COVER SHEET

1	8	4	0	4	4

SEC Registration Number

J G S U M M I T H O L D I N G S , I N C . A N D S U B S I D I A R I E S

(Company's Full Name)

4 3 r d F l o o r , R o b i n s o n s - E q u i t a b l e T o w e r , A D B A v e n u e c o r n e r P o v e d a R o a d , P a s i g C i t y

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

Constante T. Santos

(Contact Person)

633-7631

(Company Telephone Number)

1 2 **3 1**

Month *Day*

(Fiscal Year)

1 7 Q

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2010**

2. Commission identification number **184044**

3. BIR Tax Identification No **000-775-860**

4. Exact name of registrant as specified in its charter **JG Summit Holdings, Inc.**

5. Province, country or other jurisdiction of incorporation or organization

   Pasig City, Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of registrant's principal office Postal Code

   43rd Floor, Robinsons-Equitable Tower ADB Ave. corner Poveda Road, Pasig City 1600

8. Registrant's telephone number, including area code

   (632) 633-7631

9. Former name, former address and former fiscal year, if changed since last report

   Not Applicable

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Stock	**6,797,191,657**
Long-term Debt	**9,000 000 000**

11. Are any or all of the securities listed on the Philippine Stock Exchange?

    Yes [/] No [ ]

12. Indicate by check mark whether the registrant:

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

Yes [/] No [ ]

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

Yes [/] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

<u>Results of Operations</u>

Six Months Ended June 30, 2010 vs. June 30, 2009

JG Summit's net income for the second quarter of 2010 amounted to ₱3.34 billion, making our net profit for the 1st half of the year to ₱7.75 billion, a 114.6% growth from last year's ₱3.61 billion. The remarkable performance of major subsidiaries of the Group contributed to the Group's significant growth in its bottomline. The Group's core earnings showed a 108.9% growth for the first half of the year from ₱5.31 billion to ₱11.09 billion during the period. EBITDA reached ₱18.70 billion, a 42.9% increase from ₱13.09 billion for the same period last year.

Consolidated revenues increased 14.8% from ₱52.95 billion to ₱60.76 billion due to the strong performance of most business units. The substantial growth was driven by the continued improvement in sales and revenues of our businesses in foods, airline, real estate development, and telecoms business particularly in the wireless segment. Only our petrochemical business showed a decline in sales by 23.9% to ₱1.61 billion during the period.

Consolidated cost of sales and services during the period increased 6.1% from ₱31.68 billion last year to ₱33.61 billion this year. Increase was brought about by higher cost of sales and services recorded by the airline and telecoms businesses. URC's cost of sales slightly went up due to higher sales volume, offset by lower costs of raw materials.

Consolidated operating expenses increased 6.1% as a result of higher general and administrative expenses in our mobile phone network, increased airline operations and higher expenses incurred by the food business.

Financing costs and other charges incurred for the first half of 2010 dropped 10.4% to ₱2.95 billion mainly due to lower foreign exchange rates used to translate dollar-denominated debt as compared to the same period last year.

Mark-to-market gain recognized during the first half of fiscal 2010 amounted to ₱790.93 million, a slight increase from last year's ₱782.20 million for the same period last year as the capital markets continue to recover.

Foreign exchange loss – net recorded this year amounted to ₱407.34 million, a 61.6% drop from last year's ₱1.06 billion with the peso much more stabilized this year than last year.

Provision for income tax grew 238.2% due to higher taxable income and provision for deferred tax liability during the period.

FOODS

Universal Robina Corporation (URC) posted a consolidated sale of goods and services of ₱28.72 billion for the six months ended March 31, 2010, 11.8% higher than the revenues posted in the same period last year. Sale of goods and services performance by business segment follows: (1) URC's BCFG (excluding packaging) increased by ₱1.63 billion or 8.5% to ₱20.78 billion for the first half of fiscal 2010 from ₱19.15 billion registered in the same period of last year. BCFG domestic sales increased by ₱599 million which was largely driven by the strong performance of its beverage division which posted a 17.9% growth due to surge in sales volume of C2 Green Tea, coffee and creamer and sales take-off of new beverage products. Sales of grocery products improved by 7.1% to ₱1.47 billion due to better performance of Noodle sales. BCFG international sales increased by 17.6% to ₱6.88 billion due to 29.0% increase in sales volume. Sales in URC's packaging division dropped to ₱384 million in the first half of fiscal 2010 from ₱529 million posted in the same period last year due to decrease in sales volume and commodity prices worldwide. (2) URC's AIG recorded net sales of ₱3.53 billion, a 20.1% increase from ₱2.94 billion for the same period last year. The increase is substantially driven by farm business, which significantly grew by 35.2% due to higher sales volume of hogs and broiler coupled with increases in farm gate prices. (3) URC's CFG revenues amounted to ₱4.03 billion in the first half of fiscal 2010 or up 31.4% from ₱3.07 billion reported in the same period last year primarily due to increased net sales from sugar business by 76.0% driven by increases in selling prices during the second quarter of fiscal 2010.

URC's cost of sales increased by ₱227 million or 1.2% to ₱19.96 billion in the first half of fiscal 2010 from ₱19.74 billion reported in the same period last year. Cost of sales went up due to increases in sales volume, net of lower costs of major raw materials. URC's gross profit in the first half of fiscal 2010 amounted to ₱8.76 billion, an increase of ₱2.81 billion or 47.2% from ₱5.95 billion posted in the same period last year. Gross profit margin has significantly improved by 800 basis points versus same period last year as URC took advantage of lower input costs this year. Operating expenses increased by ₱533 million to ₱4.42 billion from ₱3.89 billion registered in the same period of fiscal 2009. As a result of the above factors, operating income increased by ₱2.28 billion, or 110.5% to ₱4.34 billion in the first half of fiscal 2010 from ₱2.06 billion reported in the same period of fiscal 2009.

Market valuation gain on financial instruments at FVPL of ₱821 million was reported in the first half of fiscal 2010 against a market valuation loss of ₱1.15 billion in the same period of fiscal 2009 due to recovery in the market values of bond and equity investments. Finance costs decreased by ₱277 million or 34.3% to ₱531 million in the first half of fiscal 2010 from ₱808 million recorded in the same period of fiscal 2009 due to decline in level of financial debt. Foreign exchange loss – net amounted to ₱239 million in the first half of fiscal 2010, 177.9% increase from ₱86 million reported in the same period last year due to currency translation loss on foreign currency denominated assets with the appreciation of Philippine Peso vis-à-vis US dollar. Provision for income tax recognized in the first half of fiscal 2010 amounted to ₱535 million, an increase of 404.7% from ₱106 million due to higher taxable income and provision for deferred tax liability on unrealized gain in market value of hogs and unrealized foreign exchange gain.

URC's net income attributable to equity holders of the parent increased by ₱3.95 billion 982.8% to ₱4.35 billion in the first half of fiscal 2010 from ₱402 million in the same period last year as a result of the factors discussed above.

URC's unaudited core earnings before tax (operating profit after equity earnings, net finance revenue and other income – net) in the first half of fiscal 2010 amounted to ₱4.51 billion, an increase of 135.5% from ₱1.92 billion reported in the same period last year.

URC reported an EBITDA (operating income plus depreciation, amortization) of ₱5.99 billion in the first half of fiscal 2010, 76.9% higher than ₱3.38 billion recorded in the same period of fiscal 2009.

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

PROPERTY

Robinsons Land Corporation (RLC) posted net income of ₱1.80 billion for the six months ended March 31, up by 10% compared with the same period last year. Likewise, EBITDA and EBIT rose by 9.5% and 8.1% to ₱3.02 billion and ₱2.11 billion, respectively. Real estate and hotel revenues was up by 7% to ₱5.30 billion against last year's ₱4.95 billion.

Commercial Centers Division contributed 50% or ₱2.8 billion of the gross revenues posting a 38% growth. Significant rental increments were contributed by the newly opened malls in Dumaguete, Ilocos Norte, General Santos, Tacloban and Davao. Metro Manila malls led by Robinsons Galleria, Ortigas, also contributed to the growth while other provincial malls also posted decent growth in rental revenues. Moreover, incremental interest income from money market placements and cinema revenues contributed to the strong revenue growth of this division as RLC took over the cinema operations starting October 2009.

RLC's Residential Division accounted for 29% of RLC's revenues. Its realized revenues declined by 22% to ₱1.63 billion due to lower completion of several projects. Significant revenues were realized from recently launched projects such as The Trion Towers III, Sonata Private Residences, Amisa Towers, East of Galleria, Gateway Garden Heights, McKinley Park Residences, The Fort Residences and Woodsville Viverde. Several projects had lower realized revenues since these projects are nearing completion.

The Office Buildings Division contributed 10% or ₱562.0 million of RLC's revenues, up by 12% from last year's ₱503.6 million. The increase in office rentals was due to rentals from Cybergate Centers 2 and 3.

The Hotels Division contributed 10% or ₱578.5 million to RLC's revenues, up slightly by 6% due to the opening of Summit Ridge Tagaytay Hotel. The other existing hotels, Crowne Plaza Galleria Manila, Holiday Inn Galleria Manila and Cebu Midtown Hotel, posted occupancy rates of 78%, 80% and 56%, respectively.

Interest income includes interest earned on bank deposits and money market placements and interest recognized in accordance with PAS 39 for installment contract receivables of Residential Division. The increase of 28% from ₱197.8 million last year to ₱253.1 million this year is substantially due to interest earned from money market placements arising from proceeds of bond offering.

Hotel cost went up to ₱505 million due to opening of Summit Ridge Tagaytay Hotel. General and administrative expenses went up by 33% due to higher advertising and promotions, depreciation of newly opened malls and cinema costs resulting from takeover of cinema operations starting October 2009. Interest expense on amortization discount on deposits recognized in accordance with PAS 39 went up by ₱4.0 million due to higher level of mall tenant deposits classified as financial instruments.

TELECOMMUNICATIONS

DIGITEL's consolidated service and nonservice revenues for the six months ended June 30, 2010 amounted to ₱7,975.3 million, up by 19.1% from last year's ₱6,693.5 million driven mainly by the 30.6% growth in the wireless segment.

