

# COVER SHEET

SEC Registration Number

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**COMPANY NAME**

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**PRINCIPAL OFFICE** ( No. / Street / Barangay / City / Town / Province )

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Form Type

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Department requiring the report

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Secondary License Type, If Applicable

N	/	A
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**COMPANY INFORMATION**

Company's Email Address	Company's Telephone Number	Mobile Number
<b>www.jgsummit.com.ph</b>	<b>633-7631</b>	-
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	<b>2nd Thursday of June</b>	<b>12/31</b>

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
<b>Francisco M. Del Mundo</b>	<b>Pancho.delmundo@urc.net.ph</b>	<b>516-9822</b>	

**CONTACT PERSON'S ADDRESS**

<b>41st Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City</b>
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**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2 :** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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, 2018**
2. SEC 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. **Pasig City, Philippines**  
Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. **43<sup>rd</sup> Floor, Robinsons-Equitable Tower ADB Ave. corner Poveda Road, Pasig City 1600**  
Address of principal office Postal Code
8. **(632) 633-7631**  
Registrant's telephone number, including area code
9. **Not Applicable**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the RSC, or Sec. 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>7,162,841,657</b>
<b>Long-term Debt</b>	<b>30,000,000,000</b>

11. Are any or all of these securities listed on a Stock Exchange.  
  
Yes [ / ]      No [ ]  
If yes, state the name of such stock exchange and the classes of securities listed herein:

**Philippine Stock Exchange**  
**Common Stock**

12. Check whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the 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 that 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 - BUSINESS AND GENERAL 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, 2018 vs September 30, 2017**

JG Summit Holdings, Inc.'s consolidated core net income after taxes (excluding non-operating and nonrecurring items) amounted to ₱17.78 billion for the nine months of 2018, a 21.6% decline from ₱22.69 billion for the same period last year. The Group's consolidated net income from equity holders of the parent likewise declined 30.3% from ₱21.24 billion in 2017 to ₱14.80 billion in 2018 due to the lower net income of the petrochemicals, food and airline businesses, coupled by the translation effects of Philippine Peso depreciation of more than ₱4.0 against the U.S. Dollar for the nine months of 2018. Consolidated EBITDA amounted to ₱50.05 billion in 2018, a 4.9% decrease from last year's ₱52.60 billion.

Consolidated revenues grew 7.3% from ₱202.64 billion to ₱217.52 billion due to the performance of the following core subsidiaries:

- URC's total revenues increased by 3.4% from ₱92.42 billion in 2017 to ₱95.53 billion in 2018 mainly driven by the 4.8% increase in BCFG international sales, 21.7% sales growth of the feeds business, and 13.0% sales growth of the flour business.
- Cebu Air's total revenues went up by 7.4% from ₱50.33 billion to ₱54.04 billion for the nine months of 2018 largely due to a 5.4% increase in average fares and 1.6% growth in passenger volume.
- RLC's total revenues increased by 31.4% from ₱16.58 billion in 2017 to ₱21.79 billion in 2018 due to higher revenue from real estate operations.
- JG Petrochemicals Group revenues also increased by 6.0% from ₱30.54 billion for the nine months of 2017 to ₱32.36 billion for the same period this year driven by higher average selling price of polymers and cracker products, which offset the lower sales volume of polymers and pygas during the period.
- Robinsons Bank's revenues increased 32.0% from ₱3.24 billion for the nine months of 2017 to ₱4.27 billion for the same period this year mainly due to higher interest income from finance receivables.

Revenues from our core investments declined by 15.6% as the dividend income received by the Group decreased from ₱1.44 billion last year to ₱1.22 billion this year due to the lower dividends declared by PLDT (₱76 per share in 2017 to ₱64 per share in 2018). Equity in net earnings of associates, primarily from our investments in UIC/Singapore Land, Meralco and GBPC, increased by 3.2% from ₱7.57 billion for the nine months of 2017 to ₱7.81 billion for the same period this year, mainly due to the Group's additional 2.4% stake in Meralco acquired in June 2017, partially offset by the decline in equity earnings from UIC.

Consolidated cost of sales and services for the nine months of the year increased by 12.1% from ₱126.93 billion last year to ₱142.33 billion this year due to higher input costs of all core businesses.

The Group's operating expenses increased by 8.8% from ₱36.99 billion last year to ₱40.27 billion in the same period this year due to higher selling, general and administrative expenses, particularly from the food and airline businesses. As a result, Consolidated Operating Income or EBIT declined 9.8% from ₱38.72 billion to ₱34.92 billion.

The Group's financing costs and other charges, net of interest income, increased by 15.6% to ₱5.59 billion this year from last year's ₱4.84 billion due to higher level of financial debt of the Parent Company and higher interest benchmark rates such as Libor and PDST-R2 for our debts with floating rates.

Market valuation gain recognized from financial assets and derivative instruments for the nine months of 2018 amounted to ₱830.64 million, a turnaround from a ₱624.23 million loss for the same period last year largely attributable to the ₱2.55 billion mark-to-market valuation gains on fuel hedging transactions of the airline business during the period, offset by the mark-to-market valuation losses on the Group's financial assets at FVPL.

The Group recognized a net foreign exchange loss of ₱3.94 billion in 2018 from only ₱949.30 million for the same period last year due to the depreciation of Philippine Peso against the US Dollar from ₱49.93 as of December 31, 2017 to ₱54.02 as of September 30, 2018.

Other income (expense) - net account, which represents miscellaneous income and expenses, amounted to a loss of ₱133.00 million from ₱244.50 million gain last year mainly due to this year's net loss on sale of CEB's aircraft as compared to last year's net gain on sale of aircrafts.

Provision for income tax increased by 8.7% to ₱4.49 billion for the nine months of 2018 coming from higher taxable income of RLC.

## **FOOD**

**Universal Robina Corporation (URC)** generated a consolidated sale of goods and services of ₱95.53 billion for the nine months ended September 30, 2018, a 3.4% sales growth over the same period last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods segment (BCFG), excluding packaging division, increased by 1.7% to ₱76.17 billion for the nine months of 2018 from ₱74.92 billion registered in the same period last year. BCFG domestic operations posted a slight decline in net sales from ₱43.69 billion for the nine months of 2017 to ₱43.44 billion for the nine months of 2018 due to lower volume and unfavorable mix in the coffee category, despite the positive growth posted by noodles, biscuits and RTD beverages. BCFG international operations reported a 4.8% increase in net sales from ₱31.23 billion for the nine months of 2017 to ₱32.73 billion for the nine months of 2018. In US dollar (US\$) terms, sales slightly decreased by 0.3% to US\$623 million for the nine months of 2018 against the same period last year. Top-line growth mainly driven by Vietnam and Australia. Vietnam net sales grew on the back of consistent growth in C2 and strong performance of Rong Do plus the contribution of snackfoods while Australia sales growth was driven by solid performance of Nice & Natural. Malaysia and Indonesia also contributed to net sales increase with consistent performance of snacks and chocolates. Sale of goods and services in URC's packaging division increased by 15.2% to ₱1.14 billion for the nine months of 2018 from ₱922 million recorded in the same period last year due to higher prices. (2) Agro-Industrial segment (AIG) amounted to ₱8.46 billion for the nine months of 2018, an increase of 13.8% from ₱7.44 billion recorded in the same period last year. Feeds business grew by 21.7% due to higher average sales prices and sales volume of dog food, hog feeds and gamefowl feeds while farms business also increased by 4.8% driven by higher selling prices of hogs. (3) Sale of goods and services in commodity foods segment (CFG) amounted to ₱9.76 billion for the nine months of 2018, a 7.6% increase from ₱9.07 billion reported in the same period last year. Flour business grew by 13.0% due to higher volumes and selling prices. Sugar business also grew by 3.3% driven by higher volumes of refined sugar and higher selling prices of raw sugar.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by 3.8% to ₱66.56 billion for the nine months of 2018 from ₱64.13 billion recorded in the same period last year due to higher input costs of major raw materials.

URC's gross profit for the nine months of 2018 amounted to ₱28.97 billion, slightly up by 2.4% from ₱28.29 billion reported in the same period last year. Gross profit margin is slightly down by 28 basis points from 30.6% for nine months of 2017 to 30.3% for the nine months of 2018.

URC's selling and distribution costs and general and administrative expenses rose by 7.8% to ₱18.89 billion for the nine months of 2018 from ₱17.52 billion registered for the nine months of 2017 resulted primarily from the following factors: (a) 15.4% or ₱792 million increase in advertising and promotions to ₱5.92 billion for the nine months of 2018 from ₱5.13 billion in the same period last year due to higher consumer promotions and trade development activities to boost sales; (b) 4.3% or ₱168 million increase in compensation and benefits to ₱4.09 billion for the nine months of 2018 from ₱3.92 billion in the same period last year due to annual salary adjustments and increase in headcount; and (c) 24.9% or ₱129 million increase in contracted services costs to ₱648 million for the nine months of 2018 from ₱518 million in the same period last year due to additional conso warehouses and increase in shared services charges.

As a result of the above factors, operating income decreased by 6.4% to ₱10.08 billion for the nine months of 2018 from ₱10.77 billion reported in the same period last year.

Market valuation loss on financial instruments at fair value through profit or loss of ₱70.95 million was reported for the nine months of 2018 against the ₱65.87 million market valuation gain in the same period last year due to decline in market values of equity investments.

URC's finance revenue consists of interest income from investments in money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue increased by 58.7% to ₱254.49 million for the nine months of 2018 from ₱160.31 million in the same period last year due to higher level of financial assets and higher dividend from investment in equity securities.

URC's finance costs consist mainly of interest expense which increased by 10.3%, to ₱1.19 billion for the nine months of 2018 from ₱1.08 billion recorded in the same period last year due to higher level of financial debts and higher interest rates.

Foreign exchange gain (loss) - net amounted to ₱244.33 million for the nine months of 2018 from ₱768.23 million gain in the same period last year due to the combined effects of depreciation of international subsidiaries' local currencies and Philippine peso vis-à-vis US dollar.

Equity in net losses of joint ventures decreased to ₱91.09 million for the nine months of 2018 from ₱207.24 million in the same period last year due to lower losses from Calbee-URC, Inc. (CURCI).

Other income (expense) - net account consists of gain (loss) on sale of fixed assets and investments, rental income, and miscellaneous income and expenses. This account amounted to net other expenses of ₱4.16 million for the nine months of 2018 from a ₱89.48 million net other income for nine months of 2017 due to this year's payment of professional fees in relation to the review of its portfolio.

URC recognized provision for income tax of ₱1.73 billion for the nine months of 2018, a 19.8% decrease from ₱2.15 billion for the nine months of 2017 due to lower taxable income.

URC's net income for the nine months of 2018 amounted to ₱6.98 billion, lower by 17.0%, from ₱8.41 billion for the nine months of 2017 due to lower operating income and unfavorable foreign exchange impact.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other income - net) for the nine months of 2018 amounted to ₱9.06 billion, a decrease of 7.0% from ₱9.74 billion recorded in the same period last year.

Net income attributable to equity holders of the parent decreased by 17.2% to ₱6.80 billion for the nine months of 2018 from ₱8.21 billion for the nine months of 2017 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱14.79 billion for the nine months of 2018, 4.0% lower than ₱15.40 billion posted for the nine months of 2017.

## **REAL ESTATE AND HOTELS**

**Robinsons Land Corporation's (RLC)** consolidated net income attributable to equity holders of the parent for the period ended September 30, 2018 amounted to ₱6.55 billion, up by 43% from last year. EBIT and EBITDA increased by 43% to ₱9.34 billion and by 35% to ₱12.63 billion, respectively, for the nine months ended September 30, 2018.

Total real estate revenues increased by 33% to ₱20.37 billion against last year's ₱15.27 billion, while hotel revenues grew by 8% to ₱1.48 billion. The Commercial Centers Division contributed 40% or ₱8.81 billion of RLC's gross revenues, posting a 13% growth due to same mall rental revenue growth and rental revenue contribution of the new malls namely Robinsons Place Iligan, Robinsons Place Naga, Robinsons North Tacloban, Robinsons Place Ormoc, Robinsons Place Pavia, and Robinsons Place Tuguegarao. Amusement revenue went up by 15% to ₱1.50 billion. RLC's Residential Division contributed 30% or ₱6.52 billion to RLC's revenues while Office Buildings Division contributed 13% or ₱2.79 billion, up by 17% from last year's ₱2.39 billion. The Hotels Division contributed 7% or ₱1.48 billion to RLC's revenues, up by 8% versus same period last year. RLC's fifth division, Infrastructure and Integrated Developments Division contributed 10% or ₱2.25 billion to the RLC's revenues.

Real estate costs increased by 29% to ₱8.56 billion while hotel expenses grew by 17% to ₱1.17 billion due to the expenses of the new hotels. General and administrative expenses were up by 11% to ₱2.78 billion because of higher commissions, salaries and wages, rent expense, professional fees and taxes and licenses, among others.

