

# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

<b>Constante T. Santos</b>
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(Contact Person)

<b>633-7631</b>
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(Company Telephone Number)

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<i>Month</i>	<i>Day</i>
(Fiscal Year)	

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(Form Type)

<i>Month</i>	<i>Day</i>
(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

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To be accomplished by SEC Personnel concerned

File Number

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Document ID

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**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 **September 30, 2014**
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>7,017,191,657</b>
<b>Long-term Debt</b>	<b>39,000,000,000</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

#### **Nine Months Ended September 30, 2014 vs. September 30, 2013**

#### **JG Summit's Net Income Increases 88% to ₱15.85 billion for the Nine Months of 2014**

JG Summit posted a ₱2.85 billion net income from equity holders of the parent for the third quarter of fiscal 2014, bringing our nine months net income to ₱15.85 billion, an 88.4% increase from ₱8.41 billion last year. Increase is mainly due to recognition of equity earnings from Meralco, one-time gain on sale of JobStreet amounting to ₱1.45 billion and lower foreign exchange loss. Core net income (computed as net income attributable to equity holders of Parent company as adjusted for the net effect of gains/losses on foreign exchange, market valuations, derivative transactions and extraordinary items) increased 37.0% to ₱15.02 billion for the nine months ended September 30, 2014 from ₱10.96 billion for the same period last year. EBITDA likewise increased 35.4% to ₱35.44 billion in the nine months of 2014 compared to ₱26.17 billion in the same period last year.

Consolidated revenues grew 19.3% from ₱111.18 billion to ₱132.68 billion due to the strong performance of its major subsidiaries. URC's total revenues increased by 15.2% from ₱60.09 billion to ₱69.24 billion for the nine months ended June 30, 2014. Cebu Air's total revenues went up 25.7% from ₱30.58 billion in 2013 to ₱38.45 billion for the nine months of 2014. RLC's total revenues also increased 5.3% from ₱12.39 billion in FY 2013 to ₱13.05 billion in FY 2014. Growth was all brought about by the aggressive sales and marketing efforts of these subsidiaries. JG Petrochem's revenue declined 42.5% from ₱967.74 million for the nine months of fiscal year 2013 to ₱556.87 million this year as it is still on a technical shutdown since October 2012 to prepare for the completion and integration of its naphtha cracker. Equity in net earnings of associates, primarily from investments in UIC and Meralco, increased from ₱1.45 billion for the nine months of 2013 to ₱5.78 billion for the same period in 2014. Banking revenues slightly dropped 10.2% to ₱1.92 billion mainly due to lower trading gain for the period.

Consolidated cost of sales and services for the nine months ended September 30, 2014 increased 12.9% from ₱73.18 billion last year to ₱82.58 billion relative to higher revenues.

The Group's operating expenses increased by 20.4% from ₱19.04 billion last year to ₱22.92 billion in the same period this year due to higher selling, general and administrative expenses in the airline and food business units. As a result, Operating Income or EBIT went up 43.3% from ₱18.97 billion to ₱27.18 billion.

The Group recognized a lower net foreign exchange loss for the nine months ended September 30, 2014 amounting to ₱379.48 million from ₱2.85 billion for the same period last year. Net mark-to-market gains dropped to ₱23.90 million for the nine months of fiscal 2014 from ₱74.71 million for the same period last year as the financial markets dipped a bit during the period.

The Group's financing costs and other charges net of interest income, doubled from last year's ₱1.57 billion to ₱3.13 billion in the same period because of increase in debt this year. On February 27, 2014, the Parent Company issued ₱30.0 billion Fixed Rate Corporate Bonds.

Other income – net for the nine months ended September 30, 2014 amounted to ₱1.08 billion from only ₱387.25 million for the same period last year as the Group recognized gain on sale of JobStreet amounting to ₱1.45 billion.

Provision for income tax increased 66.8% to ₱2.81 billion for the nine months of fiscal 2014 due to higher taxable income of the food business and recognition of net provision for deferred taxes of the real estate business.

## **FOOD**

**Universal Robina Corporation (URC)** generated a consolidated sale of goods and services of ₱69.24 billion for the nine months ended June 30, 2014, 14.5% sales growth over the same period last year. Sale of goods and services by business segment follows: (1) URC's Branded Consumer Food Group (excluding packaging) increased by ₱9.64 billion or by 20.4% to ₱56.83 billion for the nine months of fiscal 2014 from ₱47.19 billion registered in the same period last year. BCFG domestic operations posted a 26.0% increase in net sales from ₱30.87 billion for the nine months of fiscal 2013 to ₱38.89 billion in the same period this year due to strong performance of beverage division, which grew 42.9% on the back of the solid performance by the powdered beverage businesses, mainly coming from coffee and complemented by its RTD business. Sales for snack division grew by 15.3% due to growth across salty snacks, bakery and confectionery segments. BCFG international operations increased to ₱17.95 billion for the nine months of fiscal 2014 against ₱16.32 billion in the same period last year. In US Dollar terms, sales registered an increase of 2.5% to US\$406 million for the nine months of fiscal 2014 against the same period last year. Increase in sales came from Vietnam, Thailand and China. In addition to the growing snack foods categories, Vietnam showed signs of recovery from the weakness in beverage sales posted in the first quarter of the current fiscal year. Thailand business grew due to favorable sales of biscuit brands and new product launches while China business improved due to higher seasonal sales of cereals and oats. Sales in URC's packaging division went down by 10.8% to ₱750 million for the nine months of fiscal 2014 from ₱841 million recorded in the same period last year due to a decline in sales volume. (2) URC's AIG recorded net sales of ₱6.17 billion for the nine months of fiscal 2014, a 10.6% increase from ₱5.58 billion in the same period last year. URC's farm business grew by 12.2% to ₱3.70 billion due to increase in sales volume of hog carcass while feeds business grew by 8.2% to ₱2.47 billion. (3) URC's CFG revenues amounted to ₱5.49 billion for the nine months of fiscal 2014, down by 20.0% from ₱6.86 billion reported in the same period last year. Sugar business declined by 38.1% due to significant decline in volume as sugar cane production was affected by unusually wet season, which affected the cane supply for the period. Flour business grew by 3.6% due to higher volume.

URC's cost of sales increased by ₱4.67 billion or 10.8% to ₱47.82 billion for the nine months of fiscal 2014 from ₱43.16 billion recorded in the same period last year due to the increase in sales volume. URC's gross profit for the nine months of fiscal 2014 amounted to ₱21.42 billion up by 23.7% from ₱17.32 billion reported in the same period last year. Gross profit margin increased by 230 basis points from 28.6% to 30.9%. Operating expenses rose by ₱1.26 billion or 13.1% to ₱10.89 billion for the nine months of fiscal 2014 from ₱9.63 billion registered in the same period last year. The increase resulted primarily from the following: (1) increase in advertising and promotion costs to ₱4.24 billion for the nine months of fiscal 2014 from ₱3.68 billion in the same period last year to support the new SKUs launched and boost up sales of existing products in light of increasing market competition, (2) increase in freight and delivery charges by 18.3% due to increase in trucking and shipping costs associated with increased volume; and (3) increase in compensation and benefits to ₱2.14 billion for the nine months of fiscal 2014 from ₱2.02 billion in the same period last year due to annual salary adjustments and accrual of pension expenses. As a result of the above factors, operating income increased by 37.0% to ₱10.52 billion from ₱7.68 billion reported in the nine months of fiscal 2013.

Market valuation gain on financial instruments at FVPL decreased to ₱43.26 million for the nine months of fiscal 2014 from ₱544.03 million in the same period last year due to a decline in the level of financial assets resulting from the disposal of all bond investments and a significant portion of equity investments.

Finance revenue decreased by 64.5% to ₱173.41 million for the nine months of fiscal 2014 from ₱488.37 million in the same period last year due to the said decline in the level of financial assets. Finance costs decreased by 61.9% to ₱91.02 million for the nine months of fiscal 2014 from ₱239.0 million recorded in the same period last year due to the settlement of long term debt and repayment of short-term debt. Net foreign exchange loss amounted to ₱120.34 million for the nine months of fiscal 2014, from a net foreign exchange gain of ₱102.06 million reported in the same period last year due to effect of currency translation adjustments on foreign currency-denominated transactions. Net other income decreased to ₱62.69 million for the nine months of fiscal 2014 from ₱848.13 million in the same period last year due to a gain on sale of bond and equity investments last year.

URC recognized provision for income tax of ₱1.98 billion for the nine months of fiscal 2014, a 108.3% increase from ₱951.0 million in the same period last year due to higher taxable income.

URC's net income attributable to equity holders of the parent increased by ₱112 million to ₱8.55 billion for the nine months of fiscal 2014 from ₱8.44 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 nine months of fiscal 2014 amounted to ₱10.69 billion, an increase of 21.5% from ₱8.80 billion reported in the same period last year.

URC's EBITDA (operating income plus depreciation, amortization) of ₱13.35 billion for the nine months of fiscal 2014, 30.3% higher than ₱10.24 billion posted in the same period last year.

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.

## **REAL ESTATE AND HOTELS**

**Robinsons Land Corporation (RLC)** posted a net income attributable to equity holders of Parent Company amounting to ₱3.88 billion for the period ended June 30, 2014, up by 6.4%. EBIT and EBITDA rose by 5.8% and 6.6% to ₱4.80 billion and ₱6.80 billion, respectively, for the nine months ended June 30, 2014.

Total real estate revenues were up by 5.7% to ₱11.90 billion against last year's ₱11.26 billion while hotel revenues amounted to ₱1.16 billion.

The Commercial Centers Division contributed 46% or ₱6.05 billion of the gross revenues posting a 10.7% growth. Metro Manila malls led by Robinsons Galleria and Robinsons Place Manila and the five new malls contributed ₱211.1 million to the growth while most provincial malls also posted decent growth in rental revenues. Amusement revenue went up by 22.9% to ₱962.1 million.

RLC's Residential Division contributed 36% or ₱4.74 billion of RLC's revenues.

The Office Buildings Division contributed 9% or ₱1.11 billion of RLC's revenues, up by 3.6% from last year's ₱1.07 billion. 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 ₱1.16 billion of RLC's revenues, up by 1.3% from last year

Real Estate cost went up by 3.6% due to higher cost of rental service brought about by higher depreciation, among others. Hotel expenses are slightly down by 0.6% due to lower utilities and

depreciation. General and administrative expenses went up by 12.4% because of higher commissions, advertising and promotions, among others.

## **AIR TRANSPORTATION**

**Cebu Air, Inc. (Cebu Pacific)** generated revenues of ₱38.45 billion for the nine months ended September 30, 2014, 25.7% higher than last year's ₱30.58 billion primarily due to a 14.8% increase in passenger volume to 12.5 million from 10.9 million in 2013 as Cebu Air added more aircraft to its fleet, particularly, its acquisition of wide-body Airbus A330 aircraft with a configuration of more than 400 all-economy class seats. The number of aircraft increased from 47 aircraft as of September 30, 2013 to 51 aircraft as of September 30, 2014, which includes 3 brand new Airbus A330 aircraft. Increase in average fares by 9.7% to ₱2,372 for the nine months ended September 30, 2014 from ₱2,162 for the same period last year also contributed to the improvement of passenger revenues. Cargo revenues grew by 20.3% to ₱2.26 billion from ₱1.88 billion following the increase in the volume and average freight charges of cargo transported in 2014. Moreover, ancillary revenues went up by 26.4% to ₱6.46 billion in the nine months ended September 30, 2014 from ₱5.12 billion registered in the same period last year. Improved online bookings, together with a wider range of ancillary revenue products and services, also contributed to the increase.

Costs and operating expenses increased 25.3%, from ₱28.41 billion last year to ₱35.59 billion for the nine months this year. Growth can be attributed to Cebu Air's expanded operations with the launch of its long haul services last October 2013 and growth in seat capacity from the acquisition of new aircraft. Flying operations expenses moved up by 22.5% to ₱19.61 billion for the nine months from ₱16.01 billion incurred in the same period last year. Aviation fuel expenses grew by 21.6% to ₱17.46 billion from ₱14.36 billion consequent to the increase in the volume of fuel consumed as a result of increased flight and block hours from the launch of long haul flights to Dubai last October 2013 and Kuwait and Sydney in September 2014.

Aircraft and traffic servicing increased 30.5% because of higher airport and ground handling charges of international flights with the effect of the depreciation of the Philippine peso against the U.S. dollar at ₱44.26 per U.S. dollar for the nine months ended September 30, 2014 from an average of ₱42.07 per U.S. dollar last year. The launch of long haul services to Dubai in the last quarter of 2013 and to Kuwait and Sydney in September 2014 together with new short haul flights to Tokyo (Narita) and Nagoya last March 2014 also contributed to the increase of international airport charges.

Depreciation and amortization expenses grew by 24.5% to ₱3.14 billion for the nine months ended September 30, 2014 consequent to the arrival of one Airbus A320 aircraft during the last quarter of 2013 and three Airbus A320 aircraft in 2014.

Repairs and maintenance expenses went up by 16.0% to ₱3.36 billion for the nine months ended September 30, 2014 from ₱2.89 billion posted in the nine months ended September 30, 2013 driven by the weakening of the Philippine peso against the U.S. dollar. The acquisition of one Airbus A320 aircraft during the last quarter of 2013, three Airbus A320 aircraft and three Airbus A330 aircraft in 2014 also contributed to the increase in repairs and maintenance expenses.

Aircraft and engine lease expenses moved up by 63.0% to ₱2.60 billion in the nine months ended September 30, 2014, due to the delivery of three Airbus A330 under operating lease in 2014.

Reservation and sales expenses increased by 31.1% to ₱1.60 billion for the nine months ended September 30, 2014 from ₱1.22 billion for the same period last year primarily attributable to increase in commission expenses and online bookings relative to overall growth in passenger volume year on year.

Interest income dropped by 65.0% for the nine months ended September 30, 2014 due to decrease in the balance of cash in bank and short-term placements year on year and lower interest rates.

A fuel hedging loss of ₱148.90 million for the nine months ended September 30, 2014 compared to a hedging gain of ₱132.0 million in the same period last year was recorded as a result of lower mark-to-market valuation on fuel hedging positions consequent to decrease in fuel prices in 2014.