The wireless communication services posted a remarkable 30.6% growth in operating revenues of ₱6,244.1 million during the six-month period ended June 30, 2010 from ₱4,781.3 million during the same period last year. Net service revenues, 68.2% of which accounts for unlimited services, improved substantially by 29.8% against reported revenues of the same period last year. This is mainly attributable to the continued success of the unlimited service portfolio (e.g. 24/7 Call & Text Unlimited and Text Unlimited) and increase in subscriber count from the Group Plans and Plan 350 products. In addition, upgrading the services by continuously expanding network coverage thru aggressive network rollouts directly contributed to the increase of subscriber base. Introduction of new products were also a major factor in increasing net service revenue namely: Sun International Services, Easy Line, Sun Broadband Wireless (SBW), etc. Non-service revenues from the wireless communications segment also grew by 99.7% as a result of higher sales of SIM packs, SBW prepaid kits, and electronic load. The wireline voice communication services registered service revenues of ₱1,492.7 million for the six months ended June 30, 2010. This is a 12.5% decline over the same period last year of ₱1,706.7 million mainly due to lower revenues from international and domestic tolls, and local exchange. The decline was partially offset by the growth of Suntel products which registered an increase of 79% over the same period last year. Revenues for wireline data communication services for the six months ended June 30, 2010 increased by 16.1% to ₱238.5 million compared to last year's ₱205.5 million. This was due to the increase in domestic data and Internet services through its IP VPN services new subscription.

Consolidated cost and operating expenses likewise grew by 14.6% to ₱5,228.0 million from last year's consolidated figure of ₱4,562.4 million due to higher cost of sales, network-related expenses and general expenses.

Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) for the period is ₱3,491.7 million, higher by 29.4% against ₱2,698.0 million during the same period in 2009 due primarily to the higher service and non-service revenues generated by the wireless business.

After considering depreciation and amortization and other income (charges), net income for the period amounted to ₱145.4 million a turnaround from last year's net loss of ₱638.0 million.

AIR TRANSPORTATION

Cebu Air, Inc. (Cebu Pacific) registered revenues of ₱14.91 billion for the six-month period ended June 30, 2010, a 30.9% increase over last year's ₱11.39 billion brought about by increase in number of passengers mainly as a result of additional flights in 2010. Increase in number of flights was brought about by additional flight frequencies to existing destinations and the opening of 1 domestic destination (Pagadian). Increase in average fares and the automatic recognition of revenue from no-show passengers also boosted revenues for the period. Correspondingly, costs and operating expenses increased from ₱9.28 billion last year to ₱11.27 billion this year. Foreign exchange loss recognized during the first half of 2010 amounted to ₱65.21 million, lower than last year's ₱222.0 million. Airline's net income recorded a 55.6% growth for the first half of 2010, from ₱1.99 billion last year to ₱3.09 billion this year.

PETROCHEMICALS

JG Summit Petrochemicals Corporation's (JGSPC) revenue for the first half of 2010 amounted to ₱1.61 billion a 23.9% drop from last year's ₱2.11 billion as a result of decrease in sales volume from 35,286 MT last year to only 28,694 MT this year. However, gross loss recorded during the period is lower than last year's from ₱487.10 million for the first half of 2009 to ₱223.06 million for the same period this 2010. Interest expense also went down 76.7% during the period due to lower level of financing debt. A foreign exchange gain of ₱17.54 million was also recognized during the first half of fiscal 2010 compared to a foreign exchange loss of ₱104.73 million for the same period last year. All these factors contributed to a lower net loss for the petrochemical business from ₱670.79 million last year to ₱141.47 million this year.

EQUITY EARNINGS

Equity earnings from associated companies and joint ventures dropped 6.4% from ₱1.66 billion for the six-month period ended June 2009 to ₱1.56 billion for the same period this year. The decline is mainly due to lower income recorded by UIC this year, from SGD 136.57 million last year to SGD 126.45 million this year due to recognition of deferred income tax a write-back amounting to SGD 21.71 million in fiscal 2009.

BANKS

Robinsons Savings Bank (RSB) and Royal Bank of Scotland (RBS) recorded revenues of ₱685.62 million for the six months period of fiscal 2010, a 31.4% increase from last year's ₱521.69 million, since bank revenue this year includes revenue from RBS, which was acquired during the second quarter of fiscal 2010. Net income for the period amounted to ₱111.95 million during the first half of fiscal 2010, a 20.8% increase from last year's ₱92.66 million. Growth in net income is mainly due to higher interest income recorded by RSB during the period, from ₱467.85 million for the six months period last year to ₱590.11 million for the same period this year.

Financial Position

June 30, 2010 vs. December 31, 2009

As of June 30, 2010, the Company's balance sheet remains healthy, with consolidated assets of ₱293.26 billion from ₱277.88 billion as of December 31, 2009. Current ratio stood at 1.26:1. The Company's indebtedness remained manageable with a gearing ratio of 0.96:1 and net debt to equity of 0.70:1 as of June 30, 2010.

Cash and cash equivalents totaled ₱17.77 billion as of June 30, 2010 a decrease of 3.8% from ₱18.47 billion as of December 31, 2009. The principal source of cash is from the Group's operating activities amounting to ₱12.57 billion. As of June 30, 2010, net cash used in investing activities amounted to ₱12.97 billion mainly for the Company's capital expenditure program. The Group's cash used for financing activities mainly pertaining to settlement of debts amounted to ₱300.83 million. Our financial assets, including those held at fair value through profit or loss, available for sale investments and held-to-maturity investments, increased 13.3% from ₱19.39 billion as of December 31, 2009 to ₱21.98 billion as of June 30, 2010 due to the higher market valuation of our financial assets.

Receivables, including noncurrent portion, went up 9.9% from ₱22.86 billion as of December 31, 2009 to ₱25.12 billion as of June 30, 2010 due to higher finance receivables, which now include finance receivables of Royal Bank of Scotland (RBS). In May 2010, the Company, through a subsidiary acquired a 53.58% stake in RBS, which includes its commercial banking license.

Inventories increased 10.4% from ₱14.88 billion as of December 31, 2009 to ₱16.43 billion as of June 30, 2010 mainly due to higher level of finished goods and raw materials of the foods business. Materials in transit also increased 79% during the period.

Biological assets, including the noncurrent portion, rose to ₱1.75 billion as of June 30, 2010 from ₱1.56 billion in December 31, 2009 due to increase in market value of hogs, net of decrease in population of livestocks.

Derivative assets dropped 17.0% from ₱663.23 million in December 2009 to ₱550 80 million as of June 30, 2010. The decrease is mainly due to the airline's settlement of fuel hedges during the period.

Investments in associates and joint ventures increased 5.5% due to recognition of equity income for the period and additional investment in UIC.

Investment properties amounted to ₱30.40 billion as of June 30, 2010, from ₱27.73 billion in December 31, 2009, increase is due to continuous construction of our real estate business during the period.

Property, plant and equipment rose to ₱136.60 billion as of June 30, 2010, from ₱132.26 billion in December 31, 2009 mainly due to the on-going expansion of the facilities of our cellular telecommunications business and expansion of our branded consumer foods.

Goodwill increased 25.1% from ₱890.38 million as of year-end 2009 to ₱1.11 billion as of June 30, 2010 mainly due to recognition of goodwill from acquisition of RBS.

Other noncurrent assets increased 15.8% from ₱3.94 billion in December 31, 2009 to ₱4.56 billion as of June 30, 2010 due to higher level of bid deposits and additional advances to Altus San Nicolas Corporation of the real estate business.

Accounts payable and accrued expenses grew 9.6% from ₱33.76 billion as of year-end 2009 to ₱37.01 billion mainly due to higher level of accrued expenses, particularly those pertaining to the air transportation business such as maintenance, ground handling, training, etc. and higher advertising costs.

Derivative liabilities, including noncurrent portion, increased 10.8% from ₱750.34 million as of December 31, 2009 to ₱831.18 million as of June 30, 2010 due to lower valuation of our cashflow hedge transaction.

Other current liabilities increased 23.6% to ₱6.86 billion as of June 30, 2010 from ₱5.55 billion as of December 31, 2009 due to higher unearned revenue of the airline and telecoms businesses and increased customers' deposits in real estate business.

Long-term debt, including current portion, dropped 1.1% from ₱97.74 billion as of December 31, 2009 to ₱96.63 billion due to settlement of certain loan obligations.

Other noncurrent liabilities increased by 13.6% to ₱18.70 billion as of June 30, 2010 due to higher level of accrued project costs recorded by the telecommunications business.

Equity attributable to equity holders of the parent grew to ₱90.96 billion as of June 30, 2010 from ₱83.16 billion at the end of 2009. Book value per share improved from ₱12.23 per share as of December 31, 2009 to ₱13.38 per share as of June 30, 2010.

KEY PERFORMANCE INDICATORS

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements on a consolidated basis based on the financial data as of June 30, 2010 and December 31, 2009 and for the six months ended June 30, 2010 and 2009:

Key Financial Indicators	2010	2009
Revenues	P60,756 million	P52,946 million
EBIT	P12,600 million	P7,554 million
EBITDA	P18,705 million	P13,086 million
Current ratio	1.26	1.33
Gearing ratio	0.96	1.07
Net debt to equity ratio	0.70	0.79
Book value per share	13.38	12.23

The manner by which the Company calculates the above key performance indicators for both period-end 2010 and 2009 is as follows:

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

As of June 30, 2010, the Company is not aware of any events and uncertainties that would have a material impact on the Company's net sales, revenues, and income from operations and future operations.

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

PART II – OTHER INFORMATION

NONE.

SIGNATURES

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

JG SUMMIT HOLDINGS, INC.

