



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, 2012
2. Commission identification number 184044
3. BIR Tax Identification No 000-775-860
4. Exact name of registrant as specified in its charter JG Summit Holdings, Inc.
5. Province, country or other jurisdiction of incorporation or organization  
Pasig City, Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of registrant's principal office Postal Code  
43<sup>rd</sup> Floor, Robinsons-Equitable Tower ADB Ave. corner Poveda Road, Pasig City 1600
8. Registrant's telephone number, including area code  
(632) 633-7631
9. Former name, former address and former fiscal year, if changed since last report  
Not Applicable
10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<b>Common Stock</b>	<b>6,797,191,657</b>
<b>Long-term Debt</b>	<b>9,000 000 000</b>
11. Are any or all of the securities listed on the Philippine Stock Exchange?  
Yes [ / ] No [ ]

12. Indicate by check mark whether the registrant:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

## **PART I--FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

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

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

#### **Results of Operations**

##### **Six Months Ended June 30, 2012 vs. June 30, 2011**

JG Summit posted ₱2.56 billion net income from equity holders of the parent for the second quarter of 2012, bringing our net income for the six months ended June 30, 2012 to ₱7.47 billion, a 25.0% increase from the same period last year. The increase in net income was buoyed by the further appreciation of peso against the US dollar in the 2<sup>nd</sup> quarter of the year, resulting to higher foreign exchanges gains recorded by the Group during the period. Core earnings before tax, increased by 12.9% for the first six months from ₱8.77 billion to ₱9.90 billion. The Group's EBITDA reached ₱12.86 billion, a 6.2% decrease compared to the same period last year.

Consolidated revenues were up 10.0% from ₱61.0 billion to ₱67.09 billion due to the strong performance of all business units. Only our equity in net earnings of associates showed a decline of 26.3% to ₱872.2 million during the period, due to reduced income from our investment in UIC, Ltd.

Consolidated cost of sales and services for the first half of the year rose 14.1% from ₱41.80 billion last year to ₱47.69 billion. The increase is higher compared to revenue growth as the cost of sales and services in our airline (propelled by higher aviation fuel prices during the period) and food businesses have significantly increased. URC posted a 7.2% increase in its cost of sales due to increase in sales volume during the first half of the year.

Consolidated operating expenses increased 14.2% from ₱9.55 billion to ₱10.91 billion as a result of higher general and administrative expenses again, in the airline operations and food business.

Mark-to-market gain recognized during the first half of fiscal 2012 amounted to ₱960.60 million, a 94.7% growth from last year's ₱493.28 million gain due recoveries from our bond investments and gains from additional investments acquired during the period.

Foreign exchange net gain recorded for the six months of 2012 amounted to ₱1.30 billion, a turnaround from last year's net foreign exchange loss of ₱41.72 million due to a more stable peso during the period.

Financing costs and other charges recorded for the six months of 2012 decreased 17.2% to ₱2.34 billion from last year's ₱2.82 billion due to the full settlement of \$300 Million term loan in the last quarter of 2011 and URC's \$200 million guaranteed note in the 1<sup>st</sup> quarter of 2012.. Likewise, the stronger Philippine peso against the U.S. dollar in 2012 also contributed to the decline.

Provision for income tax for the six months of 2012 increased by 11.1% to ₱1.37 billion from last year's ₱1.24 billion due to increase in provision for deferred tax liability on unrealized gain on foreign exchange of and the airline.

## **FOODS**

**Universal Robina Corporation (URC)** generated a consolidated sale of goods and services of ₱35.49 billion for the six months ended March 31, 2012, 6.6% higher than the revenues posted in the same period last year. Sale of goods and services by business segment follows: (1) URC's BCFG (excluding packaging) increased by ₱3.13 billion or 13.0% to ₱27.13 billion for the six months of fiscal 2012 from ₱24.0 billion registered in the same period of last year. BCFG domestic sales increased by ₱2.0 billion which was largely driven by the strong performance of its beverage division which grew by 41.5% on account of strong advertising campaigns such as the introduction of new product, Great Taste White Coffee; repackaging of Refresh product; and improvement of regional distribution channels for water brands. BCFG international sales significantly increased by 12.0% to ₱10.53 billion for the six months of fiscal 2012 due to increase in sales volume. This was supported by strong sales growth from China, Vietnam and Malaysia. Sales in URC's packaging division increased by 16.1% to ₱900 million for the six months of fiscal 2012 from ₱775 million posted in the same period last year due to increase in sales volume. (2) URC's AIG recorded net sales of ₱3.64 billion, a 12.0% increase from ₱3.25 billion last year. URC's feed business grew by 14.4% on the back of higher sales volume and prices while farm business increased by 9.5% due to higher sales volume of hogs. (3) URC's CFG revenues amounted to ₱3.82 billion for the six months of fiscal 2012 or down by 27.6% from ₱5.28 billion reported in the same period last year primarily due to 52.2% decline in net sales of sugar business as a result of lower sales volume and prices while flour business grew by 16.5% due to sales volume and price increases.

URC's cost of sales increased by ₱1.79 billion or 7.2% to ₱26.66 billion for the six months of fiscal 2012 from ₱24.87 billion reported in the same period last year. Cost of sales went up due to increase in sales volume. URC's gross profit for the six months of fiscal 2012 amounted to ₱8.82 billion higher by 4.7% from ₱8.42 billion posted in the same period last year. Gross profit margin declined by 43 basis points to 24.9%. Operating expenses increased by ₱569 million or 12.3% to ₱5.18 billion for the six months of fiscal 2012 from ₱4.61 billion registered in the same period of fiscal 2011. As a result of the above factors, operating income was slightly lower at ₱3.65 billion from ₱3.82 billion for the six months of fiscal 2012.

Market valuation gain on financial assets at FVPL of ₱1.07 billion was reported for the six months of fiscal 2012 against ₱216 million market valuation loss recognized in the same period of fiscal 2011 due to recoveries in the market values of bond and equity security investments. Finance costs decreased by ₱79 million or 15.8% to ₱419 million for the six months of fiscal 2012 from ₱498 million recorded in the same period of fiscal 2011 due to decline in level of financial debt. Foreign exchange loss - net amounted to ₱100 million for the six months of fiscal 2012 from ₱216 million reported in the same period last year due to this year's realized foreign exchange gain on settlement of foreign currency denominated loans which partially offset the currency translation loss adjustments. Other income - net decreased to ₱5 million for the six months of fiscal 2012 from ₱61 million reported in the same period last year. Provision for income tax amounted to ₱344 million for the six months of fiscal 2012, an increase of ₱34 million from ₱310 million in the same period last year due to higher taxable income and provision for deferred tax liability on unrealized gain on foreign exchange.

URC's net income attributable to equity holders of the parent increased by ₱1.14 billion to ₱4.22 billion for the six months of fiscal 2012 from ₱3.08 billion in the same period last year as a result of the factors discussed above.

URC's unaudited core earnings before tax (operating profit after equity earnings, net finance revenue and other income – net) for the six months of fiscal 2012 amounted to ₱3.86 billion from ₱4.03 billion reported in the same period last year.

URC reported an EBITDA (operating income plus depreciation, amortization) of ₱5.32 billion for the six months of fiscal 2012, 2.5% lower than ₱5.45 billion recorded in the same period of fiscal 2011.

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

## **PROPERTY**

**Robinsons Land Corporation (RLC)** posted net income attributable to equity holders of Parent Company of ₱2.24 billion for the six months ended March 31, up by 10% compared with the same period last year. Likewise, EBITDA and EBIT rose 7% and 9% to ₱3.93 billion and ₱2.88 billion, respectively. Real estate and hotel revenues were up by 12% to ₱6.68 billion against last year's ₱5.94 billion. Interest income increased by 37% due to higher level of money market placements during the period.

Commercial Centers Division contributed 49% or ₱3.5 billion of the gross revenues posting a 15% growth. Metro Manila malls led by Robinsons Galleria, Ortigas and Robinsons Place, Manila contributed to the growth while almost all provincial malls also posted decent growth in rental revenues. Amusement revenue went up by 21% to ₱396.0 million.

RLC's Residential Division accounted for 32% of RLC's total revenues. Its realized revenues increased by 15% to ₱2.26 billion due to higher level of realized sales based on project completion.

The Office Buildings Division contributed 10% or ₱698.8 million of RLC's revenues, up by 9% from last year's ₱642.9 million. Lease income is derived from eight office buildings, Galleria Corporate Center, Robinsons Equitable Tower, Robinsons Summit Center, Robinsons Cybergate Centers Tower 1, 2 and 3, Cybergate Plaza and Cebu Cybergate.

The Hotels Division contributed 9% or ₱679.9 million to RLC's revenues, up by 9%. Crowne Plaza Galleria Manila, Holiday Inn Galleria Manila, Summit Circle Cebu (formerly Cebu Midtown Hotel), Summit Ridge Hotel, Go Hotel Cybergate and Go Hotel Palawan posted occupancy rates of 83%, 81%, 48%, 40%, 90% and 37%, respectively.

Real Estate cost went up by 23% due to higher level of repairs and maintenance for various malls, higher film rentals and higher cost of sales from residential division, among others. Hotel expenses are higher by 9% due to increase in utilities, repairs and maintenance, taxes and cost of food sold. General and administrative expenses went up by 10% because of higher commissions, advertising and promotions, taxes and salaries. Interest expense for the period stood at ₱80.7 million down by ₱29.0 million or 26% due to higher level of qualifying assets for interest capitalization.

## **AIR TRANSPORTATION**

**Cebu Air, Inc. (Cebu Pacific)** registered revenues of ₱19.73 billion for the six months ended June 30, 2012, up 17.9% over last year's ₱16.73 billion, was brought about by the 17.2% increase in passenger volume from 5.9 million last year to 6.9 million this year, as a result of the increased number of flights in 2012. Number of flights moved up by 18.1% year on year as a result of the additional aircrafts operated, from 33 aircrafts as of June 30, 2011 to 38 aircrafts as of June 30, 2012. The increase in passenger revenues, however, was partially offset by the reduction in average fares by 3.7%. Cargo revenues also grew by 17.0% to ₱1.13 billion from last year's ₱0.96 billion. Moreover, ancillary revenues went up by ₱1.05 billion or 55.1% to ₱2.95 billion in the six months ended June 30, 2012 from ₱1.90 billion posted in the six months ended June 30, 2011. Cebu Pacific began unbundling ancillary products and services in April 2011 and significant improvements in ancillary revenues were noted since then. Increased online bookings also contributed to the growth. Sales from online bookings accounted for 49.9% of the total sales for the period compared to the 48.1% in 2011.