Net foreign exchange loss of ₱193.21 million for the nine months ended September 30, 2014 resulted from the depreciation of the Philippine peso against the U.S. dollar for the nine months ended September 30, 2014. Cebu Pacific's major exposure to foreign exchange rate fluctuations is caused by its U.S. dollar denominated long-term debt related with aircraft acquisitions.

Equity in net income of joint ventures amounted to ₱88.20 million, 25.3% higher than the same period last year, due to the increase in net income from current operations of Aviation Partnership (Philippines) Corporation (A-plus) and the Philippine Academy for Aviation Training, Inc. (PAAT) in 2014.

Interest expense increased 20.3% to ₱755.38 million from ₱628.16 million in the same period last year brought about by the additional loans availed to finance the acquisition of one Airbus A320 aircraft during the last quarter of 2013 and three Airbus A320 aircraft in 2014 and the effect of the weakening of the Philippine Peso against the US dollar during the current period.

Benefit from income tax for the nine months ended September 30, 2014 amounted to ₱165.68 million, of which, ₱41.50 million pertains to current income tax recognized as a result of the taxable income for the third quarter of 2014. Benefit from deferred income tax amounted to ₱207.18 million resulting from the recognition of deferred tax assets on future deductible amounts during the period.

Net income for the nine months ended September 30, 2014 amounted to ₱2.08 billion, an increase of 213.1% from ₱664.08 million net income earned in the same period last year.

## **PETROCHEMICALS**

**JG Summit Petrochemicals Corporation's (JGSPC)** revenue for the nine months ended June 30, 2014 amounted to ₱556.87 million, a 42.5% decrease from last year's ₱967.74 million as a result of the technical shutdown of the production since the start of the fiscal year in October 2012. The shutdown is necessary for the full implementation of the on-going PE Capacity Expansion and PP Rehabilitation Projects. The sales volume dropped from 18,088 MT last year to 10,048 MT this year. Costs and expenses for the period amounted to ₱1.17 billion, a 37.4% decrease from last year's ₱1.87 billion relative to non-production. A net foreign exchange gain of ₱17.62 million was recognized for the nine months of 2014, an increase from last year's ₱5.18 million. Interest expense also decreased to ₱8.37 million from ₱20.13 million due to lower debt level for the period resulting to a lower net loss of ₱495.76 million for the nine months of fiscal 2014 from ₱804.38 million for the same period last year.

## **BANKING**

**Robinsons Bank Corp.** reported net income of ₱175.39 million for the nine months ended September 30, 2014 a 59.0% decline from last year's ₱427.83 million in the same period. The decline in net income is mainly due to lower revenues recorded during the period, from ₱2.14 billion for the nine months period of fiscal 2013 to ₱1.92 billion for the same period this year. This decrease in revenues is attributed to lower trading gains of ₱40.58 million recorded for the period in 2014, from last year's ₱451.24 million.

## **EQUITY EARNINGS**

Equity earnings from associated companies and joint ventures increased to ₱5.78 billion for the nine-month period ended September 2014 from ₱1.45 billion for the same period last year. The increase is primarily due to the equity earnings from Meralco amounting to ₱3.88 billion for the nine months ended September 30, 2014. In addition to this, our equity earnings take up from UIC increased 42.7% to ₱1.77 billion for the nine months of 2014 from ₱1.24 billion for the same period last year due to higher revenues, higher contribution from joint ventures and increased share of Singapore Land's net profit for the period.

## **Financial Position**

### **September 30, 2014 vs. December 31, 2013**

As of September 30, 2014, the Company's balance sheet remains healthy, with consolidated assets of ₱504.99 billion from ₱463.82 billion as of December 31, 2013. Current ratio stood at 1.01. The Company's indebtedness remained manageable with a gearing ratio of 0.64:1 and net debt to equity of 0.49:1 as of September 30, 2014.

Cash and cash equivalents totaled ₱32.53 billion as of September 30, 2014 a slight drop of 7.1% from ₱35.0 billion as of December 31, 2013. The principal source of cash is from the Group's financing activities amounting to ₱33.40 billion, particularly from the ₱30 billion bond issuance of the Parent Company in February 2014. As of September 30, 2014, net cash used in investing activities amounted to ₱21.35 billion mainly for the Company's capital expenditure program. Our financial assets, including those held at FVPL, available for sale and held-to-maturity investments, increased from ₱72.30 billion as of December 31, 2013 to ₱82.96 billion as of September 30, 2014 as the financial markets recovered during the period. There were also acquisitions of held-to-maturity investments made by our banking business.

Receivables, including noncurrent portion, went up 10.9% from ₱32.80 billion as of December 31, 2013 to ₱36.37 billion as of September 30, 2014 due to higher trade receivables of our real estate business and finance receivables of the bank.

Inventories increased 31.6% to ₱32.30 billion as of September 30, 2014 from ₱24.54 billion as of year end 2013 mainly from higher balance of finished goods and raw materials from our food and petrochemical businesses. JG Olefins has also started purchasing raw materials during the period.

Derivative assets, including noncurrent portion, dropped 75.2% from ₱338.31 million in December 2013 to ₱83.94 million as of September 30, 2014. The decrease is related to Cebu Pacific's recognition of derivative liability on its fuel hedges during the period.

Other current assets increased 30.6% from ₱7.33 billion as of December 31, 2013 to ₱9.57 billion as of September 30, 2014 due to the higher level of input tax and advances to suppliers during the period.

Investment properties amounted to ₱56.57 billion as of September 30, 2014, from ₱51.67 billion in December 31, 2013, due to an increase in the properties of the real estate business.

Property, plant and equipment increased to ₱135.37 billion as of September 30, 2014, from ₱120.96 billion in December 31, 2013 mainly due to the on-going construction of the naphtha cracking facility, the on-going expansion and rehabilitation of existing Petrochemical complex and acquisition of three Airbus A320 aircraft for Cebu Air during the period.

Intangible assets increased 37.3% to ₱1.85 billion mainly due to certain intangible assets, such as but not limited to rights and entitlements, recognized by Cebu Air as a result of its acquisition of Tiger Airways Philippines.

Other noncurrent assets dropped to ₱4.15 billion as of September 30, 2014 from ₱6.64 billion in December 31, 2013 due to reclassification of JG Olefins' certain assets to current in anticipation of its commercial operations within the year.

Accounts payable and accrued expenses decreased 27.0% from ₱88.55 billion as of year-end 2013 to ₱64.68 billion mainly due to the settlement of equity investment acquisition payable amounting to ₱31.44 billion, offset by higher trade payables and deposit liabilities during the period.

Short-term debt increased 23.6% from ₱33.10 billion as of December 31, 2013 to ₱40.91 billion as of September 30, 2014 due to the availment of short-term loans of the food, real estate, petrochemical and olefins businesses.

Derivative liabilities amounting to ₱182.10 million was recorded as of September 30, 2014 mainly from the airline business after recognizing a decline in value of certain fuel derivative financial instruments consequent to decrease in fuel prices in 2014.

Other current liabilities grew 17.9% to ₱9.12 billion in September 2014 due to higher unearned revenue of our airline business brought about by the increase in the sale of passenger travel services.

Long-term debt, including current portion, increased 36.0% from ₱89.28 billion as of December 31, 2013 to ₱121.44 billion as of September 30, 2014 because of the issuance of ₱30 billion in retail bonds by the Parent Company in February 2014.

Equity attributable to equity holders of the parent grew to ₱205.74 billion as of September 30, 2014 from ₱183.98 billion at the end of 2013. Book value per share improved from ₱26.22 per share as of December 31, 2013 to ₱29.31 per share as of September 30, 2014.

### **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 September 30, 2014 and December 31, 2013 and for nine months ended September 30, 2014 and 2013:

<b>Key Financial Indicators</b>	<b>2014</b>	<b>2013</b>
Revenues	P132,679 million	P111,184 million
EBIT	P27,181 million	P18,971 million
EBITDA	P35,441 million	P26,168 million
Core net income after taxes	P15,018 million	P10,963 million
Liquidity ratio:		
Current ratio	1.01	0.73
Solvency ratios:		
Gearing ratio	0.64	0.53
Net debt to equity ratio	0.49	0.35
Asset-to-equity ratio	1.97	2.00
Interest rate coverage ratio	8.59	8.74
Profitability ratio:		
Operating margin	0.20	0.17
Book value per share	29.31	26.22

The manner by which the Company calculates the above key performance indicators for both period-end 2014 and 2013 is as follows:

<b>Key Financial Indicators</b>		
Revenues	=	Total of sales and services, income from banking business, dividend income and equity in net earnings
EBIT	=	Operating Income
EBITDA	=	Operating income add back depreciation and amortization expense
Core net income after taxes	=	Net income attributable to equity holders of the Parent company as

		adjusted for the net effect of gains/losses on foreign exchange, market valuations, derivative transactions and extraordinary items
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, AFS and HTM investments (excluding RBC Cash, FVPL, AFS and HTM investments) over Total Equity
Asset-to-equity ratio	=	Total Assets over Total Equity
Interest rate coverage ratio	=	EBITDA over Interest Expense
Operating Margin	=	Operating Income over Revenue
Book value per share	=	Stockholders' Equity (Equity attributable to parent) over outstanding number of common shares

2.1 Any known trends or any known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.

The Company does not expect any liquidity problems and is not in default of any financial obligations.

2.2 Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:

None.

2.3 Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period:

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

2.4 Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

The Company's and its subsidiaries' performance will at all times be affected by the economic performance of the Philippines and other countries where its subsidiaries operate. Hence, the Group is always on guard and establishes controls to minimize such risks.

2.5 Any significant elements of income or loss that did not arise from the issuer's continuing operations:

None.

2.6 Any seasonal aspects that had a material effect on the financial condition or results of operations:

The peak season for the branded consumer food products is during the opening of classes in June and Christmas season; for sugar, it's during the crop season which normally starts in November and ends in April; for flour and pasta, it's before and during Christmas season.

The air transportation's peak season is during the summer and Christmas seasons.

Higher sales experienced by RLC's leasing portfolio from the mall and hotel operations during the holiday seasons. On the other hand, RLC's development operation has no seasonality. Its revenue depends on the real estate projects' completion and launching.

Petrochemicals has no significant seasonality that would affect their operations.

The banking operations have higher volume of transactions during the Christmas season.

For other supplementary businesses, there is no significant seasonality that would materially affect their operations.

PART II – OTHER INFORMATION

Item 1. List of disclosure not made under SEC Form 17-C.  
None.

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SIGNATURES

Pursuant to the requirements of 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:



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

Date: 11/13/2014 



**CONSTANTE T. SANTOS**  
SVP - Corporate Controller

Date: 11/13/2014 

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

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	P32,529,747	P34,996,009
Financial assets at fair value through profit or loss (Note 9)	17,257,742	15,468,905
Derivative assets (Note 8)	-	166,457
Available-for-sale investments (Note 10)	10,366,251	10,641,373
Receivables (Notes 4, 11 and 23)	18,691,090	18,162,895
Inventories (Note 12)	32,299,555	24,538,010
Biological assets	1,128,915	1,081,035
Other current assets (Note 13)	9,567,638	7,327,974
<b>Total Current Assets</b>	<b>121,840,938</b>	<b>112,382,658</b>
<b>Noncurrent Assets</b>		
Available-for-sale investments (Note 10)	53,546,797	46,109,742
Derivative asset under hedged accounting (Note 8)	83,972	171,850
Receivables (Notes 4, 11 and 23)	17,674,557	14,632,899
Held-to-maturity investments (Note 10)	1,788,513	75,000
Investments in associates and joint ventures (Note 14)	110,565,516	108,303,222
Property, plant and equipment	135,373,183	120,964,720
Investment properties	56,570,489	51,669,900
Goodwill	1,042,955	1,042,955
Biological assets	506,910	483,025
Intangible assets	1,846,496	1,345,291
Other noncurrent assets (Note 15)	4,154,288	6,636,892
<b>Total Noncurrent Assets</b>	<b>383,153,676</b>	<b>351,435,496</b>
	<b>P504,994,614</b>	<b>P463,818,154</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 16 and 23)	P64,684,216	P88,549,092
Short-term debts (Note 18)	40,909,262	33,097,645
Derivative liabilities (Note 8)	182,097	-
Income tax payable	1,336,442	1,379,294
Current portion of long-term debts (Note 18)	4,315,775	22,674,079
Other current liabilities (Note 17)	9,122,966	7,738,770
<b>Total Current Liabilities</b>	<b>120,550,758</b>	<b>153,438,880</b>

(Forward)

	<b>September 30, 2014</b>	December 31, 2013
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Noncurrent Liabilities</b>		
Long-term debts - net of current portion (Note 18)	<b>117,128,135</b>	66,601,853
Deferred tax liabilities	<b>1,911,296</b>	1,717,961
Other noncurrent liabilities (Notes 19 and 23)	<b>9,482,050</b>	10,255,712
Total Noncurrent Liabilities	<b>128,521,481</b>	78,575,526
Total Liabilities	<b>249,072,239</b>	232,014,406
<b>Equity</b>		
Equity attributable to equity holders of the Parent Company (Note 20):		
Paid-up capital	<b>22,015,338</b>	22,015,338
Retained earnings	<b>145,680,125</b>	131,246,026
Equity reserve	<b>27,306,459</b>	27,306,459
Other comprehensive income (loss)	<b>10,739,574</b>	3,408,824
	<b>205,741,496</b>	183,976,647
Non-controlling interests	<b>50,180,879</b>	47,827,101
Total Equity	<b>255,922,375</b>	231,803,748
	<b>P504,994,614</b>	P463,818,154