By:

JAMES L. GO
Chairman and Chief Executive Officer
Date: 08-12-2010

LANCE Y. GOKONGWEI
President and Chief Operating Officer
Date: 08-12-2010

CONSTANTE T. SANTOS
SVP - Corporate Controller
Date 08-12-2010

JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	**P17,774,221**	P18,473,693
Derivative financial instruments (Note 8)	**550,797**	663,232
Financial assets at fair value through profit or loss (Note 9)	**10,216,384**	8,214,780
Available-for-sale investments (Note 10)	**10,556,501**	10,209,907
Receivables (Notes 4, 11 and 22)	**19,422,383**	18,149,006
Inventories (Note 12)	**16,427,846**	14,878,518
Biological assets	**1,147,899**	1,060,628
Other current assets (Note 13)	**6,469,162**	6,268,032
Total Current Assets	**82,565,193**	77,917,796
Noncurrent Assets		
Receivables	**5,699,832**	4,709,051
Held-to-maturity investments (Note 14)	**1,208,981**	970,095
Investments in associates and joint ventures	**29,631,537**	28,091,879
Property, plant and equipment	**136,604,789**	132,258,673
Investment properties	**30,404,708**	27,728,976
Goodwill	**1,113,978**	890,375
Biological assets	**604,271**	505,251
Intangible assets	**862,273**	865,791
Other noncurrent assets (Note 15)	**4,563,914**	3,942,112
Total Noncurrent Assets	**210,694,283**	199,962,203
	P293,259,476	P277,879,999
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Note 18)	**P13,525,640**	P13,960,074
Accounts payable and accrued expenses (Notes 16 and 22)	**37,013,813**	33,761,938
Derivative financial liabilities (Note 8)	**154,263**	124,891
Current portion of long-term debt (Note 18)	**7,721,369**	5,206,602
Other current liabilities (Note 17)	**6,855,923**	5,548,068
Total Current Liabilities	**65,271,008**	58,601,573

(Forward)

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 18)	**88,906,091**	92,536,596
Deferred tax liabilities	**5,332,976**	5,384,008
Other noncurrent liabilities (Notes 8, 19 and 22)	**18,703,101**	16,463,327
Total Noncurrent Liabilities	**112,942,168**	114,383,931
Total Liabilities	**178,213,176**	172,985,504
Equity		
Equity attributable to equity holders of the Parent Company: (Note 20)		
Paid-up capital	**12,856,988**	12,856,988
Retained earnings	**80,735,354**	72,988,584
Other comprehensive loss	**(1,915,338)**	(1,965,985)
Treasury shares	**(721,848)**	(721,848)
	90,955,156	83,157,739
Minority interest	**24,091,144**	21,736,756
Total Equity	**115,046,300**	104,894,495
	P293,259,476	P277,879,999

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands Except Per Share Amounts)

	Quarters Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
REVENUE				
Sale of goods and services:				
Foods	**P14,351,017**	P12,417,824	**P28,724,140**	P25,686,317
Air transportation	**7,936,866**	6,085,822	**14,909,776**	11,386,311
Telecommunications	**4,070,388**	3,479,082	**7,975,253**	6,693,503
Real estate and hotels	**2,808,291**	2,624,410	**5,296,912**	4,883,638
Petrochemicals	**670,351**	1,097,553	**1,608,013**	2,112,481
Banking	**362,226**	262,253	**685,618**	521,687
Equity in net earnings of associates and joint ventures	**825,788**	795,099	**1,556,025**	1,662,413
	31,024,927	26,762,043	**60,755,737**	52,946,350
COST OF SALES AND SERVICES	**16,789,056**	15,515,139	**33,608,112**	31,685,437
GROSS INCOME	**14,235,871**	11,246,904	**27,147,625**	21,260,913
General and administrative expenses	**7,240,947**	6,916,462	**14,421,837**	13,209,288
Impairment losses and others	**65,395**	451,557	**125,302**	497,405
OTHER OPERATING EXPENSES	**7,306,342**	7,368,019	**14,547,139**	13,706,693
OPERATING INCOME	**6,929,529**	3,878,885	**12,600,486**	7,554,220
Financing costs and other charges	**(1,408,175)**	(1,384,829)	**(2,946,276)**	(3,286,376)
Market valuation gain (loss) on financial assets at fair value through profit or loss	**772,850**	720,980	**883,341**	506,510
Market valuation gain (loss) on derivative financial instruments	**(54,294)**	324,937	**(92,411)**	275,689
Foreign exchange gain (loss)	**(1,729,847)**	(212,928)	**(407,338)**	(1,061,745)
Finance income	**300,013**	453,148	**865,806**	943,659
Others	**413,016**	(58,775)	**574,204**	98,368
INCOME BEFORE TAX	**5,223,092**	3,721,418	**11,477,812**	5,030,325
PROVISION FOR INCOME TAX	**638,051**	274,199	**1,268,260**	374,979
NET INCOME	**4,585,041**	3,447,219	**10,209,552**	4,655,346
OTHER COMPREHENSIVE INCOME				
Cumulative translation adjustments	**(8,456)**	317,534	**(116,307)**	121,269
Net gain (loss) on available-for-sale investments	**203,887**	1,440,332	**245,618**	1,429,821
Net gain (loss) from cash flow hedges	**(41,256)**	437,710	**(44,923)**	467,395
Net unrealized gain (loss) on available-for-sale investments of an associate	**476**	2,705	**347**	3,106
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**154,651**	2,198,281	**84,735**	2,021,591
TOTAL COMPREHENSIVE INCOME (LOSS)	**P4,739,692**	P5,645,500	**P10,294,287**	P6,676,937

(Forward)

	Quarters Ended June 30		Six Months Ended June 30	
	2010	2009	**2010**	2009
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**P3,340,169**	P2,746,067	**P7,746,770**	P3,610,055
Minority interest	**1,244,872**	701,152	**2,462,782**	1,045,291
	P4,585,041	P3,447,219	**P10,209,552**	P4,655,346
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**P3,435,797**	P4,439,551	**P7,797,417**	P5,106,449
Minority interest	**1,303,895**	1,205,949	**2,496,870**	1,570,488
	P4,739,692	P5,645,500	**P10,294,287**	P6,676,937
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Basic/diluted earnings per share (Note 21)	**P0.49**	P0.40	**P1.14**	P0.53

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

For the Six Months Ended June 30, 2010 and 2009

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY													
	Paid-up Capital			Retained Earnings			Other Comprehensive Income							
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Cumulative Translation Adjustments	Net Unrealized Gain (Loss) on Available--for-Sale Investments	Net Unrealized Loss on Cash Flow Hedge (Note 8)	Total Other Comprehensive Income (Loss)	Treasury Shares	Total	MINORITY INTEREST	TOTAL EQUITY
Balance at January 1, 2010	**P6,895,274**	**P5,961,714**	**P12,856,988**	**P36,389,709**	**P36,598,875**	**P72,988,584**	**(P1,746,827)**	**P178,341**	**(P397,499)**	**(P1,965,985)**	**(P721,848)**	**P83,157,739**	**P21,736,756**	**P104,894,495**
Total comprehensive income (loss)	-	-	-	**7,746,770**	-	**7,746,770**	**(72,960)**	**168,530**	**(44,923)**	**50,647**	-	**7,797,417**	**2,496,870**	**10,294,287**
Purchase of subsidiaries' treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	**(142,482)**	**(142,482)**
Balance at June 30, 2010	**P6,895,274**	**P5,961,714**	**P12,856,988**	**P44,136,479**	**P36,598,875**	**P80,735,354**	**(P1,819,787)**	**P346,871**	**(P442,422)**	**(P1,915,338)**	**(P721,848)**	**P90,955,156**	**P24,091,144**	**P115,046,300**
Balance at January 1, 2009	P6,895,274	P5,961,714	P12,856,988	P50,057,583	P14,589,275	P64,646,858	(P1,665,749)	(P1,338,928)	(865,670)	(P3,870,347)	(P721,848)	P72,911,651	P19,750,490	P92,662,141
Total comprehensive income (loss)	-	-	-	3,610,055	-	3,610,055	111,859	917,140	467,395	1,496,394	-	5,106,449	1,570,488	6,676,937
Cash dividends	-	-	-	(203,916)	-	(203,916)	-	-	-	-	-	(203,916)	-	(203,916)
Cash dividends paid to minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(482,608)	(482,608)
Balance at June 30, 2009	P6,895,274	P5,961,714	P12,856,988	P53,463,722	P14,589,275	P68,052,997	(P1,553,890)	(P421,788)	(P398,275)	(P2,373,953)	(P721,848)	P77,814,184	P20,838,370	P98,652,554

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Six Months Ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**P11,477,812**	P5,030,325
Adjustments for:		
Depreciation and amortization	**6,104,292**	5,532,124
Interest expense	**2,875,658**	3,108,550
Interest income	**(865,806)**	(943,659)
Dividend income	**(108,322)**	(76,458)
Dividends on preferred shares	**-**	125,593
Equity in net income of associates and joint ventures	**(1,556,025)**	(1,662,413)
Provisions for impairment losses on:		
Receivables	**125,302**	175,962
Available-for sale investments	**-**	141,045
Asset held for disposal	**-**	92,270
Inventory obsolescence and market decline	**-**	88,127
Gain arising from changes in fair value less estimated point-of-sale costs of swine stocks	**(198,895)**	(13,779)
Foreign exchange loss - net	**407,338**	1,061,745
Market valuation loss (gain) on derivative instruments	**92,411**	(275,689)
Market valuation loss (gain) on financial assets at fair value through profit or loss	**(883,341)**	(506,510)
Operating income before changes in operating accounts	**17,470,424**	11,877,233
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**(1,191,224)**	(215,203)
Derivative financial instruments	**4,473**	(922,307)
Receivables	**(2,298,322)**	(703,785)
Inventories	**(2,814,078)**	118,094
Other current assets	**(201,129)**	1,779,614
Increase (decrease) in:		
Accounts payable and accrued expenses	**3,029,813**	1,910,294
Other current liabilities	**1,307,855**	949,355
Net cash generated from operations	**15,307,812**	14,793,295
Interest received	**774,668**	907,713
Interest paid	**(2,653,597)**	(3,028,394)
Dividends received	**108,322**	76,458
Income taxes paid	**(1,204,399)**	(710,370)
Net cash provided by operating activities	**12,332,806**	12,038,702

(Forward)

	Six Months Ended June 30	
	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in the amounts of:		
Available-for-sale investments	**(143,974)**	1,363,766
Held-to-maturity investments	**(238,886)**	1,119
Goodwill	**(223,603)**	-
Intangible assets	**-**	(224)
Other noncurrent assets	**(1,366,299)**	(807,166)
Biological assets	**(58,645)**	79,650
Investments in associates and joint ventures	**16,367**	208,334
Property, plant and equipment	**(9,325,936)**	(10,158,979)
Investment properties	**(1,716,191)**	(2,156,585)
Net cash used in investing activities	**(13,057,167)**	(11,470,085)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of:		
Short-term debt	**(434,434)**	(2,679,266)
Long-term debt	**(1,523,076)**	3,344,023
Increase (decrease) in the amounts of:		
Other noncurrent liabilities	**1,799,159**	999,844
Minority interest in consolidated subsidiaries	**(142,482)**	(482,608)
Dividends paid on preferred shares	**-**	(125,593)
Net cash provided by (used in) financing activities	**(300,833)**	1,056,400
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,025,194)**	1,625,017
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**18,473,693**	7,742,096
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**P17,448,499**	P9,367,113

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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 point-of-sale costs.