Correspondingly, costs and operating expenses increased from ₱14.60 billion last year to ₱18.20

billion this year. Increase in expenses was partially offset by the strengthening of the Philippine peso against the U.S. dollar to an average of ₱42.90 per U.S. dollar for the six months ended June 30, 2012 from an average of ₱43.52 per U.S. dollar in 2011 based on the Philippine Dealing System weighted average rates. Growth was primarily due to the increase in aviation fuel expenses by 26.4% to ₱9.22 billion from ₱7.30 billion in 2011 consequent to the significant increase in aviation fuel prices to an average published MOPS price of U.S.\$127.05 per barrel in the six months ended June 30, 2012 from U.S.\$125.71 per barrel last year. Rise in aviation fuel expenses was further influenced by the increase in the volume of fuel consumed as a result of the increased number of flights year on year.

Moreover, operations-related expenses, aircrafts and engine leases, repairs and maintenance and depreciation and amortization have also increased to sustain the demand in the increase in flights flown in 2012.

Fuel hedging gains of ₱27.19 million in the six months ended June 30, 2012 resulted from the higher mark-to-market valuation on fuel hedging positions following the significant increase in fuel prices in 2012.

Foreign exchange gain increased to ₱745.75 million in the six months ended June 30, 2012 compared to last year's ₱187.10 million, resulted from the stronger Philippine peso against the U.S. dollar. Cebu Pacific's principal exposure to foreign exchange rate fluctuations is in respect of U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

#### **PETROCHEMICALS**

**JG Summit Petrochemicals Corporation's (JGSPC)** revenue for the first six months of 2012 amounted to ₱3.09 billion, a 10.8% increase from last year's ₱2.79 billion. Costs and expenses for the period amounted to ₱3.25 billion, a 2.4% decrease from last year's ₱3.32 billion. A net foreign exchange gain of ₱66.03 million was recognized for the first half of 2012 compared ₱6.07 million for the same period last year, resulting to a lower net loss from ₱72.06 million last year to ₱55.60 million for the six months of fiscal 2012.

#### **BANK**

**Robinsons Bank Corp.** recognized net income of ₱244.15 million during the first six months of fiscal 2012, a 67.7% increase from last year's ₱145.59 million. Growth in net income is mainly due to higher revenues recorded during the period, from ₱939.37 million for the six months period last year to ₱1.24 billion for the same period this year. Increase in revenues is mainly due to higher trading gain recorded for the period from ₱52.18 million in 2011 to ₱253.52 million this year.

#### **EQUITY EARNINGS**

Equity earnings from associated companies and joint ventures dropped 26.3% from ₱1.18 billion for the six-month period ended June 2012 to ₱872.21 million for the same period this year. The decline is mainly due to lower equity earnings from UIC as a result of lower rental income, drop in sale of properties and lower revenues from hotel operations.

#### **OTHER OPERATING INCOME**

Other operating income includes ₱1.90 billion dividend income from PLDT in March 2012 (Note 20 of NFS).

## **Financial Position**

### **June 30, 2012 vs. December 31, 2011**

As of June 30, 2012, the Company's balance sheet remains healthy, with consolidated assets of ₱331.17 billion from ₱314.81 billion as of December 31, 2011. Current ratio stood at 1.38. The Company's indebtedness remained manageable with a gearing ratio of 0.43:1 and net debt to equity of 0.14:1 as of June 30, 2012.

Cash and cash equivalents totaled ₱29.67 billion as of June 30, 2012 down by 12.5% from ₱33.90 billion as of December 31, 2011. The principal source of cash is from the Group's operating activities amounting to ₱8.08 billion. As of June 30, 2012, net cash used in investing activities amounted to ₱15.62 billion mainly for the Company's capital expenditure program. The Group's cash from financing activities amounted to ₱3.32 billion. This mainly pertains to proceeds from the sale of treasury shares of both Parent Company and of a subsidiary totaling ₱8.88 billion and availment of short-term loans amounting to ₱4.87 billion, reduced by debt settlements amounting to ₱8.43 billion. Our financial assets, including those held at FVPL and available for sale investments, increased 10.6% from ₱66.71 billion as of December 31, 2011 to ₱73.80 billion as of June 30, 2012 due to acquisitions of FVPL and AFS investments by bank and offshore companies and higher market valuation during the period.

Receivables, including noncurrent portion, went up 10.2% from ₱25.04 billion as of December 31, 2011 to ₱27.61 billion as of June 30, 2012 due to higher trade receivables of the food business and finance receivables of the banking business.

Inventories went up to ₱23.83 billion as of June 30, 2012 from ₱20.44 billion as of December 31, 2011. Increase can be attributed to higher level of finished goods, raw materials and spareparts and supplies of URC.

Other current assets dropped to ₱5.01 billion as of June 30, 2012 from ₱7.48 billion in December 31, 2011 after receiving a portion of the escrow account amounting to ₱2.81 billion during the period.

Biological assets, including noncurrent portion, dropped 11.4% to ₱1.21 billion as of June 30, 2012 from ₱1.37 billion as of December 31, 2011 due to decline in market value and decrease in population of hogs.

Investment properties amounted to ₱43.70 billion as of June 30, 2012, from ₱41.88 billion in December 31, 2011, increase is due to on-going construction of malls of the real estate business.

Property, plant and equipment rose to ₱90.28 billion as of June 30, 2012, from ₱82.40 billion in December 31, 2011 mainly due to the on-going expansion of our branded consumer foods, on-going construction of Olefins and acquisition of additional aircrafts during the period.

Accounts payable and accrued expenses grew 2.3% from ₱24.98 billion as of year-end 2011 to ₱25.55 billion mainly due to RSB's higher level of deposit liabilities.

Short-term debt increased 24.8% from ₱19.09 billion as of December 31, 2011 to ₱23.84 billion as of June 30, 2012 due to higher level of short-term loans of URC.

Income tax payable decreased 39.8% to ₱315.74 million as of June 30, 2012 from ₱524.84 million in December 31, 2011 mainly due to payments made by the food business.

Derivative liability, including noncurrent portion, decreased 30.7% from ₱303.93 million as of December 31, 2011 to ₱210.49 million as of June 30, 2012 due to recovery on the market valuation of interest-rate swap transaction of an offshore company.

Long-term debt, including current portion, decreased 12.8% from ₱71.52 billion as of December 31, 2011 to ₱62.35 billion as of June 30, 2012 due to settlement of URC's \$200 Million Guaranteed Note and ₱26 Million peso loan from Philsucor.

Deferred income tax liabilities increased 60.7% from ₱1.07 billion as of December 31, 2011 to ₱1.72 billion as of June 30, 2012 due to the recognition of deferred tax on unrealized foreign exchange gain during the period and the higher level of financial income against taxable income from installment sales of condo and housing units of real estate business.

Equity attributable to equity holders of the parent grew to ₱155.50 billion as of June 30, 2012 from ₱141.28 billion at the end of 2011. Book value per share improved from ₱20.96 per share as of December 31, 2011 to ₱22.87 per share as of June 30, 2012.

## **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, 2012 and December 31, 2011 and for the six months ended June 30, 2012 and 2011:

<b>Key Financial Indicators</b>	<b>2012</b>	<b>2011</b>
Revenues	P67,095 million	P60,998 million
EBIT	P8,500 million	P9,645 million
EBITDA	P12,863 million	P13,717 million
Core Earnings before tax	P9,901 million	P8,772 million
Current ratio	1.38	1.53
Gearing ratio	0.43	0.51
Net debt to equity ratio	0.14	0.18
Book value per share	22.87	20.96

The manner by which the Company calculates the above key performance indicators for both period-end 2012 and 2011 is as follows:

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

As of June 30, 2012, 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.

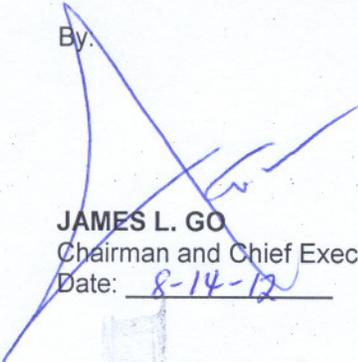
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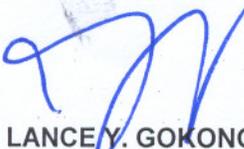
Pursuant to the requirements of the Securities Regulations Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JG SUMMIT HOLDINGS, INC.

By:



**JAMES L. GO**  
Chairman and Chief Executive Officer  
Date: 8-14-12



**LANCE Y. GOKONGWEI**  
President and Chief Operating Officer  
Date: 8-14-12



**CONSTANTE T. SANTOS**  
SVP - Corporate Controller  
Date: 8-14-12

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

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	P29,672,272	P33,895,343
Derivative assets (Note 8)	272,279	110,791
Financial assets at fair value through profit or loss (Note 9)	13,490,717	10,957,955
Available-for-sale investments (Note 10)	14,662,478	12,271,629
Receivables (Notes 4, 11 and 22)	15,050,740	13,629,203
Inventories (Note 12)	23,831,304	20,443,885
Biological assets	888,700	911,265
Other current assets (Note 13)	5,008,672	7,485,390
Total Current Assets	102,877,162	99,705,461
<b>Noncurrent Assets</b>		
Available-for-sale investments (Note 10)	45,646,078	43,475,736
Receivables (Notes 4 and 11)	12,557,351	11,413,317
Investments in associates and joint ventures	32,402,129	32,055,964
Property, plant and equipment	90,282,250	82,395,387
Investment properties	43,695,911	41,883,671
Goodwill	798,628	798,628
Biological assets	324,670	459,054
Intangible assets	903,858	905,540
Other noncurrent assets (Note 14)	1,677,031	1,715,660
Total Noncurrent Assets	228,287,906	215,102,957
	P331,165,068	P314,808,418
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 15 and 22)	P25,551,943	P24,978,223
Short-term debt (Note 17)	23,836,884	19,092,635
Derivative liabilities (Note 8)	101,974	85,245
Income tax payable	315,742	524,843
Current portion of long-term debt (Note 17)	18,252,184	13,622,011
Other current liabilities (Note 16)	6,565,551	6,711,208
Total Current Liabilities	74,624,278	65,014,165

(Forward)

	<b>June 30, 2012</b>	December 31, 2011
	<b>(Unaudited)</b>	(Audited)
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Note 17)	<b>44,102,997</b>	57,895,483
Deferred tax liabilities	<b>1,719,561</b>	1,069,913
Other noncurrent liabilities (Notes 8, 18 and 22)	<b>10,311,536</b>	10,430,037
Total Noncurrent Liabilities	<b>56,134,094</b>	69,395,433
Total Liabilities	<b>130,758,372</b>	134,409,598
<b>Equity</b>		
Equity attributable to equity holders of the Parent Company: (Note 19)		
Paid-up capital	<b>14,085,731</b>	12,896,988
Retained earnings	<b>117,407,717</b>	109,936,210
Equity reserve	<b>20,908,517</b>	17,845,477
Other comprehensive income (loss)	<b>3,823,674</b>	1,579,331
Treasury shares	<b>(721,848)</b>	(974,691)
	<b>155,503,791</b>	141,283,315
Non-controlling interests	<b>44,902,905</b>	39,115,505
Total Equity	<b>200,406,696</b>	180,398,820
	<b>P331,165,068</b>	P314,808,418