*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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<b>REVENUE</b>				
Sale of goods and services:				
Foods	P23,495,762	P19,774,847	P69,239,256	P60,091,943
Air transportation	11,728,461	8,855,398	38,445,522	30,581,860
Real estate and hotels	4,601,380	4,472,681	13,051,758	12,392,330
Petrochemicals	328,059	155,257	556,865	967,735
Banking	658,236	545,610	1,917,175	2,135,747
Dividend income	1,246,733	1,149,960	3,350,405	3,284,001
Equity in net earnings of associates and joint ventures	1,969,225	548,723	5,779,351	1,449,639
Supplementary businesses	119,744	78,143	338,665	281,070
	44,147,600	35,580,619	132,678,997	111,184,325
<b>COST OF SALES AND SERVICES</b>	27,988,022	23,911,253	82,577,226	73,176,634
<b>GROSS INCOME</b>	16,159,578	11,669,366	50,101,771	38,007,691
<b>OPERATING EXPENSES</b>				
Selling, general and administrative expenses	7,875,472	6,537,297	22,834,216	18,946,072
Impairment losses and others	30,516	32,929	86,882	90,559
	7,905,988	6,570,226	22,921,098	19,036,631
<b>OPERATING INCOME</b>	8,253,590	5,099,140	27,180,673	18,971,060
<b>OTHER INCOME (LOSSES)</b>				
Financing costs and other charges	(1,424,867)	(941,944)	(4,127,697)	(2,992,804)
Market valuation gains (losses) on financial assets at fair value through profit or loss	(144,603)	190,639	172,799	(4,540)
Market valuation gains (losses) on derivative financial instruments	(184,631)	39,448	(148,896)	79,255
Foreign exchange gains (losses)	(1,894,696)	117,977	(379,482)	(2,847,316)
Finance income	312,954	366,429	999,797	1,426,815
Others (Note 14)	(2,766)	272,517	1,083,309	387,252
<b>INCOME BEFORE INCOME TAX</b>	4,914,981	5,144,206	24,780,503	15,019,722
<b>PROVISION FOR INCOME TAX</b>	774,036	447,194	2,810,031	1,685,174
<b>NET INCOME</b>	4,140,945	4,697,012	21,970,472	13,334,548
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustments	(231,196)	208,024	(174,638)	209,203
Net gains (losses) on available-for-sale investments	1,741,163	823,441	7,871,375	6,840,895
Net gains (losses) from cash flow hedges	2,292	1,536	(87,878)	196,692
Net unrealized gains (losses) on available-for-sale investments of an associate	1,990	(5,672)	(1,269)	(12,105)
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	1,514,249	1,027,329	7,607,590	7,234,685
<b>TOTAL COMPREHENSIVE INCOME</b>	P5,655,194	P5,724,341	P29,578,062	P20,569,233

(Forward)

	<b>Quarters Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	<b>P2,845,941</b>	P3,236,858	<b>P15,845,537</b>	P8,410,662
Non-controlling interests	<b>1,295,004</b>	1,460,154	<b>6,124,935</b>	4,923,886
	<b>P4,140,945</b>	P4,697,012	<b>P21,970,472</b>	P13,334,548
<b>TOTAL COMPREHENSIVE INCOME</b>				
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	<b>P4,466,719</b>	P4,303,856	<b>P23,176,287</b>	P15,847,708
Non-controlling interests	<b>1,188,475</b>	1,420,485	<b>6,401,775</b>	4,721,525
	<b>P5,655,194</b>	P5,724,341	<b>P29,578,062</b>	P20,569,233
<b>Earnings Per Share Attributable to Equity Holders of the</b>				
<b>Parent Company</b>				
Basic/diluted earnings per share (Note 22)	<b>P0.41</b>	P0.48	<b>P2.26</b>	P1.24

*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 Nine Months Ended September 30, 2014 and 2013

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY														
	Retained Earnings						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 Gains (Losses) on Cash Hedge (Note 8)	Net Unrealized Gains (Losses) on Remeasurements of the Net Defined Benefit Liability	Total Other Comprehensive Income (Loss)	Treasury Shares	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2014	P7,057,192	P14,958,146	P22,015,338	P72,185,697	P59,060,329	P131,246,026	P27,306,459	(P1,787,690)	P5,617,664	P171,850	(P593,000)	P3,408,824	P-	P47,827,101	P231,803,748
Total comprehensive income (loss)	-	-	-	15,845,537	-	15,845,537	-	(95,650)	7,514,278	(87,878)	-	7,330,750	-	6,401,775	29,578,062
Cash dividends	-	-	-	(1,411,438)	-	(1,411,438)	-	-	-	-	-	-	-	-	(1,411,438)
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,047,997)	(4,047,997)
<b>Balance at Sept. 30, 2014</b>	<b>P7,057,192</b>	<b>P14,958,146</b>	<b>P22,015,338</b>	<b>P86,619,796</b>	<b>P59,060,329</b>	<b>P145,680,125</b>	<b>P27,306,459</b>	<b>(P1,883,340)</b>	<b>P13,131,942</b>	<b>P83,972</b>	<b>(P593,000)</b>	<b>P10,739,574</b>	<b>P-</b>	<b>P205,741,496</b>	<b>P50,180,879</b>
Balance at January 1, 2013	P6,935,274	P7,150,457	P14,085,731	P63,314,824	P59,060,329	P122,375,153	P17,619,600	(P2,033,901)	P3,940,744	P-	P-	P1,906,843	(P721,848)	P43,661,436	P198,926,915
Total comprehensive income (loss)	-	-	-	8,410,662	-	8,410,662	-	142,582	7,097,772	196,692	-	7,437,046	-	4,721,525	20,569,233
Cash dividends	-	-	-	(1,230,694)	-	(1,230,694)	-	-	-	-	-	-	-	-	(1,230,694)
Acquisition of non-controlling interest by a subsidiary	-	-	-	-	-	-	(50,056)	-	-	-	-	-	-	(147,542)	(197,598)
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,056,624)	(3,056,624)
<b>Balance at Sept. 30, 2013</b>	<b>P6,935,274</b>	<b>P7,150,457</b>	<b>P14,085,731</b>	<b>P70,494,792</b>	<b>P59,060,329</b>	<b>P129,555,121</b>	<b>P17,569,544</b>	<b>(P1,891,319)</b>	<b>P11,038,516</b>	<b>P196,692</b>	<b>P-</b>	<b>P9,343,889</b>	<b>(P721,848)</b>	<b>P45,178,795</b>	<b>P215,011,232</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>Nine Months Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	<b>P24,780,503</b>	P15,019,722
Adjustments for:		
Depreciation and amortization	<b>8,260,731</b>	7,197,306
Interest expense	<b>4,049,193</b>	2,898,118
Interest income	<b>(999,797)</b>	(1,426,815)
Dividend income	<b>(3,350,405)</b>	(3,284,001)
Equity in net income of associates and joint ventures	<b>(5,779,351)</b>	(1,449,639)
Provisions for impairment losses on receivables	<b>86,882</b>	90,559
Gains arising from changes in fair value less estimated costs to sell of swine stocks	<b>(206,661)</b>	(103,560)
Foreign exchange losses (gains)	<b>379,482</b>	2,847,316
Market valuation gains on derivative instruments	<b>148,896</b>	(79,255)
Market valuation losses (gains) on financial assets at fair value through profit or loss	<b>(172,799)</b>	4,540
Gains on sale of available-for-sale investments	<b>(17)</b>	(17,958)
Operating income before changes in working capital accounts	<b>27,196,657</b>	21,696,333
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit or loss	<b>(1,797,908)</b>	(557,114)
Derivative financial instruments	<b>111,780</b>	464,097
Receivables	<b>(3,934,112)</b>	(1,562,976)
Inventories	<b>(7,761,545)</b>	(429,584)
Biological assets	<b>134,897</b>	61,494
Other current assets	<b>(114,854)</b>	131,433
Increase (decrease) in the amounts of:		
Accounts payable and accrued expenses	<b>(24,057,438)</b>	12,045,167
Unearned revenue	<b>1,124,555</b>	(275,263)
Other current liabilities	<b>259,641</b>	(491,595)
Net cash generated from (used in) operations	<b>(8,838,327)</b>	31,081,992
Interest received	<b>965,015</b>	1,526,364
Interest paid	<b>(3,861,106)</b>	(2,783,581)
Income taxes paid	<b>(2,782,819)</b>	(1,558,735)
Net cash provided by (used in) operating activities	<b>(14,517,237)</b>	28,266,040

(Forward)

**Nine Months Ended September 30**

	2014	2013
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease (increase) in the amounts of:		
Available-for-sale investments	709,459	106,985
Held-to-maturity investments	(1,713,513)	-
Other noncurrent assets	445,671	(7,127,347)
Investments in associates and joint ventures	3,525,292	(678,046)
Acquisitions of:		
Intangible assets	(502,577)	(13,177)
Property, plant and equipment	(21,367,187)	(20,187,748)
Investment properties	(5,794,104)	(7,443,646)
Dividends received	3,350,405	3,284,001
Net cash used in investing activities	<b>(21,346,554)</b>	<b>(32,058,978)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Short-term debt	7,811,617	(5,657,484)
Long-term debt	31,695,739	24,264,309
Increase (decrease) in the amounts of:		
Other noncurrent liabilities	(650,392)	(1,597,406)
Non-controlling interests	(4,047,997)	(3,056,624)
Acquisition of non-controlling interest by a subsidiary	-	(197,598)
Dividends paid on:		
Common shares	(1,403,438)	(1,223,494)
Preferred shares	(8,000)	(7,200)
Net cash provided by financing activities	<b>33,397,529</b>	<b>12,524,503</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,466,262)</b>	<b>8,731,565</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>34,996,009</b>	<b>19,698,073</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P32,529,747</b>	<b>P28,429,638</b>

*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, a holding company, is the ultimate parent of the JG Summit Group (the Group). The Group has business interests in branded consumer foods, agro-industrial and commodity food products, real property development, hotels, banking and financial services, telecommunications, petrochemicals, air transportation and power generation. In 2011, the Group disposed its Telecommunications segment.

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

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

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

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

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

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

The accompanying financial statements provide comparative information in respect of the previous years. An additional statement of financial position at the beginning of the earliest year presented is included when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. A statement of financial position as at January 1, 2012 is presented in the 2013 financial statements due to the retrospective application of certain accounting policies as discussed in this Note.

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

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

#### Statement of Compliance

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

## Basis of Consolidation

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

Subsidiaries	Country of Incorporation	Principal place of business	Effective Percentage of Ownership	
			September 30, 2014	September 30, 2013
<b>Food</b>				
Universal Robina Corporation (URC) and Subsidiaries	Philippines*	110 E. Rodriguez Avenue, Bagumbayan, Quezon City, Philippines	55.83	60.64
CFC Clubhouse Property, Inc (CCPI).	-do-	CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City	55.83	60.64
CFC Corporation	-do-	-do-	55.83	60.64
Bio-Resource Power Generation Corporation	-do-	Manjuyod, Negros Oriental	55.83	60.64
Southern Negros Development Corporation (SONEDCO)	-do-	Kabankalan City, Negros Occidental	53.48	57.00
Nissin-URC	-do-	CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City	9.17	39.42
URC Philippines, Limited (URCPL)	British Virgin Islands	Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	55.83	60.64
URC International Co. Ltd. (URCICL) and Subsidiaries	-do-	-do-	55.83	46.69
Universal Robina (Cayman), Ltd. (URCL)	Cayman Islands	Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands, British West Indies	55.83	60.64
URC China Commercial Co., Ltd.	China	318 Shangcheng Road, Room 1417 Lian You Bldg., Pudong, Shanghai, China	55.83	60.64
<b>Air Transportation</b>				
CP Air Holdings, Inc. (CPAHI) and Subsidiaries	-do-	2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City	100.00	100.00
Cebu Air, Inc. (CAI) and Subsidiaries	-do-	-do-	67.23	67.23
<b>Real Estate and Hotels</b>				
Robinsons Land Corporation (RLC) and Subsidiaries	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	60.97	60.97
Robinson's Inn, Inc.	-do-	-do-	60.97	60.97
Robinsons Realty and Management Corporation	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	60.97	60.97
Robinsons (Cayman) Limited	-do-	Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands	60.97	60.97
Robinsons Properties Marketing and Management Corporation	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	60.97	60.97
Altus Angeles, Inc.	-do-	McArthur Highway, Balibago, Angeles City, Pampanga	31.09	31.09
Altus San Nicolas Corporation	-do-	Brgy. 1 San Francisco, San Nicolas, Ilocos Norte	60.97	48.78
GoHotels Davao, Inc.	-do-	Lanang, Davao City	31.09	-

Subsidiaries	Country of Incorporation	Principal place of business	Effective Percentage of Ownership	
			2014	September 30 2013
<b>Petrochemicals</b>				
JG Summit Petrochemical Corporation (JGSPC)	-do-	Ground Floor, Cybergate Tower 1, EDSA corner, Pioneer Street, Mandaluyong City	100.00	100.00
JG Summit Olefins Corporation (JGSOC)	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	100.00	100.00
<b>Banking</b>				
Robinsons Bank Corporation (RBC) and a Subsidiary	-do-	17th floor, Galleria Corporate Center EDSA corner Ortigas Avenue, Quezon City	60.00	60.00
Legazpi Savings Bank, Inc. (LSB)	-do-	Rizal Street, Barangay Sagpon, Albay, Legazpi City	60.00	60.00
<b>Supplementary Businesses</b>				
Express Holdings, Inc. (EHI) and a Subsidiary	-do-	29th Floor, Galleria Corporate Center, EDSA, Quezon City	100.00	100.00
Summit Forex Brokers Corporation	-do-	41st Floor, Robinsons-Equitable Tower, ADB Avenue, Corner Poveda Road, Pasig City	100.00	100.00
JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries	-do-	40th Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City	100.00	100.00
JG Summit Capital Markets Corporation (JGSMC)	-do-	-do-	100.00	100.00
Summit Point Services Ltd.	-do-	-do-	100.00	100.00
Summit Internet Investments, Inc. (SII)	-do-	-do-	100.00	100.00
JG Summit Cayman, Ltd. (JGSCL)	Cayman Islands	Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands	100.00	100.00
JG Summit Philippines Ltd. (JGSPL) and Subsidiaries	-do-	-do-	100.00	100.00
JGSH Philippines, Limited	British Virgin Islands	Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	100.00	100.00
Multinational Finance Group, Ltd.	-do-	-do-	100.00	100.00
Telegraph Development, Ltd.	-do-	-do-	100.00	100.00
Summit Top Investment, Ltd.	-do-	-do-	100.00	100.00
JG Summit Limited (JGSL)	-do-	-do-	-	100.00
Unicon Insurance Brokers Corporation (UIBC)	Philippines	CFC Bldg., E. Rodriguez Avenue, Bagong Ilog, Pasig City	100.00	100.00

(Forward)

Subsidiaries	Country of Incorporation	Principal place of business	Effective Percentage of Ownership	
			<b>2014</b>	<b>September 30</b> 2013
Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	<b>100.00</b>	100.00
Fruits of the East, Inc.	-do-	-do-	<b>100.00</b>	100.00
Hometel Integrated Management Corporation	-do-	-do-	<b>100.00</b>	100.00
King Leader Philippines, Inc.	-do-	-do-	<b>100.00</b>	100.00
Samar Commodities Trading and Industrial Corporation	-do-	-do-	<b>100.00</b>	100.00
Tropical Aqua Resources	-do-	-do-	<b>100.00</b>	100.00
United Philippines Oil Trading, Inc.	-do-	-do-	<b>100.00</b>	100.00

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

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

PFRS 10, prescribes guidance on the consolidation of SPE. Under PFRS 10, special purpose entities (SPE) should be consolidated when the substance of the relationship between the company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist when one entity is exposed, or has the rights to variable returns from its involvement with the SPE and has the ability to affect those returns through its power over the SPE. In accordance with PFRS 10, the Group's consolidated financial statements include the accounts of SPEs namely: Surigao Leasing Limited (SLL), Cebu Aircraft Leasing Limited (CALL), IBON Leasing Limited (ILL), Boracay Leasing Limited (BLL), Sharp Aircraft Leasing Limited (SALL), Vector Aircraft Leasing Limited (VALL) and Panatag One Aircraft Leasing Limited (POALL). SLL, CALL, ILL, BLL, SALL, VALL and POALL are SPEs in which the Group does not have equity interest. SLL, CALL, ILL, BLL, SALL, VALL and POALL acquired the passenger aircrafts for lease to CAI under finance lease arrangements and funded the acquisitions through long-term debt.