The consolidated financial statements of the Group are presented in Philippine Peso, the functional currency of the Parent Company and its Philippine subsidiaries. All values were 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.

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.	British Virgin Islands	Philippine Peso
Multinational Finance Group, Ltd.	- do -	- do -
Telegraph Development, Ltd.	Singapore	- do -
Summit Top Investment, Ltd.	- do -	- do -

(Forward)

Subsidiaries	Country of Incorporation	Functional Currency
URC Group		
Universal Robina (Cayman), Limited	Cayman Islands	Philippine Peso
URC Philippines, Limited	British Virgin Islands	-do-
URC China Commercial Co. Ltd.	China	Chinese Yuan
URC International Co., Ltd & Subsidiaries		
URC Asean Brands Co., Ltd. and Subsidiaries		
URC (Thailand) Co., Ltd.	Thailand	Thai Baht
URC Foods (Singapore) Pte. Ltd.	Singapore	Singapore Dollar
PT URC Indonesia	Indonesia	Indonesian Rupiah
URC Vietnam Co., Ltd.	Vietnam	Vietnam Dong
Ricellent Sdn. Bhd.	Malaysia	Malaysian Ringgit
URC Snack Foods (Malaysia) Sdn. Bhd.	- do -	-do-
Hong Kong China Foods Co., Ltd. and Subsidiaries		
URC Hong Kong Company Limited (formerly Hong Kong Peggy Snacks Foods Co., Limited)	Hong Kong	HK Dollar
Tianjin Pacific Foods Manufacturing Co., Ltd.	China	Chinese Yuan
Xiamen Tongan Pacific Food Co., Ltd.	- do -	-do-
Shanghai Peggy Foods Co., Ltd.	- do -	-do-
Panyu Peggy Foods Co., Ltd.	- do -	-do-
Advanson International Pte. Ltd. and Subsidiary		
Advanson International Pte. Ltd.	Singapore	Singapore Dollar
Jiangsu Aces	- do -	-do-
Acesfood Network Pte. Ltd. (Acesfood) and Subsidiaries		
Shantou SEZ Toyo Food Industries Co., Ltd.	Singapore	Singapore Dollar
Shantou SEZ Shanfu Foods Co., Ltd.	- do -	-do-
Acesfood Network Pte. Ltd. and Subsidiaries		
Acesfood Holdings Pte. Ltd.	Singapore	Singapore Dollar
Acesfood Distributors Pte. Ltd.	- do -	-do-
Guangdong Acesfood International Co., 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	
		June 30	
Subsidiaries	Country of Incorporation	**2010**	2009
Food			
URC and Subsidiaries	Philippines*	**63.89**	61.35
Air Transportation			
CP Air Holdings, Inc. (CPAHI) and Subsidiaries	-do-	**100.00**	100.00
Cebu Air, Inc. (CAI)	-do-	**100.00**	100.00
Pacific Virgin Islands Holdings, Co., Ltd.	British Virgin Islands	**100.00**	100.00
Telecommunications			
Digital Telecommunications Phils., Inc. (Digitel) and Subsidiaries**	Philippines	**49.82**	49.80

(Forward)

Subsidiaries	Country of Incorporation	Effective Percentage of Ownership June 30 2010	2009
Real Estate and Hotels			
Robinsons Land Corporation (RLC) and Subsidiaries	Philippines	**60.27**	60.01
Adia Development and Management Corporation	-do-	**100.00**	100.00
Petrochemicals			
JG Summit Petrochemical Corporation (JGSPC)	-do-	**100.00**	100.00
Banking			
Robinsons Savings Bank Corporation (RSBC)	-do-	**100.00**	100.00
Royal Bank of Scotland (RBS)	-do-	**53.58**	-
Supplementary Businesses			
Westpoint Industrial Mills Corporation	-do-	**100.00**	100.00
Litton Mills, Inc. (LMI)	-do-	**100.00**	100.00
Express Holdings, Inc. (EHI) and a Subsidiary	-do-	**100.00**	100.00
Summit Forex Brokers Corporation	-do-	**100.00**	100.00
JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries	-do-	**100.00**	100.00
JG Summit Capital Markets Corporation	-do-	**100.00**	100.00
Summit Point Services Ltd.	-do-	**100.00**	100.00
Summit Internet Investments, Inc.	-do-	**100.00**	100.00
JG Summit (Cayman), Ltd. (JGSCL)	Cayman Islands	**100.00**	100.00
JG Summit Philippines Ltd. (JGSPL) and Subsidiaries	British Virgin Islands	**100.00**	100.00
Multinational Finance Group, Ltd.	-do-	**100.00**	100.00
Telegraph Development, Ltd.	Singapore	**100.00**	100.00
Summit Top Investment, Ltd.	British Virgin Islands	**100.00**	100.00
JG Summit Limited (JGSL)	-do-	**100.00**	100.00
Cebu Pacific Manufacturing Corporation	Philippines	**100.00**	100.00
Hello Snack Foods Corporation	-do-	**100.00**	100.00
JG Cement Corporation	-do-	**100.00**	100.00
Savannah Industrial Corporation	-do-	**100.00**	100.00
Terai Industrial Corporation	-do-	**100.00**	100.00
Unicon Insurance Brokers Corporation	-do-	**100.00**	100.00
Premiere Printing Company, Inc.	-do-	**100.00**	100.00
JG Summit Olefins Corporation	-do-	**100.00**	100.00

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

*** The consolidated financial statements include the accounts of entities over which the Group has the ability to govern the financial and operating policies to obtain benefits from their activities. The Group's consolidated financial statements include the accounts of Digital Telecommunications Phils., Inc, and its wholly owned subsidiaries (the Digitel Group). As disclosed above, the Digitel Group is a 49.82% and 49.80% owned company as of June 30, 2010 and 2009, respectively.*

In May 2010, the Group through a subsidiary, acquired a 53.58% equity interest in Royal Bank of Scotland (RBS), which includes RBS' commercial banking license.

On June 28, 2010, the stockholders of the Parent Company, approved the merger of Litton Mills Inc., JG Cement Corporation and Premiere Printing Company with and into 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.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized in the in the profit or loss in the consolidated statement of comprehensive income on the date of acquisition.

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) and Boracay Leasing Limited (BLL). SLL, CALL, ILL and BLL are SPEs in which the Group does not have equity interest. SLL, CALL, ILL and BLL acquired the passenger aircraft for lease to CAI under finance lease arrangements and funded the acquisitions through long-term debt (Note 18).

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in the consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control. 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.

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 the difference is not more than three months.

Below are the subsidiaries with a different fiscal year from that of the Parent Company:

Subsidiaries	Fiscal Year
Food	
URC and Subsidiaries	September 30
Real Estate and Hotels	
RLC and Subsidiaries	-do-
Petrochemicals	
JGSPC	-do-
Textiles	
Westpoint Industrial Mills Corporation	-do-
LMI	-do-
Supplementary Businesses	
Cebu Pacific Manufacturing Corporation	-do-
Hello Snack Foods Corporation	-do-
JG Cement Corporation	-do-
Savannah Industrial Corporation	-do-

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

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized in the in the profit or loss in the consolidated statement of comprehensive income on the date of acquisition.

Minority Interests
Minority interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separate from the Group's equity attributable to the equity holders of the Parent Company. Acquisitions of minority interests are accounted for using the parent entity extension method, wherein, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following PFRS and Philippine Interpretations which became effective beginning January 1, 2009:

New Standards

- PFRS 8, *Operating Segments*
  This Standard adopts a full management approach in identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. The Group determined that the operating segments were the same as the business segments previously identified under PAS 14, *Segment Reporting*.

- PAS 1, *Presentation of Financial Statements (Revised)*
  In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as the holders of instruments classified as equity.

  In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of comprehensive income together with 'Other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on AFS assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one single statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income.

  Moreover, although not mandatory, the Group elected to refer to the balance sheet as the "statement of financial position".

- PAS 23, *Borrowing Costs (Revised)*
  This Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The amendment to this Standard has no significant impact on the consolidated financial statements of the Group since the Group currently capitalizes borrowing costs that are related to qualifying assets.

Amendments to Standards

- Amendments to PFRS 7, *Financial Instruments - Disclosures*
  The amended Standard requires additional disclosure about fair value measurement and liquidity risk.

  Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

  The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The amendment to this Standard has no significant impact on the consolidated financial statements of the Group except for additional disclosures presented in the notes to consolidated financial statements.

The following new and amendments to existing PFRS and Philippine Interpretations which became effective in January 1, 2009, except when otherwise indicated, did not have any significant impact on the accounting policies, financial position or performance of the Group:

New Standards and Interpretations
- Philippine Interpretation IFRIC - 13, *Customer Loyalty Programmes*, effective July 1, 2008
- Philippine Interpretation IFRIC - 16, *Hedges of a Net Investment in a Foreign Operation*, effective October 1, 2008
- Philippine Interpretation IFRIC - 18, *Transfers of Assets from Customers, effective July 1, 2009 Amendments to Standards*
- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2 Amendment - *Vesting Conditions and Cancellations*
- PAS 32 and PAS 1 Amendments - *Puttable Financial Instruments and Obligations Arising on Liquidation*
- Philippine Interpretation IFRIC - 9 and PAS 39 Amendments - *Embedded Derivatives*

Improvements to PFRSs
The omnibus amendments to PFRSs issued in 2008 (and 2009 with respect to PAS 18, *Revenue*) were issued primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have an impact on the financial position or performance of the Group:

PAS 1, *Presentation of Financial Statements*
- Assets and liabilities classified as held for trading in accordance with PAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the consolidated statement of financial position. The Group amended its accounting policy accordingly, and analyzed whether management's expectation of the period of realization of

financial assets and liabilities differs from the classification of the instruments. This did not result in any reclassification of financial instruments between current and noncurrent in the consolidated statement of financial position.