## **AIR TRANSPORTATION**

**Cebu Air, Inc. (Cebu Pacific)** generated gross revenues of ₱54.04 billion for the nine months ended September 30, 2018, 7.4% higher than the ₱50.33 billion revenues earned in the same period last year accounted for as follows: (1) passenger revenues grew by 7.1% to ₱39.54 billion for the nine months ended September 30, 2018 from ₱36.93 billion reported in the nine months ended September 30, 2017, largely due to the 5.4% increase in average fares to ₱2,617 for the nine months ended September 30, 2018 from ₱2,483 for the same period last year. The growth in passenger volume by 1.6% to 15.106 million from 14.873 million last year also contributed to the increase in revenues; (2) cargo revenues went up by 24.6% to ₱4.10 billion for the nine months ended September 30, 2018 from ₱3.29 billion for the nine months ended September 30, 2017 following the increase in the volume of cargo transported in 2018; and (3) ancillary revenues increased by 2.9% to ₱10.40 billion for the nine months ended September 30, 2018 from ₱10.11 billion reported in the same period last year attributable to the increase in average ancillary revenue per passenger by 1.3% and pricing adjustments on certain ancillary products and services.

Cebu Pacific incurred operating expenses of ₱49.90 billion for the nine months ended September 30, 2018, higher by 15.8% than the ₱43.09 billion operating expenses reported for the nine months ended September 30, 2017. The increase was mostly attributable to the rise in fuel prices in 2018, consequent to the increase in the average published fuel MOPS price of US \$85.37 per barrel in the nine months ended September 30, 2018 from U.S. \$62.89 per barrel in 2017, coupled with the weakening of the Philippine peso against the U.S. dollar. The growth in the airline's seat capacity from the acquisition of new aircraft also contributed to the increase in expenses. As a result, Cebu Pacific's operating income amounted to ₱4.14 billion for the nine months ended September 30, 2018, 42.9% lower than the ₱7.25 billion operating income earned in the same period last year.

Interest income increased by 117.0% to ₱277.98 million for the nine months ended September 30, 2018 from ₱128.12 million earned in the same period last year due to the

increase in the balance of cash in bank and short term placements year on year and to higher interest rates for short term placements.

Cebu Pacific incurred a hedging gain of ₱1.88 billion for the nine months ended September 30, 2018, an improvement of ₱2.55 billion from a hedging loss of ₱674.84 million in the same period last year as a result of higher mark-to-market valuation on fuel hedging positions in 2018. A net foreign exchange loss of ₱2.01 billion was recorded for the nine months ended September 30, 2018 resulted from the weakening of the Philippine peso against the U.S. dollar. Cebu Pacific's major exposure to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Equity in net income of joint venture amounted to ₱81.61 million for the nine months ended September 30, 2018 from ₱94.98 million in the same period last year attributable to lower net income of Aviation Partnership (Philippines) Corporation (A-plus) and net loss incurred by Philippine Academy for Aviation Training, Inc. (PAAT) and 1Aviation during the period.

Interest expense increased by 47.1% to ₱1.56 billion for the nine months ended September 30, 2018 from ₱1.06 billion for the nine months ended September 30, 2017 due to higher interest benchmark rates such as Libor and PDST-R2.

Net income for the nine months ended September 30, 2018 amounted to ₱2.78 billion, a decrease of 36.5% from the ₱4.38 billion net income earned in the same period last year.

## **PETROCHEMICALS**

**JG Summit Petrochemicals Group**, which consists of JG Summit Petrochemicals Corporation (JGSPC) and JG Summit Olefins Corporation (JGSOC), reached combined gross revenues of ₱32.36 billion for the nine months ended September 30, 2018, a 6.0% increase from ₱30.54 billion in the same period last year driven by higher average selling price of polymers and cracker products, partially offset by the lower sales volume of polymers and pygas during the period. Costs and expenses increased by 20.7% from ₱25.02 billion for the nine months of 2017 to ₱30.20 billion for the nine months of 2018 due to higher average naphtha consumption cost from US\$470.41 per metric ton in 2017 to US\$617.45 per metric ton in 2018. This resulted to an EBIT of ₱2.24 billion for the nine months of 2018, a 55.8% decline from ₱5.06 billion in the same period last year. Interest expense amounted to ₱153.62 million for the nine months of 2018 from last year's ₱89.37 million due to higher level of trust receipts. A net foreign exchange loss of ₱66.23 million was also recognized for the nine months of 2018 from last year's net foreign exchange gain of ₱35.29 million. All these factors contributed to the net income of ₱1.94 billion recorded for the nine months ended September 30, 2018, a 61.1% decrease from ₱4.97 billion net income for the same period last year.

## **BANKING**

**Robinsons Bank Corporation** generated banking revenue of ₱4.27 billion for the nine months of 2018, a 32.0% increase from last year's ₱3.24 billion brought about by higher interest income from finance receivables during the period. Cost and expenses, including interest expense from deposit liabilities, also increased by 31.7% as the bank continued its expansion. These factors contributed to the net income of ₱293.33 million for the nine months of 2018, a 22.9% increase from ₱238.65 million net income for the same period last year.



## **EQUITY EARNINGS**

**Equity in net earnings of associated companies and joint ventures** amounted to ₱7.81 billion for the nine months of 2018, a 3.2% increase from last year's ₱7.57 billion. The equity earnings from Meralco increased by 20.4% from ₱4.34 billion last year to ₱5.22 billion this year as a result of higher sales volume and the additional 2.4% equity share acquired in June 2017, while equity earnings from GBPC decreased by 6.8% from ₱517.75 million last year to ₱482.33 million in the same period this year. Equity income from UIC decreased by 18.9% from ₱2.83 billion last year to ₱2.30 billion for the nine months of 2018. UIC recorded net income from operations of S\$178.20 million for the nine months of 2018, a 22.4% decline from last year's S\$229.57 million mainly due to lower sales of trading properties as UIC's development projects were completed and substantially sold in 2017. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

## **FINANCIAL RESOURCES AND LIQUIDITY**

### **September 30, 2018 vs December 31, 2017**

As of September 30, 2018, the Group's balance sheet remains healthy, with consolidated assets of ₱794.40 billion from ₱739.45 billion as of December 31, 2017. Current ratio stood at 0.97. The Group's indebtedness remained manageable with a gearing ratio of 0.65 and net debt to equity of 0.49 as of September 30, 2018.

Cash and cash equivalents decreased to ₱52.80 billion as of September 30, 2018 from ₱54.34 billion as of December 31, 2017. Cash provided by operating activities amounted to ₱32.21 billion. As of September 30, 2018, net cash used in investing activities amounted to ₱45.59 billion mainly for the Group's capital expenditure program. The Group's net cash provided by financing activities amounted to ₱11.84 billion mainly due to the net proceeds from stock rights offering of RLC and additional loan availments during the period.

Derivative assets, including noncurrent portion increased from ₱478.92 million as of December 31, 2017 to ₱1.64 billion as of September 30, 2018 due to higher mark-to-market valuation of CEB's fuel derivative contracts.

Inventories increased 10.1% from ₱52.54 billion as of December 31, 2017 to ₱57.85 billion as of September 30, 2018 mainly due to higher level of raw materials and finished goods of the food and petrochemicals businesses.

Other current assets decreased 7.8% from ₱15.21 billion as of December 31, 2017 to ₱14.03 billion as of September 30, 2018 due to reclassifications made by the real estate business from advances to lot owners to investment property.

Investment properties increased by 7.3% from ₱89.24 billion as of December 31, 2017 to ₱95.75 billion as of September 30, 2018 due to land acquisitions and ongoing constructions of the real estate business during the period.

Property, plant and equipment increased 13.2% from ₱181.66 billion as of December 31, 2017 to ₱205.55 billion due to the acquisition of two ATR 72-600 and five Airbus A321 CEO aircraft, offset by the sale of one Airbus A319 of the airline business, as well as expansion projects of the petrochemicals business.

Other noncurrent assets went up by 42.7% from ₱8.51 billion as of December 31, 2017 to ₱12.13 billion as of September 30, 2018 primarily due to the advance payments made for the Airbus A330 life limited engine parts, prepayment of power by the hour charges and engine overhaul of the airline business.

Consolidated total assets reached ₱794.40 billion as of end of September 30, 2018.

Accounts payable and accrued expenses increased by 10.3% from ₱114.60 billion as of December 31, 2017 to ₱126.35 billion as of September 30, 2018 due to higher level of trade payables of the petrochemicals, airline and food businesses, and deposit liabilities and bills payable of the banking business.

Short term debt decreased 37.9% to ₱28.49 billion as of September 30, 2018 from ₱45.85 billion as of December 31, 2017 due to full settlement of short-term loans of the Parent Company and RLC.

Income tax payable decreased 12.3% mainly due to lower level of tax payable of the food business.

Other current liabilities increased by 35.5% to ₱18.55 billion as of September 30, 2018 mostly due to higher deposits from real estate buyers.

Long-term debt, including current portion, increased 15.1% from ₱181.69 billion as of December 31, 2017 to ₱209.07 billion as of September 30, 2018 due to additional term loans availed by the Parent Company and CEB during the period.

Deferred tax liabilities amounted to ₱7.90 billion as of September 30, 2018, a 9.6% increase from ₱7.21 billion as of December 31, 2017 due to higher deferred tax liabilities recognized by the real estate business.

Other noncurrent liabilities increased by 22.6% to ₱34.57 billion as of September 30, 2018 from ₱28.19 billion as of December 31, 2017 due to higher provision for asset retirement obligation of the airline business and deposits from real estate buyers.

Stockholders' equity, excluding minority interest, stood at ₱277.82 billion as of September 30, 2018 from ₱267.84 billion as of December 31, 2017.

Book value per share amounted to ₱38.78 as of September 30, 2018.

## KEY FINANCIAL INDICATORS

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements on a consolidated basis based on the financial data as of September 30, 2018 and December 31, 2017 and for the nine months ended September 30, 2018 and 2017.

<b>Key Financial Indicators</b>	<b>2018</b>	<b>2017</b>
Revenues	₱217,518 million	₱202,640 million
EBIT	₱34,920 million	₱38,721 million
EBITDA	₱50,045 million	₱52,604 million
Core net income after taxes	₱17,784 million	₱22,687 million
Net income attributable to equity holders of the Parent Company	₱14,798 million	₱21,243 million
Liquidity Ratio:		
Current ratio	0.97	1.14
Solvency ratios:		
Gearing ratio	0.65	0.66
Net debt to equity ratio	0.49	0.50
Asset-to-equity ratio	2.16	2.13
Interest rate coverage ratio	7.35	9.15
Profitability ratio:		
Operating margin	0.16	0.19
Book value per share	38.78	37.39

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

<b>Key Financial Indicators</b>		
Revenues	=	Total of sales and services, income from banking business, 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 Parent Company as adjusted for the net effect of gains/losses on foreign exchange, market valuations and derivative transactions
Current ratio	=	Total current assets over current liabilities
Gearing ratio	=	Total financial debt over total equity.
Net debt to equity ratio	=	Total financial debt less cash including financial assets at FVPL and AFS investments (excluding RBC cash, financial assets at FVPL and AFS investments) over total equity.
Asset-to-equity ratio	=	Total assets over total equity
Interest rate coverage ratio	=	EBITDA over interest expense
Operating Margin	=	Operating income over revenue
Book value per share	=	Stockholders' equity (equity attributable to parent excluding preferred shares) 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.

None

**PART II – OTHER INFORMATION**

Item 1. List of disclosure not made under SEC Form 17 – C.

None.