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 is exposed, or has the rights to variable returns from its involvement with the SPE and has the ability to affect those returns through its power over the SPE. Consolidation of subsidiaries ceases when control is transferred out of the Parent Company.

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

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

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

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

If the Group loses control over a subsidiary, it:

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

Under PFRS 10, *Consolidated Financial Statements*, it is acceptable to use, for consolidation purposes, the financial statements of subsidiaries for fiscal periods differing from that of the Parent Company if it is impracticable for the management to prepare financial statements with the same accounting period with that of the Parent Company and the difference is not more than three months.

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

Subsidiaries	Fiscal Year
<b>Food</b>	
URC and Subsidiaries	September 30
<b>Real Estate and Hotels</b>	
RLC and Subsidiaries	-do-
<b>Petrochemicals</b>	
JGSPC	-do-
JGSOC	-do-

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

#### Business Combinations

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

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

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

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

### Goodwill

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

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

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

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

### Changes in Accounting Policies and Disclosures

The Group applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group. Except for these standards and amended PFRS which were adopted as of January 1, 2013, the accounting policies adopted are consistent with those of the previous financial year.

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

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)* (Amendments)  
The amendments to PAS 1 change the grouping of items presented in OCI. 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 no impact on the Group's financial position or performance.
- PAS 19, *Employee Benefits* (Revised)  
PAS 19, (Revised) has been applied retrospectively from January 1, 2011. PAS 19 includes a number of amendments to the accounting for defined benefit plan, including actuarial gains and losses that are now recognized in other comprehensive income and excluded permanently from the consolidated profit or loss; expected returns on plan assets of defined benefit plans that are not recognized in consolidated profit or loss, instead, there is a requirement to recognize interest on net defined retirement obligation (asset) in the consolidated profit or loss, calculated using the discount rate used to measure the net defined retirement obligation.

Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Group recognizes related restructuring or termination costs. Until 2012, the Group's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Other amendment includes new disclosures, such as quantitative sensitivity disclosures.

The adoption of PAS 19 (Revised), which required retrospective application, resulted in the restatement of previously reported retirement obligation/asset of the Group. The adjustment amounts were determined by the Group with the assistance of an external actuary. The Parent Company and certain subsidiaries had chosen to close to 'Retained earnings' the net effect of all transition adjustments as at January 1, 2012 (the transition date) upon retrospective application of PAS 19 (Revised). After the transition date, the Group will retain the remeasurements recognized in other comprehensive income and will not transfer these to other items in equity.

*PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)*

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

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  - b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  - c) The net amounts presented in the statement of financial position;
  - d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    - ii. Amounts related to financial collateral (including cash collateral); and
  - e) The net amount after deducting the amounts in (d) from the amounts in (c) above.
- *PFRS 10, Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. Management made an assessment based on PFRS 10 and concluded that the Group continues to have control over its subsidiaries and special purpose entities and therefore continue to consolidate the said entities.
  - *PFRS 11, Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Management made an assessment and concluded that its joint arrangements meet the definition of joint venture and therefore continue to be accounted for under the equity method.

- PFRS 12, *Disclosure of Interests with Other Entities*  
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The required disclosures are presented in Note 14.
- PFRS 13, *Fair Value Measurement*  
PFRS 13 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 required disclosures are presented in Note 5.
- *Annual Improvements to PFRSs (2009-2011 cycle)*
  - PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

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

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans (Amendments)*
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- *Annual Improvements to PFRSs (2009-2011 cycle)*
  - PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  - PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
  - PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
  - PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*

#### *Effective in 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*  
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. 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 Group is currently assessing impact of the amendments to PAS 32. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*  
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)  
 These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)  
 These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.
- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)  
 IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. IFRIC 21 does not have any impact on the Group's financial statements as of June 30, 2014.
- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)  
 The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

*Annual Improvements to PFRS (2010-2012 cycle)*

The annual improvements to the following PFRSs 2010 - 2012 contain non-urgent but necessary amendments to the following standards. These standards will become effective for annual periods beginning on or after January 1, 2014, with earlier application permitted:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*  
 The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

Standards Issued but not yet Effective

Standards and Interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This is the list of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS, and Philippine

Interpretations to have significant impact on its financial statements. The Group will assess the impact of these amendments on its financial position or performance when they become effective.

- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*  
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*  
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*  
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  - b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.
- *PAS 24, Related Party Disclosures - Key Management Personnel*  
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the

compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

#### *Annual Improvements to PFRS (2011-2013 cycle)*

The Annual Improvements to PFRS (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PAS 40, *Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the

acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the

forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis

will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

## **Significant Accounting Policies**

### Fair Value Measurement

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

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

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

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

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

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

### Foreign Currency Translation

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

### *Transactions and balances*

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

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

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

### *Group companies*

As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies

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

#### Cash and Cash Equivalents

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

#### Recognition of Financial Instruments

##### *Date of recognition*

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

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

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

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

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

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

#### *Derivatives designated as accounting hedges*

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

#### *Hedge accounting*

At the inception of a hedging relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and risk management objective and its strategy for undertaking the hedge. The documentation includes identification of

the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis that they actually have been highly effective throughout the financial reporting periods for which they were designated.

#### *Cash flow hedge*

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

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

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

#### *Hedge effectiveness testing*

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

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

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

#### *Embedded derivatives*

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

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

#### Current versus noncurrent classification

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

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

#### *HTM investments*

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

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

#### *Loans and receivables*

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

#### *AFS investments*

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

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

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

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

#### *Other financial liabilities*

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

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

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

#### Debt Issuance Cost

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

### Customers' Deposits

#### *Deposits from lessees*

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

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

#### *Deposits from real estate buyers*

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

### Reclassification of Financial Assets

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

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

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

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

### Classification of Financial Instruments Between Debt and Equity

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

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

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

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

#### Impairment of Financial Assets

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

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

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

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

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

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

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

### *AFS investments*

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

In the case of equity investments classified as AFS investments, objective evidence would include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost.

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

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

### Derecognition of Financial Instruments

#### *Financial assets*

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership and retained control of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

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

#### *Financial liabilities*

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

and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss in the consolidated statement of comprehensive income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### Inventories

Inventories, including work-in-process, are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs. In determining the NRV, the Group deducts from cost 100.0% of the carrying value of slow-moving items and nonmoving items for more than one year. Cost is determined using the weighted average method.

When inventories are sold, the carrying amounts of those inventories are recognized under 'Cost of sales and services' in profit or loss in the consolidated statement of comprehensive income in the period when the related revenue is recognized.

The amount of any write-down of inventories to NRV is recognized in 'Cost of sales and services' while all other losses on inventories shall be recognized under 'Impairment losses and others' in profit or loss in the consolidated statement of comprehensive income in the period the write-down or loss was incurred. The amount of reversal of any write-down of inventories, arising from an increase in the NRV, shall be recognized as a reduction to 'Cost of sales and services' in the period where the reversal was incurred.

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

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

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

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

#### *Subdivision land and condominium and residential units for sale*

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

#### Noncurrent Assets (Disposal Group) Held for Sale

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

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

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

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

#### *Initial and subsequent measurement*

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

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

#### Investments in Associates and Joint Ventures

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

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

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

eliminated to the extent of the interest in the associates and joint ventures.

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

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

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

#### Investment Properties

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

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

Land improvements	10 years
Buildings and improvements	10 to 30 years

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

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

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

For a transfer from investment property to owner-occupied property or to inventories, the deemed cost of the property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under 'Property, plant and equipment' up to the date of change in use.

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

#### Property, Plant and Equipment

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

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

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

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

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

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

	<u>EUL</u>
Land and improvements	10 to 40 years
Buildings and improvements	10 to 50 years
Machinery and equipment	4 to 50 years
Leasehold improvements	15 years
Passenger aircraft	15 years
Other flight equipment	5 years
Transportation, furnishing and other equipment	3 to 5 years

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

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

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

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

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

#### *ARO*

The Group is legally required under various lease contracts to restore leased aircraft to their original conditions and to bear the cost of any dismantling and deinstallation at the end of the contract period. These costs are accrued based on an internal estimate made by the work of both third party and Group's engineers which includes estimates of certain redelivery costs at the end of the operating aircraft lease.

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

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

The Group recognizes the present value of these costs as ARO asset and ARO liability.

### Borrowing Costs

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

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

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

### Biological Assets

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

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

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

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

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

### *Biological assets at cost*

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

Depreciation (included under 'Cost of sales and services' in profit or loss in the consolidated statement of comprehensive income) is computed using the straight-line method over the EUL of the biological assets, regardless of utilization. The EUL of biological assets is reviewed annually based on expected utilization as anchored on business plans and strategies that consider market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the biological assets. The EUL of biological assets ranges from two to three years.

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

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

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

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

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

Goodwill

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

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

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

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

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

### Bank Licenses

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

### Intangible Assets

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

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

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

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

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

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

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

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

	Technology Licenses	Licenses	Product Formulation	Software Costs	Trademarks	
EUL	Finite (12 to 13.75 years)	Indefinite	Indefinite	Finite (5 years)	Finite (4 years)	Indefinite
Amortization method used	Amortized on a straight-line basis over the EUL of the license	No amortization	No amortization	Amortized on a straight-line basis over the EUL of the software cost	Amortized on a straight-line basis over the EUL of the trademark	No amortization
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired	Acquired	Acquired

### Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's 'Investments in associates and joint ventures', 'Investment properties', 'Property, plant and equipment', 'Biological assets at cost', 'Intangible assets', 'Goodwill' and 'Deferred subscriber acquisition and retention costs'.

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

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

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

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

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

#### *Goodwill*

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint ventures. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount under 'Impairment losses and others' in profit or loss 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.

#### Equity

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

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

#### Treasury Shares

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

#### Revenue and Cost Recognition

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

#### *Sale of goods*

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

#### *Rendering of tolling services*

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

#### *Rendering of air transportation services*

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

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

#### *Ancillary revenue*

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

#### *Real estate sales*

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

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

#### *Revenue from hotel operations*

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

#### *Interest income*

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

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

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

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

#### *Service fees and commission income*

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

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

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

#### *Dividend income*

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

#### *Rent income*

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

#### *Amusement income*

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

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

Gain from sale of properties, investments and other assets is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

#### Provisions

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

#### Contingencies

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

consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### Pension Costs

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

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

#### *Termination benefit*

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's

employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

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

#### *Employee leave entitlement*

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

### Income Taxes

#### *Current tax*

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

#### *Deferred tax*

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

#### Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset.

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

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

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

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and is included in the consolidated statement of financial position under 'Property, plant and equipment' with the corresponding liability to the lessor included under 'Long-term debt'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss in the consolidated statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the EUL of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Cost

of sales and services' and 'General administrative expenses' in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

#### *Group as a lessor*

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

#### Earnings Per Share (EPS)

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

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

#### Dividends on Common Shares

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

#### Segment Reporting

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

#### Subsequent Events

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

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### **3. Significant Accounting Judgments and Estimates**

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

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

## Judgments

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

*a. Going concern*

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

*b. Classification of financial instruments*

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

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

*c. Determination of fair values of financial instruments*

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

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

*d. Revenue from real estate sales*

Starting October 1, 2012, the Group decided to change its basis of estimating on when the buyers' investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group and warrant revenue recognition. Marketing and selling statistics and experiences over the past several years which include, among others, buyers' credit standings and sales returns prompted the Group to revisit and accordingly revise the basis of the level of buyers' payments that is highly probable that the buyer will commit to the sale transaction, and thus, it is probable that economic benefits will flow to the Group.

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>September 30, 2014</b>	September 30, 2013
	<b>(Unaudited)</b>	(Unaudited)
Revenue	<b>₱4,585,953</b>	₱4,511,370
Cost and expenses	<b>2,545,230</b>	2,623,212

e. *Classification of leases*

*Operating lease commitments - Group as lessee*

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

*Operating lease commitments - Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. Based on the evaluation of the terms and conditions of the arrangements, the Group has determined that it retains all significant risks and rewards of ownership of these properties. In determining significant risks and benefits of ownership, the Group considered, among others, the following: the leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease and the related lease terms do not approximate the EUL of the assets being leased. Accordingly, the Group accounted for the lease agreements as operating leases.