PAS 16, *Property, Plant and Equipment*
- The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*. The Group amended its accounting policy accordingly, which did not result in any changes in the financial position.

PAS 40, *Investment Property*
- Under the improvements, the requirement that property under construction or development for future use as an investment property was previously classified as property and equipment was revised, and such can now be classified as investment property. If fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time that the fair value can be determined or construction is complete. Also the improvements revised the conditions for a voluntary change in accounting policy to be consistent with PAS 8, *Accounting Policies, Change in Accounting Estimates and Errors*, and clarified that the carrying amount of investment of investment property held under lease is the valuation obtained increased by any recognized liability.

The improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Improvements to PFRS 2008
<u>Part I</u>
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 28, *Investment in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interest in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Property*
- PAS 41, *Agriculture*

<u>Part II</u>
- PFRS 7, *Financial Instruments - Disclosures*
  Removes the reference to 'total interest income' as a component of finance costs.

- PAS 8, *Accounting Policies, Change in Accounting Estimates and Errors*
  Clarifies that only implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.

- PAS 10, *Events after the Reporting Period*
  Clarifies that dividends declared after the end of the reporting period are not obligations.

- PAS 34, *Interim Financial Reporting*
  Requires that earnings per share is disclosed in interim financial reports if an entity is within the scope of PAS 33, *Earnings Per Share*.

Improvements to PFRS 2009

- PAS 18
  The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as agent. The features indicating an entity is acting as a principal are whether the entity:

  a. has primary responsibility for providing the goods or services;
  b. has inventory risk;
  c. has discretion in establishing prices; and
  d. bears the credit risk.

  The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The revenue recognition policy has been updated accordingly.

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 statement of financial position 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 statement of financial position date, and their respective statements of comprehensive income are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in the profit or loss in the consolidated statement of comprehensive income.

Cash and Cash Equivalents
Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from 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, available-for-sale (AFS) investments, and loans and receivables. 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 statement of financial position date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the 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 the 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 currency forwards, cross currency swaps, credit default swaps, currency options and commodity options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments (including bifurcated embedded derivatives) are initially recorded at fair value on the date at which the derivative contract is entered into or bifurcated and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly in the profit or loss in the consolidated statement of comprehensive income as 'Market valuation gain (loss) on derivative financial instruments.' Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

Amounts accumulated in other comprehensive income are recycled to the 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 existing in other comprehensive income is eventually recognized in the profit or loss in the consolidated statement of comprehensive income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 may also reclassify AFS investments to the HTM investments category when there is a change of intention and the Group has the ability to hold the financial asset until maturity.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and HTM investments categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt, if it provides for a contractual obligation to:

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

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

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

Cumulative redeemable preferred shares
Cumulative redeemable preferred shares that exhibit characteristics of a liability are recognized as a liability in the consolidated statement of financial position. The corresponding dividends on those shares are charged as interest expense in the profit or loss in the consolidated statement of comprehensive income. Upon issuance, cumulative redeemable preferred shares are carried as a noncurrent liability on the amortized cost basis until extinguished on redemption.

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

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

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

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

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the consolidated statement of financial position.

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

When inventories are sold, the carrying amounts of those inventories are recognized under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income in the period when the related revenue is recognized. The amount of any write-down of inventories to NRV shall be recognized in 'Cost of sales and services' while all other losses on inventories shall be recognized under 'Impairment losses and others' in the profit or loss in the consolidated statement of comprehensive income in the period the write-down or loss was incurred. The amount of any reversal of any write-down of inventories, arising from an increase in 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 conditions are accounted for as follows:

Finished goods, work-in-process, raw materials and packaging materials
Cost is determined using the moving 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 or 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.

Materials in-transit
Cost is determined using the specific identification basis.

Spare parts and other supplies
Cost is determined using the moving average method.

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

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

In circumstances where certain events have extended the period to complete the sale of a disposal group beyond one year, the disposal group continues to be classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the disposal group. Otherwise, if the criteria for classification of a disposal group as held for sale are no longer met, the Group ceases to classify the disposal group as held for sale.

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

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

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

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

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

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the profit or loss in the consolidated statement of comprehensive income in the year of retirement or disposal.

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

For a transfer from investment property to owner-occupied property or to inventories, the deemed cost of the property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under the 'Property, plant and equipment account up to the date of change in use. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the profit or loss in the consolidated statement of comprehensive income.

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

Investment in subsidiaries, associates and joint ventures

Investments in subsidiaries

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

Investments in associates and joint ventures

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

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

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

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

The investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances, except for UICL, in which the fair value method was used for the valuation of investment properties in its separate financial statements, while the cost method was used for purposes of the consolidated financial statements. Adjustments to eliminate the effect of fair value in the reported results of operations of UICL were made to align the accounting policies of UICL with that of the Group.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized either in profit or loss or other comprehensive income.

Property, Plant and Equipment

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

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

Subsequent replacement costs of parts of the property, plant and equipment are capitalized when the recognition criteria are met. Significant refurbishments and improvements are capitalized when it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond the originally assessed standard of performance. Costs of repairs and maintenance are charged as expense when incurred.

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

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

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

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

** With 15% residual value after 15 years*

Prior to 2008, the EUL of the tower, switch and cellular facilities and others are 15 years, 10 to 15 years and 3 to 10 years, respectively.

The asset's 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.

Leasehold improvements are amortized over the shorter of their EUL or the remaining lease terms.

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

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

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

ARO
The Group is legally required under various lease contracts to restore certain leased properties and leased aircraft to their original condition and to bear the cost of any dismantling and deinstallation at the end of the contract period. The Group recognizes the present value of these costs, and depreciates such on a straight-line basis over the EUL of the related property, plant and equipment or the contract period, whichever is shorter, or is written-off as a result of impairment of the related 'Property, plant and equipment' account.

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

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

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

Goodwill
Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of the investee at the date of acquisition which is not identifiable to specific assets.

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

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

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

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

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

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

A biological asset shall be measured on initial recognition and at each statement of financial position date at its fair value less estimated point-of-sale costs, except for a biological asset where fair value is not clearly determinable. Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs.

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 point-of-sale costs.

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

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

Depreciation (included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income) is computed using the straight-line method over the EUL of the biological assets, regardless of utilization. The EUL of biological assets is reviewed annually based on expected utilization as anchored on business plans and strategies that considers 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 the 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 point-of-sale costs
Swine weanlings and fatteners/finishers are measured at their fair values less point-of-sale costs. The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Point-of-sale costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Point-of-sale costs 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 point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset is included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income in the period in which it arises.

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

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

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

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

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

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

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

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

	Technology Licenses	Branch 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

<u>Deferred Subscriber Acquisition and Retention Costs</u>
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' in the profit or loss in the consolidated statement of comprehensive income), and the price offered to the subscribers (included under 'Sale of telecommunications services' in the profit or loss in the consolidated statement of comprehensive income). Retention costs for existing postpaid subscribers are in the form of free handsets.

Subscriber acquisition and retention costs pertaining to postpaid subscription are deferred and amortized over the base contract period, which ranges from 18 to 24 months from the date in which they are incurred. Deferred subscriber acquisition and retention costs are shown under 'Other noncurrent assets' account in the consolidated statement of financial position (Note 15). The related amortization of subscriber acquisition costs is included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income.

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

<u>Impairment of Nonfinancial Assets</u>
This accounting policy applies primarily to the Group's property, plant and equipment. investment properties, investments in associates and joint ventures, goodwill and other intangible assets, biological assets at cost 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).

Goodwill and intangible assets with indefinite lives were tested for assessment

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

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

Property, plant and equipment, investment properties and deferred subscriber acquisition and retention costs
For property, plant and equipment, investment properties and deferred subscriber acquisition and retention costs, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss in the consolidated statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

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

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

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

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

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

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

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

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

Revenue is stated at amounts billed or invoiced and accrued to subscribers or other carriers and content providers, taking into consideration the bill cycle cut-off (for postpaid subscribers), and charges against preloaded airtime value (for prepaid subscribers), and excludes valued-added tax (VAT) and overseas communication tax.

The Group's service revenue includes the revenue earned from subscribers and traffic. With respect to revenue earned from subscribers, revenue principally consists of: (1) per minute airtime and toll fees for local, domestic and international long distance calls in excess of free call allocation, less prepaid reload discounts and interconnection fees; (2) revenue from value-added services such as short messaging services (SMS) in excess of free SMS and multimedia messaging services (MMS), content downloading and infotext services, net of payout to other foreign and local carriers and content providers; (3) inbound revenue from other carriers which terminate their calls to the Group's network; (4) revenue from international roaming services; (5) fixed monthly service fees (for postpaid wireless subscribers) and prepaid subscription fees for discounted promotional calls and SMS; and (6) proceeds from sale of phone kits, subscribers' identification module (SIM) packs and other phone accessories.

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

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

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

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

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

Sale of real estate
Real estate sales are accounted for under the percentage-of-completion method when: (a) equitable interest and/or legal title to the subject properties is transferred to the buyer; (b) the seller is obliged to perform significant acts after the subject properties are sold; (c) the amount of revenue can be measured reliably; (d) the costs incurred or to be incurred can be measured reliably; and (e) it is probable that the economic benefits will flow to the entity. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

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 recorded as customers' deposits which are included under 'Other current liabilities' in the consolidated statement of financial position.

Revenue from hotel operations is recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

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 EIR method and shown as deduction from loans.

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

Trading and securities gain (loss) - net
Income results from disposal of FVPL and AFS investments and gains and losses from changes in fair value for financial liabilities at FVPL.