*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	
	2012	2011	2012	2011
<b>REVENUE</b>				
Sale of goods and services:				
Foods	P17,288,303	P16,558,489	P35,486,503	P33,298,103
Air transportation	10,388,303	9,210,054	19,729,242	16,730,226
Real estate and hotels	3,318,721	3,051,729	6,669,408	6,055,791
Petrochemicals	1,711,386	1,611,034	3,094,611	2,792,080
Banking	532,604	505,225	1,242,561	939,374
Equity in net earnings of associates and joint ventures	372,457	653,351	872,213	1,182,747
	33,611,774	31,589,882	67,094,538	60,998,321
<b>COST OF SALES AND SERVICES</b>	<b>23,919,811</b>	<b>21,485,060</b>	<b>47,688,921</b>	<b>41,804,608</b>
<b>GROSS INCOME</b>	<b>9,691,963</b>	<b>10,104,822</b>	<b>19,405,617</b>	<b>19,193,713</b>
<b>OTHER OPERATING EXPENSES</b>				
General and administrative expenses	5,461,836	4,852,341	10,898,221	9,516,906
Impairment losses and others	5,194	18,087	7,152	31,672
	5,467,030	4,870,428	10,905,373	9,548,578
<b>OPERATING INCOME</b>	<b>4,224,933</b>	<b>5,234,394</b>	<b>8,500,244</b>	<b>9,645,135</b>
<b>OTHER INCOME (LOSSES)</b>				
Financing costs and other charges	(1,043,001)	(1,441,155)	(2,336,806)	(2,821,263)
Market valuation gains (losses) on financial assets at fair value through profit or loss	549,341	68,656	829,940	(138,369)
Market valuation gains (losses) on derivative financial instruments	(269,025)	(23,173)	130,659	631,653
Foreign exchange gains (losses)	489,590	(110,295)	1,295,571	(41,722)
Finance income	667,840	575,434	1,433,621	1,323,451
Others (Note 20)	160,568	473,979	2,303,865	625,057
<b>INCOME BEFORE INCOME TAX</b>	<b>4,780,246</b>	<b>4,777,840</b>	<b>12,157,094</b>	<b>9,223,942</b>
<b>PROVISION FOR INCOME TAX</b>	<b>613,016</b>	<b>647,786</b>	<b>1,373,872</b>	<b>1,236,631</b>
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>4,167,230</b>	<b>4,130,054</b>	<b>10,783,222</b>	<b>7,987,311</b>
<b>DISCONTINUED OPERATIONS</b>				
Income after tax from discontinued operations (Note 23)	-	577,481	-	1,051,541
<b>NET INCOME</b>	<b>4,167,230</b>	<b>4,707,535</b>	<b>10,783,222</b>	<b>9,038,852</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Cumulative translation adjustments	(13,459)	(138,258)	(48,607)	(112,104)
Net gains (losses) on available-for-sale investments	(684,290)	36,539	2,347,961	(178,942)
Net gains (losses) from cash flow hedges	-	37,190	-	102,311
Net unrealized gains (losses) on available-for-sale investments of an associate	2,062	518	2,708	1,768
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	<b>(695,687)</b>	<b>(64,011)</b>	<b>2,302,062</b>	<b>(186,967)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P3,471,543</b>	<b>P4,643,524</b>	<b>P13,085,284</b>	<b>P8,851,885</b>

(Forward)

	Quarters Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company				
Income from continuing operations	<b>P2,561,803</b>	P2,621,972	<b>P7,471,507</b>	P5,003,020
Income from discontinued operations	-	577,481	-	975,244
	<b>2,561,803</b>	3,199,453	<b>7,471,507</b>	5,978,264
Non-controlling interests				
Income from continuing operations	<b>1,605,427</b>	1,508,082	<b>3,311,715</b>	2,984,291
Income from discontinued operations	-	-	-	76,297
	<b>1,605,427</b>	1,508,082	<b>3,311,715</b>	3,060,588
	<b>P4,167,230</b>	P4,707,535	<b>P10,783,222</b>	P9,038,852
<b>TOTAL COMPREHENSIVE INCOME</b>				
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company				
Comprehensive income from continuing operations	<b>P1,781,642</b>	P2,609,444	<b>P9,715,850</b>	P4,924,215
Comprehensive income from discontinued operations	-	577,481	-	975,244
	<b>1,781,642</b>	3,186,925	<b>9,715,850</b>	5,899,459
Non-controlling interests				
Comprehensive income from continuing operations	<b>1,689,901</b>	1,456,599	<b>3,369,434</b>	2,876,129
Comprehensive income from discontinued operations	-	-	-	76,297
	<b>1,689,901</b>	1,456,599	<b>3,369,434</b>	2,952,426
	<b>P3,471,543</b>	P4,643,524	<b>P13,085,284</b>	P8,851,885
<b>Earnings Per Share Attributable to Equity Holders of the</b>				
<b>Parent Company</b>				
Basic/diluted earnings per share (Note 21)	<b>P0.38</b>	P0.47	<b>P1.10</b>	P0.89
<b>Earnings Per Share Attributable to Equity Holders of the</b>				
<b>Parent Company from continuing operations</b>				
Basic/diluted earnings per share (Note 21)	<b>P0.38</b>	P0.39	<b>P1.10</b>	P0.74

*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, 2012 and 2011

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY													
	Paid-up Capital						Other Comprehensive Income							
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Equity Reserve	Cumulative Translation Adjustments	Gains (Losses) on Available-for-Sale Investments	Unrealized Losses on Cash Flow Hedge (Note 8)	Total Other Comprehensive Income	Treasury Shares	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2012	P6,935,274	P5,961,714	P12,896,988	P51,359,142	P58,577,068	P109,936,210	P17,845,477	(P1,885,140)	P3,464,471	P0	P1,579,331	(P974,691)	P39,115,505	P180,398,820
Total comprehensive income (loss)	-	-	-	7,471,507	-	7,471,507	-	(38,302)	2,282,645	-	2,244,343	-	9,715,850	13,085,284
Changes in non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	3,369,434	13,085,284
Decrease in subsidiaries' treasury shares	-	-	-	-	-	-	3,063,040	-	-	-	-	-	4,376,960	7,440,000
Disposal of Parent Company shares by a subsidiary	-	1,188,743	1,188,743	-	-	-	-	-	-	-	-	252,843	-	1,441,586
<b>Balance at June 30, 2012</b>	<b>P6,935,274</b>	<b>P7,150,457</b>	<b>P14,085,731</b>	<b>P58,830,649</b>	<b>P58,577,068</b>	<b>P117,407,717</b>	<b>P20,908,517</b>	<b>(P1,923,442)</b>	<b>P5,747,116</b>	<b>P0</b>	<b>P3,823,674</b>	<b>(P721,848)</b>	<b>P44,902,905</b>	<b>P200,406,696</b>
Balance at January 1, 2011	P6,895,274	P5,961,714	P12,856,988	P33,336,450	P55,633,874	P88,970,324	P18,563,003	(P1,798,632)	P316,447	(P364,294)	(P1,846,479)	(P974,691)	P31,891,252	P149,460,397
Total comprehensive income (loss)	-	-	-	5,978,264	-	5,978,264	-	(73,124)	(107,992)	102,311	(78,805)	-	2,952,426	8,851,885
Issuance of preferred shares of stock	40,000	-	40,000	-	-	-	(560,742)	-	-	-	-	-	-	40,000
Changes in equity reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	(560,742)
Changes in non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	1,993,782	1,993,782
Increase in subsidiaries' treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	(168,287)	(168,287)
<b>Balance at June 30, 2011</b>	<b>P6,935,274</b>	<b>P5,961,714</b>	<b>P12,896,988</b>	<b>P39,314,714</b>	<b>P55,633,874</b>	<b>P94,948,588</b>	<b>P18,002,261</b>	<b>(P1,871,756)</b>	<b>P208,455</b>	<b>(P261,983)</b>	<b>(P1,925,284)</b>	<b>(P974,691)</b>	<b>P36,669,173</b>	<b>P159,617,035</b>

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax from continuing operations	<b>P12,157,094</b>	P9,223,942
Income before tax from discontinued operations	-	1,064,239
Income before tax	<b>12,157,094</b>	10,288,181
Adjustments for:		
Depreciation and amortization	<b>4,362,892</b>	5,618,215
Interest expense	<b>2,235,117</b>	3,200,279
Interest income	<b>(1,433,621)</b>	(1,328,001)
Dividend income	<b>(2,045,415)</b>	(120,170)
Equity in net income of associates and joint ventures	<b>(872,213)</b>	(1,182,747)
Provisions for impairment losses on receivables	<b>7,152</b>	91,074
Loss (gain) arising from changes in fair value less estimated costs to sell of swine stocks	<b>103,932</b>	47,880
Foreign exchange gain - net	<b>(1,295,571)</b>	(193,573)
Market valuation loss (gain) on derivative instruments	<b>(130,659)</b>	(587,708)
Market valuation loss (gain) on financial assets at fair value through profit or loss	<b>(829,940)</b>	138,369
Gain on sale of financial assets at fair value through profit or loss and AFS investments	<b>(31,731)</b>	(76,999)
Operating income before changes in working capital accounts	<b>12,227,037</b>	15,894,800
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit or loss	<b>(1,365,255)</b>	(1,442,357)
Derivative financial instruments	<b>(75,529)</b>	605,264
Receivables	<b>(2,612,387)</b>	(3,544,145)
Inventories	<b>(3,387,420)</b>	(3,195,707)
Biological assets	<b>53,016</b>	(125,359)
Other current assets	<b>2,476,718</b>	(292,758)
Increase (decrease) in the amounts of:		
Accounts payable and accrued expenses	<b>701,178</b>	5,785,405
Other current liabilities	<b>(145,658)</b>	1,257,661
Net cash generated from operations	<b>7,871,700</b>	14,942,804
Interest received	<b>1,473,285</b>	1,313,545
Interest paid	<b>(2,307,301)</b>	(3,220,493)
Dividends received	<b>2,045,415</b>	120,170
Income taxes paid	<b>(1,007,284)</b>	(1,073,743)
Net cash provided by operating activities	<b>8,075,815</b>	12,082,283

(Forward)

**Six Months Ended June 30**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease (increase) in the amounts of:		
Available-for-sale investments	<b>(2,202,120)</b>	(1,394,695)
Other noncurrent assets	<b>100,060</b>	(515,116)
Investments in associates and joint ventures	<b>526,048</b>	426,638
Property, plant and equipment	<b>(10,139,564)</b>	(10,863,864)
Investment properties	<b>(3,904,305)</b>	(4,133,625)
Net cash used in investing activities	<b>(15,619,881)</b>	(16,480,662)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Short-term debt	<b>4,868,279</b>	2,006,725
Long-term debt	<b>(8,425,334)</b>	(3,652,697)
Increase (decrease) in the amounts of:		
Other noncurrent liabilities	<b>(44,542)</b>	1,537,422
Non-controlling interests	<b>(1,958,994)</b>	1,825,495
Proceeds from sale of Parent Company shares by a subsidiary	<b>1,441,586</b>	-
Proceeds from sale of treasury shares by a subsidiary	<b>7,440,000</b>	-
Net cash used in financing activities	<b>3,320,995</b>	1,756,945
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,223,071)</b>	(2,641,434)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>33,895,343</b>	42,110,004
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P29,672,272</b>	P39,468,570

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

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

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**1. Corporate Information**

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

The Parent Company 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, petrochemicals, air transportation and power generation.