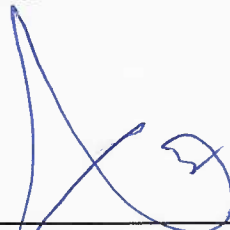
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**SIGNATURES**

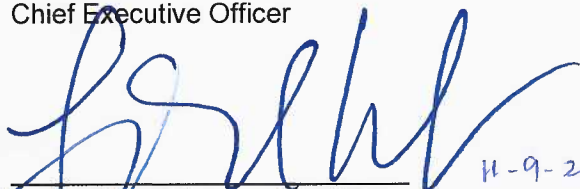
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**JG SUMMIT HOLDINGS, INC.**

By:

  
11-9-2018  
\_\_\_\_\_  
**JAMES L. GO**  
Chairman of the Board

  
11-9-2018  
\_\_\_\_\_  
**LANCE Y. GOKONGWEI**  
President and  
Chief Executive Officer

  
11-9-2018  
\_\_\_\_\_  
**FRANCISCO M. DEL MUNDO**  
Chief Financial Officer

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

(In Thousands)

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	<b>₱52,801,219</b>	₱54,336,295
Financial assets at fair value through profit or loss (Note 9)	<b>14,830,655</b>	14,357,133
Available-for-sale investments (Note 10)	<b>13,558,294</b>	21,468,096
Receivables (Note 11)	<b>45,942,118</b>	47,614,194
Inventories (Note 12)	<b>57,850,763</b>	52,536,365
Biological assets	<b>1,165,176</b>	1,180,266
Other current assets (Note 13)	<b>14,047,430</b>	15,223,341
<b>Total Current Assets</b>	<b>200,195,655</b>	206,715,690
<b>Noncurrent Assets</b>		
Available-for-sale investments (Note 10)	<b>23,348,894</b>	25,597,306
Receivables (Note 11)	<b>57,700,057</b>	42,649,712
Investment securities at amortized cost	<b>12,622,462</b>	–
Investments in associates and joint ventures (Note 14)	<b>140,588,388</b>	138,538,903
Property, plant and equipment	<b>205,546,844</b>	181,660,164
Investment properties	<b>95,753,469</b>	89,244,835
Goodwill	<b>32,005,604</b>	32,023,184
Intangible assets	<b>13,995,161</b>	14,021,031
Biological assets	<b>508,896</b>	498,310
Other noncurrent assets (Note 15)	<b>12,133,126</b>	8,505,378
<b>Total Noncurrent Assets</b>	<b>594,202,901</b>	532,738,823
	<b>₱794,398,556</b>	₱739,454,513
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 16)	<b>₱126,352,588</b>	₱114,599,038
Short-term debts (Note 18)	<b>28,493,490</b>	45,847,814
Current portion of long-term debts (Note 18)	<b>30,594,240</b>	5,728,470
Income tax payable	<b>1,587,559</b>	1,809,511
Other current liabilities (Note 17)	<b>18,553,759</b>	13,695,140
<b>Total Current Liabilities</b>	<b>₱205,581,636</b>	₱181,679,973

(Forward)

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
<b>Noncurrent Liabilities</b>		
Long-term debts - net of current portion (Note 18)	<b>₱178,471,617</b>	₱175,958,345
Deferred tax liabilities	<b>7,899,772</b>	7,205,880
Other noncurrent liabilities (Note 19)	<b>34,571,353</b>	28,190,767
Total Noncurrent Liabilities	<b>220,942,742</b>	211,354,992
Total Liabilities	<b>426,524,378</b>	393,034,965
<b>Equity</b>		
Equity attributable to equity holders of the		
Parent Company:		
Paid-up capital (Note 20)	<b>30,755,867</b>	30,755,867
Retained earnings (Note 20)	<b>220,359,027</b>	207,722,157
Equity reserve (Note 20)	<b>29,582,955</b>	29,638,831
Other comprehensive loss	<b>(2,882,213)</b>	(279,500)
	<b>277,815,636</b>	267,837,355
Non-controlling interests	<b>90,058,542</b>	78,582,193
Total Equity	<b>367,874,178</b>	346,419,548
	<b>₱794,398,556</b>	₱739,454,513

*See accompanying Notes to Consolidated Financial Statements.*



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

(In Thousands Except Per Share Amounts)

	Quarters Ended		Nine Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
<b>REVENUE</b>				
Sale of goods and services:				
Foods	<b>₱31,153,132</b>	₱31,619,612	<b>₱95,525,388</b>	₱92,415,110
Air transportation	<b>16,201,683</b>	14,674,869	<b>54,036,568</b>	50,330,951
Petrochemicals	<b>11,184,619</b>	11,087,721	<b>32,361,673</b>	30,541,276
Real estate and hotels	<b>8,731,917</b>	5,601,708	<b>21,788,003</b>	16,584,772
Banking	<b>1,540,431</b>	1,170,112	<b>4,273,791</b>	3,237,662
Dividend income	<b>651,947</b>	858,036	<b>1,215,654</b>	1,440,092
Equity in net earnings of associates and joint ventures	<b>2,620,922</b>	2,949,015	<b>7,811,154</b>	7,566,785
Supplementary businesses	<b>147,366</b>	206,177	<b>505,651</b>	523,754
	<b>72,232,017</b>	68,167,250	<b>217,517,882</b>	202,640,402
<b>COST OF SALES AND SERVICES</b>	<b>47,856,271</b>	44,024,496	<b>142,329,918</b>	126,925,458
<b>GROSS INCOME</b>	<b>24,375,746</b>	24,142,754	<b>75,187,964</b>	75,714,944
<b>OTHER OPERATING EXPENSES</b>				
General and administrative expenses	<b>13,360,236</b>	12,433,460	<b>40,138,562</b>	36,847,831
Impairment losses and others	<b>63,238</b>	67,952	<b>129,553</b>	146,413
	<b>13,423,474</b>	12,501,412	<b>40,268,115</b>	36,994,244
<b>OPERATING INCOME</b>	<b>10,952,272</b>	11,641,342	<b>34,919,849</b>	38,720,700
<b>OTHER INCOME (LOSSES)</b>				
Financing costs and other charges	<b>(2,364,686)</b>	(2,061,450)	<b>(6,806,770)</b>	(5,747,397)
Foreign exchange gains (losses)	<b>(1,108,332)</b>	(514,427)	<b>(3,937,521)</b>	(949,297)
Market valuation losses on financial assets at fair value through profit or loss	<b>(88,515)</b>	(6,594)	<b>(1,031,762)</b>	60,577
Market valuation gains (losses) on derivative financial instruments	<b>534,138</b>	464,370	<b>1,862,397</b>	(684,809)
Finance income	<b>422,578</b>	312,137	<b>1,215,364</b>	911,651
Others	<b>229,835</b>	(153,421)	<b>(133,001)</b>	244,497
<b>INCOME BEFORE INCOME TAX</b>	<b>8,577,290</b>	9,681,957	<b>26,088,556</b>	32,555,922
<b>PROVISION FOR INCOME TAX</b>	<b>1,562,109</b>	1,452,156	<b>4,487,452</b>	4,128,236
<b>NET INCOME</b>	<b>₱7,015,181</b>	₱8,229,801	<b>₱21,601,104</b>	₱28,427,686
<b>NET INCOME ATTRIBUTABLE TO</b>				
Equity holders of the Parent Company	<b>₱4,958,871</b>	₱6,598,876	<b>₱14,797,723</b>	₱21,242,771
Non-controlling interests	<b>2,056,310</b>	1,630,925	<b>6,803,381</b>	7,184,915
	<b>₱7,015,181</b>	₱8,229,801	<b>₱21,601,104</b>	₱28,427,686

	Quarters Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
<b>NET INCOME</b>	<b>₱7,015,181</b>	₱8,229,801	<b>₱21,601,104</b>	₱28,427,686
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>				
Item that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustments	982,515	108,255	1,367,756	(2,348,961)
Net gains (losses) on available-for- sale investments	500,141	(2,212,857)	(2,672,452)	5,417,270
Net losses from cash flow hedges	(8,040)	(8,440)	3,712	(19,428)
Share in the net unrealized losses on available-for-sale investments of an associate	(59,625)	(8,053)	(114,725)	48,998
	<b>1,414,991</b>	(2,121,095)	<b>(1,415,709)</b>	3,097,879
Item that will not be reclassified subsequently to profit or loss:				
Remeasurements due to defined benefit liability, net of tax	(303)	2,885	(2,061)	7,680
Share in remeasurements of the net defined benefit liability of associates	(361,227)	168,010	(606,783)	163,413
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>1,053,461</b>	(1,950,200)	<b>(2,024,553)</b>	3,268,972
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱8,068,642</b>	₱6,279,601	<b>₱19,576,551</b>	₱31,696,658
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
Equity holders of the Parent Company	₱5,693,525	₱4,624,914	₱12,195,010	₱25,508,106
Non-controlling interests	2,375,117	1,654,687	7,381,541	6,188,552
	<b>₱8,068,642</b>	₱6,279,601	<b>₱19,576,551</b>	₱31,696,658
<b>Earnings Per Share Attributable to Equity Holders of the Parent Company</b>				
Basic/diluted earnings per share (Note 22)	<b>₱0.69</b>	₱0.92	<b>₱2.07</b>	₱2.97

*See accompanying Notes to 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, 2018 and 2017															
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY															
	Paid-up Capital (Note 20)			Retained Earnings			Other Comprehensive Income						NON-CONTROL-LING INTERESTS	TOTAL EQUITY	
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Equity Reserve	Cumulative Translation Adjustments	Net Unrealized Gains on AFS	Unrealized Losses on Cash Flow Hedge	Remeasurements of the Net Defined Benefit Liability	Total Other Comprehensive Income (Loss)			Total
Balance at January 1, 2018	P7,202,842	P23,553,025	P30,755,867	P89,937,828	P117,784,329	P207,722,157	P29,638,831	(P1,302,515)	P1,268,555	P4,385	(P249,925)	(P279,500)	P267,837,355	P78,582,193	P346,419,548
Total comprehensive income (loss)	-	-	-	14,797,723	-	14,797,723	-	838,570	(2,834,409)	2,051	(608,925)	(2,602,713)	12,195,010	7,381,541	19,576,551
Cash dividends	-	-	-	(2,160,853)	-	(2,160,853)	-	-	-	-	-	-	(2,160,853)	-	(2,160,853)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,504,313)	(3,504,313)
Increase in subsidiary's treasury shares	-	-	-	-	-	-	(14,510)	-	-	-	-	-	(14,510)	(188,098)	(202,608)
Issuance of shares by a subsidiary	-	-	-	-	-	-	(41,366)	-	-	-	-	-	(41,366)	7,787,219	7,745,853
<b>Balance at September 30, 2018</b>	<b>P7,202,842</b>	<b>P23,553,025</b>	<b>P30,755,867</b>	<b>P102,574,698</b>	<b>P117,784,329</b>	<b>P220,359,027</b>	<b>P29,582,955</b>	<b>(P463,945)</b>	<b>(P1,565,854)</b>	<b>P6,436</b>	<b>(P858,850)</b>	<b>(P2,882,213)</b>	<b>P277,815,636</b>	<b>P90,058,542</b>	<b>P367,874,178</b>
Balance at January 1, 2017	P7,202,842	P23,553,025	P30,755,867	P66,285,086	P114,084,329	P180,369,415	P29,638,831	(P673,327)	(P596,225)	P10,662	P10,299	(P1,248,591)	P239,515,522	P73,268,333	P312,783,855
Total comprehensive income (loss)	-	-	-	21,242,771	-	21,242,771	-	(1,285,228)	5,392,867	(10,735)	168,431	4,265,335	25,508,106	6,188,552	31,696,658
Cash dividends	-	-	-	(2,016,796)	-	(2,016,796)	-	-	-	-	-	-	(2,016,796)	-	(2,016,796)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,246,136)	(4,246,136)
<b>Balance at September 30, 2017</b>	<b>P7,202,842</b>	<b>P23,553,025</b>	<b>P30,755,867</b>	<b>P85,511,061</b>	<b>P114,084,329</b>	<b>P199,595,390</b>	<b>P29,638,831</b>	<b>(P1,958,555)</b>	<b>P4,796,642</b>	<b>(P73)</b>	<b>P178,730</b>	<b>P3,016,745</b>	<b>P263,006,832</b>	<b>P75,210,749</b>	<b>P338,217,581</b>

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

(In Thousands)

	<b>Nine Months Ended September 30</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱26,088,555</b>	₱32,555,922
Adjustments for:		
Depreciation and amortization	<b>15,125,613</b>	13,883,116
Market valuation losses (gains) on:		
Financial assets at fair value through profit or loss	<b>1,031,762</b>	(60,577)
Derivative instruments	<b>(1,862,397)</b>	684,809
Interest expense	<b>6,624,182</b>	5,595,947
Dividend income	<b>(1,215,654)</b>	(1,440,092)
Interest income	<b>(1,215,364)</b>	(911,651)
Equity in net earnings of associates and joint ventures	<b>(7,811,154)</b>	(7,566,785)
Foreign exchange losses (gains)	<b>3,937,521</b>	949,297
Provision for impairment losses on:		
Receivables	<b>44,510</b>	144,293
Goodwill	<b>17,580</b>	–
Property, plant and equipment	<b>60,710</b>	–
Inventory obsolescence and market decline	<b>6,754</b>	2,120
Losses (gains) arising from changes in fair value less estimated costs to sell of swine stocks	<b>(3,855)</b>	(82,874)
Loss (gain) on sale of property, plant and equipment	<b>49,866</b>	(209,005)
Loss (gain) on sale of available-for-sale investments	<b>790</b>	(14,698)
Operating income before changes in working capital accounts	<b>40,879,419</b>	43,529,822
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Derivative financial instruments	<b>704,365</b>	(291,445)
Financial assets at fair value through profit or loss	<b>721,189</b>	(261,718)
Receivables	<b>(11,782,100)</b>	(13,056,605)
Inventories	<b>(5,269,120)</b>	(4,674,543)
Biological assets	<b>(63,721)</b>	(195,136)
Other current assets	<b>(1,336,991)</b>	(1,903,325)
Increase (decrease) in the amounts of:		
Accounts payable and accrued expenses	<b>13,331,666</b>	9,188,960
Unearned revenue	<b>621,790</b>	896,554
Other current liabilities	<b>4,240,853</b>	1,737,271
Net cash generated from operations	<b>42,047,350</b>	34,969,835
Interest paid	<b>(7,225,019)</b>	(6,406,759)
Interest received	<b>1,057,101</b>	805,003
Income taxes paid	<b>(3,664,659)</b>	(4,651,474)
Net cash provided by operating activities	<b>32,214,773</b>	24,716,605