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

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

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

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 statement of financial position date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense under Financing Costs and 'Other charges' account in the profit or loss in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

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

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

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

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

The asset or liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation as of the statement of financial position 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 annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

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

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

<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 substantially enacted as of the statement of financial position date.

Deferred tax
Deferred tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the statement of financial position 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax 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 carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized.

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries and associates, and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amounts of deferred tax assets are reviewed at each statement of financial position 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 statement of financial position date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be realized.

Deferred tax assets and liabilities are measured at the tax rate that is 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 statement of financial position date.

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Movements in the deferred tax assets and liabilities arising from changes in tax rates are credited to or charged against profit or loss for the period.

<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 lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and is included in the consolidated statement of financial position under ‘Property, plant and equipment’ account with the corresponding liability to the lessor included under ‘Long-term debt’ account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit or loss in the consolidated statement of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

Group as lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Earnings (Loss) Per Share (EPS)
Basic EPS is computed by dividing net income (loss) applicable to common stock [net income (loss) less dividends on preferred stock] by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

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

Dividends on Common Shares
Dividends on common shares are recognized as aliability 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 After the Reporting Date
Any post-period-end that provides additional information about the Group's position at the statement of financial position date (adjusting event) is reflected in the consolidated financial statements. Any post-period-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

Future Changes in Accounting Policies

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

New Standards and Interpretations

- PFRS 3, Business Combinations (Revised) and PAS 27, *Consolidated and Separate Financial Statements (Amended)*
  The revised standards are effective for annual periods beginning on or after July 1, 2009. The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, the following:

  a. change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss;
  b. losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'), even if the losses exceed the non-controlling equity investment in the subsidiary; and

c. on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal.

The changes introduced by the revised PFRS 3 must be applied prospectively, while changes introduced by the revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with non-controlling interests.

- Philippine Interpretation IFRIC - 17, *Distributions of Non-Cash Assets to Owners*
This Interpretation, effective for annual periods beginning on or after July 1, 2009, covers accounting for two types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners. The two types of distribution are:

  a. distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5); and
  b. distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

  This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

- Philippine Interpretation IFRIC - 15, *Agreements for the Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a construction contract to be accounted for under PAS 11, *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.

Amendments to Standards

- PAS 39 Amendment - *Eligible Hedged Items*
The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, *Share-based Payment*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Improvements to PFRS 2009
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to remove inconsistencies and clarify wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

PFRS 2, *Share-based Payment*
- The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- The amendment clarifies that the disclosures required in respect of noncurrent assets or disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.
- It also clarifies that the general requirements of PAS 1 still apply, particularly paragraphs 15 (to achieve fair presentation) and 125 (sources of estimation and uncertainty) of PAS 1.

PFRS 8, *Operating Segments*
- The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

PAS 1, *Presentation of Financial Statements*
- The terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

PAS 7, *Statement of Cash Flows*
- The amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

PAS 17, *Leases*
- The amendment removes the specific guidance on classifying land as lease so that only the general guidance remains.

PAS 36, *Impairment of Assets*
- The amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in PFRS 8 before aggregation for reporting purposes.

PAS 38, *Intangible Assets*
- The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives.
- It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

PAS 39, *Financial Instruments: Recognition and Measurement*

- The amendment clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
- The amendment also clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
- It also clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

Amendment to IFRIC - 9, *Reassessment of Embedded Derivatives*

- The improvement clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

Amendment to IFRIC - 16, *Hedges of a Net Investment in a Foreign Operation*

- The improvement states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

---

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. 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.

b. *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.

c. *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.

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

The Group has certain lease agreements covering certain telecommunications equipment and passenger aircraft where the lease terms approximate the EUL of the assets, and provide for an option to purchase or a transfer of ownership at the end of the lease. These leases are classified by the Group as finance leases.

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

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

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

The Group considers each property separately in making its judgment.

f. *Distinction between subdivision land, and land and land improvements*
The Group determines whether a property will be classified as 'Subdivision land' or 'Land and land improvements.' In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Subdivision land) or whether it will retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (Land and land improvements).

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. *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.

i. *Functional currency*
PAS 21 requires management to use its judgment to determine an entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity.

In making this judgment, the Group considers the following:

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

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

j. *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 statement of financial position date of the Parent Company. In accordance with PAS 27, management exercises judgement in determining whether adjustments should be made in the consolidated financial statements of the Group pertaining to the effects of significant transactions or events of the fiscal subsidiaries that occur between that date and the date of the Parent Company's financial statements.

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

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

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

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

- 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 of a physical proportion of the contract work.

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

b. *Impairment of AFS investments*

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

AFS equity investments
The Group treats AFS equity investments as impaired, when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

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

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

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

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

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

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

e. *Estimation of ARO*
The Group is legally required under various contracts to restore certain leased property and leased aircraft to its original condition and to bear the costs of dismantling and deinstallation at the end of the contract period. These costs are accrued based on an internal estimate which incorporates estimates on the amounts of asset retirement costs, third party margins and interest rates. The Group recognizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, and depreciates such on a straight-line basis over the EUL of the related asset. The present value of dismantling or restoration costs is computed based on an average credit adjusted riskfree rate of 10%. Assumptions used to compute ARO are reviewed and updated annually.

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

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

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

factors mentioned.

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

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

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

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

i. *Assessment of impairment on property, plant and equipment, investment properties, investments in associates and joint ventures, biological asset at cost, goodwill and other intangible assets*
The Group assesses the impairment on its property, plant and equipment, investment properties, investments in associates and joint ventures, biological assets at cost and goodwill and other intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant or prolonged decline in the fair value of the asset;
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount has been determined based on value in use calculations. 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.

a. *Aircraft maintenance costs*
The Group has maintenance agreements with several maintenance service providers, including SIA Engineering Company Limited (SIAEC), whose services were subcontracted to A-plus and SIAEP. The proportion of the amount to be expensed off and capitalized is determined based on the best estimate as if the aircraft maintenance costs are accounted for under the time and material basis.

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

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

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 and 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 currency forwards, cross currency swaps, credit default swaps, equity options, currency options and commodity options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes.

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

<u>Risk Management Structure</u>
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 and external auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal and external 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 (4) different groups, namely:

1. Risk-taking personnel. This group includes line personnel who initiate and are directly accountable for all risks taken.

2. Risk control and compliance. This group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risk mitigation decisions.
3. Support. This group includes back office personnel who support the line personnel.
4. Risk management. This group pertains to the business unit's Management Committee which makes risk mitigating decisions within the enterprise-wide risk management framework.

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

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

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

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

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

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

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

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

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

a. Risk concentrations of the maximum exposure to credit risk

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

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

b. Aging analysis of receivables

The aging analysis of the Group's receivables as of June 30, 2010 follow:

	TOTAL	UP TO SIX MONTHS	OVER SIX MONTHS TO ONE YEAR	OVER ONE YEAR
Trade Receivables	₱12,955,183	₱5,866,070	₱3,886,363	₱3,202,750
Less: Allowance for impairment loss	(1,846,523)	-	(1,846,523)	
Net Trade Receivables	11,108,660	5,866,070	2,039,840	3,202,750
Non-trade Receivables				
Finance Receivables (including noncurrent portion)	9,357,866	6,860,784	-	2,497,082
Others	4,964,096	4,409,585	554,511	-
	14,321,962	11,270,369	554,511	2,497,082
Less: Allowance for impairment loss	(308,407)	(199,764)	(108,643)	-
Net Non-trade Receivables	14,013,555	11,070,605	445,868	2,497,082
	₱25,122,215	₱16,936,675	₱2,485,708	₱5,699,832

c. Impairment assessment

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

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

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

ii. *Collective Assessment*

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

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

d. Collateral and other credit enhancement

Collateral and other credit enhancements on finance receivables of RSBC

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.

The main types of collateral obtained are as follows:

- Mortgages over real estate and vehicle for consumer and real estate lending
- Charges over real estate, inventory and receivable for commercial lending
- Government securities for interbank lending

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

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

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

Collateral and other credit enhancements on trade receivables of CAI

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

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

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

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

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

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. The Group's capital expenditures are likewise substantially denominated in US Dollar.

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

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

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

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

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

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

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 the RSB's current incremental lending rates for similar types of loans. Where the instruments are repriced on a quarterly basis or have a relatively short-term maturity, the carrying amounts approximate fair values.

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

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

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

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

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

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

Noninterest-bearing refundable security deposits
The fair values are determined as the present value of estimated future cash flows using prevailing market rates.

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

Derivative financial instruments
The fair values of the cross currency swaps, interest rate swaps and commodity options are determined based on the quotes obtained from counterparties. The fair values of forward exchange derivatives are calculated by reference to the prevailing interest differential and spot exchange rate as of valuation date, taking into account the remaining term-to-maturity of the forwards.

6. Segment Information

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

The industry segments where the Group operates are as follows:

- Food, agro-industrial and commodities businesses - manufacturing of snack foods, granulated coffee and pre-mixed coffee, chocolates, candies, biscuits, instant noodles, ice cream and frozen novelties, pasta and tomato-based products and canned beans; raising of hog, chicken and manufacturing and distribution of animal feeds, corn products and vegetable oil and the synthesis of veterinary compound; and sugar milling and refining and flour milling.

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

- Telecommunications - service provider of voice and data telecommunications services which include international gateway facilities, a local exchange network and traditional business services (fax, telex, leased lines and other value-added network products, value-added network provider using electronics data interchange).

- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.

- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), and other industrial chemicals.

- Banking - thrift banking operations.

- Other supplementary businesses - insurance brokering, foreign exchange and securities dealing.

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

Management monitors the operating results of each segment. The measure presented to manage segment performance is the segment operating income (loss). Segment operating income/(loss) is based on the same accounting policies as consolidated operating income/loss except that intersegment revenues are eliminated only at the consolidation level. Group financing (including finance cost and other charges), interest income, 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 prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', 'Earnings before interest and income taxes (EBIT)' and 'Earnings before interest, income taxes and depreciation/amortization (EBITDA)' as of and for the three months ended June 30, 2010 and 2009.