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

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

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

g. *Consolidation of SPEs*

The Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the purchase of aircraft and assumption of certain liabilities. Also included are transactions involving SPEs and similar vehicles. In all such cases, management makes an assessment as

to whether the Group has the right to control or significantly influence the SPE, and based on this assessment, the SPE is consolidated as a subsidiary or an associated company. In making this assessment, management considers the underlying economic substance of the transaction and not only the contractual terms.

*h. Determination of functional currency*

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

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

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

*i. Significant subsequent events of fiscal year end subsidiaries*

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

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

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

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

k. *Noncurrent assets (disposal group) held for sale*

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

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

l. *Contingencies*

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's consolidated financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 25).

Estimates

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

a. *Revenue and cost recognition*

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

- **Sale of real estate**  
The Group's revenue from real estate sales are recognized based on the percentage-of-completion and the completion rate is measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of the project.
- **Rendering of transportation services**  
Passenger sales are recognized as revenue when the obligation of the Group to provide transportation service ceases, either: (a) when transportation services are already rendered; or (b) when the Group estimates that unused tickets are already expired. The value of unused tickets is included as 'Unearned transportation revenue' in the consolidated statements of financial position and recognized as revenue based on estimates. These estimates are based on historical experience. While actual results may vary from these estimates, the Group believes it is unlikely that materially different estimates for future refunds, exchanges, and forfeited tickets would be reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time the estimates were made.

The balances of the Group's 'Unearned transportation revenue' is disclosed in Note 17 to the consolidated financial statements. Ticket sales that are not expected to be used for transportation are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends.

b. *Impairment of AFS investments*

*AFS debt investments*

The Group classifies certain financial assets as AFS debt investments and recognizes

movements in the fair value in other comprehensive income in the consolidated statement of comprehensive income. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment loss that should be recognized in profit or loss in the consolidated statement of comprehensive income.

The carrying value of the Group's AFS debt investments is disclosed in Note 10 to the consolidated financial statements.

*AFS equity investments*

The Group treats AFS equity investments as impaired, when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20.0% or more and 'prolonged' as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The carrying value of the Group's AFS equity investments is disclosed in Note 10 to the consolidated financial statements.

c. *Impairment of goodwill and intangible assets*

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of reporting date. The recoverable amounts of the intangible assets were determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections range from 9.3% to 10.0%. The following assumptions were also used in computing value in use:

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

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

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

d. *Estimation of allowance for impairment losses on receivables*

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

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

Provisions for impairment losses on receivables, included in 'Impairment losses and others' in

profit or loss in the consolidated statements of comprehensive income, are disclosed in Note 11 to the consolidated financial statements.

The carrying value of the Group's total receivables, net of allowance for impairment losses, is disclosed in Note 11 to the consolidated financial statements.

*e. Determination of NRV of inventories*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally providing a 100.0% write down for nonmoving items for more than one year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect any market decline in the value of the recorded inventories. The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

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

The carrying value of the Group's inventories, net of inventory obsolescence and market decline, is disclosed in Note 12 to the consolidated financial statements.

*f. Estimation of ARO*

The Group is legally required under various contracts to restore certain leased aircraft to its original condition and to bear the costs of dismantling and deinstallation at the end of the contract period. These costs are accrued based on an internal estimate which incorporates estimates on the amounts of asset retirement costs, third party margins and interest rates. The Group recognizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, and depreciates such on a straight-line basis over the EUL of the related asset.

The present value of the cost of restoration for the air transportation segment is computed based on CAI's average borrowing cost. Assumptions used to compute ARO are reviewed and updated annually.

*g. Estimation of useful lives of property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost*

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

*h. Determination of fair values less estimated costs to sell of biological assets*

The fair values of swine are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell costs include commissions to brokers and dealers,

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

*i. Estimation of pension and other benefits costs*

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

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date.

*j. Assessment of impairment on property, plant and equipment, investment properties, investments in associates and joint ventures, biological assets carried at cost, goodwill and other intangible assets*

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

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

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

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

flows.

*k. Recognition of deferred tax assets*

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

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

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

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

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

##### Risk Management Structure

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

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

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

##### *AC*

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

The AC also aims to ensure that:

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

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

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

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

#### *Corporate Governance Compliance Officer*

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

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

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

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

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

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

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

1. Internal Environmental Scanning. It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews

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

#### *Risk management support groups*

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

1. **Corporate Security and Safety Board (CSSB).** Under the supervision of ERMG, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
2. **Corporate Supplier Accreditation Team (CORPSAT).** Under the supervision of ERMG, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
3. **Corporate Management Services (CMS).** The CMS is responsible for the formulation of enterprise-wide policies and procedures.
4. **Corporate Planning (CORPLAN).** The CORPLAN is responsible for the administration of strategic planning, budgeting and performance review processes of business units.
5. **Corporate Insurance Department (CID).** The CID is responsible for the administration of the insurance program of business units concerning property, public liability, business interruption, money and fidelity, and employer compensation insurances, as well as, in the procurement of performance bonds.

#### Risk Management Policies

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

#### *Credit risk*

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

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

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

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

The Group holds collateral in the form of cash bonds, real estate and chattel mortgages and government securities. The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. It is the Group's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

a. Risk concentrations of the maximum exposure to credit risk

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

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

*Classification of Financial Assets by Class used by the Group except for the Banking Segment*  
High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top 10 banks in the Philippines in terms of resources and profitability.

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

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

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

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

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

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

<b>Grades</b>	<b>Categories</b>	<b>Description</b>
High grade		
<i>Risk rating 1</i>	Excellent	Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events.
<i>Risk rating 2</i>	Super Prime	Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events.
<i>Risk rating 3</i>	Prime	Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business/economic conditions.
<i>Risk rating 4</i>	Very Good	Moderately low probability of default; more than adequate capacity for payment of financial commitments; but adverse business/economic conditions are more likely to impair this capacity
<i>Risk rating 5</i>	Good	More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes
Standard		
<i>Risk rating 6</i>	Satisfactory	Material probability of default is present, but a margin of safety remains; financial commitments are currently being met although the capacity for continued payment is vulnerable to deterioration in the business/economic condition.
<i>Risk rating 7</i>	Average	Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavorable economic period would create deterioration beyond acceptable levels.
Standard		
<i>Risk rating 8</i>	Fair	Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavorable economic/market conditions would create an immediate deterioration of cash flow beyond acceptable levels.

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

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

b. Aging analysis of receivables by class

The aging analysis of the Group's receivables as of September 30, 2014 follow:

	TOTAL	UP TO SIX MONTHS	OVER SIX MONTHS TO ONE YEAR	OVER ONE YEAR
Trade Receivables	₱13,736,068	₱10,196,016	₱827,251	₱2,712,801
Less: Allowance for impairment loss	(503,438)	-	(271,863)	(231,575)
Net Trade Receivables	13,232,630	10,196,016	555,388	2,481,226
Non-trade Receivables				
Finance Receivables (including noncurrent portion)	20,280,349	5,318,593	-	14,961,756
Others	3,475,686	3,174,656	301,030	-
	23,756,035	8,493,249	301,030	14,961,756
Less: Allowance for impairment loss	(623,018)	(434,289)	(188,729)	-
Net Non-trade Receivables	23,133,017	8,058,960	112,301	14,961,756
	₱36,365,647	₱18,254,976	₱667,689	₱17,442,982

*Liquidity risk*

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

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

*Market risk*

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

The following discussion covers the market risks of the Group except for its Banking Segment:

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured.

#### *Equity price risk*

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

#### *Interest rate risk*

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

#### *Price interest rate risk*

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

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

#### *Commodity price risk*

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

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

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

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

#### *VaR objectives and methodology*

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

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

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

#### *VaR methodology 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.

#### *Interest rate risk*

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

RBC's ALCO surveys the interest rate environment, adjusts the interest rates for the Parent Company's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. RBC uses Earnings-at-Risk as a tool for measuring and managing interest rate risk in the banking book.

#### *Earnings-at-Risk objectives and methodology*

Earnings-at-Risk is a statistical measure of the likely impact of changes in interest rates to the RBC's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility. Although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that RBC's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap implies that RBC's net interest income could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk. To help control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the Risk Management Committee quarterly.

#### *Foreign currency risk*

RBC seeks to maintain a square or minimal position on its foreign currency exposure. Foreign currency liabilities generally consist of foreign currency deposits in RBC's Foreign Currency Deposit Unit (FCDU). Foreign currency deposits are generally used to fund RBC's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in the FCDU. In

addition, the BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held in the FCDO. RBC uses VaR methodology for measuring foreign currency risk.

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## 5. Fair Value Measurement

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

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

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

*Finance receivables*

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

*Installment contract receivables*

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

*Debt securities*

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

*Quoted equity securities*

Fair values are based on quoted prices published in markets.

*Unquoted equity securities*

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

*Amounts due from and due to related parties*

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

*Noninterest-bearing refundable security deposits*

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

*Biological assets*

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

*Derivative financial instruments*

The fair values of the interest rate swaps and commodity swaps and options are determined based on the quotes obtained from counterparties. The fair values of forward exchange derivatives are calculated by reference to the prevailing interest differential and spot exchange rate as of valuation

date, taking into account the remaining term-to-maturity of the forwards. The fair values of cross currency swaps are based on the discounted cash flow swap valuation model of a third party provider.

#### *Investment properties*

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

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

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

#### *Deposit liabilities*

Fair values are estimated using the discounted cash flow methodology using RBC's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liabilities being valued.

#### *Customers' deposits*

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

#### *Long-term debt*

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

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

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

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

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## **6. Segment Information**

### Operating Segments

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

The industry segments where the Group operates are as follows:

- Foods, agro-industrial and commodities businesses - manufacturing of snack foods, granulated coffee and pre-mixed coffee, chocolates, candies, biscuits, instant noodles, ice cream and

frozen novelties, pasta and tomato-based products and canned beans; raising of hog, chicken and manufacturing and distribution of animal feeds, corn products and vegetable oil and the synthesis of veterinary compound; and sugar milling and refining and flour milling.

- Air transportation - air transport services, both domestic and international, for passengers and cargoes.
- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.
- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.
- Banking - commercial banking operations, including deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing.
- Other supplementary businesses - asset management, insurance brokering, foreign exchange and securities dealing. Beginning 2012, other supplementary businesses include dividend income from PLDT. Beginning 2013, other supplementary businesses also include equity in the net earnings of Meralco (see Note 14).

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

The Group does not have a single external major customer.

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

The Executive Committee (Excom) is actively involved in planning, approving, reviewing, and assessing the performance of each of the Group's segments. The Excom oversees Group's decision making process. The Excom's functions are supported by the heads of each of the operating segments, which provide essential input and advice in the decision-making process.

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', EBIT' and EBITDA' for the nine months ended and as of September 30, 2014 and 2013. Core earnings pertain to income before income tax excluding market valuation gains (losses) on financial assets at FVPL, market valuation gains on derivative financial instruments and foreign exchange gains (losses).

The Group's operating segment information follows:

	September 30, 2014							
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	₱69,239,257	₱38,445,522	₱13,051,758	₱556,865	₱1,917,175	₱338,664	₱-	₱123,549,241
Intersegment revenue	-	-	-	189,497	-	-	(189,497)	-
Dividend income	69,239,257	38,445,522	13,051,758	746,362	1,917,175	338,664	(189,497)	123,549,241
Equity in net earnings of associates and joint ventures	16,151	-	-	-	5	3,335,391	(1,142)	3,350,405
<b>Total revenue</b>	69,277,780	38,533,719	14,816,848	746,362	1,917,180	7,589,934	(202,826)	132,678,997
Cost of sales and services	47,821,960	27,298,764	6,392,786	948,525	406,186	-	(290,995)	82,577,226
<b>Gross income (loss)</b>	₱21,455,820	₱11,234,955	₱8,424,062	(₱202,163)	₱1,510,994	₱7,589,934	₱88,169	₱50,101,771
General and administrative expenses								22,834,216
Impairment losses and others								86,882
<b>Operating income</b>								27,180,673
Financing cost and other charges								(4,127,697)
Finance income								999,797
Other operating income								1,083,309
<b>Core earnings</b>								25,136,082
Market valuation gain on financial assets at FVPL								172,799
Market valuation gain on derivative financial instruments								(148,896)
Foreign exchange loss								(379,482)
<b>Income before income tax</b>								24,780,503
Provision for income tax								2,810,031
<b>Net income</b>								₱21,970,472
<b>Net income attributable to equity holders of the Parent Company</b>	₱4,774,522	₱1,397,974	₱4,130,883	(₱495,758)	₱105,232	₱5,978,376	(₱45,692)	₱15,845,537
<b>EBIT</b>	₱10,562,637	₱2,942,621	₱4,779,572	(₱423,748)	₱217,443	₱9,102,148	₱-	₱27,180,673
Depreciation and amortization	2,825,733	3,137,638	1,998,653	130,092	139,917	28,698	-	8,260,731
<b>EBITDA</b>	₱13,388,370	₱6,080,259	₱6,778,225	(₱293,656)	₱357,360	₱9,130,846	-	₱35,441,404
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization								₱-
Impairment losses on receivables (Note 11)								₱86,882