(Forward)

**Nine Months Ended September 30**

	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property, plant and equipment	(P39,462,177)	(P21,574,020)
Investment properties	(8,422,369)	(10,259,194)
Investments in associates and joint ventures (Note 14)	(902,523)	(7,121,694)
Intangible assets	(137,649)	(173,696)
Net decrease (increase) in the amounts of:		
Other noncurrent assets (Note 15)	(3,613,444)	(1,330,854)
Available-for-sale investments (Note 10)	7,798,805	(18,281)
Investment securities at amortized cost (Note 10)	(12,622,462)	–
Proceeds from sale of property, plant and equipment	4,647,150	2,935,877
Dividends received on investments in associates and joint ventures	5,912,109	6,537,190
Dividends received	1,215,654	1,440,092
Net cash used in investing activities	(45,586,906)	(29,564,580)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Short-term debts	(18,094,216)	(18,302,209)
Long-term debts	22,025,526	23,779,987
Decrease in the amounts of:		
Other noncurrent liabilities (Note 19)	6,027,668	12,077,708
Non-controlling interests	(3,504,313)	(4,246,136)
Dividends paid on common shares	(2,148,853)	(2,005,596)
Dividends paid on preferred shares	(12,000)	(11,200)
Purchase of subsidiary's treasury shares	(202,608)	–
Net proceeds from stock rights offering of a subsidiary	7,745,853	–
Net cash provided by financing activities	11,837,057	11,292,554
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,535,076)	6,444,579
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	54,336,295	43,410,142
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>	P52,801,219	P49,854,721

*See accompanying Notes to Consolidated Financial Statements.*

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

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## **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 with a corporate term of 50 years from the date of incorporation. On May 8, 2014, the Board of Directors (BOD) of the Parent Company approved its amendment of Article Third of the Amended Articles of Incorporation to change the principal office address of the Parent Company from “Metro Manila, Philippines” to “43rd Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City” in accordance with Security and Exchange Commission Memorandum Circular No.6, Series of 2014.

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 distribution.

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, in the Association of Southeast Asian Nations region, New Zealand and Australia 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 (₱), the functional currency of the Parent Company. All values are rounded to the nearest thousand peso except when otherwise stated.

A summary of the functional currencies of certain foreign subsidiaries within the Group 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-	US Dollar
Hong Kong China Foods Co. Ltd.	-do-	-do-
URC International Co., Ltd.	-do-	-do-
URC China Commercial Co. Ltd.	China	Chinese Renminbi
Xiamen Tongan Pacific Food Co., Ltd.	-do-	-do-
Shanghai Peggy Foods Co., Ltd.	-do-	-do-
Guangzhou Peggy Foods Co., Ltd.	-do-	-do-
Jiangsu Acesfood Industrial Co.	-do-	-do-
Shantou SEZ Shanfu Foods Co., Ltd.	-do-	-do-
URC (Thailand) Co., Ltd.	Thailand	Thai Baht
Siam Pattanasin Co., Ltd.	-do-	-do-
URC Foods (Singapore) Pte. Ltd.	Singapore	Singapore Dollar
Advanson International Pte. Ltd.	-do-	-do-
Acesfood Network Pte. Ltd.	-do-	-do-
Acesfood Holdings Pte. Ltd.	-do-	-do-
Acesfood Distributors Pte. Ltd.	-do-	-do-
PT URC Indonesia	Indonesia	Indonesian Rupiah
URC (Myanmar) Co. Ltd.	Myanmar	Myanmar Kyats
URC Hong Kong Company Limited	Hong Kong	Hong Kong Dollar
URC Vietnam Co., Ltd.	Vietnam	Vietnam Dong
URC Hanoi Company Limited	-do-	-do-
URC Central Co. Ltd.	-do-	-do-
Ricellent Sdn. Bhd.	Malaysia	Malaysian Ringgit
URC Snack Foods (Malaysia) Sdn. Bhd.	-do-	-do-
URC Oceania Company Ltd.	British Virgin Islands	US Dollar
URC New Zealand Holding Company Ltd.	New Zealand	New Zealand Dollar
URC New Zealand Finance Company Ltd.	-do-	-do-
Griffin's Foods Limited	-do-	-do-
Nice & Natural Limited	-do-	-do-
URC Australia Holding Company Ltd.	Australia	Australian Dollar
URC Australia Finance Company Ltd.	-do-	-do-
Consolidated Snacks Pty Ltd	-do-	-do-
Snack Brands Australia Partnership	-do-	-do-
<b>RLC Group</b>		
Robinsons (Cayman) Limited	Cayman Islands	US Dollar
RLC Resources Ltd	British Virgin Islands	-do-
Land Century Holdings, Ltd.	Hong Kong	Hong Kong Dollar
World Century Enterprise Ltd.	-do-	-do-
First Capital Development, Ltd	-do-	-do-
Chengdu Xin Yao Real Estate Development, Co. Ltd	China	Chinese Renminbi

#### 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	
			2018	2017
<b>Food</b>				
Universal Robina Corporation (URC) and Subsidiaries	Philippines*	8 <sup>th</sup> floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City	<b>55.25</b>	55.25
CFC Clubhouse Property, Inc. (CCPI)	-do-	CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City	<b>55.25</b>	55.25
CFC Corporation	-do-	-do-	<b>55.25</b>	55.25
Bio-Resource Power Generation Corporation	-do-	Manjuyod, Negros Oriental	<b>55.25</b>	55.25
Nissin-URC	-do-	CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City	<b>28.17**</b>	28.17**
Calbee-URC, Inc (CURCI)	-do-	8 <sup>th</sup> floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City	<b>55.25</b>	–
Hunt - URC (HURC)	-do-	8 <sup>th</sup> floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City	<b>55.25</b>	–
URC Philippines, Limited (URCPL)	British Virgin Islands	Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	<b>55.25</b>	55.25
URC International Co. Ltd. (URCICL) and Subsidiaries	-do-	-do-	<b>55.25</b>	55.25
Universal Robina (Cayman), Ltd. (URCL)	Cayman Islands	Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands, British West Indies	<b>55.25</b>	55.25
URC China Commercial Co., Ltd.	China	318 Shangcheng Road, Room 1417 Lian You Bldg., Pudong, Shanghai, China	<b>55.25</b>	55.25
<b>Air Transportation</b>				
CP Air Holdings, Inc. (CPAHI) and Subsidiaries	Philippines	2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City	<b>100.00</b>	100.00
Cebu Air, Inc. (CAI) and Subsidiaries	-do-	-do-	<b>67.23</b>	67.23
<b>Real Estate and Hotels</b>				
Robinsons Land Corporation (RLC) and Subsidiaries	Philippines	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	<b>60.97</b>	60.97
Robinson's Inn, Inc.	-do-	-do-	<b>60.97</b>	60.97
Robinsons Realty and Management Corporation	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	<b>60.97</b>	60.97
Robinsons (Cayman) Limited	Cayman Islands	Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands	<b>60.97</b>	60.97
Robinsons Properties Marketing and Management Corporation	Philippines	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Artigas Center, Pasig City	<b>60.97</b>	60.97
Manhattan Buildings and Management Corp	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Artigas Center, Pasig City	<b>60.97</b>	60.97
Altus Angeles, Inc.	-do-	McArthur Highway, Balisage, Angeles City, Pampanga	<b>31.09**</b>	31.09**
Altus San Nicolas Corporation	-do-	Bogy. 1 San Francisco, San Nicolas, Ilocos Norte	<b>60.97</b>	60.97
Go Hotels Davao, Inc.	-do-	Lanang, Davao City	<b>31.09**</b>	31.09**
RLC Resources Ltd	British Virgin Islands	British Virgin Islands	<b>60.97</b>	60.97

(Forward)



Subsidiaries	Country of Incorporation	Principal place of business	Effective Percentage of Ownership	
			2018	2017
Land Century Holdings, Ltd.	Hong Kong	Hong Kong	60.97	60.97
World Century Enterprise Ltd.	Hong Kong	Hong Kong	60.97	60.97
Kingdom Pacific Ltd. (Kingdom Pacific)	Hong Kong	Hong Kong	–	–
Crown Harbour Holdings Ltd. (Crown Harbour)	Hong Kong	Hong Kong	–	–
First Capital Development, Ltd	Hong Kong	Hong Kong	60.97	60.97
Chengdu Xin Yao Real Estate Development Co. Ltd.	China	China	60.97	60.97
<b>Petrochemicals</b>				
JG Summit Petrochemical Corporation (JGSPC)	Philippines	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.	-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-	–	–
Unicon Insurance Brokers Corporation (UIBC)	Philippines	CFC Bldg., E. Rodriguez Avenue, Bagong Ilog, Pasig City	100.00	100.00
JG Summit Infrastructure Holdings Corporation	-do-	43 <sup>rd</sup> Floor Robinsons Equitable Tower, ADB avenue, Corner Poveda Road, Pasig City	100.00	100.00
Merbau Corporation	-do-	Ground floor Cybergate Tower 1 Edsa cor Pioneer St. Mandaluyong City	100.00	100.00

(Forward)

Subsidiaries	Country of Incorporation	Principal place of business	Effective Percentage of Ownership	
			2018	2017
Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries	-do-	5th Floor Citibank Center, Makati	<b>100.00</b>	100.00
Fruits of the East, Inc.	-do-	Citibank Center, Paseo de Roxas, Makati	<b>100.00</b>	100.00
Hometel Integrated Management Corporation	-do-	-do-	<b>100.00</b>	100.00
King Leader Philippines, Inc.	-do-	5th Floor Citibank Center, Makati	<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.

\*\* These are majority-owned subsidiaries of the Parent Company's directly-owned subsidiaries.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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), Boracay Leasing Limited (BLL), Vector Aircraft Leasing Limited (VALL), Panatag One Aircraft Leasing Limited (POALL), Panatag Two Aircraft Leasing Limited (PTALL), Panatag Three Aircraft Leasing Limited (PTHALL), Summit A Aircraft Leasing Limited (SAALL), Summit B Aircraft Leasing Limited (SBALL), and Summit C Aircraft Leasing Limited (SCALL). SLL, BLL, VALL, POALL, PTALL, and PTHALL are SPEs in which the Group does not have equity interest. SLL, BLL, VALL, POALL, PTALL, PTHALL, SAALL, SBALL, and SCALL acquired the passenger aircrafts for lease to CAI under finance lease arrangements and funded the acquisitions through long-term debt.

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.

#### 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 PFRS. 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 certain pronouncements, which are effective for annual periods beginning on or after January 1, 2018. Adoption of these pronouncements did not have a significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group will adopt the new standard on the mandatory effective date and will not restate comparative information.

The Group performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Group when fully adopts PFRS 9.

##### *(a) Classification and measurement*

Debt securities currently held as AFS under PAS 39 are expected to be classified as at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell. Trade and other receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement. However, the Group is still

finalizing its assessment on whether the contractual cash flows of these debt financial assets are solely payments of principal and interest (SPPI) to be able to conclude that these instruments are eligible for amortized cost or FVOCI measurement.

Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Group intends to apply the option to present fair value changes for these investments in OCI. The Group is in the process of determining how to measure the fair value of these unquoted investments.

Quoted equity shares currently held as AFS are expected to be measured at fair value through profit or loss, which will increase volatility in profit or loss.

*(b) Impairment*

PFRS 9 requires the Group to record expected credit losses on all of its debt financial assets. The Group plans to apply the simplified approach and to record lifetime expected losses on all trade receivables and contract assets that do not contain significant financing component. For the Group's debt securities and other receivables that will be measured at amortized cost or at FVOCI, the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality. The Group is currently quantifying the impact of the change in measuring credit losses.

*(c) Hedge accounting*

The Group has determined that all existing hedge relationships that are currently designated in effective hedging relationships under PAS 39 will continue to qualify for hedge accounting under PFRS 9. On transition, the Group will not retrospectively apply PFRS 9 to the hedges where the Group excluded the forward points from the hedge designation under PAS 39.

As PFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PFRS 9 will not have a significant impact on the Group's consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9*, *Financial Instruments*, with *PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or

services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

The Group is still assessing the impact of adopting PFRS 15 in 2018.

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or

receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

## **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. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in statement of 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.

### 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 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 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 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, commodity swaps and zero cost collar. 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 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.

