| Weighted average number of common shares | **6,739,528,227** | 6,739,528,227 | 6,797,191,657 |
| Basic/dilutive earnings per share | **₱1.93** | ₱0.11 | ₱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 periods ended December 31, 2010 and 2009 follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Net cash flows provided by operating activities | **₱1,694,725,821** | ₱6,969,658,000 | ₱6,357,021,000 |
| Net cash flows used in investing activities | **(1,610,371,076)** | (9,503,772,000) | (11,659,396,000) |
| Net cash flows provided by (used in) financing activities | **(501,724,385)** | 2,528,650,000 | 5,303,341,000 |
| Net cash inflow (outflow) | **(₱417,369,640)** | (₱5,464,000) | ₱966,000 |

**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 |
| Total Current Assets | 6,555,490,695 |
| **Noncurrent Assets** | |
| Property, plant and equipment | 81,433,722,471 |
| Other noncurrent assets | 1,873,542,154 |
| Total Noncurrent Assets | 83,307,264,625 |
| | 89,862,755,320 |
| **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 |
| Total Current Liabilities | 8,724,518,899 |

(Forward)

| | |
|---|---|
| **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 |
| Total Noncurrent Liabilities | 26,009,068,385 |
| | 34,733,587,284 |
| **NON-CONTROLLING INTEREST** | 1,022,135,705 |
| **NET ASSETS DISPOSED OF** | 54,107,032,331 |
| **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 |
| **GAIN FROM SALE OF A SUBSIDIARY** | ₱11,570,087,639 |
| **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 |

44. **Disposal Group Held for Sale**

In May 2008, URC executed an agreement with Tianjin Hope Shipbuilding Construction Co., Ltd. (Tianjin) and Xinyuda Ocean Engineering (Hong Kong) Co., Ltd. (Xinyuda) to sell all the shares of stock of Tianjin Pacific Foods Manufacturing Co., Ltd. (TPFMC), a 100%-owned subsidiary of URC, for a total consideration of RMB32.7 million (approximately ₱245.1 million).

In December 2009, the sale of TPFMC to Xinyuda was fully consummated, and URC recognized a net loss on the disposal of the investment in TPFMC amounting to ₱31.7 million (included under the 'Other expenses' in profit or loss in the consolidated statements of comprehensive income).

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).

## 45. Business Combination

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 |
| Total assets | 3,401,575,899 |
| Deposit liabilities | 46,149,245 |
| Bills payable | 715,540,540 |
| Other liabilities | 329,891,770 |
| Total liabilities | 1,091,581,555 |
| 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 |
| Total net assets acquired pertaining to 60.0% voting interest | 53,157,323 |
| Value of license acquired | 134,276,211 |
| Total assets acquired for cash | ₱187,433,534 |
| **Net cash inflow arising from acquisition of a subsidiary** | |
| Cash and cash equivalents acquired | ₱3,015,021,701 |
| Cash consideration | 1,357,513,818 |
| | ₱1,657,507,883 |

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.

## 46. Mergers

LMI (Surviving Entity) and ADMC, WIMC, CPMC, HSFC, Savannah and TIC (Absorbed Corporations)
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 ADMC, WIMC, CPMC, HSFC, Savannah and TIC. 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.

## 47. Subsequent Events

The following non-adjusting event happened subsequent to the reporting date:

a. On January 13, 2012, the Parent Company acquired CAI's debt and equity securities classified as financial assets at FVPL and AFS financial assets for a consideration amounting to ₱3.5 billion. The market value of the financial assets at FVPL and AFS financial assets at the date of settlement amounted to ₱3.3 billion and ₱0.1 billion, respectively.

## 48. 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 ₱136.1 million, ₱91.1 million and ₱95.4 million in 2011, 2010 and 2009, respectively.

c. In 2011, 2010 and 2009, the Group capitalized depreciation as part of the cost of new born biological assets (suckling) amounting to ₱140.1 million, ₱139.1 million and ₱158.0 million, respectively.

d. In 2011, 2010 and 2009, the Group foreclosed some assets, which are recorded under 'Investment properties' in the consolidated statement of financial position, amounting to ₱11.9 million, ₱16.0 million and ₱7.7 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. In 2009, the additions in 'Passenger aircraft' include capitalized ARO asset related to new operating lease agreements amounting to ₱211.0 million. The above capitalized ARO asset has corresponding recognition of ARO liability with the same amount.

f. As of December 31, 2010 and 2009, the Group had non-cash investing activities pertaining to additions to accrued project cost of ₱4.0 billion and ₱0.2 billion, respectively, and capitalized borrowing costs of ₱0.8 billion and ₱1.4 billion, respectively.

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, 2010, the Group recognized a liability based on the schedule of pre-delivery payments amounting to ₱286.0 million with a corresponding debit to 'Construction-in progress'. The liability was paid on January 3, 2011.

i. In 2010, the Group acquired three 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.

## 49. **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 May 4, 2012.

# CORPORATE DIRECTORY

### COMMON STOCK
Listed on the
**Philippine Stock Exchange, Inc.**
3rd Floor, Philippine Stock Exchange
Ayala Triangle, Ayala Avenue
Makati City, Philippines

### STOCK TRANSFER AND DIVIDEND PAYING AGENT
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Makati City, Philippines

### CORPORATE HEAD OFFICE
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