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

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

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

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

The consolidated financial statements of the Group are presented in Philippine Peso, the functional currency of the Parent Company. All values are rounded to the nearest peso except when otherwise stated.

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

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

#### Statement of Compliance

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

### Basis of Consolidation

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

Subsidiaries	Country of Incorporation	Effective Percentage of Ownership	
		June 30	
		2012	2011
<b>Food</b>			
URC and Subsidiaries	Philippines*	<b>60.64</b>	64.17
<b>Air Transportation</b>			
CP Air Holdings, Inc. (CPAHI) and Subsidiaries	-do-	<b>100.00</b>	100.00
Cebu Air, Inc. (CAI) and Subsidiaries	-do-	<b>67.23</b>	66.65
Pacific Virgin Islands Holdings, Co., Ltd.	British Virgin Islands	<b>100.00</b>	100.00
<b>Telecommunications</b>			
Digital Telecommunications Phils., Inc. (Digitel) and Subsidiaries**	Philippines	-	-
<b>Real Estate and Hotels</b>			
Robinsons Land Corporation (RLC) and Subsidiaries	Philippines	<b>60.97</b>	60.97
<b>Petrochemicals</b>			
JG Summit Petrochemical Corporation (JGSPC)	-do-	<b>100.00</b>	100.00
<b>Banking</b>			
Robinsons Bank Corporation (RBC)	-do-	<b>60.00</b>	100.00
<b>Supplementary Businesses</b>			
Express Holdings, Inc. (EHI) and a Subsidiary	-do-	<b>100.00</b>	100.00
Summit Forex Brokers Corporation	-do-	<b>100.00</b>	100.00
JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries	-do-	<b>100.00</b>	100.00
JG Summit Capital Markets Corporation	-do-	<b>100.00</b>	100.00
Summit Point Services Ltd.	-do-	<b>100.00</b>	100.00
Summit Internet Investments, Inc.	-do-	<b>100.00</b>	100.00
JG Summit (Cayman), Ltd. (JGSCL)	Cayman Islands	<b>100.00</b>	100.00
JG Summit Philippines Ltd. (JGSPL) and Subsidiaries	Cayman Islands	<b>100.00</b>	100.00
JGSH Philippines Ltd.	British Virgin Islands	<b>100.00</b>	100.00
Multinational Finance Group, Ltd.	-do-	<b>100.00</b>	100.00
Telegraph Development, Ltd.	Singapore	<b>100.00</b>	100.00
Summit Top Investment, Ltd.	Singapore	<b>100.00</b>	100.00
JG Summit Limited (JGSL)	British Virgin Islands	<b>100.00</b>	100.00
<b>Batangas Agro-Industrial Development Corp. (BAID) and Subsidiaries</b>			
Fruits of the East, Inc.	Philippines	<b>100.00</b>	100.00
Hometel Integrated Management Corporation	-do-	<b>100.00</b>	100.00
King Leader Philippines, Inc.	-do-	<b>100.00</b>	100.00
Samar Commodities Trading and Industrial Corporation	-do-	<b>100.00</b>	100.00
Tropical Aqua Resources.	-do-	<b>100.00</b>	100.00
United Philippines Oil Trading, Inc.	-do-	<b>100.00</b>	100.00
Unicon Insurance Brokers Corporation	-do-	<b>100.00</b>	100.00
JG Summit Olefins Corporation	-do-	<b>100.00</b>	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. In 2011, the Group sold all of its investments in shares of stock of Digitel to PLDT. Beginning March 29, 2011, the date that the Group is committed to sell Digitel, the Group classified all the assets and liabilities of Digitel as held for sale. Accordingly, Digitel is also a discontinued operation on March 29, 2011.

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

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

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

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

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

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

If the Group loses control over a subsidiary, it:

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

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

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

Subsidiaries	Fiscal Year
<b>Food</b>	
URC and Subsidiaries	September 30
<b>Real Estate and Hotels</b>	
RLC and Subsidiaries	-do-
<b>Petrochemicals</b>	
JGSPC	-do-
JG Summit Olefins Corp.	-do-

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

#### Business Combinations

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

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

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

If the business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date ( the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from

interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

#### Goodwill

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

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

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

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

#### Changes in Accounting Policies and Disclosures

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

##### *Amendments to Standards*

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

##### *Improvements to PFRS (issued 2010)*

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

- PFRS 7, *Financial Instruments: Disclosures*  
The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements in Note 5.

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

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

- PAS 32, *Financial Instruments: Presentation (Amendment)*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (Determining the fair value of award credits)
- Philippine Interpretation IFRIC14, *Prepayments of a Minimum Funding Requirement (Amendment)*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

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

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

## **Significant Accounting Policies**

### Foreign Currency Translation

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

### *Transactions and balances*

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

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

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items

measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *Group companies*

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

#### Recognition of Financial Instruments

##### *Date of recognition*

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

##### *Initial recognition of financial instruments*

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

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

##### *Determination of fair value*

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices or dealer price quotations (bid price for long positions and 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 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 or loss in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

*Financial assets and financial liabilities at FVPL*

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

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

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

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

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

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

#### *Derivatives classified as FVPL*

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

The Group applied cash flow hedge accounting treatment on interest rate swap transactions.

#### *Hedge accounting*

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

#### *Cash flow hedge*

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

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

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

#### **Current versus non-current classification**

Derivative instruments that are not designated as effective hedging instruments are classified as

current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

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

#### *HTM investments*

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

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

#### *Loans and receivables*

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

#### *AFS investments*

AFS investments are those nonderivative investments which are designated as such or do not

qualify to be classified as designated financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

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

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

#### Debt Issuance Cost

Debt issuance costs are amortized using the effective interest method and unamortized debt issuance costs are included in the measurement of the related carrying value of the loan in the

consolidated statement of financial position. When a loan is repaid, the related unamortized debt issuance costs at the date of repayment are charged against profit or loss in the consolidated statement of comprehensive income.

#### Customers' Deposits

##### *Deposits from lessees*

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

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

##### *Deposits from real estate buyers*

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

#### Reclassification of Financial Assets

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

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

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

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

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

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

- deliver cash or another financial asset to another entity; or

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by 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.

#### Impairment of Financial Assets

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be

related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in 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 reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as AFS investments, objective evidence would include a ‘significant’ or ‘prolonged’ decline in the fair value of the investments below its cost. ‘Significant’ is to be evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. The Group treats ‘significant’ generally as 20% or more and ‘prolonged’ as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in 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 other comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Such accrual is recorded as part of ‘Interest income’ in 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.

#### Derecognition of Financial Instruments

##### *Financial assets*

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

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in 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.

#### Inventories

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

When inventories are sold, the carrying amounts of those inventories are recognized under 'Cost of sales and services' in 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 is 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 the NRV, shall be recognized as a reduction to 'Cost of sales and services' in the period where the reversal was incurred.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of a self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

*Finished goods, work-in-process, raw materials and packaging materials*

Cost is determined using the weighted average method. Finished goods and work-in-process include direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced, but excluding borrowing costs.

*Subdivision land and condominium and residential units for sale*

Subdivision land, condominium and residential units for sale are carried at the lower of cost and NRV. Cost includes costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction.

Assets Held for Sale

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

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

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

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

Assets held for sale are measured at the lower of their carrying amount or fair value less costs to

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

#### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and impairment loss, if any. Land is carried at cost less impairment loss, if any. Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*).

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

Land improvements	10 years
Buildings and building improvements	10 to 30 years

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

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

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.

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

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

### Property, Plant and Equipment

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

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

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

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

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

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

	<u>EUL</u>
Land improvements	10 to 40 years
Building and improvements	10 to 50 years
Machinery and equipment	4 to 50 years
Investment in cable systems	15 years
Leasehold improvements	15 years
Assets under lease	15 years
Passenger aircraft*	15 years
Other flight equipment	5 years
<u>Transportation, furnishing and other equipment</u>	<u>3 to 5 years</u>

*\* With 15% residual value after 15 years*

Leasehold improvements are amortized over the shorter of their EULs or the corresponding lease terms.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Any change in the expected residual values, useful lives and methods of depreciation

are adjusted prospectively from the time the change was determined necessary.

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in 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 conditions and to bear the cost of any dismantling and deinstallation at the end of the contract period. These costs are accrued based on an internal estimate made by the work of both third party and Group's engineers which includes estimates of certain redelivery costs at the end of the operating aircraft lease. The Group recognizes the present value of these costs as ARO asset (included under 'Property, plant and equipment') and ARO liability (included under 'Other noncurrent liabilities'). The Group depreciates ARO asset on a straight-line basis over the EUL of the related account or the lease term, whichever is shorter, or written off as a result of impairment of the related account. The Group amortizes ARO liability using the effective interest method and recognizes accretion expense (included in 'Interest expense') over the lease term.

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

#### Borrowing Costs

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

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

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

### Biological Assets

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

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

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

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

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

#### *Biological assets at cost*

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

Depreciation (included under 'Cost of sales and services' in 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 consider market

behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the biological assets. The EUL of biological assets ranges from two to three years.

The carrying values of biological assets at cost are reviewed for impairment, when events or changes in circumstances indicate that the carrying values may not be recoverable (see further discussion under Impairment of Nonfinancial Assets).

This accounting policy applies to the Group's poultry livestock breeders.

*Biological assets carried at fair values less estimated costs to sell*

Swine weanlings and fatteners/finishers are measured at their fair values less costs to sell. The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

A gain or loss on initial recognition of a biological asset carried at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of a biological asset is included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income in the period in which it arises.