Amounts accumulated in other comprehensive income are recycled to profit or loss 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.

#### *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.

#### *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 cashflows 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 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.

#### *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. 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 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.

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.

#### 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 recognized in equity is amortized to profit or loss 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 profit or loss.

#### 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 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 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% 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, is removed from other comprehensive income and recognized in profit or loss. 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. 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, the impairment loss is reversed through the profit or loss.

#### 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.

#### 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business of default, and event of solvency or bankruptcy of the Group and all of the counterparties.

#### 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.

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

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

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

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

a. *Petrochemicals*

In 2015, JGSPC and JGSOC changed its inventory costing method for its raw materials, work-in-process and finished goods from weighted average costing method to FIFO costing method. Under the FIFO costing method, items that are purchased first or are produced first are sold first and items remaining at the end of the period are those most recently purchased or produced. Cost of finished goods and work-in-process includes direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced. The effect of the change in the accounting policy is not significant.

b. *Branded consumer foods, agro-industrial and commodity food products*

Cost is determined using the weighted average method. Under the weighted average costing method, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. Cost of 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.

*Factory supplies and spare parts*

Cost is determined using the weighted average method.

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. 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 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 dacion 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	5 to 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.

Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. 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 30 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 contractually required under various lease contracts to either restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. The event that gives rise to the obligation is the actual flying hours, flying cycles or calendar months of the asset as used, as the usage determines the timing and nature of the overhaul and restoration work required or the amount to be contributed at the end of the lease term. For certain lease agreements, the Group provides for these costs over the terms of the leases through contribution to a maintenance reserve fund (MRF) which is recorded as outright expense. If the estimated cost of restoration is expected to exceed the cumulative MRF, an additional obligation is accounted on an accrual basis. Regular aircraft maintenance is accounted for as expense when incurred.

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 under 'Advances to supplier' account in the consolidated statement of financial position. This is recouped when the expenses for restoration of aircraft have been incurred.

The Group regularly assesses the provision for ARO and adjusts the related 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 estimated costs to sell, except for a biological asset where fair value is not clearly determinable. 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.

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 a biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated costs to sell is recognized in the consolidated statement of 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.

A gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of a biological asset are included in the consolidated statement of 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 and Brands	Software Costs	Land Use Rights	Customer Relationship	Trademarks
EUL	Finite (12 to 13.75 years)	Indefinite	Indefinite	Finite (5 years)	Finite (40 years for commercial and 70 years for residential)	Finite (35 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	Straight line amortization	Straight line amortization	No amortization
Internally generated or acquired	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.

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.

#### *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.

#### Liability Under Lifestyle Rewards Program

The Group operates a lifestyle rewards program called 'Getgo.' A portion of passenger revenue attributable to the award of Getgo points, which is estimated based on expected utilization of these benefits, is deferred until utilized. The fair value of the consideration received in respect of the initial sale is allocated to the award credits based on its fair value. The deferred revenue is included under 'Other noncurrent liabilities' in the consolidated statement of financial position. Any remaining unutilized benefits are recognized as revenue upon redemption or expiry.

#### 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 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 Parent Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Parent Company has concluded that it is acting as principal in all of its revenue arrangements. 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.

##### *Sale of air transportation services*

Passenger ticket and cargo waybill sales, excluding portion relating to awards under Lifestyle Rewards Program, are initially recorded under 'Unearned revenue' account in the consolidated statement of financial position until recognized as 'Revenue' in the consolidated statement of comprehensive income when carriage is provided or when the flight is uplifted.

##### *Ancillary revenue*

Revenue from services incidental to the transportation of passengers, cargo, mail and merchandise are recognized when transactions 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. Revenue from food and beverage are recognized when these are served. Other income from transport, laundry, valet and other related hotel services are recognized when services are rendered.

#### *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)*

This represents results arising from disposal of AFS and HTM 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 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 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.

A sale and leaseback transaction includes the sale of an asset and the leasing back of the same asset. If the leaseback is classified as an operating lease, then, any gain is recognized immediately in the profit or loss if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback are accounted for as follows:

- If the sale price is below the fair value, then, the gain or loss is recognized immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortized over the period that the asset is expected to be used.
- If the sale price is above the fair value, then, any gain is deferred and amortized over the period that the asset is expected to be used.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognized immediately as a on the sale.

#### *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.

#### Joint Operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognize in relation to its interest in a joint operation its assets, including its share of any assets held jointly; liabilities, including its share of any liabilities incurred jointly; revenue from the sale of its share of the output arising from the joint operation; share of the revenue from the sale of the output by the joint operation; and expenses, including its share of any expenses incurred jointly.

#### 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.

#### Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

##### *Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally

recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

#### *Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss



resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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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. 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.

#### *b. Determination of fair values of financial instruments*

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

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are

determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives. Refer to Note 5 for the fair value measurements of financial instruments.

c. *Revenue from real estate sales*

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

- buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment (buyer's equity); and
- stage of completion of the project determined using cost-to-cost method.

The Group has set a certain percentage of collection over the total selling price in determining buyer's commitment on the sale. It is when the buyer's investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group.

d. *Classification of leases*

Operating Lease

*Operating lease commitments - Group as lessee*

The Group has entered into leases on premises it uses for its operations. The Group has determined, based on evaluation of the terms and conditions of the lease agreements that the significant risk and rewards of ownership to these properties did not transfer to the Group. In determining this, the Group considers the following:

- the lease does not transfer the ownership of the asset to the lessee by the end of the lease term; and
- the related lease term do not approximate the EUL of the assets being leased.

*Operating lease commitments - Group as lessor*

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 to these properties. In determining this, the Group considers, 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 term do not approximate the EUL of the assets being leased.

Finance Lease

*Group as lessor*

The Group has determined based on evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments receivable amounts to at least substantially all of the fair value of leased asset, lease term if for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

*Group as lessee*

The Group has determined based on evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments payable amounts to at least substantially all of the fair value of leased asset, lease term if for the major part of the economic

useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has obtained all significant risks and rewards of ownership of the properties it leased on finance leases.

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

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property 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.

*f. 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. In all such cases, management makes an assessment as to whether the Group has: (a) power over the SPEs; (b) the right over the returns of its SPEs; and (c) the ability to use power over the SPEs to affect the amount of the Group's return, and based on these assessments, the SPEs are consolidated as a subsidiary or associated company. In making these assessments, the management considers the underlying economic substance of the transaction and not only the contractual terms. The Group has assessed that it will benefit from the economic benefits of the SPEs' activities and it will affect the returns for the Group. The Group is directly exposed to the risks and returns from its involvement with the SPEs. Such rights and risks associated with the benefits and returns are indicators of control. Accordingly, the SPEs are consolidated.

Upon loss of control, the Group derecognizes the assets and liabilities of its SPEs and any surplus or deficit is recognized in profit or loss.

*g. 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.

*h. 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.

*i. 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 (see 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 real estate revenue and costs 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 total estimated costs of the project. The total estimation costs of the real estate project requires input by project development engineers.

*b. Impairment of AFS investments*

*AFS debt investments*

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

In 2018 and 2017, the Group did not recognize impairment losses on its AFS debt investments.

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

*AFS equity investments*

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

In 2018 and 2017, the Group did not recognize impairment losses on its AFS debt investments. In 2016, the Group recognized impairment loss on its AFS equity instruments amounting to P16.7 billion.

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 following assumptions were also used in computing value in use:

*Growth rate estimates* - growth rates include long-term growth rates that are 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.

Other key assumptions used in estimating value in use are revenue growth and operating margin. Value-in-use is the most sensitive to changes in revenue growth rates, operating margin, discount rates and growth rates.

d. *Determination of the fair value of intangible assets and property, plant and equipment acquired in a business combination*

The Group measures the identifiable assets and liabilities acquired in a business combination at fair value at the date of acquisition.

The fair value of the intangible assets acquired in a business combination is determined based on the net sales forecast attributable to the intangible assets, growth rate estimates and royalty rates using comparable license agreements. Royalty rates are based on the estimated arm's length royalty rate that would be paid for the use of the intangible assets. Growth rate estimate includes long-term growth rate and terminal growth rate applied to future cash flows beyond the projection period.

The fair value of property, plant and equipment acquired in a business combination is determined based on comparable properties after adjustments for various factors such as

location, size and shape of the property. Cost information and current prices of comparable equipment are also utilized to determine the fair value of equipment.

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

The Group reviews its finance receivables at each statement of financial position date to assess whether a credit loss should be recorded in the statement of income. The Group determines the provision for credit losses on finance receivables on an individual basis for individually significant finance receivables, and collectively for finance receivables that are not individually significant. The identification of impairment and the determination of the recoverable amount involve various assumptions and factors, including the financial condition of the counterparty, estimated future cash flows, observable market prices, estimated net realizable value of the collateral, historical loss rates, and net flow rates when determining the level of allowance required.

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.

Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease either current or non-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.

*f. Determination of NRV of inventories*

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

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

Inventory obsolescence and market decline included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income are disclosed in Note 12 to the consolidated financial statements.

The carrying value of the Group's inventories, net of inventory obsolescence and market

decline, is disclosed in Note 12 to the consolidated financial statements.

g. *Estimation of ARO*

The Group is contractually required under certain lease contracts to restore certain leased passenger aircraft to stipulated return condition or to bear a proportionate cost of restoration at the end of the contract period. The contractual obligation includes regular aircraft maintenance, overhaul and restoration of the leased aircraft to its original condition. Since the first operating lease entered by the Group in 2001, these costs are accrued based on an internal estimate which includes certain overhaul, restoration, and redelivery costs at the end of the operating aircraft lease. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis. Calculations of such costs includes assumptions and estimates in respect of the anticipated rate of aircraft utilization which includes flying hours and flying cycles and calendar months of the asset as used.

Assumptions and estimates used to compute ARO are reviewed and updated annually by the Group. As of June 30, 2018 and 2017, the cost of restoration is computed based on the Group's assessment on expected future aircraft utilization.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. The recognition of ARO would increase other noncurrent liabilities and repairs and maintenance expense.

The carrying values of the Group's ARO (included under 'Other noncurrent liabilities' in the consolidated statements of financial position) is disclosed in Note 19 to the consolidated financial statements.

h. *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.

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

The fair values of biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude 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.

j. *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.

*k. Assessment of impairment of nonfinancial assets*

The Group assesses impairment on its nonfinancial assets (i.e., 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:

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

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, 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.

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

##### Risk Management Structure

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

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

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

##### AC

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

The AC also aims to ensure that:

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

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

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

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

#### *Corporate Governance Compliance Officer*

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

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

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

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

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

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

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

1. Internal Environmental Scanning. It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the Group.
2. Objective Setting. The Group's BOD mandates the business unit's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
3. Event Identification. It identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment. The identified risks are analyzed relative to the probability and severity of potential loss which serves as a basis for determining how the risks should be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's attention, and risks which may materially weaken the Group's earnings and capital.

5. Risk Response. The Group's BOD, through the oversight role of the ERMG, approves the business unit's responses to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.
6. Control Activities. Policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. Information and Communication. Relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. Monitoring. The ERMG, Internal Audit Group, Compliance Office and Business Assessment Team constantly monitor the management of risks through risk limits, audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

#### *Risk management support groups*

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

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

#### Risk Management Policies

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

#### *Credit risk*

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

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

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

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

a. Credit risk exposure

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

b. Risk concentrations of the maximum exposure to credit risk

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

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

c. Credit quality per class of financial assets

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

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

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

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

*Classification of Financial Assets by Class used by the Banking Segment*  
For loans and receivables from customers, the Banking Segment's internal credit rating system was approved in 2007 and improved in 2011 in accordance with the Bangko Sentral ng Pilipinas (BSP) requirement, to cover corporate credit exposures, which is defined by the BSP as exposures to companies with assets of more than ₱15.0 million.

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.
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.
Sub-standard grade		
<i>Risk rating 9</i>	Marginal	Elevated level of probability of default, with limited margin; repayment source is adequate to marginal.

<b>Grades</b>	<b>Categories</b>	<b>Description</b>
<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.