September 30, 2013

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	₱60,091,943	₱30,581,860	₱12,392,330	₱967,735	₱2,135,747	₱281,070	₱-	₱106,450,685
Intersegment revenue	-	-	-	165,355	-	-	(165,355)	-
Dividend income	60,091,943	30,581,860	12,392,330	1,133,090	2,135,747	281,070	(165,355)	106,450,685
Equity in net earnings of associates and joint ventures (Note 14)	100,809	14,349	-	-	637	3,169,120	(914)	3,284,001
	18,898	70,410	1,237,015	-	-	104,611	18,705	1,449,639
<b>Total revenue</b>	60,211,650	30,666,619	13,629,345	1,133,090	2,136,384	3,554,801	(147,564)	111,184,325
Cost of sales and services	42,808,640	22,213,571	6,209,482	1,699,150	478,586	-	(232,795)	73,176,634
<b>Gross income (loss)</b>	₱17,403,010	₱8,453,048	₱7,419,863	(566,060)	₱1,657,798	₱3,554,801	₱85,231	38,007,691
General and administrative expenses								18,946,072
Impairment losses and others								90,559
<b>Operating income</b>								18,971,060
Financing cost and other charges								(2,992,804)
Finance income								1,426,815
Other operating income								387,252
<b>Core earnings</b>								17,792,323
Market valuation loss on financial assets at FVPL								(4,540)
Market valuation gain on derivative financial instruments								79,255
Foreign exchange losses								(2,847,316)
<b>Income before income tax</b>								15,019,722
Provision for income tax								1,685,174
<b>Net income</b>								₱13,334,548
<b>Net income attributable to equity holders of the Parent Company</b>	₱5,118,430	₱446,480	₱3,461,397	(₱804,377)	₱256,698	₱323,823	(₱391,789)	₱8,410,662
<b>EBIT</b>	₱7,755,854	₱2,257,506	₱4,534,377	(₱736,621)	₱498,824	₱4,661,120	₱-	₱18,971,060
Depreciation and amortization	2,560,546	2,521,008	1,844,222	122,836	117,679	31,015	-	7,197,306
<b>EBITDA</b>	₱10,316,400	₱4,778,514	₱6,378,599	(613,785)	₱616,503	₱4,692,134	₱-	₱26,168,366
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization								₱90,559
Impairment losses on receivables (Note 11)	₱-	₱16	₱-	₱-	₱90,543	₱-	₱-	₱90,559

Other information on the Group's operating segments follow:

	September 30, 2014									
	Foods, Agro-Industrial and Commodities			Air Transportation and Hotels		Petrochemicals	Banking	Other Supplementary Businesses and Eliminations	Adjustments and Eliminations	Consolidated
Investments in associates and joint ventures (Note 14)	₱468,006	₱608,353	₱36,581,931	₱-	₱-	₱72,907,226	₱-	₱-	₱110,565,516	
Segment assets	₱70,381,766	₱71,254,377	₱82,684,759	₱45,232,043	₱51,327,044	₱261,600,637	(₱77,486,012)	₱504,994,614		
Segment liabilities	₱17,681,796	₱48,243,325	₱30,883,857	₱7,575,449	₱45,744,888	₱142,215,655	(₱43,272,731)	₱249,072,239		
Capital expenditures	₱5,560,946	₱8,823,197	₱6,201,951	₱6,426,448	₱140,897	₱7,852	₱-	₱27,161,291		
	September 30, 2013									
	Foods, Agro-Industrial and Commodities			Air Transportation and Hotels		Petrochemicals	Banking	Other Supplementary Businesses and Eliminations	Adjustments and Eliminations	Consolidated
Investments in associates and joint ventures (Note 14)	₱85,036	₱529,874	₱34,339,318	₱-	₱-	₱670,749	₱-	₱-	₱35,624,977	
Segment assets	₱61,581,762	₱65,801,954	₱73,283,601	₱32,395,170	₱41,781,280	₱188,024,095	(₱75,398,471)	₱387,469,391		
Segment liabilities	₱12,182,194	₱44,166,199	₱24,711,429	₱2,956,409	₱36,351,390	₱93,074,201	(₱40,983,663)	₱172,458,159		
Capital expenditures	₱4,430,649	₱9,996,745	₱8,047,892	₱5,054,109	₱101,521	₱478	₱-	₱27,631,394		

### Intersegment Revenues

Intersegment revenues are eliminated at the consolidation level.

### Segment Results

Segment results pertain to the net income (loss) of each of the operating segments adjusted by the subsequent take up of significant transactions of operating segments with fiscal year-end and the capitalization of borrowing costs at the consolidated level for qualifying assets held by a certain subsidiary. The chief decision maker also uses the 'Core earnings', 'EBIT' and 'EBITDA' in measuring the performance of each of the Group's operating segments. The Group defines each of the operating segment's 'Core earnings' as the total of the 'Operating income', 'Finance income' and 'Other operating income' deducted by the 'Financing cost and other charges'. EBIT is equivalent to the Group's operating income while EBITDA is computed by adding back to the EBIT the depreciation and amortization expenses during the period. Depreciation and amortization include only the depreciation and amortization of , plant and equipment, investment properties, deferred subscriber acquisition and retention costs and intangible assets.

### Depreciation and amortization

The amount of reported depreciation and amortization includes depreciation for investment properties and property, plant and equipment, and amortization of intangible assets

### Segment Assets

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

### Segment Liabilities

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

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## 7. Cash and Cash Equivalents

This account consists of:

	<b>September 30, 2014</b>	December 31, 2013
	<b>(Unaudited)</b>	(Audited)
Cash on hand	<b>₱771,186</b>	₱1,229,949
Cash in banks	<b>22,208,396</b>	16,963,336
Cash equivalents	<b>9,550,165</b>	16,802,724
	<b>₱32,529,747</b>	₱34,996,009

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.

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## 8. Derivative Financial Instruments

### *Derivatives not designated as accounting hedges*

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

- **Commodity derivatives**

The Group entered into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a credit to or charge against profit or loss. The notional quantity is the amount of derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. Some of these derivatives are commodity options, which can be exercised at various calculation dates with specified quantities on each calculation date.

### *Derivatives designated as accounting hedges*

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

The accounting treatment explained in Note 2 to the consolidated financial statements, *Hedge Accounting*, varies according to the nature of the hedged item and compliance with the hedge criteria. Hedges entered into by the Group which provide economic hedges but do not meet the hedge accounting criteria are included under derivatives not designated as accounting hedges.

- **Interest rate swaps**

On December 18, 2012, the Group entered into an interest rate swap transaction with a notional amount of US\$250.0 million effective January 16, 2013. Under the swap transaction, the Group would pay a fixed rate quarterly on the 16th of April, July, October and January in each year commencing on April 16, 2013, up to and including the termination date, January 16, 2018, subject to adjustment in accordance with the Modified Following Business Day Convention.

### 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.

As of September 30, 2014, the positive fair value of the swap amounted to ₱84.0 million with an outstanding notional amount of US\$250 million.

### Fair value changes in derivatives

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

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

These investments that are held for trading consist of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Debt securities:		
Private	₱9,965,499	₱10,102,656
Government	3,056,171	2,639,167
	<b>13,021,670</b>	12,741,823
Equity securities:		
Quoted	4,236,069	2,727,079
Unquoted	3	3
	<b>4,236,072</b>	2,727,082
	<b>₱17,257,742</b>	₱15,468,905

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

### Available-for-Sale Investments

This account consists of investments in:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Debt securities:		
Government	₱5,483,516	₱5,483,387
Private	3,577,261	3,855,930
	<b>9,060,777</b>	9,339,317
Equity securities:		
Quoted	54,827,978	47,358,232
Unquoted	24,293	53,566
	<b>54,852,271</b>	47,411,798
	<b>₱63,913,048</b>	₱56,751,115

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

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Current portion	₱10,366,251	₱10,641,373
Noncurrent portion	53,546,797	46,109,742
	<b>₱63,913,048</b>	₱56,751,115

### Held-to-Maturity Investment

The HTM investment of the Group consists of investment in private and government debt securities with interest ranging from 2.7% to 8.6%.

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## 11. Receivables

This account consists of:

	<b>September 30, 2014</b> <b>(Unaudited)</b>	December 31, 2013 <b>(Audited)</b>
Finance receivables	<b>₱20,280,349</b>	₱18,266,480
Trade receivables	<b>13,736,068</b>	11,874,560
Due from related parties (Note 23)	<b>1,058,187</b>	1,404,035
Interest receivable	<b>523,055</b>	488,274
Other receivables	<b>1,894,444</b>	1,810,489
	<b>37,492,103</b>	33,843,838
Less allowance for impairment losses	<b>1,126,456</b>	1,048,044
	<b>₱36,365,647</b>	₱32,795,794

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

	<b>September 30, 2014</b> <b>(Unaudited)</b>	December 31, 2013 <b>(Audited)</b>
Current portion	<b>₱18,691,090</b>	₱18,162,895
Noncurrent portion	<b>17,674,557</b>	14,632,899
	<b>₱36,365,647</b>	₱32,795,794

Noncurrent receivables consist of:

	<b>September 30, 2014</b> <b>(Unaudited)</b>	December 31, 2013 <b>(Audited)</b>
Trade receivables	<b>₱2,712,801</b>	₱2,162,009
Finance receivables	<b>14,961,756</b>	12,470,890
	<b>₱17,674,557</b>	₱14,632,899

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

### Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group. These are collectible in monthly installments over a period of between one year to five years and earn annual interest computed on the diminishing balance of the principal. Revenue from real estate and hotels includes interest income earned from installment contract receivables.

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

### Others

Other receivables include unquoted debt securities, claims receivables, creditable withholding tax and other receivables. Unquoted debt securities pertain to investments in private bonds with local companies. Unquoted debt securities earn interest at annual fixed rates.

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## 12. Inventories

This account consists of inventories held as follows:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
At cost:		
Raw materials	₱7,449,996	₱3,527,251
Finished goods	3,260,690	2,269,944
<b>Total</b>	<b>10,710,686</b>	<b>5,797,195</b>
At NRV:		
Subdivision land, condominium and residential units for sale	13,118,734	12,019,620
Spare parts, packaging materials and other supplies	4,360,942	3,912,756
Work-in-process	537,338	507,289
By-products	20,094	36,998
	<b>18,037,108</b>	<b>16,476,663</b>
Materials in-transit	3,551,761	2,264,152
	<b>₱32,299,555</b>	<b>₱24,538,010</b>

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## 13. Other Current Assets

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Input value-added tax (VAT)	₱4,474,218	₱1,584,727
Advances to suppliers	2,457,708	1,510,631
Advances to lot owners	1,064,442	650,040
Prepaid expenses	829,257	633,867
Funds under escrow	305,256	2,600,728
Utility deposits	5,106	5,726
Others	431,651	342,255
	<b>₱9,567,638</b>	<b>₱7,327,974</b>

### Input VAT

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

### Advances to Suppliers

Advances to suppliers include advance payments for the acquisition of raw materials, spare parts, packaging materials and other supplies. Also included in the account are advances made for the purchase of various aircraft parts and service maintenance. These are applied against progress billings which occur within one year from the date the advances arose.

### Advances to Lot Owners

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired and intended to be classified as inventories in the Group's real estate business.

## 14. Investments in Associates and Joint Ventures

Details of this account follow:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Acquisition cost:		
Balance at beginning of year	₱92,854,141	₱19,691,512
Additional investments	902,200	73,174,629
Return of investment from an associate	(30,000)	(12,000)
Investment for disposal classified as held for sale	(5,646)	-
Balance at end of year	93,720,695	92,854,141
Accumulated equity in net earnings:		
Balance at beginning of year	15,652,387	14,045,215
Equity in net earnings	5,779,351	2,279,851
Accumulated equity in net earnings of disposed investment	(12,907)	-
Cash dividends received	(4,378,939)	(672,679)
Balance at end of year	17,039,892	15,652,387
Share in net unrealized gain on AFS investments of an associate:		
Balance at beginning of year	4,548	16,145
Share in net changes in fair value of AFS investments of an associate	(1,269)	(11,597)
Balance at end of year	3,279	4,548
Cumulative translation adjustment	99,100	89,596
	110,862,966	108,600,672
Less allowance for impairment losses	297,450	297,450
	₱110,565,516	₱108,303,222

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

	Percentage of Ownership		Carrying Value	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
			(In Million Pesos)	
<b>Associates</b>				
Foreign:				
United Industrial Corp., Limited (UICL)	36.99	37.00	₱36,581.9	₱34,814.6
Domestic:				
Manila Electric Company (Meralco)	27.10	27.10	72,226.9	72,127.8
OPMC	19.40	19.40	584.4	547.7
Cebu Light Industrial Park, Inc. (CLIP)	20.00	20.00	92.1	126.6
Jobstreet.com Philippines, Inc. (JPI)	40.00	40.00	-	18.5
Sterling Holdings and Security Corporation (SHSC)	49.00	49.00	-	-
Buang Private Power Corporation (BPPC)/First Private Power Corporation (FPPC)	18.66	18.66	-	-
			109,485.3	107,635.2
<b>Joint Ventures</b>				
Domestic:				
SIA Engineering (Philippines) Corp. (SIAEP)	23.53	23.53	262.2	280.4
Aviation Partnership (Philippines) Corp. (APPC)	32.95	32.94	195.3	167.1
Hunt-Universal Robina Corporation (HURC)	27.91	27.91	107.8	85.4
Calbee-URC, Inc.	27.91	-	327.0	-
Danone Universal-Robina Beverages, Inc.	27.91	-	33.2	-
Philippine Academy for Aviation Training (PAAT)	33.62	33.62	150.9	131.3

	Percentage of Ownership		Carrying Value	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
			(In Million Pesos)	
MPIC-JGS Airport Holdings, Inc.	41.25	41.25	3.8	3.8
			1080.2	668.0
			<b>₱110,565.5</b>	<b>₱108,303.2</b>

#### Acquisition of Associate

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

As of September 30, 2014, the purchase price allocation relating to the Group’s acquisition of Meralco shares has been provisionally determined. Given the size and complexity of these transactions, the preliminary allocation is subject to revision to reflect the final determination of fair values. The preliminary accounting will be completed based on further valuations and studies carried out within twelve months from acquisition date. As of September 30, 2014, the difference between the carrying value of the investment in Meralco and the equity in net assets of Meralco pertains to the difference between the fair value and carrying value of Meralco including any notional goodwill.

#### Investment in UICL

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

#### Investment in OPMC

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

#### Investment in CLIPI

The Group’s investment in CLIPI includes deposits for future subscription amounting to ₱72.0 million on the latter’s proposed increase in authorized capital stock. Such increase in CLIPI’s authorized capital stock has not been effected as of June 30, 2014.

In 2013, the Company’s investment in preferred shares of CLIPI was redeemed.

#### Investment in JobStreet

On February 18, 2014, JobStreet.com Pte Ltd, JPI, SII (as the Vendor) and the Parent Company (as the Vendor Guarantor) entered into a conditional share sale agreement for JobStreet.com Pte Ltd to acquire from SII 5,645,598 ordinary shares of ₱1.00 each in JobStreet representing the remaining 40.00% of the total issued and paid-up share capital of JobStreet for a purchase price of RM120,536,000.