Goodwill

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

Each unit or group of units to which the goodwill is so allocated:

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

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

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

Bank licenses

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

individual impairment testing.

### Intangible Assets

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

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

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

The period and the method of amortization of an intangible asset with a finite useful life are reviewed at least at each 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 also recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expense when incurred.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in 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	Licenses	Product Formulation	Software Costs	Trademarks	
EUL	Finite (12 to 13.75 years)	Indefinite	Indefinite	Finite (5 years)	Finite (4 years)	Indefinite
Amortization method used	Amortized on a straight-line basis over the EUL of the license	No amortization	No amortization	Amortized on a straight-line basis over the EUL of the software cost	Amortized on a straight-line basis over the EUL of the trademark	No amortization
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired	Acquired	Acquired

#### Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's investments in associates and joint ventures, investment properties, property, plant and equipment, biological assets at cost, intangible assets and goodwill.

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

Impairment losses from continuing operations are recognized under 'Impairment losses and others' in 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, intangible assets with definite useful lives*

For property, plant and equipment, investment properties, intangible assets with definite useful lives, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in 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. Impairment losses relating to goodwill cannot be reversed in future periods.

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

#### *Investments in associates and joint ventures*

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint ventures. If this is the case, the Group calculates the amount of impairment as 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.

#### *Biological assets at cost*

The carrying values of biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

#### *Intangible assets with indefinite useful lives*

Intangible assets with indefinite useful lives are tested for impairment annually as of year-end either individually or at the cash-generating unit level, as appropriate.

#### Common Stock

Common stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' in the consolidated statement of 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.

#### 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 by the Group (e.i., when passengers and cargo are lifted). Unearned tickets are recognized as revenue using estimates regarding the timing of the recognition based on the terms and conditions of the ticket and historical trends.

The related commission is recognized as outright expense upon the receipt of payment from customers, and is included under 'Cost of sales and services' account in the consolidated statement of comprehensive income.

*Ancillary Revenue*

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

*Real Estate Sales*

Revenue from sales of real estate and cost from completed projects is accounted for using the full accrual method. The percentage of completion is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of project.

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the 'Deposits from real estate buyers' account which is shown as part of the 'Other noncurrent liabilities' account in the liabilities section of the consolidated statement of financial position.

*Revenue from hotel operations*

Revenue from hotel operations is recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place. Rental income on leased areas of the hotel is recognized on a straight-line basis over the lease term.

#### *Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income.

Unearned discount is recognized as income over the terms of the receivables using the effective interest method and is shown as a deduction from loans.

#### *Service fees and commission income*

The Group earns fees and commission income from the diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, portfolio fees, credit-related fees and other service and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

#### *Trading and securities gain (loss)*

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

#### *Dividend income*

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

#### *Rent income*

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

#### *Amusement income*

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

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

Gain from sale of properties and other assets is recognized upon completion of the earning process

and the collectability of the sales price is reasonably assured.

*Rendering of telecommunications services*

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

Revenue is stated at amounts billed or invoiced and accrued to subscribers or other carriers and content providers, taking into consideration the bill cycle cut-off (for postpaid subscribers), and charges against preloaded airtime value (for prepaid subscribers), and excludes valued-added tax (VAT) and overseas communication tax. Inbound traffic revenues, net of discounts and outbound traffic charges, are accrued based on actual volume of traffic monitored by the Group's network and in the traffic settlement system.

The Group's service revenue includes the revenue earned from subscribers and connecting carries/traffic. With respect to revenue earned from subscribers, revenue principally consists of: (1) per minute airtime and toll fees for local, domestic and international long distance calls in excess of free call allocation, less bonus airtime credits, airtime on free Subscribers' Identification Module (SIM), prepaid reload discounts and interconnection fees; (2) revenue from value-added services (VAS) such as short messaging services (SMS) in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), multimedia messaging services (MMS), content downloading and infotext services, net of amounts settled with carriers owning the network where the outgoing voice call or SMS terminates and payout to content providers; (3) inbound revenue from other carriers which terminate their calls to the Group's network less discounts; (4) revenue from international roaming services; (5) usage of broadband and internet services in excess of fixed monthly service fees; (6) fixed monthly service fees (for postpaid wireless subscribers) and prepaid subscription fees for discounted promotional calls and SMS.

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

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

Revenue is realized upon actual usage of the airtime value of the 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.

Revenues from telecommunication services are presented under discontinued operations in the consolidated statement of comprehensive income.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense under 'Financing costs and other charges' account in 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.

#### Related Party Relationships and Transactions

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

#### Contingencies

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

### Pension Costs

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

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

The asset or liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation as of the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The defined benefit obligation is calculated by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

Past service costs, if any, are recognized immediately in 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.

### Income Taxes

#### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as of the reporting date.

#### *Deferred tax*

Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Otherwise, no deferred tax liability is set-up.

Deferred tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits from unused minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each 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 recognized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting 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.

#### Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the

arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset;  
or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and is included in the consolidated statement of financial position under 'Property, plant and equipment' 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 a lessor*

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

#### Earnings Per Share (EPS)

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

Diluted EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the Parent Company (after deducting interest on the convertible preferred shares, if any)

by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares.

#### Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company in the case of cash dividends, and the BOD and shareholders of the Parent Company in the case of stock dividends.

#### Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements.

#### Subsequent Events

Any post-year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the consolidated financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

#### **Future Changes in Accounting Policies**

The Group will adopt the standards and interpretations enumerated below when these become effective. Except for the adoption of Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on the consolidated financial statements.

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

##### *Effective 2012*

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*  
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Group's financial position or performance.
- PAS 12, *Income Taxes - Recovery of Underlying Assets*  
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*

should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

### *Effective 2013*

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*  
The amendments to PAS 1 change the grouping of items presented in Other comprehensive income. Items that could be reclassified or “recycled” to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.
- PAS 19, *Employee Benefits (Amendment)*  
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The Group is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- PAS 27, *Separate Financial Statements* (as revised in 2011)  
As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)  
As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*  
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  - a. The gross amounts of those recognized financial assets and recognized financial liabilities;

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

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

- *PFRS 10, Consolidated Financial Statements*  
PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *PFRS 11, Joint Arrangements*  
The standard replaces PAS 31, *Interests in Joint Ventures* and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *PFRS 12, Disclosure of Interests with Other Entities*  
The standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *PFRS 13, Fair Value Measurement*  
The standard establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*  
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”) and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

#### *Effective 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

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

#### *Effective 2015*

- PFRS 9, *Financial Instruments: Classification and Measurement*

The standard as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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

The adoption of this Philippine Interpretation will be accounted for retrospectively and will result to the restatement of prior period consolidated financial statements. The adoption of

this interpretation may significantly affect the determination of the consolidated net income and the related consolidated statement of financial position accounts as follows: ‘Installment contract receivables’, ‘Deposit from real estate buyers’, ‘Deferred tax liabilities’ and ‘Retained earnings’.

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### 3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements, as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*a. Going concern assessment*

The Group’s management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

*b. Classification of financial instruments*

The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm’s length basis.

The Group classifies certain quoted nonderivative financial assets with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such

investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances, the Group will be required to reclassify the entire portfolio as AFS investments. Consequently, the investments would therefore be measured at fair value and not at amortized cost.

*c. Determination of fair values of financial instruments*

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

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

*d. Revenue from real estate sales*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgment based on, among others:

- buyer’s commitment on the sale which may be ascertained through the significance of the buyer’s initial investment; and
- stage of completion of the project.

The related balances from real estate transactions follow:

	<b>June 30, 2012</b>	June 30, 2011
Revenue	<b>₱5,999,787</b>	₱5,319,969
Cost and expenses	<b>2,700,315</b>	2,204,265

*e. Classification of leases*

*Operating lease commitments - Group as lessee*

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

*Operating lease commitments - Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. Based on the evaluation of the terms and conditions of the arrangements, the Group has determined that it retains all significant risks and rewards of ownership of these properties. In determining significant risks and benefits of ownership, the Group considered, among others,

the following: these leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease and the related lease terms do not approximate the EUL of the assets being leased. Accordingly, the Group accounted for the lease agreements as operating leases.

*f. Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.

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

*g. Consolidation of SPEs*

The Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the purchase of aircraft and assumption of certain liabilities; also included are transactions involving SPEs and similar vehicles. In all such cases, management makes an assessment as to whether the Group has the right to control or significantly influence the SPE, and based on this assessment, the SPE is consolidated as a subsidiary or an associated company. In making this assessment, management considers the underlying economic substance of the transaction and not only the contractual terms.

*h. Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine an entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, each entity in the Group considers the following:

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

In the case of an intermediate holding company or finance subsidiary, the principal consideration of management is whether it is an extension of the Parent Company and performing the functions of the Parent Company - i.e., whether its role is simply to hold the investment in, or provide finance to, the foreign operation on behalf of the Parent Company or whether its functions are essentially an extension of a local operation (e.g., performing selling,

payroll or similar activities for that operation) or indeed it is undertaking activities on its own account. In the former case, the functional currency of the entity is the same with that of the Parent Company; while in the latter case, the functional currency of the entity would be assessed separately.

*i. Significant subsequent events of fiscal subsidiaries*

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

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

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

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

*k. Asset held for sale*

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

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

*l. Contingencies*

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's consolidated financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the

reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

*a. Revenue and cost recognition*

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

- Sale of real estate

The Group's revenue from real estate sales are recognized based on the percentage-of-completion and the completion rate is measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of the project.

- Rendering of transportation services

Passenger sales are recognized as revenue when the obligation of the Group to provide transportation service ceases, either: (a) when transportation services are already rendered; or (b) when the Group estimates that unused tickets are already expired. The value of unused tickets is included as unearned transportation revenue in the consolidated statements of financial position and recognized as revenue based on estimates. These estimates are based on historical experience. While actual results may vary from these estimates, the Group believes it is unlikely that materially different estimates for future refunds, exchanges, and forfeited tickets would be reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time the estimates were made.

Ticket sales that are not expected to be used for transportation are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends.

- 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.

The total unsettled net inbound traffic revenue from local and foreign traffic carriers is included under 'Receivables' in the consolidated statements of financial position, while the total unsettled net outbound traffic revenue to local and foreign carriers is included

under ‘Accounts payable and accrued expenses’.

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

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 costs to sell 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. Costs to sell costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated, if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned.

h. *Estimation of pension and other benefits costs*

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

The present value of the defined benefit obligation is determined by discounting the estimated

future cash out flows using the interest rate of Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting 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 underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

In the case of goodwill and intangible assets with indefinite lives, at a minimum, such assets are subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

*j. Recognition of deferred tax assets*

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

The Group has certain subsidiaries which enjoy the benefits of an income tax holiday (ITH). As such, no deferred tax assets were set up on certain gross deductible temporary differences

that are expected to reverse or expire within the ITH period.