#### *Aging analysis of receivables by class*

The aging analysis of the Group's receivables as of September 30, 2018 follow:

	<b>Neither Past Due Nor Impaired</b>	<b>Past Due But Not Impaired</b>				<b>Past Due and Impaired</b>	<b>Total</b>
		<b>Less than 30 Days</b>	<b>30 to 60 Days</b>	<b>61 to 90 Days</b>	<b>Over 90 Days</b>		
Finance receivables	<b>₱64,316,014</b>	<b>₱45,623</b>	<b>₱21,858</b>	<b>₱28,987</b>	<b>₱442,874</b>	<b>₱656,489</b>	<b>₱65,511,845</b>
Trade receivables	<b>26,383,318</b>	<b>2,392,605</b>	<b>788,484</b>	<b>416,270</b>	<b>3,654,127</b>	<b>582,834</b>	<b>34,217,638</b>
Due from related parties	<b>1,637,706</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,637,706</b>
Interest receivable	<b>942,728</b>	<b>37,427</b>	<b>1,505</b>	<b>4,381</b>	<b>33,812</b>	<b>20,593</b>	<b>1,040,446</b>
Others	<b>2,185,249</b>	<b>355,845</b>	<b>1</b>	<b>1,870</b>	<b>133,151</b>	<b>248,186</b>	<b>2,924,302</b>
	<b>₱95,465,015</b>	<b>₱2,831,500</b>	<b>₱811,848</b>	<b>₱451,508</b>	<b>₱4,263,964</b>	<b>₱1,508,102</b>	<b>₱105,331,937</b>

\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱400.9 million.

#### *Liquidity risk*

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

loans and capital market issues both onshore and offshore.

#### *Market risk*

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

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

#### *Foreign currency risk*

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

#### *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.

RBC observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on RBC's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

Value-at-Risk (VaR) is computed to estimate potential losses arising from market movements. RBC calculates and monitors VaR and profit or loss on a daily basis.

#### *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.

In employing the historical simulation method, RBC assumes a 260 historical data (approximately 1 year), 99.50% confidence level and 1-day holding period. On August 17, 2016, RBC implemented new assumptions in the model, specifically the use of 500 historical data (approximately 2 years) and 99.00% confidence level, with the holding period still at 1-day.

#### *VaR methodology limitations 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*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The BOD has set limits on positions by currency. In accordance with the RBC's policy, positions are monitored on a daily basis and are used to ensure positions are maintained within established limits.

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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.

#### *Investment in convertible note*

The investment in convertible note's fair value is measured using the discounted cash flow model (using current incremental lending rates for similar types of loans) and the Black-Scholes-Merton model (using the underlying's stock price and stock volatility).

#### *Biological assets*

Biological assets are measured at their fair values less costs to sell. The fair values of Level 2 biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit while Level 3 are determined based on cost plus reasonable profit margin or replacement cost as applicable. 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.

The Group has determined that the highest and best use of the sucklings and weanlings is finishers while for other biological assets is their current use.

#### *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.

#### *Deposits from Lessees*

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. This also includes dividend income from PLDT and equity in net earnings of Meralco and GBPC.

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

The Group does not have a single external major customer (which represents 10.0% of Group's revenues).

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 Excomoversees 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 Excom is the Group's chief operating decision maker.

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', EBIT' and EBITDA' as of and for the six months ended June 30, 2018 and 2017. 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, 2018							
	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	P95,525,388	P54,036,568	P21,788,003	P32,361,673	P4,273,791	P505,651	P-	P208,491,074
Intersegment revenue	-	-	60,782	1,076,789	-	-	(1,137,570)	-
	95,525,388	54,036,568	21,848,785	33,438,462	4,273,791	505,651	(1,137,570)	208,491,074
Dividend income	32,303	-	-	-	8,983	1,175,567	(1,199)	1,215,654
Equity in net earnings of associates and joint ventures	(91,086)	81,608	2,273,093	-	-	5,550,041	(2,502)	7,811,154
<b>Total revenue</b>	<b>95,466,605</b>	<b>54,118,176</b>	<b>24,121,878</b>	<b>33,438,462</b>	<b>4,282,774</b>	<b>7,231,259</b>	<b>(1,141,271)</b>	<b>217,517,882</b>
Cost of sales and services	66,555,385	35,512,129	9,724,777	30,199,340	1,510,564	-	(1,172,277)	142,329,918
<b>Gross income (loss)</b>	<b>P28,911,220</b>	<b>P18,606,047</b>	<b>P14,397,101</b>	<b>P3,239,122</b>	<b>P2,772,210</b>	<b>P7,231,259</b>	<b>P31,006</b>	<b>75,187,964</b>
General and administrative expenses								40,138,562
Impairment losses and others								129,553
<b>Operating income</b>								<b>34,919,849</b>
Financing cost and other charges								(6,806,770)
Finance income								1,215,364
Other operating income								(133,001)
<b>Core earnings</b>								<b>29,195,442</b>
Market valuation gains (losses) on financial assets								830,635
Foreign exchange gains (losses)								(3,937,521)
<b>Income before income tax</b>								<b>26,088,556</b>
Provision for income tax								4,487,452
<b>Net income</b>								<b>P21,601,104</b>
<b>Net income attributable to equity holders of the Parent Company</b>	<b>P3,758,236</b>	<b>P1,878,681</b>	<b>P6,291,163</b>	<b>P1,935,225</b>	<b>P175,996</b>	<b>P819,863</b>	<b>(P61,441)</b>	<b>P14,797,723</b>
<b>EBIT</b>	<b>P10,082,210</b>	<b>P4,136,110</b>	<b>P9,342,582</b>	<b>P2,239,771</b>	<b>P443,851</b>	<b>P8,675,325</b>	<b>P-</b>	<b>P34,919,849</b>
Depreciation and amortization	4,709,643	5,437,151	3,292,262	1,376,920	235,800	73,837	-	15,125,613
<b>EBITDA</b>	<b>P14,791,853</b>	<b>P9,573,261</b>	<b>P12,634,844</b>	<b>P3,616,691</b>	<b>P679,651</b>	<b>P8,749,162</b>	<b>P-</b>	<b>P50,045,462</b>

September 30, 2017

	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	P92,415,110	P50,330,951	P16,584,772	P30,541,276	P3,237,662	P523,754	P-	P193,633,525
Intersegment revenue	-	-	52,798	899,096	-	-	(951,893)	-
	92,415,110	50,330,951	16,637,570	31,440,372	3,237,662	523,754	(951,893)	193,633,525
Dividend income	12,921	-	-	-	11,138	1,417,232	(1,199)	1,440,092
Equity in net earnings of associates and joint ventures	(207,243)	94,977	2,832,109	-	-	4,861,163	(14,221)	7,566,785
<b>Total revenue</b>	92,220,788	50,425,928	19,469,679	31,440,372	3,248,800	6,802,149	(967,313)	202,640,402
Cost of sales and services	64,125,751	30,376,899	7,616,528	25,022,361	805,506		(1,021,587)	126,925,458
<b>Gross income (loss)</b>	<b>P28,095,037</b>	<b>P20,049,029</b>	<b>P11,853,151</b>	<b>P6,418,011</b>	<b>P2,443,294</b>	<b>P6,802,149</b>	<b>P54,274</b>	<b>75,714,944</b>
General and administrative expenses								36,847,831
Impairment losses and others								146,413
<b>Operating income</b>								<b>38,720,700</b>
Financing cost and other charges								(5,747,397)
Finance income								911,651
Other operating income								244,497
<b>Core earnings</b>								<b>34,129,451</b>
Market valuation gains (losses) on financial assets								(624,232)
Foreign exchange gains (losses)								(949,297)
<b>Income before income tax</b>								<b>32,555,922</b>
Provision for income tax								4,128,236
<b>Net income</b>								<b>P28,427,686</b>
<b>Net income attributable to equity holders of the Parent Company</b>	<b>P4,536,968</b>	<b>P2,942,224</b>	<b>P5,617,599</b>	<b>P4,973,677</b>	<b>P143,190</b>	<b>P3,085,664</b>	<b>(P56,552)</b>	<b>P21,242,770</b>
<b>EBIT</b>	<b>P10,767,518</b>	<b>7,245,315</b>	<b>6,518,282</b>	<b>5,064,563</b>	<b>314,720</b>	<b>8,810,304</b>	<b>P-</b>	<b>P38,720,702</b>
Depreciation and amortization	4,632,718	4,950,782	2,869,768	1,139,140	206,475	84,234	-	13,883,117
<b>EBITDA</b>	<b>P15,400,236</b>	<b>P12,196,097</b>	<b>P9,388,050</b>	<b>P6,203,703</b>	<b>P521,195</b>	<b>P8,894,538</b>	<b>P-</b>	<b>P52,603,819</b>

September 30, 2018								
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization								
Impairment losses on:								
Receivables	₱12,201	₱-	₱-	₱-	₱32,309	₱-	₱-	₱44,510
Inventories	6,754							6,754
Property, plant and equipment	-	60,710	-	-	-	-	-	60,710
Other assets	17,580							17,580
	₱36,535	₱60,710	₱-	₱-	₱32,309	₱-	₱-	₱129,554

September 30, 2017								
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization								
Impairment losses on:								
Receivables	₱5,476	₱-	₱-	₱-	₱138,817	₱-	₱-	₱144,293
Inventories	2,120	-	-	-	-	-	-	2,120
	₱7,596	₱-	₱-	₱-	₱138,817	₱-	₱-	₱146,413

Other information on the Group's operating segments follow:

September 30, 2018

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Segment assets	<b>₱152,724,923</b>	<b>₱121,926,456</b>	<b>₱165,921,790</b>	<b>₱90,455,745</b>	<b>₱115,359,973</b>	<b>₱206,701,519</b>	<b>(₱58,691,850)</b>	<b>₱794,398,556</b>
Segment liabilities	<b>₱70,132,583</b>	<b>₱82,579,419</b>	<b>₱73,917,921</b>	<b>₱34,452,930</b>	<b>₱99,870,811</b>	<b>₱117,970,748</b>	<b>(₱52,400,034)</b>	<b>₱426,524,378</b>
Capital expenditures	<b>₱6,113,385</b>	<b>₱18,657,747</b>	<b>₱9,541,702</b>	<b>₱13,378,901</b>	<b>₱139,867</b>	<b>₱52,944</b>	<b>₱-</b>	<b>₱47,884,546</b>

September 30, 2017

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Segment assets	<b>₱147,493,294</b>	<b>₱109,245,864</b>	<b>₱147,528,320</b>	<b>₱69,409,114</b>	<b>₱104,926,585</b>	<b>₱209,817,784</b>	<b>(₱48,966,448)</b>	<b>₱739,454,513</b>
Segment liabilities	<b>₱65,807,281</b>	<b>₱69,761,176</b>	<b>₱80,155,703</b>	<b>₱15,302,676</b>	<b>₱92,833,429</b>	<b>₱111,870,754</b>	<b>(₱42,696,054)</b>	<b>₱393,034,965</b>
Capital expenditures	<b>₱5,442,652</b>	<b>₱12,715,206</b>	<b>₱11,399,995</b>	<b>₱2,052,893</b>	<b>₱161,035</b>	<b>₱61,434</b>	<b>₱-</b>	<b>₱31,833,215</b>



The table below presents the consolidated statement of financial position of the Group broken down between industrial and banking components:

	September 30, 2018			December 31, 2017		
	Industrial*	Banks*	Consolidated	Industrial*	Banks*	Consolidated
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	<b>₱31,123,199</b>	<b>₱21,678,019</b>	<b>₱52,801,218</b>	₱29,519,716	₱24,816,579	₱54,336,295
Financial assets at fair value through profit and loss	<b>14,813,724</b>	<b>16,931</b>	<b>14,830,655</b>	14,308,999	48,134	14,357,133
Available-for-sale investments	<b>1,822,902</b>	<b>11,735,392</b>	<b>13,558,294</b>	2,273,072	19,195,024	21,468,096
Receivables - net	<b>31,371,482</b>	<b>14,570,637</b>	<b>45,942,119</b>	28,582,734	19,031,460	47,614,194
Inventories - net	<b>57,850,763</b>	–	<b>57,850,763</b>	52,536,365	–	52,536,365
Biological assets - net	<b>1,165,176</b>	–	<b>1,165,176</b>	1,180,266	–	1,180,266
Other current assets	<b>13,859,588</b>	<b>187,842</b>	<b>14,047,430</b>	15,050,916	172,425	15,223,341
<b>Total current assets</b>	<b>152,006,834</b>	<b>48,188,821</b>	<b>200,195,655</b>	143,452,068	63,263,622	206,715,690
<b>Noncurrent Assets</b>						
Available-for-sale investments	<b>23,348,894</b>	–	<b>23,348,894</b>	25,597,306	–	25,597,306
Receivables - noncurrent	<b>6,236,461</b>	<b>51,463,596</b>	<b>57,700,057</b>	3,775,948	38,873,764	42,649,712
Held-to-maturity investments	–	<b>12,622,462</b>	<b>12,622,462</b>	–	–	–
Investments in associates and JVs - net	<b>140,588,388</b>	–	<b>140,588,388</b>	138,538,903	–	138,538,903
Investments properties - net	<b>95,430,820</b>	<b>322,649</b>	<b>95,753,469</b>	88,960,376	284,459	89,244,835
Property, plant and equipment - net	<b>204,932,829</b>	<b>614,015</b>	<b>205,546,844</b>	181,069,052	591,112	181,660,164
Biological assets - bearer	<b>508,896</b>	–	<b>508,896</b>	498,310	–	498,310
Goodwill - net	<b>31,761,277</b>	<b>244,327</b>	<b>32,005,604</b>	31,778,857	244,327	32,023,184
Intangibles - net	<b>12,654,160</b>	<b>1,341,001</b>	<b>13,995,161</b>	12,694,146	1,326,885	14,021,031
Other noncurrents assets	<b>11,570,023</b>	<b>563,103</b>	<b>12,133,126</b>	8,162,962	342,416	8,505,378
<b>Total Noncurrent Assets</b>	<b>527,031,748</b>	<b>806,053,836</b>	<b>594,202,901</b>	491,075,860	41,662,963	532,738,823
	<b>₱679,038,582</b>	<b>₱854,242,657</b>	<b>₱794,398,556</b>	₱634,527,928	₱104,926,585	₱739,454,513