#### Investment in SHSC

The investment in SHSC is fully provided with allowance amounting to ₱113.4 million as of June 30, 2014.

#### Investment in Joint Ventures

##### SIAEP

SIAEP is a jointly controlled entity which was incorporated on July 27, 2008 and was established for the purpose of providing line and light maintenance services to foreign and local airlines, utilizing the facilities and services at airports in the Philippines, as well as aircraft maintenance and repair organizations.

##### PAAT

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

CAI entered into a joint venture agreement with CAE on December 13, 2011. PAAT was created to provide training for pilots, cabin crews, aviation management services and guest services for purposes of addressing the Group's training requirements and to pursue business opportunities for training third parties in the commercial fixed wing aviation industry, including other local and international airline companies. On December 19, 2011, the Parent Company paid ₱33.8 million representing 25% payment for the 135,000,000 Class A subscribed shares at ₱1.0 par value. PAAT was formally incorporated on January 27, 2012.

##### Investment in MPIC-JGS Airport Consortium, Inc.

On February 22, 2013, Metro Pacific Investments Corporation (MPIC) and the Parent Company signed a memorandum of agreement to form an exclusive strategic partnership to jointly pursue and bid for Mactan-Cebu International Airport (MCIA) Passenger Terminal Project. In March 2013, a joint venture, MPIC-JGS Airport Consortium, Inc. was incorporated by MPIC, the Parent Company and an airport operator partner to bid for the rehabilitation and expansion of the Mactan-Cebu International Airport and to explore the other airport projects that may be rolled out by the government in the future. On December 13, 2013, the MCIA Passenger Terminal Project was awarded to another bidder.

##### Investment in Calbee-URC, Inc.

In May 2014, URC invested in a domestic joint venture, Calbee-URC, Inc., on equal ownership with Calbee, Inc. The joint venture aims to grow sales of "Calbee" snack products and expand market share in the Philippines.

##### Investment in Danone Universal Robina Beverages, Inc.

URC invested in a domestic joint venture, Danone Universal Robina Beverages, Inc. on equal ownership with Danone Asia Holdings Private Limited. The joint venture aims to diversify the beverage product lines, increase sales of its various beverage products and expand market share in the Philippines.

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## 15. Other Noncurrent Assets

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Advances to suppliers	₱1,257,692	₱2,158,529
Input VAT	–	2,124,811
Security and miscellaneous deposits	716,373	700,669
Deferred tax assets	756,449	539,059
Utility deposits	407,922	322,195
Advances to lot owners	43,078	43,078
Others	972,774	748,551
	<b>₱4,154,288</b>	<b>₱6,636,892</b>

### Advances to Suppliers

Advances to suppliers include advances made for the purchase of various aircraft parts, service maintenance, machineries and equipment. The account also includes advances to suppliers for the plant expansion and renovations of URC's plants located in Malaysia and Singapore.

### Input VAT

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

### Security Deposits

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

### Utility Deposits

Utility deposits consist primarily of bid bonds and meter deposits.

### Advances to Lot Owners

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired.

### Others

Others include deposit to joint venture and repossessed chattels.

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## 16. Accounts Payable and Accrued Expenses

This account consists of:

	<b>September 30, 2014</b>	December 31, 2013
	<b>(Unaudited)</b>	(Audited)
Deposit liabilities	<b>₱38,298,410</b>	₱31,639,552
Trade payables	<b>10,488,791</b>	12,075,593
Accrued expenses	<b>11,941,127</b>	10,020,000
Airport and other related fees payable	<b>1,067,887</b>	742,615
Due to related parties (Note 23)	<b>535,620</b>	531,212
Output VAT	<b>119,985</b>	11,906
Withholding taxes payable	<b>271,025</b>	169,137
Dividends payable	<b>10,901</b>	10,021
Equity investment acquisition payable (Note 14)	–	31,437,008
Other payables	<b>1,950,470</b>	1,912,048
	<b>₱64,684,216</b>	₱88,549,092

### Deposit Liabilities

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

On March 29, 2012, the BSP issued Circular No. 753 mandating the unification of the statutory and liquidity reserve requirement on deposit liabilities and deposit substitutes. As such, effective the reserve week starting April 6, 2012, non-FCDU deposit liabilities of RBC and LSB are subject to required reserves equivalent to 18.00% and 6.00%, respectively. In compliance with this circular, government securities which are used as compliance with the liquidity reserve requirements shall continue to be eligible until they mature and cash in vault shall no longer be included as reserve. The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDAs) with the BSP. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest.

### Trade Payables

Trade payables are noninterest-bearing and are normally settled on 30- to 60-day terms. Trade payables arise mostly from purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations. Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts. Obligations arising from purchase of inventories necessary for the daily operations and maintenance of aircraft which include aviation fuel, expendables and consumables, equipment and in-flight supplies are also charged to this account.

### Airport and Other Related Fees Payable

Airport and other related fees payable are amounts payable to the Philippine Tourism Authority and Air Transportation Office on aviation security, terminal fees and travel taxes.

### Other Payables

Other payables consist mostly of management bonus and royalty payables.

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## 17. Other Current Liabilities

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Unearned transportation revenue	₱6,463,473	₱5,338,917
Deposits from real estate buyers (Note 19)	1,462,768	1,327,570
Advances from agents and others	346,944	291,742
Customer's deposits	233,348	220,926
Redeemable preference shares	1,700	1,700
Deposits from lessees (Note 19)	614,733	557,915
	<b>₱9,122,966</b>	<b>₱7,738,770</b>

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### Unearned Transportation Revenue

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

### Advances from Agents and Others

Advances from agents and others represent cash bonds required from major sales and ticket offices or agents.

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## 18. Short-term and Long-term Debts

### Short-term Debts

Short-term debts consist of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Parent Company:		
Philippine Peso - unsecured with interest rate ranging from 2.0% to 3.0% in 2014 and 3.3% to 2.2% in 2013	₱17,449,800	₱18,400,000
Subsidiaries:		
Foreign currencies - unsecured with interest rates ranging from 0.5% to 4.8% in 2014 and 0.4% to 4.8% in 2013	16,818,912	9,634,929
Philippine Peso - with interest rates of 1.95% to 2.75% in 2014 and 2.0% in 2013	6,640,550	5,062,716
	<b>23,459,462</b>	<b>14,697,645</b>
	<b>₱40,909,262</b>	<b>₱33,097,645</b>

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### Long-term Debts

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

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
<b>Parent Company:</b>		
Fixed Rate Retail Bonds	<b>₱24,306,347</b>	₱-
Fixed Rate Retail Bonds	<b>8,996,454</b>	8,977,716
Fixed Rate Retail Bonds	<b>5,267,214</b>	-
Fixed Rate Retail Bonds	<b>174,775</b>	-
	<b>38,744,790</b>	8,977,716
<b>Subsidiaries:</b>		
Foreign currencies		
JGSPL		
US\$750.0 million guaranteed	<b>29,729,139</b>	29,979,487
US\$250.0 million guaranteed	<b>11,061,541</b>	10,912,263
CAI		
ECA loans	<b>18,326,426</b>	20,211,787
Commercial loans	<b>13,582,014</b>	9,194,679
	<b>72,699,120</b>	70,298,216
Philippine Peso		
RLC		
₱9.0 billion term loan	<b>9,000,000</b>	5,000,000
₱1.0 billion term loan	<b>1,000,000</b>	5,000,000
	<b>10,000,000</b>	10,000,000
	<b>82,699,120</b>	80,298,216
	<b>121,443,910</b>	89,275,932
Less: Current portion	<b>4,315,775</b>	22,674,079
	<b>₱117,128,135</b>	₱66,601,853

Except for the balances of subsidiaries reporting at September 30 fiscal year end, the foreign exchange rate used to revalue the foreign currency borrowings was ₱44.88 to US\$1.00 and ₱44.40 to US\$1.00 on September 30, 2014 and December 31, 2013, respectively. The foreign exchange rates used by the subsidiaries reporting at fiscal year end were ₱43.65 to US\$1.00 and ₱43.54 to US\$1.00 on June 30, 2014 and September 30, 2013, respectively.

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

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

The following significant transactions affected the Group's long-term debt:

#### Parent Company ₱30.0 Billion Fixed Rate Retail Bonds

On February 28, 2014, the Parent Company issued a ₱30.0 billion fixed rate retail bond. The bond was issued in three series: (1) Five-year bond amounting to ₱24.51 billion fixed at 5.2317% due 2019; (2) Seven-year bond amounting to ₱5.31 billion fixed at 5.2242% due 2021; and (3) Ten

year bond amounting to ₱176.34 million fixed at 5.3% due 2024.

#### Subsidiaries' Foreign Currency Loans

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

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

##### *JGSPL 5-year Guaranteed Notes*

On January 16, 2013, JGSPL, a wholly owned subsidiary of JGSPL, issued US\$250.0 million, US\$ LIBOR plus 2.2% margin, 5-year guaranteed notes. The notes are unconditionally and irrevocably guaranteed by the Parent Company.

##### *CAI Commercial Loan From Foreign Banks*

In 2007, CAI entered into a commercial loan facility to partially finance the purchase of two Airbus A320 aircraft, one CFM 565B4/P engine, two CFM 565B5/P engines and one QEC Kit. The security trustee of the commercial loan facility established ILL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to a: (a) 10-year finance lease arrangement for the aircraft, (b) six-year finance lease arrangement for the engines and (c) five-year finance lease arrangement for the QEC Kit. The quarterly rental payments of CAI correspond to the principal and interest payments made by ILL to the commercial lenders and are guaranteed by the Parent Company. CAI has the option of purchasing the aircraft, the engines and the QEC Kit for a nominal amount at the end of such leases.

In 2008, CAI also entered into a commercial loan facility, in addition to ECA loans, to partially finance the purchase of six ATR 72-500 turboprop aircraft. The security trustee of the commercial loan facility established BLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI. The commercial loan facility is payable in 12 equal, consecutive, semi-annual installments starting six months after the utilization date.

The terms of the commercial loan from foreign banks follow:

- Term of 10 years starting from the delivery date of each Airbus A320 aircraft.
- Term of six and five years for the engines and QEC Kit, respectively.
- Term of six years starting from the delivery date of each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the two Airbus A320 aircraft and six ATR 72-500 turboprop aircraft, and equal principal repayments for the engines and the QEC Kit. Principal repayments shall be made on a quarterly and semi-annual basis for the two Airbus A320 aircraft, engines and the QEC Kit and six ATR 72-500 turboprop aircraft, respectively.
- Interest on the commercial loan facility for the two Airbus A320 aircraft shall be 3-month LIBOR plus margin. On February 29, 2009, the interest rates on the two Airbus A320 aircraft, engines and QEC Kit were fixed ranging from 4.11% to 5.67%.
- Interest on the commercial loan facility for the six ATR 72-500 turboprop aircraft shall be 6-month LIBOR plus margin.
- The commercial loan facility provides for material breach as an event of default.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose on secured assets, namely the aircraft.

##### *CAI's ECA Loans*

In 2005 and 2006, CAI entered into ECA-backed loan facilities to partially finance the purchase of ten Airbus A319 aircraft. The security trustee of the ECA loans established CALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 12-year finance lease agreements. The quarterly rental payments made by CAI to

CALL correspond to the principal and interest payments made by CALL to the ECA-backed lenders. The quarterly lease rentals to CALL are guaranteed by CPAHI and the Parent Company. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2009, CAI entered into ECA loans to partially finance the purchase of two ATR 72-500 turboprop aircraft. The security trustee of the ECA loans established SLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 10-year finance lease agreements. The semi-annual rental payments made by CAI to SLL corresponds to the principal and interest payments made by SLL to the ECA-backed lenders. The semi-annual lease rentals to SLL are guaranteed by the Parent Company. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2010, CAI entered into ECA-backed loan facilities to fully finance the purchase of four Airbus A320 aircraft. The security trustee of the ECA loans established SALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 12-year finance lease agreements. The quarterly rental payments made by CAI to SALL corresponds to the principal and interest payments made by SALL to the ECA-backed lenders. The quarterly lease rentals to SALL are guaranteed by the Parent Company. CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2011, CAI entered into ECA-backed loan facilities to fully finance the purchase of three Airbus A320 aircraft. The security trustee of the ECA loans established VALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 12-year finance lease agreements. The quarterly rental payments made by CAI to VALL corresponds to the principal and interest payments made by VALL to the ECA-backed lenders. The quarterly lease rentals to VALL are guaranteed by the Parent Company. CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

In 2012, CAI entered into ECA-backed loan facilities to partially finance the purchase of three Airbus A320 aircraft. The security trustee of the ECA loans established POALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to twelve-year finance lease agreements. The quarterly rental payments made by CAI to POALL corresponds to the principal and interest payments made by POALL to the ECA-backed lenders. The quarterly lease rentals to POALL are guaranteed by the Parent Company. CAI has the option to purchase the aircraft for a nominal amount at the end of such leases.