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#### 4. **Financial Risk Management Objectives and Policies**

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

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

##### Risk Management Structure

The BOD of the Parent Company and the respective BODs of each subsidiary are ultimately responsible for the oversight of the Group's risk management processes that involve identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Each BOD has created the board-level Audit Committee (AC) to spearhead the managing and monitoring of risks.

##### *AC*

The AC shall assist the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems and the internal audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and audit standards and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. audit activities of internal auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal auditors; and

- d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

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

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

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

#### *Corporate Governance Compliance Officer*

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

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

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

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

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

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

The ERM framework revolves around the following eight (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.

The Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.

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

The Group has a counterparty credit risk management policy which allocates investment limits based on counterparty credit ratings and credit risk profile.

- a. Credit risk exposure
- b. Risk concentrations of the maximum exposure to credit risk

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

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

- i. Concentration by geographical location
  - ii. Concentration by industry
- c. Credit quality per class of financial assets  
*Classification of Financial Assets by Class used by the Group except for the Banking Segment*  
High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top 10 banks in the Philippines in terms of resources and profitability.

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

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

accordingly.

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

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

For loans and receivables from customers, the Banking Segment’s internal credit rating system was approved in 2007 and improved in 2011 in accordance with the Bangko Sentral ng Pilipinas (BSP) requirement, to cover corporate credit exposures, which is defined by the BSP as exposures to companies with assets of more than ₱15.0 million. Approximately ₱ 5.0 billion of loans and receivables from customers do not have available credit ratings, including microfinance, automobile and real estate loans. Due from foreign banks are investment grade based on Fitch ratings. The Banking Segment considers Philippine peso-denominated securities related to the Philippine government as credit risk-free.

The Banking Segment’s internal credit risk rating is as follows:

<b>Grades</b>	<b>Categories</b>	<b>Description</b>
High grade		
<i>Risk rating 1</i>	Excellent	Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events.
<i>Risk rating 2</i>	Super Prime	Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events.
<i>Risk rating 3</i>	Prime	Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business/economic conditions.
<i>Risk rating 4</i>	Very Good	Moderately low probability of default; more than adequate capacity for payment of financial commitments; but adverse business/economic conditions are more likely to impair this capacity
<i>Risk rating 5</i>	Good	More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes
Standard		
<i>Risk rating 6</i>	Satisfactory	Material probability of default is present, but a margin of safety remains; financial commitments are currently being met although the capacity for continued payment is vulnerable to deterioration in the

	<i>Risk rating 7</i>	Average	business/economic condition. Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavorable economic period would create deterioration beyond acceptable levels.
Standard	<i>Risk rating 8</i>	Fair	Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavorable economic/market conditions would create an immediate deterioration of cash flow beyond acceptable levels.
<hr/>			
Sub-standard grade	<i>Risk rating 9</i>	Marginal	Elevated level of probability of default, with limited margin; Repayment source is adequate to marginal.
	<i>Risk rating 10</i>	Watchlist	Unfavorable industry or company specific risk factors represent a concern, financial strength may be marginal; will find it difficult to cope with significant downturn.
	<i>Risk rating 11</i>	Special mention	Loans have potential weaknesses that deserve close attention; borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardize due to evidence of weakness in the borrower's financial condition.
	<i>Risk rating 12</i>	Substandard	Substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics; with well-defined weakness (es) that jeopardize their liquidation. e.g. negative cash flow, case of fraud.
<hr/>			
Impaired	<i>Risk rating 13</i>	Doubtful	Weaknesses similar to "Substandard", but with added characteristics that make liquidation highly improbable
	<i>Risk rating 14</i>	Loss	Uncollectible or worthless

The Banking Segment's internal credit risk rating system intends to provide a structure to define the corporate credit portfolio, and consists of an initial rating for the borrower risk later adjusted for the facility risk. Inputs include an assessment of management, credit experience, financial condition, industry outlook, documentation, security and term.

d. Aging analysis of the Group's receivables as of June 30, 2012 follow:

	<b>TOTAL</b>	<b>UP TO SIX MONTHS</b>	<b>OVER SIX MONTHS TO ONE YEAR</b>	<b>OVER ONE YEAR</b>
Trade Receivables	₱10,024,813	₱7,538,180	₱1,067,979	₱1,418,654
Less: Allowance for impairment loss	(518,350)	-	(296,827)	(221,523)
Net Trade Receivables	9,506,463	7,538,180	771,152	1,197,131
Non-trade Receivables				
Finance Receivables (including noncurrent portion)	14,971,024	3,832,326	-	11,138,698
Others	3,704,902	3,539,916	164,986	-
	18,675,926	7,372,242	164,986	11,138,698
Less: Allowance for impairment loss	(574,298)	(369,436)	(22,341)	(182,521)
Net Non-trade Receivables	18,101,628	7,002,806	142,645	10,956,177
	<b>₱27,608,091</b>	<b>₱14,540,986</b>	<b>₱913,797</b>	<b>₱12,153,308</b>

e. 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 reporting date and the net flow rates determined for the current and each delinquency bracket.

a. Collateral and other credit enhancements

*Collateral and other credit enhancements on finance receivables of RSBC*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- a. for reverse repurchase transactions, securities;
- b. for commercial lending, government guarantee; and
- c. for retail lending, mortgages over real estate and chattel.

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 the consolidated financial statements, where applicable.

*Carrying amount per class of financial assets which terms have been renegotiated*

RSBC's restructured loans are defined as performing or NPLs which principal terms and conditions have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payments on a periodic basis. When the loan account becomes past due and is being restructured or extended, the approval of the BSP is required before the loan is booked and is always governed by the BSP rules on restructuring.

Restructuring of loans requires the approval of the following:

- President - for loans amounting to ₱1.00 million and below.
- BOD - for loans larger than ₱1.00 million.

Liquidity risk

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

Market Risk

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

The following discussion covers the market risks of the Group except for its banking segment:

*Foreign currency risk*

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

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

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the

levels of equity indices and the value of individual stocks.

*Interest rate risk*

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

*Price interest rate risk*

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

*Commodity price risk*

The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel.

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

*Banking Segment's Market Risk*

Market risk may be defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities. These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in interest rate, foreign exchange and equity.

*VaR objectives and methodology*

VaR is used by RBC to measure market risk exposure from its trading and investment activities. VaR is an estimate of the maximum decline in value on a given position over a specified holding period in a normal market environment, with a given probability of occurrence.

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

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

*VaR methodology assumptions and assumptions*

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

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

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

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

#### *Interest rate risk*

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

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

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

RBC also uses the repricing gap report. The repricing gap report is a tool used by RBC for measuring market risk arising from non-trading portfolios. Although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that RBC's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap implies that RBC's net interest income could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk. To help control interest rate risk arising from repricing gaps, maximum repricing gap targets are set for time bands up to one year.

#### *Foreign currency risk*

RBC seeks to maintain a square or minimal position on its foreign currency exposure. Foreign currency liabilities generally consist of foreign currency deposits in RBC's Foreign Currency Deposit Unit (FCDU). Foreign currency deposits are generally used to fund RBC's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in the FCDU. In addition, the BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held in the FCDU. RBC uses VaR methodology for measuring foreign currency risk.

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## 5. **Fair Value of Financial Assets and Liabilities**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

#### *Cash and cash equivalents, receivables (except for finance receivables and installment contract receivables), accounts payable and accrued expenses and short-term debt*

Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

#### *Finance receivables*

Fair values of loans are estimated using the discounted cash flow methodology, using RBC's current incremental lending rates for similar types of loans. Where the instruments are repriced on a quarterly basis or have a relatively short-term maturity, the carrying amounts approximate fair values.

#### *Installment contract receivables*

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

#### *Debt securities*

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

#### *Quoted equity securities*

Fair values are based on quoted prices published in markets.

#### *Unquoted equity securities*

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

#### *Amounts due from and due to related parties*

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

#### *Deposit liabilities*

Fair values are estimated using the discounted cash flow methodology using RSBC's current

incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

*Noninterest-bearing refundable security deposits*

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

*Long-term debt*

The fair value of long-term debt is based on the discounted value of future cash flows (interests and principal) using the applicable rates for similar types of loans.

*Derivative financial instruments*

The fair values of the 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. The fair values of embedded prepayment option are estimated based on prices derived using the binomial pricing methodology.

*Fair Value Hierarchy of Financial Instruments*

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

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

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## 6. Segment Information

### Operating Segments

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

The industry segments where the Group operates are as follows:

- 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, for passengers and cargoes.
- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities;

development, sale and leasing of office condominium space in office buildings and mixed use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.

- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), and other industrial chemicals.
- Banking - commercial and thrift banking operations, including deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing.
- Other supplementary businesses - printing services, textile insurance brokering, foreign exchange and securities dealing.

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

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

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', 'Earnings before interest and income taxes (EBIT)' and 'Earnings before interest, income taxes and depreciation/amortization (EBITDA)' as of and for the three months ended June 30, 2012 and 2011.

The Group's operating segment information follows:

	June 30, 2012						TOTAL	
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customer	₱35,486,503	₱19,729,242	₱6,669,408	₱3,094,611	₱1,242,561	₱-	₱-	₱66,222,325
Intersegment revenue	-	-	-	82,210	-	-	(82,210)	-
Equity in net income (loss) of associates and joint ventures	35,486,503	19,729,242	6,669,408	3,176,821	1,242,561	-	(82,210)	66,222,325
	18,492	36,016	787,549	-	-	36,642	(6,486)	872,213
<b>Total Revenue</b>	35,504,995	19,765,258	7,456,957	3,176,821	1,242,561	36,642	(88,696)	67,094,538
Cost of sales and services	26,662,419	14,292,052	3,263,539	3,124,309	428,812	-	(82,210)	47,688,921
<b>Gross Income</b>	₱8,842,576	₱5,473,206	₱4,193,418	₱52,512	₱813,749	₱36,642	(6,486)	19,405,617
General and administrative expenses								10,898,221
Impairment losses and others								7,152
<b>Operating Income</b>								8,500,244
Financing cost and other charges								(2,336,806)
Finance income								1,433,621
Other operating income								2,303,865
<b>Core earnings</b>								9,900,924
Market valuation gain (loss) on financial assets								960,599
Foreign exchange gain (loss)								1,295,571
<b>Income before income tax</b>								12,157,094
Provision for income tax								1,373,872
<b>Net income</b>								₱10,783,222
<b>Net income (loss) from equity holders of the Parent Company</b>	₱2,559,382	₱1,167,037	₱2,152,730	(₱55,605)	₱172,933	₱1,691,429	(₱216,399)	₱7,471,507
<b>Earnings before interest and income tax</b>	₱3,646,941	₱1,529,694	₱2,478,553	(₱73,640)	₱249,067	₱669,629	₱-	₱8,500,244
Depreciation and amortization	1,670,509	1,487,066	1,052,165	78,780	54,526	19,846	-	4,362,892
<b>Earnings before interest, income taxes and depreciation/amortization (EBITDA)</b>	₱5,317,450	₱3,016,760	₱3,530,718	₱5,140	₱303,593	₱689,475	₱-	₱12,863,136
<b>Other Information</b>								
Non-cash expenses other than depreciation and amortization:								
Impairment losses on receivables	₱-	₱357	₱-	₱-	₱6,795	₱-	₱-	₱7,152