\*Balances are after elimination of intercompany balances between industrial and banking components

	September 30, 2018			December 31, 2017		
	Industrial*	Banks*	Consolidated	Industrial*	Banks*	Consolidated
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Accounts payable and accrued expenses	<b>P54,671,084</b>	<b>P71,681,504</b>	<b>P126,352,588</b>	P48,813,819	P65,785,219	P114,599,038
Short-term debt	<b>28,493,490</b>	–	<b>28,493,490</b>	45,847,814	–	45,847,814
Current portion of long-term debt	<b>30,594,240</b>	–	<b>30,594,240</b>	5,728,470	–	5,728,470
Derivative liabilities	–	<b>1,880</b>	<b>1,880</b>	1,809,511	–	1,809,511
Income tax payable	<b>1,572,071</b>	<b>15,488</b>	<b>1,587,559</b>	–	–	–
Other current liabilities	<b>18,551,500</b>	<b>379</b>	<b>18,551,879</b>	13,688,830	6,310	13,695,140
<b>Total current liabilities</b>	<b>133,882,385</b>	<b>71,699,251</b>	<b>205,581,636</b>	115,888,444	65,791,529	181,679,973
<b>Noncurrent liabilities</b>						
Long-term debt - net of current portion	<b>178,471,617</b>	–	<b>178,471,617</b>	175,958,345	–	175,958,345
Deferred tax liabilities - net	<b>7,899,772</b>	–	<b>7,899,772</b>	7,205,880	–	7,205,880
Other noncurrent liabilities	<b>16,833,473</b>	<b>17,737,880</b>	<b>34,571,353</b>	11,305,424	16,885,343	28,190,767
<b>Total noncurrent liabilities</b>	<b>203,204,862</b>	<b>17,737,880</b>	<b>220,942,742</b>	194,469,649	16,885,343	211,354,992
<b>Total Liabilities</b>	<b>337,087,247</b>	<b>89,437,131</b>	<b>426,524,378</b>	310,358,093	82,676,872	393,034,965
<b>Stockholders' equity</b>	<b>268,885,569</b>	<b>8,930,067</b>	<b>277,815,636</b>	260,581,462	7,255,893	267,837,355
<b>Minority interest in consolidated subsidiaries</b>	<b>83,499,446</b>	<b>6,559,096</b>	<b>90,058,542</b>	73,744,931	4,837,262	78,582,193
	<b>P689,472,262</b>	<b>P104,926,294</b>	<b>P794,398,556</b>	P644,684,486	P94,770,027	P739,454,513

\*Balances are after elimination of intercompany balances between industrial and banking components

### 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 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.

### 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, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Cash on hand	<b>₱1,442,954</b>	₱ 1,803,114
Cash in banks	<b>31,069,213</b>	29,672,233
Cash equivalents	<b>20,289,052</b>	22,860,948
	<b>₱52,801,219</b>	₱54,336,295

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.

- **Commodity swaps and zero cost collars**  
CAI enters into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a charge against or credit to profit or loss. As of June 30, 2018 and December 31, 2017, CAI has outstanding fuel hedging transactions. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. The collars have various maturity dates through December 31, 2020.

For the nine months ended September 30, 2018 and 2017, CAI recognized net changes in fair value of derivatives amounting to ₱1.9 billion gain and ₱0.7 billion loss.

- **Interest rate swap**  
On December 18, 2012, JGSPL entered into an interest rate swap transaction with a notional amount of US\$250.0 million effective January 16, 2013. The swap is intended to hedge the interest rate exposure due to the movements in the benchmark LIBOR on the US\$ 250.0 million JGSPL 5-year Guaranteed Notes. In October 2016, JGSPL prepaid the notes and de-designated the interest rate swap as a cashflow hedge of the related notes. Accordingly, the changes in the fair value of the interest rate swap accumulated in other comprehensive income was recycled to profit or loss in 2016. In 2018 and 2017, JGSPL recognized net changes in fair value of derivatives amounting to ₱14.2 million loss and ₱10.0 million loss, respectively.
- **Foreign currency forwards**  
For the nine months ended September 30, 2018 and 2017, CAI recognized net changes in fair value of foreign currency derivatives amounting to ₱33.6 million loss and ₱10.2 million loss, respectively.

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

### *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.

- **Currency Options**  
The Group's currency options have a total notional amount of NZ\$28.2 million with positive fair value amounting to ₱16.2 million and ₱11.0 million as of September 30, 2018 and

December 31, 2017, respectively. The swap is intended to hedge the foreign currency denominated future purchases and cash outflows of the Company.

Net changes in fair value of derivatives taken to other comprehensive income are recorded under 'Net gains (losses) from cash flow hedges' in the consolidated statement of comprehensive income.

#### Hedge Effectiveness Results

The hedge is assessed to be effective as the critical terms of the hedging instrument match the terms of the hedged item.

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

These investments that are held for trading consist of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Debt securities:		
Private	<b>₱7,283,149</b>	₱8,105,660
Government	<b>1,817,177</b>	1,794,793
	<b>9,100,326</b>	9,900,453
Equity securities:		
Quoted	<b>2,172,373</b>	2,112,003
Unquoted	<b>4</b>	4
	<b>2,172,377</b>	2,112,007
Investment in convertible note	<b>1,937,490</b>	1,876,775
Derivatives (Note 8)	<b>1,620,462</b>	467,898
	<b>₱14,830,655</b>	₱14,357,133

On April 13, 2017, JGSPL invested in a convertible note from Sea Limited in the amount of US\$25.0 million (or ₱1.3 billion). The Principal Amount excluding any accrued and unpaid interest may be converted into fully paid and non-assessable voting ordinary shares of Sea Limited.

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### 10. Available-for-Sale Investments

This account consists of investments in:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Debt securities:		
Government	<b>₱7,369,629</b>	₱13,830,644
Private	<b>5,794,204</b>	7,202,582
	<b>13,163,833</b>	21,033,226
Equity securities:		
Quoted	<b>23,719,062</b>	26,007,883
Unquoted	<b>24,293</b>	24,293
	<b>23,743,355</b>	26,032,176
	<b>₱36,907,188</b>	₱47,065,402

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

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Current portion	<b>₱ 13,558,294</b>	₱21,468,096
Noncurrent portion	<b>23,348,894</b>	25,597,306
	<b>₱36,907,188</b>	₱47,065,402

## 11. Receivables

This account consists of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Finance receivables	<b>₱65,511,845</b>	₱57,465,699
Trade receivables	<b>34,217,636</b>	28,389,587
Due from related parties	<b>1,637,706</b>	1,606,771
Interest receivable	<b>1,040,445</b>	882,182
Other receivables	<b>3,325,157</b>	3,690,088
	<b>105,732,789</b>	92,034,327
Less allowance for impairment losses	<b>2,090,614</b>	1,770,422
	<b>₱103,642,175</b>	₱90,263,905

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

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Current portion	<b>₱45,942,118</b>	₱47,614,194
Noncurrent portion	<b>57,700,057</b>	42,649,712
	<b>₱103,642,175</b>	₱90,263,906

Noncurrent receivables consist of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Finance receivables	<b>₱51,463,596</b>	₱38,873,763
Trade receivables	<b>6,236,461</b>	3,775,949
	<b>₱57,700,057</b>	₱42,649,712

### 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 claims receivables, and other non-trade receivables.

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## 12. Inventories

This account consists of inventories held as follows:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Subdivision land, condominium and residential units for sale	<b>₱27,106,476</b>	₱26,606,140
Raw materials	<b>11,489,006</b>	9,640,293
Spare parts, packaging materials and other supplies	<b>9,861,335</b>	8,983,460
Finished goods	<b>8,224,946</b>	6,323,116
Work-in-process	<b>1,167,522</b>	976,358
By-products	<b>1,478</b>	6,998
	<b>₱57,850,763</b>	₱52,536,365

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## 13. Other Current Assets

This account consists of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Advances to suppliers	<b>₱5,045,299</b>	₱4,645,580
Input value-added tax (VAT)	<b>4,679,799</b>	5,600,375
Prepaid expenses	<b>1,914,878</b>	1,767,150
Creditable withholding tax	<b>1,638,228</b>	1,203,617
Advances to lot owners and joint operations	<b>653,353</b>	1,884,162
Derivative assets under hedge accounting (Note 8)	<b>16,178</b>	11,023
Utility deposits	<b>9,600</b>	9,989
Restricted cash	<b>1,080</b>	4,257
Others	<b>89,015</b>	97,188
	<b>₱14,047,430</b>	₱15,223,341

#### 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 to contractors related to construction activities and for the purchase of various aircraft parts and service maintenance for regular maintenance and restoration costs of aircraft. These are applied against progress and final billings which occur within one year from the date the advances arose.

#### Advances to Lot Owners and Joint Operations

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. The application is expected to be within twelve (12) months after the reporting date.

This also includes deposit to various joint operations partners representing share in an ongoing real estate development which will be liquidated at the end of the joint venture agreement. This deposit will be realized through RLC's share in the completed units or share in the sales proceeds of the units, depending on the agreement with the other party.

#### Prepaid Expenses

This account consists of prepayments on rent, insurance, taxes, and office supplies.

#### Restricted cash

RLC has restricted cash - escrow which pertains to cash placed in escrow funds earmarked for the acquisition of parcels of land, pursuant to the memorandum of agreement (MOA) with various sellers. Said amount shall be released to the sellers upon fulfillment of certain conditions set forth in MOA.

#### Deposit to Counterparties

Deposit to counterparties pertains to collateral deposits provided to counterparties for fuel hedging transactions.



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

Details of this account follow:

	<b>September 30,</b> <b>2018</b> <b>(Unaudited)</b>	December 31, 2017 <b>(Audited)</b>
Acquisition cost:		
Balance at beginning of year	<b>₱115,132,972</b>	₱107,169,574
Additional investments	<b>902,523</b>	7,963,398
Change in classification due to gain of control	<b>(328,250)</b>	–
Balance at end of year	<b>115,707,245</b>	115,132,972
Accumulated equity in net earnings:		
Balance at beginning of year	<b>23,183,588</b>	20,291,989
Equity in net earnings	<b>7,811,154</b>	10,056,297
Change in classification due to gain of control	<b>105,478</b>	–
Dividends received	<b>(5,912,109)</b>	(7,164,698)
Balance at end of year	<b>25,188,111</b>	23,183,588
Share in net unrealized gain on AFS investments of an associate:		
Balance at beginning of year	<b>(78,818)</b>	(103,212)
Share in net changes in fair value of AFS investments of an associate (Note 10)	<b>(114,725)</b>	24,394
Balance at end of year	<b>(193,543)</b>	(78,818)
Share in remeasurements of the net defined benefit liability of associates:		
Balance at beginning of year	<b>198,173</b>	525,147
Share in net changes in remeasurements of the net defined benefit liability of associates	<b>(606,783)</b>	(326,974)
	<b>(408,610)</b>	198,173
Cumulative translation adjustment	<b>592,635</b>	400,438
	<b>140,885,838</b>	138,836,353
Less allowance for impairment losses	<b>297,450</b>	297,450
	<b>₱140,588,388</b>	₱138,538,903

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, 2018 (Unaudited)	December 31, 2017 (Audited)	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
		--		(In Million Pesos)
<b>Associates</b>				
Domestic:				
Manila Electric Company (Meralco)	29.56	29.56	₱77,848.6	₱77,668.6
Global Business Power Corporation (GBPC)	30.00	30.00	11,955.7	12,223.4
Oriental Petroleum and Mining Corporation (OPMC)	19.40	19.40	814.2	743.0
Cebu Light Industrial Park, Inc. (CLUPI)	20.00	20.00	66.3	68.2
Foreign:				
United Industrial Corp., Limited (UICL)	37.05	37.06	48,038.6	46,365.8
Air Black Box (ABB)	10.13	10.09	43.7	43.7
			<b>138,767.1</b>	<b>137,112.7</b>
<b>Joint Ventures</b>				
Domestic:				
SIA Engineering (Philippines) Corp. (SIAEP)	23.65	23.53	410.8	379.2
Shang Properties, Inc. (SPI) and RHK Land Corporation (RHKLC)	30.49	--	363.0	--
Vitasoy-URC, Inc (VURCI)	27.63	27.63	237.9	31.6
Aviation Partnership (Philippines) Corp. (APPC)	33.10	32.95	213.7	229.3
Philippine Academy for Aviation Training (PAAT)	33.78	33.62	184.6	188.7
Paloo Financing, Inc	50.00	50.00	50.6	6.0
Aviation Groundhandling Services Corp. Oriente Express Techsystem Corporation (Oriente)	27.02	--	36.3	--
	50.00	50.00	26.3	67.0
MPIC-JGS Airport Holdings, Inc.	41.25	41.25	3.8	3.8
Hunt Universal Robina Corporation (HURC)	27.63	27.63	--	56.8
Calbee - URC, Inc. (CURCI)	--	27.63	--	184.2
Foreign:				
Proper Snacks Foods Limited (PSFL)	27.68	27.68	294.3	279.6
			<b>1,821.3</b>	<b>1,426.2</b>
			<b>₱140,588.4</b>	<b>₱138,538.9</b>

#### *Investment in Meralco*

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. The shares acquired represented 27.12% of Meralco's total outstanding common shares. Meralco is a corporation organized and incorporated in the Philippines to construct, operate, and maintain the electric distribution system.