The terms of the ECA-backed facilities, which are the same for each of the ten Airbus A319 aircraft, seven ATR 72-500 turboprop aircraft and ten Airbus A320 aircraft, follow:

- Term of 12 years starting from the delivery date of each Airbus A319 aircraft and Airbus A320, and ten years for each ATR 72-500 turboprop aircraft.
- Annuity style principal repayments for the first four Airbus A319 aircraft, eight ATR 72-500 turboprop aircraft and seven Airbus A320 aircraft, and equal principal repayments for the last six Airbus A319 aircraft and last three Airbus A320 aircraft. Principal repayments shall be made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for Airbus A319 and A320 aircraft.
- Interest on loans from the ECA lenders related to CALL, BLL and SALL is at fixed rates, which range from 3.8% to 5.8%. Interest on loans from ECA lenders related to SLL is fixed at 3.4% for one aircraft and US dollar LIBOR 6 months plus margin for the other aircraft. Interest on loans from the ECA lenders related to VALL is fixed at 2.6% for one Airbus A320 aircraft and US dollar LIBOR 3 months plus margin for two Airbus A320 aircraft. Interest on loans from ECA lenders related to POALL for the three A320 aircraft is US dollar LIBOR 3

- months plus margin.
- As provided under the ECA-backed facility, CALL, BLL, SLL, SALL, VALL and POALL cannot create or allow to exist any security interest, other than what is permitted by the transaction documents or the ECA administrative parties. CALL, BLL, SLL, SALL, VALL and POALL must not allow impairment of first priority nature of the lenders' security interests.
  - The ECA-backed facilities also provide for the following events of default: (a) nonpayment of the loan principal or interest or any other amount payable on the due date; (b) breach of negative pledge, covenant on preservation of transaction documents; (c) misrepresentation; (d) commencement of insolvency proceedings against CALL or BLL or SLL or SALL or VALL or POALL becomes insolvent; (e) failure to discharge any attachment or sequestration order against CALL's, BLL's, SLL's, SALL's, VALL's and POALL's assets; (f) entering into an undervalued transaction, obtaining preference or giving preference to any person, contrary to the laws of the Cayman Islands; (g) sale of any aircraft under ECA financing prior to discharge date; (h) cessation of business; (i) revocation or repudiation by CALL or BLL or SLL or SALL or VALL or POALL, CAI, the Parent Company or CPAHI of any transaction document or security interest; and (j) occurrence of an event of default under the lease agreement with CAI.
  - Upon default, the outstanding amount of the loan will be payable, including interest accrued. The ECA lenders will foreclose on the secured assets, namely the aircraft.
  - An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

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## 19. Other Noncurrent Liabilities

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Deposits from lessees	P2,247,811	P2,040,053
Deposit liabilities	1,586,322	1,944,150
Due to related parties (Note 23)	1,630,037	1,027,535
Accrued rent expense	1,226,986	1,226,986
Pension liabilities	1,134,641	1,440,907
ARO	612,679	1,637,346
Accrued maintenance cost	280,517	280,517
Deposits from real estate buyers	272,957	247,728
Others	490,100	410,490
	<b>P9,482,050</b>	<b>P10,255,712</b>

### Deposit Liabilities

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

### Deposits from Lessees

Deposits from lessees (including the current portion shown in Note 16) represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of lease term. These are initially recorded at fair value, which is obtained by discounting its future cash flows using the applicable rates of similar types of instruments.

### ARO

The Group is legally required under certain lease contracts to restore certain leased passenger aircraft to stipulated return conditions and to bear the costs of restoration at the end of the contract period. These costs are accrued based on an internal estimate made by the work of both third party and the Group's engineers in 2010, which includes estimates of certain redelivery costs at the end of the operating aircraft lease.

### Deposits from Real Estate Buyers

Deposits from real estate buyers (including the current portion shown in Note 16) represent cash received in advance from buyers which shall be applied against the total contract price of the subdivision land, condominium and residential units that are for sale as soon as the contractual obligation of the real estate buyer has begun. The deposits from buyers which are expected to be applied to the contract price within one year are classified as current (Note 16).

Deposits from real estate buyers also include cash collections in excess of the installment contract receivables recognized under the percentage-of-completion method.

### Accrued Maintenance Cost

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

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## 20. Equity

Details of the Parent Company's authorized capital stock as of September 30, 2014 and December 31, 2013 follow:

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

As of September 30, 2014 and December 31, 2013, the paid-up capital of the Group consists of the following:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Capital stock:		
Common shares - ₱1 par value	₱7,017,192	₱7,017,192
Preferred voting shares - ₱0.01 par value	40,000	40,000
	7,057,192	7,057,192
Additional paid-in capital	14,958,146	14,958,146
Total paid-up capital	₱22,015,338	₱22,015,338

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

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

#### Issuance of Preferred Voting Shares

On July 26, 2011, the SEC approved the Parent Company's increase in authorized capital stock. Subsequently, all of the 4.0 billion preferred voting shares were fully subscribed and paid for at its par value of one centavo per share (total proceeds of ₱40.0 million).

#### *Preferred voting shares*

The preferred voting shares have, among others, the following rights, privileges and preferences:

- a. Entitled to vote on all matters involving the affairs of the Parent Company requiring the approval of the stockholders. Each share shall have the same voting rights as a common share.
- b. The shares shall be non-redeemable.
- c. Entitled to dividends at the rate of 1/100 of common shares, such dividends shall be payable out of the surplus profits of the Parent Company so long as such shares are outstanding.
- d. In the event of liquidation, dissolution, receivership or winding up of affairs of the Parent Company, holders shall be entitled to be paid in full at par, or ratably, in so far as the assets of the Parent Company will permit, for each share held before any distribution is made to holders of the common shares.

#### *Preferred non-voting shares*

The preferences, privileges and voting powers of the preferred non-voting shares shall be as follows:

- a. May be issued by the BOD of the Parent Company for such amount (not less than par), in such series, and purpose or purposes as shall be determined by the BOD of the Parent Company.
- b. The shares shall be non-convertible, non-voting, cumulative and non-participating.
- c. May be redeemable at the option of the Parent Company at any time, upon payment of their aggregate par or issue value, plus all accrued and unpaid dividends, on such terms as the BOD of the Parent Company may determine at the time of issuance. Shares so redeemed may be reissued by the Parent Company upon such terms and conditions as the BOD of the Parent Company may determine.
- d. The holders of shares will have preference over holders of common stock in the payment of dividends and in the distribution of corporate assets in the event of dissolution, liquidation or winding up of the Parent Company, whether voluntary or involuntary. In such an event, the holders of the shares shall be paid in full or ratably, insofar as the assets of the Parent Company will permit, the par or issue value of each share held by them, as the BOD of the Parent Company may determine upon their issuance, plus unpaid cumulated dividends up to the current period, before any assets of the Parent Company shall be paid or distributed to the holders of the common shares.
- e. The holders of shares shall be entitled to the payment of current as well as any accrued or unpaid dividends on the shares before any dividends can be paid to the holders of common shares.
- f. The holders of shares shall not be entitled to any other or further dividends beyond that specifically payable on the preferred non-voting shares.
- g. The holders of shares shall not be entitled to vote (except in those cases specifically provided by law) or be voted for.
- h. The holders of shares shall have no pre-emptive rights, options or any other similar rights to subscribe or receive or purchase any or all issues or other disposition of common or other preferred shares of the Parent Company.
- i. The shares shall be entitled to receive dividends at a rate or rates to be determined by the Parent Company's BOD upon their issuance.

#### Record of Registration of Securities with the SEC

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

Date of offering	Type of offering	No. of shares offered	Par value	Offer price	Authorized number of shares	Issued and outstanding shares
June 30, 1993	Registration of authorized capital stock	–	₱1.00	₱–	12,850,800,000 common shares and 2,000,000,000 preferred non-voting shares	–
June 30, 1993	Initial public offering (IPO)	1,428,175,000 common shares	1.00	4.40	–	1,428,175,000 common shares
June 30, 1994	Conversion of convertible bonds into common shares	428,175,000 common shares	1.00	13.75	–	3,725,457 common shares
July 3, 1998	Stock rights offering (1:2)	2,060,921,728 common shares	1.00	2.00	–	2,060,921,728 common shares

### 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:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
(a) Gross debt		
Short-term debt (Note 18)	₱40,909,262	₱33,097,645
Current portion of long-term debt (Note 18)	4,315,775	22,674,079
Long-term debt, net of current portion (Note 18)	117,128,135	66,601,853
Derivative liabilities (Note 8)	182,097	–
Redeemable preferred shares (Note 17)	1,700	1,700
	<b>₱162,536,969</b>	<b>₱122,375,277</b>
(b) Capital	<b>₱ 255,922,375</b>	<b>₱231,803,748</b>
(c) Debt-to-capital ratio (a/b)	<b>0.64:1</b>	<b>0.53:1</b>

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

### Regulatory Capital

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

RBC's regulatory capital consists of Tier 1 (core) capital, which comprises share capital and

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

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

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

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

In December 2010, the Basel Committee for Banking Supervision published the Basel III framework (revised in June 2011) to strengthen global capital standards, with the aim of promoting a more resilient banking sector. On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Group is required to comply with this circular effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratios of 7.50% with effect from January 1, 2014. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. BSP existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), and before the effectivity of BSP Circular No. 781 shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

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

### Restricted Retained Earnings

#### *Parent Company*

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

The ₱42.0 billion total appropriations of the Parent Company's retained earnings are earmarked for the following: (a) settlement of a certain subsidiary's loan obligations guaranteed by the Parent Company; (b) funding of capital expenditure commitments of certain wholly owned subsidiaries; (c) and general corporate purposes.

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

	<b>Subsidiary</b>	<b>Amount</b>	<b>Settlement</b>
<b>Loan Obligations</b>			
US\$ LIBOR plus 2.20% margin, 5-year guaranteed notes	JGSH Philippines, Limited	US\$250.0 million	5 years maturing in 2018
4.38% senior unsecured notes	JGSH Philippines, Limited	US\$750.0 million	10 years maturing in 2023
<b>Capital Expenditure Commitments</b>			
Expansion of polyethylene and polypropylene plants	JGSPC	US\$300.0 million	Expected completion in 2014
Construction of naphtha cracker plant	JGSOC	US\$800.0 million	Expected completion in 2014

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

#### *URC*

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

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

URC's expansion plans include investments and capital expenditures for existing and on-going projects. Out of the ₱5.0 billion, around ₱4.3 billion was allocated to branded consumer foods group for Polyethylene terephthalate bottle projects and snack food facilities in the Philippines; expansion of chocolates, biscuits and wafer lines in Thailand and Malaysia; and expansion of beverage, biscuits, cake and candy lines in Vietnam, which are all expected to be completed within the first half of fiscal year 2013. The rest of the appropriation will be used for farm expansion, handling facilities of the feeds division and maintenance capital expenditures of the commodity group, which are expected to be disbursed in the first half of fiscal year 2013.

#### *RLC*

On May 14, 2003, the BOD of RLC approved the appropriation of ₱3.5 billion, out of the unappropriated retained earnings, for future expansion.

On September 15, 2009, the BOD of RLC approved the additional appropriation of ₱7.0 billion, out of the unappropriated retained earnings of RLC, to support its capital expenditure requirement.

The current level of appropriations is earmarked for the continuing capital expenditures of RLC Group. About 33.0% of the appropriation is allocated for residential residential condos and housing units, mainly for the Luxuria (Amisa, Signa Designer, and Sonata projects) and Residences (Trion Towers and Magnolia Residences). 50% will be spent for mall operations (7 new malls and 2 expansion projects in the planning and development stage for completion in the next two years). 17% is allocated for office buildings for the development of 2 additional buildings in Ortigas and hotels for the Company's 6 expansion projects in the planning and development stage for completion in the next 2 years.

#### *CAI*

On April 19, 2012, the Parent Company's Executive Committee appropriated ₱483.3 million from its unrestricted retained earnings as of December 31, 2011 for purposes of the Group's re-fleeting program. The appropriated amount will be used for settlement of pre-delivery payments and aircraft lease commitments in 2013.

On December 9, 2011, the Parent Company's BOD appropriated ₱933.5 million from its unrestricted retained earnings as of December 31, 2010 for purposes of the Parent Company's re-fleeting program. The appropriated amount will be used for settlement of pre-delivery payments and aircraft lease commitments in 2013.

#### *EHI*

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

#### Equity Reserve

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

On March 6, 2013, RLC acquired the remaining 20.0% non-controlling interest in ASNC, increasing its ownership from 80.0% to 100.0%. Cash consideration of ₱197.6 million was paid to the non-controlling shareholders. The total carrying value of the net assets of ASNC at the date of acquisition was ₱577.5 million and the 20.0% equivalent of the carrying value of the non-controlling interest acquired was ₱115.5 million. The difference of ₱82.1 million between the consideration and the carrying value of the interest acquired is recognized in "Equity Reserve" account within equity.

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## 21. Employee Benefits

### Pension Plans

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

The pension funds are being administered and managed through JG Summit Multi-Employer

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

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

The Group expects to contribute ₱201.2 million to the defined benefit pension plans in 2014.

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## 22. Earnings Per Share

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

The following tables reflect the net income and share data used in the basic/dilutive EPS computations:

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

	<b>September 30, 2014</b> <b>(Unaudited)</b>	September 30, 2013 (Unaudited)
Income from attributable to equity holders of the Parent Company	<b>₱15,845,537</b>	₱8,410,662
Less: Dividends on preferred shares	-	-
Income attributable to holders of common shares of the Parent Company	<b>₱15,845,537</b>	₱8,410,662
Weighted average number of common shares	<b>7,017,192</b>	6,797,192
Basic/diluted earnings per share	<b>₱2.26</b>	₱1.24

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## 23. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties. Due from and due to related parties are collectible/payable on demand.

The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its. No fees are charged for these guarantee

agreements. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries.

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

*Transactions with the retirement plan*

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

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

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#### **24. Registration with Government Authorities/Franchise**

Certain operations of consolidated subsidiaries are registered with the BOI as preferred pioneer and non-pioneer activities, and are granted various authorizations from certain government authorities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

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#### **25. Contingent Liabilities**

Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business from legal proceedings which are either pending decision by the courts, under arbitration or being contested, the outcomes of which are not presently determinable. In the opinion of management and its legal counsels, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the ground that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.

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#### **26. Other Matters**

On July 18, 2014, URC's BOD approved the acquisition of 100% equity of NZ Snack Food Holdings Limited (NZFHL), holding company of Griffin's Foods Limited, through URCICL. The aggregate consideration for the proposed acquisition is around NZ\$700 million (approximately ₱26.0 billion).

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

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### **FINANCIAL RATIOS**

**AS OF SEPTEMBER 30, 2014 AND DECEMBER 31, 2013 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**

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

<b>Financial Ratios:</b>	<b>2014</b>	<b>2013</b>
<b>Profitability Ratio:</b>		
Operating Margin	20%	17%
<b>Liquidity Ratio:</b>		
Current ratio	1.01	0.73
<b>Capital Structure Ratios:</b>		
Gearing ratio	0.64	0.53
Net debt to equity ratio	0.49	0.35
Asset to equity ratio	1.97	2.00
Interest rate coverage ratio	8.59	8.74