June 30, 2011

	Foods, Agro-Industrial and Commodities	Air Real Estate Transportation and Hotels	Petrochemicals	Banking	Supplementary Businesses	Other Adjustments and Eliminations	TOTAL CONTINUING OPERATIONS*	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customer	₱33,298,103	₱ 16,730,226	₱6,055,791	₱2,792,080	₱939,374	₱-	₱59,815,574	₱64,340,223
Intersegment revenue	-	-	-	490,792	-	(490,792)	-	-
Equity in net income (loss) of associates and joint ventures	33,298,103	16,730,226	6,055,791	3,282,872	939,374	(490,792)	59,815,574	64,340,223
	9,764	16,835	1,103,690	-	58,440	(5,982)	1,182,747	1,182,747
<b>Total Revenue</b>	33,307,867	16,747,061	7,159,481	3,282,872	939,374	(496,774)	60,998,321	65,522,970
Cost of sales and services	24,873,005	11,294,828	2,660,915	3,152,031	314,621	(490,792)	41,804,608	42,301,144
<b>Gross Income</b>	₱8,434,862	₱5,452,233	₱4,498,566	₱130,841	₱624,753	₱(5,982)	₱19,193,713	₱23,221,826
General and administrative expenses							9,516,906	13,142,849
Impairment losses and others							31,672	91,074
<b>Operating Income</b>							9,645,135	9,987,903
Financing cost and other charges							(2,821,263)	(2,192,025)
Finance income							1,323,451	1,328,001
Other operating income							625,057	632,770
<b>Core earnings</b>							8,772,380	9,756,649
Market valuation gain (loss) on financial assets							493,284	449,339
Foreign exchange gain (loss)							(41,722)	82,193
<b>Income before income tax</b>							9,223,942	10,288,181
Provision for income tax							1,236,631	1,249,329
<b>Net income</b>							₱7,987,311	₱9,038,852
<b>Net income (loss) from equity holders of the Parent Company</b>	₱1,974,787	₱1,626,348	₱2,346,197	(₱72,064)	₱145,588	(₱1,415,966)	₱4,930,137	₱5,003,019
<b>Earnings before interest and income tax</b>	₱3,817,383	₱2,135,063	₱2,490,159	(₱36,153)	₱157,216	₱-	₱8,774,471	₱9,645,135
Depreciation and amortization	1,636,632	1,283,904	1,010,762	67,697	48,567	-	4,071,664	4,071,664
<b>Earnings before interest, income taxes and depreciation/amortization (EBITDA)</b>	₱5,454,015	₱3,418,967	₱3,500,921	₱31,544	₱205,783	₱-	₱12,846,135	₱13,716,799
<b>Other Information</b>								
Non-cash expenses other than depreciation and amortization:								
Impairment losses on receivables	₱-	₱611	₱-	₱-	₱31,061	₱-	₱31,672	₱149,160
								₱180,832

\*Discontinued operations pertains to Digital.

Other information on the Group's operating segment follows:

	June 30, 2012							
	Foods, Agro-Industrial and Commodities		Air Transportation and Hotels		Petrochemicals and Banking		Other Supplementary Businesses Eliminations and Consolidated	
Segment assets	₱71,101,191	₱56,383,050	₱72,412,899	₱15,388,864	₱33,877,708	₱148,409,485	(₱66,408,129)	₱331,165,068
Segment liabilities	₱24,314,009	₱36,649,576	₱26,356,863	₱4,267,290	₱28,476,989	₱59,740,777	(₱49,047,132)	₱130,758,372
Capital expenditures	₱1,820,950	₱3,334,324	₱4,134,159	₱4,666,347	₱86,897	₱1,192	₱-	₱14,043,869

	June 30, 2011								
	Foods, Agro-Industrial and Commodities		Air Transportation and Hotels		Petrochemicals and Banking		Other Supplementary Businesses Eliminations and Consolidated		Tele- communications
Segment assets	₱69,490,822	₱52,140,403	₱55,050,931	₱14,109,118	₱28,105,172	₱157,648,958	(₱126,321,460)	₱250,223,944	₱92,381,299
Segment liabilities	₱24,992,473	₱40,210,523	₱25,276,813	₱16,189,826	₱23,319,854	₱87,025,383	(₱126,212,145)	₱90,802,727	₱92,189,768
Capital expenditures	₱1,783,693	₱4,804,707	₱4,445,037	₱2,637,864	₱65,493	₱16,518	₱-	₱13,753,312	₱1,244,177
									₱14,997,489

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

### Segment Assets

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

### Segment Liabilities

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

### Capital Expenditures

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

### Geographical Information

The Group operates in the Philippines, Thailand, Malaysia, Indonesia, China, Hong Kong, Singapore and Vietnam.

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## 7. Cash and Cash Equivalents

This account consists of:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 (Audited)
Cash on hand	<b>₱573,944</b>	₱781,049
Cash in banks	<b>10,881,421</b>	8,350,559
Cash equivalents	<b>18,216,907</b>	24,763,735
	<b>₱29,672,272</b>	₱33,895,343

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.

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## 8. Derivative Financial Instruments

### *Derivatives not designated as accounting hedges*

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

- Interest rate swaps

On May 28, 2008, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of ₱2.0 billion to hedge its interest rate exposures on the Inverse Floating Rate Notes bearing an interest of 15.7% less 3-month (3M) benchmark rate (PDST-F). The interest rate swap has a term of five years and interest exchange is every 5<sup>th</sup> day of March, June, September and December. Under the agreement, the Group agreed with the counterparty to exchange at quarterly intervals, the Group's floating rate which is based on 3M PSDT-F but not to exceed 15.7% and the counterparty's fixed interest rates. The swap agreement effectively fixes the Group's interest rate exposures on the inverse floating note to 8.8%.

In 2010, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of US\$100.6 million to hedge its interest rate exposures on the long-term USD floating rate liability. The interest rate swap has a term of six years and interest exchange is every 28th day of June and 29th day of December.

- Commodity options

The Group entered into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a credit to or charge against profit or loss.

- 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.

- Currency options

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

- 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 uses 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 hedged item and compliance with the hedge criteria. Hedges entered into by the Group which provide economic hedges but do not meet the hedge accounting criteria are included under derivatives not designated as accounting hedges.

- **Interest rate swaps**  
On April 23, 2008 and May 9, 2008, the Group entered into two interest rate swaps with amortizing notional amount of US\$100.0 million each. The swaps are intended to hedge the interest rate exposure due to the movements in the benchmark LIBOR on \$200.0 million of the \$300.0 million Guaranteed Term Loan Facility due 2013. 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.
- **Currency swaps**  
On January 27, 2010, July 16, 2009 and June 11, 2008, RSBC entered into a long-term currency swap agreements to hedge the foreign exchange risk on 100.00% of certain AFS investments. Under these agreements, 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 and February 15, 2013, respectively.

#### Hedge Effectiveness Results

The distinction of the results of hedge accounting into “Effective” or “Ineffective” represent designations based on PAS 39 and are not necessarily reflective of the economic effectiveness of the instruments.

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

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

These investments that are held for trading consist of:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 (Audited)
Debt securities:		
Private	<b>₱8,613,402</b>	₱7,452,781
Government	<b>2,577,245</b>	1,273,482
	<b>11,190,647</b>	8,726,263
Equity securities:		
Quoted	<b>2,300,067</b>	2,231,687
Unquoted	<b>3</b>	5
	<b>2,300,070</b>	2,231,692
	<b>₱13,490,717</b>	₱10,957,955

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## 10. Available-for-Sale Investments

This account consists of investments in:

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Debt securities:		
Government	P10,174,486	P7,613,170
Private	3,137,024	3,542,803
	<b>13,311,510</b>	11,155,973
Equity securities:		
Quoted	46,979,980	44,574,326
Unquoted	17,066	17,066
	<b>46,997,046</b>	44,591,392
	<b>P60,308,556</b>	P55,747,365

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

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Current portion	P14,662,478	P12,271,629
Noncurrent portion	45,646,078	43,475,736
	<b>P60,308,556</b>	P55,747,365

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## 11. Receivables

This account consists of:

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Trade receivables	P10,024,813	P9,216,880
Finance receivables	14,971,024	12,577,904
Due from related parties (Note 22)	1,274,497	1,356,382
Interest receivable	675,671	715,334
Other receivables	1,754,735	2,308,878
	<b>28,700,740</b>	26,175,378
Less allowance for impairment losses	1,092,648	1,132,858
	<b>P27,608,092</b>	P25,042,520

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

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Current portion	P15,050,741	P13,629,203
Noncurrent portion	12,557,351	11,413,317
	<b>P27,608,092</b>	P25,042,520

### Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group. These are collectible in monthly installments over a period of between one year to five years.

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

### Finance Receivables

Finance receivables represent receivables from customers of RBC.

### Others

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

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## 12. Inventories

This account consists of inventories held as follows:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 <b>(Audited)</b>
At cost:		
Raw materials	<b>₱4,432,177</b>	₱3,598,336
Finished goods	<b>4,424,753</b>	3,017,250
	<b>8,856,930</b>	6,615,586
At NRV:		
Subdivision land, condominium and residential units for sale	<b>8,823,266</b>	8,491,029
Spare parts, packaging materials and other supplies	<b>3,480,158</b>	2,997,983
Work-in-process	<b>155,960</b>	486,414
By-products	<b>30,384</b>	18,070
	<b>12,489,768</b>	11,993,496
Materials in-transit	<b>2,484,606</b>	1,834,803
	<b>₱23,831,304</b>	₱20,443,885

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## 13. Other Current Assets

This account consists of:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 <b>(Audited)</b>
Input VAT - net	<b>₱1,632,818</b>	₱1,698,956
Escrow account	<b>1,529,112</b>	4,340,500
Advances to suppliers	<b>1,228,556</b>	932,900
Prepaid expenses	<b>613,694</b>	451,388
Utility deposits	<b>3,910</b>	3,520
Restricted cash in bank	<b>59</b>	61
Others	<b>523</b>	58,065
	<b>₱5,008,672</b>	₱7,485,390

#### Funds under Escrow

As part of the Sale and Purchase Agreement (SPA) entered into by the Parent Company and PLDT (the Parties), an Escrow Agreement was executed on November 10, 2011 by the Parties with a third party Bank (Escrow Agent) which states that upon exercise of the options by the Parties, the Parent Company will deliver an amount of ₱4.3 billion to the Escrow Agent. The Escrow account is interest-bearing and has a term of six months from the closing date of the SPA. Subject to the terms and conditions of SPA, the funds will be released to the Parent Company if certain conditions on working capital and net debt of Digitel Group are met. The Parent Company's management and the buyer are in the process of completing post-closing exercise, which is customary in nature.