The Group's operating segment information follows:

	June 30, 2010								
	CONTINUING OPERATIONS								
	Foods, Agro-Industrial and Commodities	Air Transportation	Tele-communications	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
Revenue									
Sale of goods and services									
External customer	₱28,724,140	₱14,909,776	₱7,975,253	₱5,296,911	₱1,608,013	₱685,619	₱–	₱–	₱59,199,712
Intersegment revenue	–	–	–	–	208,947	–	–	(208,947)	–
	28,724,140	14,909,776	7,975,253	5,296,911	1,816,960	685,619	–	(208,947)	59,199,712
Equity in net income (loss) of associates and joint ventures	18,432	13,683	–	1,486,135	–	–	40,048	(2,273)	1,556,025
Total Revenue	28,742,572	14,923,459	7,975,253	6,783,046	1,816,960	685,619	40,048	(211,220)	60,755,737
Cost of sales and services	19,962,861	8,434,336	1,062,469	2,322,940	1,831,075	203,378	–	(208,947)	33,608,112
Gross Income	8,779,711	6,489,123	6,912,784	4,460,106	(14,115)	482,241	40,048	(2,273)	27,147,625
General and administrative expenses	–	–	–	–	–	–	–	–	14,421,837
Impairment losses and others	–	–	–	–	–	–	–	–	125,302
Operating Income	–	–	–	–	–	–	–	–	12,600,486
Financing cost and other charges	–	–	–	–	–	–	–	–	(2,946,276)
Interest income	–	–	–	–	–	–	–	–	865,806
Other revenue	–	–	–	–	–	–	–	–	574,204
Core earnings	–	–	–	–	–	–	–	–	11,094,220
Market valuation gain (loss) on financial assets	–	–	–	–	–	–	–	–	790,930
Foreign exchange loss	–	–	–	–	–	–	–	–	(407,338)
Income before income tax	–	–	–	–	–	–	–	–	11,477,812
Provision for income tax	–	–	–	–	–	–	–	–	1,268,260
Net income	–	–	–	–	–	–	–	–	₱10,209,552
Net income (loss) from equity holders of the Parent Company	₱2,781,131	₱3,093,459	₱72,435	₱2,568,778	(₱141,475)	₱111,955	(₱526,725)	(₱212,788)	₱7,746,770
Earnings before interest and income tax	₱4,340,602	₱3,652,447	₱1,066,462	₱2,106,981	(₱136,967)	₱118,673	₱1,452,288	₱–	₱12,600,486
Depreciation and amortization	1,646,175	995,849	2,425,280	917,932	69,593	31,928	17,535	–	6,104,292
Earnings before interest, income taxes and depreciation/ amortization (EBITDA)	₱5,986,777	₱4,648,296	₱3,491,742	₱3,024,913	₱(67,374)	₱150,601	₱1,469,823	₱–	₱18,704,778
Other Information									
Non-cash expenses other than depreciation and amortization:									
Impairment losses on receivables	₱-	₱-	₱109,913	₱-	₱-	₱15,389	₱-	₱–	₱125,302

	June 30, 2009 CONTINUING OPERATIONS								
	Foods, Agro-Industrial and Commodities	Air Transportation	Tele-communications	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
Revenue									
Sale of goods and services									
External customer	₱25,686,317	₱11,386,311	₱6,693,503	₱4,883,638	₱2,112,481	₱521,687	₱–	₱–	₱51,283,937
Intersegment revenue	–	–	–	–	393,221	–	–	(393,221)	–
	25,686,317	11,386,311	6,693,503	4,883,638	2,505,702	521,687	–	(393,221)	51,283,937
Equity in net income (loss) of associates and joint ventures	18,706	(6,369)	–	1,552,607	–	–	97,469		1,662,413
Total Revenue	25,705,023	11,379,942	6,693,503	6,436,245	2,898,924	521,687	97,469	(393,221)	52,946,350
Cost of sales and services	19,736,249	6,573,567	750,060	2,280,757	2,599,587	138,438	–	(393,221)	31,685,437
Gross Income	5,968,774	4,806,375	5,943,443	4,155,488	299,337	383,249	97,469	0	21,260,913
General and administrative expenses	–	–	–	–	–	–	–	–	13,209,288
Impairment losses and others	–	–	–	–	–	–	–	–	497,405
Operating Income	–	–	–	–	–	–	–	–	7,554,220
Financing cost and other charges	–	–	–	–	–	–	–	–	(3,286,376)
Interest income	–	–	–	–	–	–	–	–	943,659
Other revenue	–	–	–	–	–	–	–	–	98,368
Core earnings	–	–	–	–	–	–	–	–	5,309,871
Market valuation gain (loss) on financial assets	–	–	–	–	–	–	–	–	782,199
Foreign exchange loss	–	–	–	–	–	–	–	–	(1,061,745)
Income before income tax	–	–	–	–	–	–	–	–	5,030,325
Provision for income tax	–	–	–	–	–	–	–	–	374,979
Net income	–	–	–	–	–	–	–	–	₱4,655,346
Net income (loss) from equity holders of the Parent Company	₱135,549	₱1,987,916	(₱317,753)	₱2,521,082	(₱670,794)	₱92,661	(₱1,738,471)	₱1,599,865	3,610,055
Earnings before interest and income tax	₱1,854,171	₱2,349,363	₱560,824	₱1,949,504	₱137,418	₱107,767	₱595,174	₱–	₱7,554,221
Depreciation and amortization	1,529,868	942,717	2,137,164	814,129	62,395	30,141	15,710	–	5,532,124
Earnings before interest, income taxes and depreciation/ amortization (EBITDA)	₱3,384,039	₱3,292,080	₱2,697,988	₱2,763,633	₱199,813	₱137,908	₱610,884	₱–	₱13,086,345
Other Information									
Non-cash expenses other than depreciation and amortization:									
Impairment losses on receivables	₱82,173	₱-	₱91,456	₱-	₱-	₱1,902	₱431	₱–	₱175,962
Impairment losses on financial assets at FVPL	141,045								141,045
Impairment losses on inventories					88,127				88,127
Impairment losses on other assets	92,270								92,270

Other information on the Group's operating segment follows:

	June 30, 2010								
	Foods, Agro-Industrial and Commodities	**Air Transportation**	**Tele-communications**	**Real Estate and Hotels**	**Petrochemicals**	**Banking**	**Other Supplementary Businesses**	**Adjustments and Eliminations**	**Consolidated**
Segment assets	**₱64,576,922**	**₱42,285,053**	**₱87,979,441**	**₱53,756,293**	**₱5,475,179**	**₱19,508,619**	**₱156,895,539**	**(₱137,217,570)**	**₱293,259,476**
Segment liabilities	**₱24,591,223**	**₱34,370,403**	**₱86,484,992**	**₱26,538,521**	**₱7,625,480**	**₱15,066,444**	**₱87,605,498**	**(₱104,069,385)**	**₱178,213,176**
Capital expenditures	**₱2,037,324**	**₱1,715,035**	**₱5,235,456**	**₱1,822,169**	**₱75,554**	**₱61,269**	**₱95,320**	**₱–**	**₱11,042,127**

	June 30, 2009								
	Foods, Agro-Industrial and Commodities	Air Transportation	Tele-communications	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Segment assets	₱59,311,534	₱34,981,925	₱79,324,557	₱41,541,013	₱5,265,893	₱12,460,257	₱147,599,097	(₱120,716,561)	₱259,767,715
Segment liabilities	₱27,102,580	₱31,508,898	₱78,873,241	₱16,938,671	₱7,334,583	₱10,580,907	₱78,994,380	(₱85,256,421)	₱166,076,839
Capital expenditures	₱2,449,641	₱2,808,474	₱4,782,742	₱2,309,257	₱50,259	₱8,519	₱1,564	₱–	₱12,410,456

Intersegment revenues
Intersegment revenues are eliminated at the consolidation level.

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

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

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

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

7. Cash and Cash Equivalents

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Cash on hand	**₱648,465**	₱869,250
Cash in banks	**2,368,338**	8,386,399
Cash equivalents	**14,757,418**	9,218,044
	₱17,774,221	₱18,473,693

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.

8. **Derivative Financial Instruments**

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

- 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.

- Interest rate swaps
  The Group has interest rate swap agreements with certain banks to hedge its interest rate exposures on the Inverse Floating Rate Notes and on the long-term USD floating rate liability.

- Currency options
  The Group entered into currency options that are all due within one year.

- 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 charge or credit against profit or loss. The options can be exercised at various calculation dates with specified quantities on each calculation date.

  The Group is required by its counterparties to confer credit support (collaterals) related to the commodity price risk in anticipation for risk exposures.

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

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

The accounting treatment explained in Note 2 to the financial statements, *Hedge Accounting*, varies according to the nature of the item hedged and compliance with the hedge criteria. Hedge accounting varies according to the nature of the item hedged 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.

- Currency swaps
  On June 11, 2008, RSBC entered into a long-term currency swap agreement that hedges 100% of the foreign currency exposure of certain AFS debt investments. Under this agreement, RSBC effectively swaps the principal amount and interest from certain US dollar-denominated AFS investments into Philippine peso-denominated cash inflows of principal and interest to be received up to February 15, 2011.

- Interest rate swaps
  On April 23, 2008 and May 9, 2008, the Group entered into two interest rate swaps with amortizing notional amount of US$100.0 million each. The swaps are intended to hedge the interest rate exposure due to the movements in the benchmark LIBOR on $200.0 million of the $300.0 million Guaranteed Term Loan Facility due 2013 (Note 18). Under the swaps, the Group pays fixed and receives LIBOR every interest payment date (every June 16 and December 16). The effectivity of both swaps is on June 16, 2008 and maturity date is on June 16, 2013. The terms of the swaps (i.e., benchmark rate, notional amount, fixing dates and maturity date) coincide with the hedged loan.

  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 receives 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.

  As of 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 terms of the swaps (i.e., benchmark rate, notional amount, fixing dates and maturity date) coincide with the hedged loan.