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.

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#### 14. Other Noncurrent Assets

This account consists of:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 (Audited)
Security and miscellaneous deposits	<b>₱368,912</b>	₱486,258
Deferred tax assets	<b>249,327</b>	242,595
Derivative assets - noncurrent	-	172,497
Input VAT - noncurrent	<b>447,915</b>	150,799
Others	<b>610,877</b>	663,511
	<b>₱1,677,031</b>	₱1,715,660

#### Others

Others include repossessed chattels and utility deposits.

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#### 15. Accounts Payable and Accrued Expenses

This account consists of:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 (Audited)
Trade payables	<b>₱8,455,383</b>	₱8,267,951
Deposit liabilities	<b>7,873,024</b>	6,326,435
Accrued expenses	<b>7,063,112</b>	8,193,505
Due to related parties	<b>653,341</b>	631,507
Withholding taxes payable	<b>104,446</b>	107,598
Output value added tax	<b>11,999</b>	8,958
Dividends payable	<b>8,684</b>	8,689
Other payables	<b>1,381,954</b>	1,433,580
	<b>₱25,551,943</b>	₱24,978,223

### 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.

### Deposit Liabilities

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

### Other Payables

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

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## 16. Other Current Liabilities

This account consists of:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 (Audited)
Unearned revenue	<b>₱5,064,567</b>	₱5,253,433
Deposits from real estate buyers and lessees	<b>1,500,984</b>	1,457,775
	<b>₱6,565,551</b>	₱6,711,208

### 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).

## 17. Short-term and Long-term Debt

### Short-term Debt

Short-term debt consists of:

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Parent Company:		
Foreign currency - with interest rate of 1.1% in June 30, 2012 and 2011	<b>₱2,361,668</b>	₱3,726,400
Subsidiaries:		
Foreign currencies - with interest rates ranging from 0.5% to 1.6% in June 30, 2012 and 0.4% to 4.4% in 2011	<b>21,475,216</b>	15,228,735
Philippine Peso - with interest rates ranging from 4.0% to 4.5% in 2011	–	137,500
	<b>21,475,216</b>	15,366,235
	<b>₱23,836,884</b>	₱19,092,635

### Long-term Debt

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

	Maturities	Interest Rates	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Parent Company:				
Fixed Rate Retail Bonds	2014	8.25%	<b>₱8,943,602</b>	₱8,933,150
Fixed Rate Corporate Notes	2013	8.00%	<b>4,298,805</b>	4,294,473
			<b>13,242,407</b>	13,227,623
Subsidiaries:				
Foreign currencies:				
JGSPL				
US\$300.0 million guaranteed notes	2013	8.00%	<b>10,777,150</b>	11,209,768
URCPL				
US\$200.0 million guaranteed notes	2012	8.25%	–	8,197,807
CAI				
Commercial loan from foreign banks	Various dates through 2017	4.11% to 5.67% in 2012 1.71% to 2.03% in 2012 (US Dollar LIBOR 6 months plus margin)	<b>2,007,695</b>	2,079,277
			–	199,641
ECA loans	Various dates through 2018	2.51% to 5.83% 1.02% to 2.02% in 2012 (US Dollar LIBOR 6 months or 3 months plus margin)	<b>18,340,416</b>	10,896,597
			–	7,696,378
			<b>31,125,261</b>	40,279,468

	Maturities	Interest Rates	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Philippine Peso:				
URC				
₱3.0 billion loan facility	2014	8.75%	2,987,513	2,984,699
Philippine Sugar Corporation restructured loan	2013	7.50%	–	25,704
RLC				
₱3.0 billion loan facility	2012	6.38%	3,000,000	3,000,000
₱2.0 billion bonds	2013	15.70% - 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
			<b>17,987,513</b>	18,010,403
			<b>62,355,181</b>	71,517,494
Less current portion			<b>18,252,184</b>	13,622,011
			<b>₱44,102,997</b>	₱57,895,483

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 ₱42.12 to US\$1.00 and ₱43.84 to US\$1.00 in June 30, 2012 and December 31, 2011, respectively. The foreign exchange rates used by the subsidiaries reporting at fiscal year end were ₱42.92 to US\$1.00 and ₱43.72 to US\$1.00 in March 31, 2012 and September 30, 2011, respectively.

#### 18. Other Noncurrent Liabilities

This account consists of:

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Deposits from real estate buyers and lessees	₱2,702,699	₱2,561,456
ARO	2,077,221	2,437,668
Deposit liabilities	1,490,254	1,376,348
Accrued rent expense	1,106,772	1,080,363
Due to related parties	1,014,053	994,857
Accrued maintenance cost	670,811	670,811
Pension liabilities	497,280	455,087
Derivative liabilities	108,511	218,686
Others	643,935	634,761
	<b>₱10,311,536</b>	₱10,430,037

##### 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.

Included in 'Deposits from real estate buyers and lessees' account are cash collections in excess of the receivables recognized under the percentage-of-completion.

### ARO

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

### Accrued Maintenance

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

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## 19. Equity

Details of the Group common stock follow:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 <b>(Audited)</b>
Authorized shares	<b>12,850,800,000</b>	12,850,800,000
Par value per share	<b>₱1.00</b>	₱1.00
Issued shares	<b>6,895,273,657</b>	6,895,273,657
Outstanding shares	<b>6,797,191,657</b>	6,739,528,227
Treasury shares	<b>98,082,000</b>	155,745,430

### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

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

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

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 <b>(Audited)</b>
(a) Gross debt		
Short-term debt (Note 17)	<b>₱23,836,884</b>	₱19,092,635
Long-term debt (Note 17)	<b>62,355,181</b>	71,517,494
Derivative liabilities (Note 8)	<b>210,485</b>	303,931
	<b>₱86,402,550</b>	₱90,914,060
(b) Capital	<b>₱200,406,696</b>	₱180,398,820
(c) Debt-to-capital ratio (a/b)	<b>0.43:1</b>	0.51:1

The Group's policy is to ensure that the debt-to-capital ratio would not exceed the 2:1 level.

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## 20. Other Operating Income

This account includes ₱ 1.90 billion dividend income from PLDT in March 2012.

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## 21. Earnings (Loss) Per Share

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

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

### Earnings per share attributable to equity holders of the Parent Company

	<b>June 30, 2012</b> <b>(Unaudited)</b>	June 30, 2011 (Unaudited)
Net income from continuing operations attributable to equity holders of the Parent Company	<b>₱7,471,507</b>	₱5,003,020
Net income from discontinued operations attributable to equity holders of the Parent Company	–	975,244
Net income attributable to holders of common shares of the Parent Company	<b>7,471,507</b>	5,978,264
Weighted average number of common shares	<b>6,797,192</b>	6,739,528
Basic/dilutive earnings (loss) per share	<b>₱1.10</b>	₱0.89

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

	<b>June 30, 2012</b> <b>(Unaudited)</b>	June 30, 2011 (Unaudited)
Net income from continuing operations applicable to equity holders of the Parent Company	<b>₱7,471,507</b>	₱5,003,020
Weighted average number of common shares	<b>6,797,192</b>	6,739,528
Basic/dilutive earnings (loss) per share	<b>₱1.10</b>	₱0.74

There were no potential dilutive common shares in 2012 and 2011.

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

Most of the 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:

	<b>June 30, 2012</b> <b>(Unaudited)</b>	December 31, 2011 (Audited)
Due from related parties	<b>₱1,274,497</b>	₱1,356,382
Due to related parties		
Current	<b>653,341</b>	631,507
Noncurrent	<b>1,014,053</b>	994,857

### *Terms and conditions of transactions with related parties*

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

### *Compensation of key management personnel*

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

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## 23. Discontinued Operations

On March 29, 2011, the Group publicly announced its decision to dispose of its entire Telecommunications Segment (Digital Telecommunications Philippines, Inc.). Management committed to a plan to sell this segment early in 2011 following a strategic decision to place greater focus on the Group's other business segments, specifically, food, air transportation, real estate and petrochemicals. The sale was completed on October 26, 2011.

In exchange for the Group's and certain related parties' ownership interest in Digitel which comprised of (a) 3.3 billion common shares representing approximately 51.55% of the issued common stock of Digitel; (b) zero-coupon convertible bonds issued by Digitel and its subsidiary to the Parent Company and a certain subsidiary; and (c) intercompany advances of ₱34.1 billion made by the Parent Company and a certain subsidiary to Digitel and Subsidiaries, PLDT issued approximately 27.6 million common shares with fair value of around ₱64.5 billion as of the closing date. Said shares are subject to a lock-up period of one year during which the Group may not transfer or encumber such PLDT shares without the consent of PLDT. PLDT granted consent to the sale by the Parent Company of 5.8 million and 4.6 million PLDT shares under separate option agreements that the Parent Company had entered into with Philippine associate of First Pacific Company Limited and NTT Docomo, Inc., respectively. Following the sale of those shares in November 2011, the Parent Company owned approximately 8.0% of PLDT's outstanding common shares.

The disposal of investments in Digitel and exercise of the option agreements are linked transactions and were accounted for as a single disposal of a subsidiary.

The results of the telecommunications segment for the period ended March 31, 2011 follows (net of elimination):

	<b>2011</b>
<b>Revenues</b>	
Sale of goods and services	<b>₱4,524,649</b>
<b>Cost of Sales</b>	<b>496,536</b>
<b>Gross Income</b>	<b>4,028,113</b>
<b>Other Operating Expenses</b>	
General and administrative expenses	<b>3,625,943</b>
Impairment losses and others	<b>59,402</b>
	<b>3,685,345</b>
<b>Operating Income</b>	<b>342,768</b>
Financing costs and other charges	<b>629,238</b>
Market valuation losses on derivative financial instruments	<b>(43,945)</b>
Foreign exchange gains	<b>123,915</b>
Finance income	<b>4,550</b>
Others	<b>7,713</b>
<b>Income Before Tax from Discontinued Operations</b>	<b>1,064,239</b>
<b>Provision for Income Tax</b>	<b>12,698</b>
<b>Net Income from Discontinued Operations</b>	<b>₱1,051,541</b>