  As of June 30, 2010, the fair value of the swap amounted to **₱676.9 million.**

9. Financial Assets at Fair Value through Profit or Loss

These investments that are held for trading consist of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Debt securities:		
Private	**₱6,679,411**	₱5,277,566
Government	**1,074,160**	1,038,369
	7,753,571	6,315,935
Equity securities:		
Quoted	**2,462,808**	1,898,840
Unquoted	**5**	5
	2,462,813	1,898,845
	₱10,216,384	₱8,214,780

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

This account consists of investments in:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Debt securities:		
Government	**₱5,388,694**	₱4,780,574
Private	**3,741,672**	3,989,253
	9,130,366	8,769,827
Equity securities:		
Quoted	**1,363,447**	1,367,143
Unquoted	**62,688**	72,937
	1,426,135	1,440,080
	₱10,556,501	₱10,209,907

11. **Receivables**

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Trade receivables	**₱12,955,183**	₱13,482,472
Finance receivables	**9,357,866**	8,160,921
Due from related parties	**2,492,927**	1,920,475
Interest receivable	**530,054**	438,916
Other receivables	**1,941,115**	1,776,957
	27,277,145	25,779,741
Less allowance for impairment losses	**2,154,930**	2,921,684
	₱25,122,215	₱22,858,057

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

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Current portion	**₱19,422,383**	₱18,149,006
Noncurrent portion	**5,699,832**	4,709,051
	₱25,122,215	₱22,858,057

Trade Receivables
Included in trade receivables are installment contract receivables of the real estate segment of the Group.

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

Finance Receivables
This represent receivables from customers of RSBC and RBS.

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

12. Inventories

This account consists of inventories held as follows:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
At cost:		
Raw materials	**₱3,063,537**	₱2,737,341
Finished goods	**3,411,612**	1,609,747
	6,475,149	4,347,088
At NRV:		
Spare parts, packaging materials and other supplies	**3,248,546**	2,857,317
Work-in-process	**124,623**	123,322
Subdivision land, condominium and residential units for sale	**5,381,055**	6,886,879
By-products	**37,084**	13,789
	8,791,308	9,881,307
Materials in-transit	**1,161,389**	650,123
	₱16,427,846	₱14,878,518

13. Other Current Assets

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Input VAT - net	**₱4,749,334**	₱4,824,908
Prepaid expenses	**963,448**	771,095
Advances to suppliers	**682,455**	537,577
Restricted cash in bank	**23,186**	33,698
Others	**50,739**	100,754
	₱6,469,162	₱6,268,032

Refundable deposits pertain to credit support (collaterals) required by the Group's counterparty in fuel derivatives related to the commodity price risk in anticipation of risk exposures.

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. **Held-to-Maturity Investments**

This account consists of investments in:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Private bonds	**₱713,998**	₱478,111
Government securities	**381,347**	377,351
Treasury notes	**113,636**	114,633
	₱1,208,981	₱970,095

15. **Other Noncurrent Assets**

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Deferred subscriber acquisition and retention costs	**₱1,314,379**	₱1,510,120
Security and miscellaneous deposits (pre-delivery payment)	**560,341**	476,520
Advances to Altus San Nicolas Corp. (ASNC)	**628,928**	487,806
Deferred tax assets	**161,049**	356,260
Pension assets	**91,018**	141,018
Others	**1,808,199**	970,388
	₱4,563,914	₱3,942,112

In August 2006, RLC entered into a Joint Venture Agreement with VVH Realty Corporation in an 80:20 proportion. The parties agreed to incorporate ASNC for the purpose of co-developing a parcel of land into a commercial complex in San Nicolas, Ilocos Norte. The advances to ASNC represents charges incurred by RLC for the construction and development of the commercial complex. The advances are intended as capital contribution to ASNC.

16. **Accounts Payable and Accrued Expenses**

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Deposit liabilities	**₱12,255,906**	₱12,355,824
Trade payables	**9,418,989**	8,462,255
Accrued expenses	**11,308,021**	8,367,959
Due to related parties	**616,483**	1,546,378
Withholding taxes payable	**377,859**	250,779
Income tax payable	**195,980**	521,701
Output value added tax	**164,190**	64,907
Dividends payable	**7,000**	7,002
Other payables	**2,669,385**	2,185,133
	₱37,013,813	₱33,761,938

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

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 and other payables include accruals for interest and various expenses.

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

17. Other Current Liabilities

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Unearned revenue	**₱4,853,248**	₱4,055,258
Deposits from real estate buyers and lessees	**1,932,322**	1,422,448
Others	**70,353**	70,362
	₱6,855,923	₱5,548,068

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

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

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

18. Short-term and Long-term Debt

Short-term Debt
Short-term debt consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Subsidiaries:		
Foreign currencies - with interest rates ranging from 0.5% to 3.6% in June 2010 and 0.5% to 4.4% in Dec 2009	**10,368,341**	10,100,204
Philippine Peso - with interest rates ranging from 4.8% to 7.8% in June 2010 and 6.8 to9.0% in Dec 2009	**3,157,299**	3,859,870
	₱13,525,640	₱13,960,074

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

	Maturities	Interest Rates	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Parent Company:				
Bayerische HypoVereinsbank AG (HypoVereinsbank) loan	2010	USD LIBOR + 0.625% and 3.72%	**₱667,653**	₱1,186,150
Fixed Rate Corporate Notes	2013	8.00%	**4,282,478**	4,278,791
Fixed Rate Retail Bonds	2014	8.25%	**8,904,293**	8,895,451
			13,854,424	14,360,392
Subsidiaries:				
Foreign currencies:				
JGSPL				
US$300.0 million guaranteed term loan facility	2013	USD LIBOR + 2.45%	**13,809,513**	13,734,947
US$300.0 million guaranteed notes	2013	8.00%	**11,838,338**	11,815,939
URCPL				
US$200.0 million guaranteed notes	2012	8.25%	**8,452,697**	9,211,804
URC				
HypoVereinsbank term loan facilities	Various dates through 2009	EURIBOR/ USD LIBOR + 0.75%	**-**	20,964
Digitel				
Zero coupon convertible bonds	2013	12.00%	**2,368**	2,285
Term loan facilities	Various dates through 2017	USD LIBOR + 0.30% to 2.70%	**14,417,493**	13,357,638
CAI				
Commercial loan from foreign banks	Various dates through 2017	4.11% to 5.67% in 2009, 3.95% to 6.66% in 2008 and 4.89% to 5.83% in 2007	**3,062,557**	3,246,137
ECA loans (Note 17)	Various dates through 2018	3.37% to 5.83% in 2009, 3.78% to 5.83% in 2008 and 4.89% to 5.83% in 2007	**13,180,984**	13,863,990
			64,763,950	65,253,704
Philippine Peso:				
URC				
₱3.0 billion loan facility	2014	8.75%	**2,975,980**	2,974,111
Philippine Sugar Corporation restructured loan	2013	7.50%	**33,106**	39,991

(Forward)

	Maturities	Interest Rates	**June 30, 2010 (Unaudited)**	December 31, 2009 (Audited)
RLC				
₱1.0 billion loan facility	2009	10.70%	**-**	115,000
₱3.0 billion loan facility	2012	6.38%	**3,000,000**	3,000,000
₱2.0 billion bonds	2013	15.73% - PDST-F rate	**2,000,000**	2,000,000
₱5.0 billion loan facility	2014	8.50%	**5,000,000**	5,000,000
₱5.0 billion loan facility	2014	8.25%	**5,000,000**	5,000,000
			18,009,086	18,129,102
			82,773,036	83,382,806
			96,627,460	97,743,198
Less current portion			**7,721,369**	5,206,602
			₱88,906,091	₱92,536,596

Except for the balances of subsidiaries reporting at September 30 fiscal year end, the foreign exchanges rates used to revalue the foreign currency borrowings were ₱46.37 to US$1.00 and ₱46.20 to US$1.00 in June 30, 2010 and December 31, 2009 respectively. The foreign exchange rates used by the subsidiaries reporting at fiscal year end were ₱45.17 to US$1.00 and ₱47.39 to US$1.00 in December 31and September 30, 2009, respectively.

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

19. Other Noncurrent Liabilities

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Accrued project costs	**₱8,568,252**	₱6,712,327
Deposits from real estate buyers and lessees	**2,505,101**	2,383,302
ARO	**1,662,063**	1,585,192
Due to related parties	**1,544,947**	1,517,894
Deposit liabilities	**1,356,871**	1,180,478
Accrued maintenance cost	**910,665**	910,665
Derivative liabilities	**676,919**	625,449
Pension liabilities	**485,915**	465,557
Others	**992,368**	1,082,463
	₱18,703,101	₱16,463,327

Accrued Project Costs

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

Deposits from Real Estate Buyers and Lessees

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

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

ARO

The Group is legally required under certain leased property and lease contracts to restore certain leased passenger aircraft to stipulated return condition and to bear the costs of restoration at the end of the contract period. These costs are accrued based on an internal estimate which includes estimates of certain redelivery costs at the end of the operating lease.

Deposit Liabilities

Deposit liabilities represent time deposit liabilities of RSBC with maturities of beyond 12 months from statement of financial position date.

20. **Equity**

As of June 30, 2010 and 2009, the details of the Parent Company's common stock follow:

Authorized shares	12,850,800,000
Par value per share	₱1.00
Issued shares	6,895,273,657
Outstanding shares	6,797,191,657
Treasury shares	98,082,000

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, while capital represents total equity.

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

		June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
(a)	Gross debt		
	Short-term debt (Note 18)	**₱13,525,640**	₱13,960,074
	Derivative Liabilities (inc noncurrent portion)	**831,182**	750,340
	Long-term debt (Note 18)	**96,627,460**	97,743,198
		₱110,984,282	₱112,453,612
(b)	Capital	**₱115,046,300**	₱104,894,495
(c)	Debt-to-capital ratio (a/b)	**0.96:1**	1.07:1

The Group's policy is to ensure that the debt-to-capital ratio would not exceed the 2.0:1 level.

21. Earnings (Loss) Per Share

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

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

	June 30, 2010	June 30, 2009
Net income (loss) applicable to equity holders of the Parent Company	**₱7,746,770**	₱3,610,055
Weighted average number of common shares	**6,797,191,657**	6,797,191,657
Basic/dilutive earnings (loss) per share	**₱1.14**	₱0.53

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

22. Related Party Transactions

The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries. 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. The Parent Company has also subscribed to bonds issued by Digitel.

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:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Due from related parties	**₱2,492,927**	₱1,920,475
Due to related parties	**2,161,430**	3,064,272