On June 14, 2017, the Parent Company acquired an additional 27,500,000 common shares of Meralco for a total cost of ₱6.9 billion. After this transaction, the total number of shares held by the Parent Company is 333,189,397 representing 29.56% of Meralco's total outstanding common shares.

#### *Investment in GBPC*

On June 30, 2016, the Parent Company acquired 577,206,289 common shares of Global Business Power Corporation (GBPC) from Meralco Powergen Corporation (153,921,676 shares) and GT Capital Holdings, Inc. (423,284,613 shares) for a total cost of ₱11.8 billion. The acquisition

represents 30.0% of GBPC's total outstanding common shares. GBPC is a company incorporated in the Philippines engaged in power generation.

#### *Investment in OPMC*

OPMC is a company incorporated in the Philippines with the purpose of exploring, developing and producing petroleum and mineral resources in the Philippines. As an exploration company, OPMC operational activities depend principally on its service contracts with the government. The Group accounts for its investment in OPMC as an associate although the Group holds less than 20.00% 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 UICL*

UICL, a company incorporated in Singapore is engaged in residential property management. 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.

In 2017, the Group elected to receive 5,272,126 ordinary shares under the UIC Scrip Dividend Scheme in lieu of cash dividend at the issue price of S\$2.99 per share.

#### Individually immaterial investees

#### *Investment in CLIPI*

The Group accounts for its investments in CLIPI as an associate as it owns 20.0% of the issued share capital of CLIPI. In 2015, CLIPI returned EHI's deposit for future stock subscription amounting to ₱5.0 million. As of June 30, 2018, the Group has deposit for future stock subscription in CLIPI amounting to ₱10.0 million. These represents 20.0% of CLIPI's proposed increase in authorize capital stock.

#### *Investment in ABB*

In May 2016, CAI entered into Value Alliance Agreement with other low cost carriers (LCCs), namely, Scoot Pte. Ltd, Nok Airlines Public Company Limited, CEBGO, and Vanilla Air Inc. The alliance aims to increase passenger traffic by creating interline partnerships and parties involved have agreed to create joint sales and support operations to expand services and products available to passengers. This is achieved through LCCs' investment in Air Black Box (ABB).

In November 2016, CAI acquired shares of stock in ABB amounting to ₱43.7 million. ABB is an entity incorporated in Singapore in 2016 to manage the ABB settlement system, which facilitates the settlement of sales proceeds between the issuing and carrying airlines, and of the transaction fee due to ABB.

The investment gave CAI a 15.00 % shareholding proportion to ABB. The Group accounts for its investment in ABB as an associate although the Group holds less than 20.00% 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 relationship with ABB. However, since ABB is still non-operational, the investment is recognized at cost. As of June 30, 2018 and December 31, 2017, the net carrying amount of the Group's investment with ABB amounted to ₱43.7 million.

#### *SIAEP and APPC*

SIAEP and APPC are jointly controlled entities which were established for the purpose of providing line, light and heavy 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.

SIAEP was incorporated on July 27, 2008 and started commercial operations on August 17, 2009. APPC was incorporated on May 24, 2005 and started commercial operations on July 1, 2005.

#### *PAAT*

Investment in PAAT pertains to CAI's 60.00% investment in shares of the joint venture. However, the joint venture agreement between the CAI and CAE International Holdings Limited (CAE) states that CAI is entitled to 50.00% share on the net income/loss of PAAT. As such, the CAI recognizes equivalent 50.00% share in net income and net assets of the joint venture.

PAAT was created to address 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. PAAT was formally incorporated on January 27, 2012 and started commercial operations in December 2012.

#### *1Aviation Groundhandling Services Corp*

On March 1, 2018, CAI incorporated 1Aviation Groundhandling Services Corporation (1Aviation), a wholly-owned subsidiary.

On July 1, 2018, the Parent Company sold 60% of its shares in 1Aviation to the Philippine Airport Ground Support Solutions, Inc. (PAGSS) and Mr. Jefferson G. Cheng.

#### *CURCI*

On January 17, 2014, URC entered into a joint venture agreement with Calbee, Inc., a corporation duly organized in Japan to form CURCI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "Calbee Jack 'n Jill" brand name, which is under exclusive license to CURCI in the Philippines. URC contributed cash to CURCI upon its incorporation in 2014 amounting to ₱327.0 million representing its 50% interest in the joint venture.

In September 2018, URC entered into a share purchase agreement with its joint venture partner, Calbee, Inc., to purchase the latter's 50% equity interest in CURCI. As a result of the sale, CURCI became a wholly-owned subsidiary of URC.

#### *Oriente*

On July 14, 2017, the Company entered into a joint venture with ORT Company (Singapore) Private Limited to invest in Oriente Express Techsystem Corporation (the "JV Company") in order to assist the JV Company in the expansion of its business and distribution of its products and services. The joint venture is setting up a digital financial services marketplace that will enable Filipinos to tap into credit facilities to bridge their ever-growing needs, whether to pay for tuition, unexpected medical expenses or even finance a small business. The Company contributed 50.00% interest in the joint venture amounting to ₱100.00 million.

#### *HURC*

URC has an equity interest in HURC, a domestic joint venture which is a jointly controlled entity. HURC manufactures and distributes food products under the "Hunt's" brand name, which is under exclusive license to HURC in the Philippines. In 2017, URC entered into certain agreements with a third party to sell its rights, title, and interest in the assets used in manufacturing the Hunt's business, well as pre-termination of the right to manufacture, sell, and distribute Hunt's products.

Subsequent to the sale HURC remains to exist as a jointly controlled entity.

In September 2018, URC entered into a share purchase agreement with its joint venture partner, ConAgra Grocery Products Company, LLC., to purchase the latter's 50% equity interest in HURC. As a result of the sale, HURC became a wholly-owned subsidiary of URC.

#### *VURCI*

On October 4, 2016, URC entered into a joint venture agreement with Vita International Holdings Limited, a corporation duly organized in Hong Kong to form VURCI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "Vitasoy" brand name, which is under exclusive license to VURCI in the Philippines. In 2017, URC made additional subscriptions to the unissued authorized capital stock of VURCI consisting of 12,600,000 common shares for a total cost of ₱126.0 million.

#### *Paloo Financing, Inc.*

On November 16, 2017, the Company entered into a joint venture agreement with ORT Company (Singapore) Private Limited to form Paloo Financing, Inc., a company organized to extend facilities to consumers and to industrial, commercial or agricultural enterprises. The Company contributed 50.00% interest in the joint venture amounting to ₱6.00 million.

#### *DURBI*

On May 23, 2014, URC entered into a joint venture agreement with Danone Asia Holdings, Pte. Ltd., a corporation duly organized in the Republic of Singapore to form DURBI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "B'lue" brand name, which is under exclusive license to DURBI in the Philippines. URC contributed cash to DURBI upon its incorporation in 2014 amounting to ₱180.8 million representing its 50% interest in the joint venture. In 2016 and 2015, URC contributed an additional cash of ₱103.3 million and ₱129.0 million, respectively, to DURBI and maintained its 50% ownership.

#### *PSFL*

On June 30, 2017, Griffin's Food Limited (Griffin's) purchased 50.1% of the shares in Proper Snack Foods Ltd (a Nelson, New Zealand based business with the 49.9% shareholder being an individual) for a total consideration of approximately NZ\$8.0 million, or ₱282.1 million. PSFL manufactures and distributes crisps.

#### *SPI*

On November 13, 2017, RLC's BOD approved the agreement with Shang Properties, Inc. (SPI) to form a joint venture corporation (JVC).

On May 23, 2018, Shang Robinsons Properties, Inc., the JVC, was incorporated. Both RLC and SPI each own 50% of the outstanding shares in the JVC.

RLC and SPI, through the JVC, shall build and develop a property situated at McKinley Parkway corner 5th Avenue and 21st Drive at Bonifacio Global City, Taguig, Metro Manila. The project is intended to be a mixed-use development and may include residential condominium units, serviced apartments and commercial retail outlets. The JVC also plans to pursue other development projects.

#### *RHKLG*

On February 5, 2018, RLC's BOD approved the agreement with Hong Kong Land Group (HKLG) represented by Hong Kong Land International Holdings, Ltd. and its subsidiary Ideal Realm Limited to form a joint venture corporation (JVC).

On June 14, 2018, RHK Land Corporation, the JVC, was incorporated. RLC and HKLG owns 60% and 40%, respectively, of the outstanding shares in the JVC.

RLC and HKLG, through the JVC, shall engage in the acquisition, development, sale and leasing of real property. The JVC shall initially undertake the purchase of a property situated in Block 4 of Bridgetowne East, Pasig City, develop the property into a residential enclave and likewise carry out the marketing and sales of the residential units. The JVC also plans to pursue other development projects.

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## 15. Other Noncurrent Assets

This account consists of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Advances to suppliers - net of current portion	<b>₱6,711,363</b>	₱3,502,140
Deferred tax assets	<b>1,274,443</b>	1,443,214
Security and miscellaneous deposits	<b>1,307,807</b>	915,985
Utility deposits	<b>840,317</b>	874,346
Advances to lot owners - net of current portion	<b>190,079</b>	190,079
Others	<b>1,809,117</b>	1,579,614
	<b>₱12,133,126</b>	₱8,505,378

### Security Deposits

Security deposits include deposits provided to lessors and maintenance providers for aircraft under operating lease.

### Advances to Suppliers

Advances to suppliers pertain to RLC's advance payments to suppliers or contractors which will be applied against the final billing. As of June 30, 2018, this account also includes pre-purchase of Airbus A330 life limited engine parts.

### 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 deferred input VAT, prepaid rent, deposits to various joint venture partners, and repossessed chattels.

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## 16. Accounts Payable and Accrued Expenses

This account consists of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Deposit liabilities	<b>₱67,365,622</b>	₱63,756,017
Trade payables	<b>31,101,342</b>	22,949,511
Accrued expenses	<b>17,234,642</b>	18,837,214
Airport and other related fees payable	<b>3,677,509</b>	3,255,283
Output VAT	<b>785,715</b>	1,410,700
Withholding taxes payable	<b>221,072</b>	804,783
Due to related parties	<b>130,857</b>	104,073
Dividends payable	<b>122,154</b>	40,990
Other payables	<b>5,713,675</b>	3,440,467
	<b>₱126,352,588</b>	₱114,599,038

### Deposit Liabilities

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

On March 27, 2014, the BSP through Circular 830 approved the 1.00% increase in reserve requirements effective April 11, 2014, thereby increasing the reserve requirements on non-FCDU deposit liabilities of the Parent Company and LSB from 18.00% to 19.00% and 6.00% to 7.00% respectively. As mandated by the Circular, only demand deposit accounts maintained by the bank with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest. On May 8, 2014, the BSP, through BSP Circular 832, approved the 1.00% increase in reserve requirement effective May 30, 2014, thereby further increasing the reserve requirements on non-FCDU deposit liabilities of the Parent Company and LSB from 19.00% to 20.00% and from 7.00% to 8.00%, respectively.

As of September 30, 2018, RBC and LSB are in compliance with the regulations.

### Long-Term Negotiable Certificates of Deposit (LTNCD)

On May 4, 2017, the BSP approved RBC's issuance of the ₱3.00 billion LTNCD, with a right to increase the aggregate issue up to ₱5.0 billion in the event of over subscription. On June 16, 2017, RBC listed its LTNCD issuance amounting to ₱4.18 billion through the Philippine Dealing and Exchange Corporation. The minimum investment was ₱50,000 with increments of ₱10,000 thereafter. The peso-denominated issue will mature on December 16, 2022 with nominal interest rate of 4.125% and EIR of 4.29%, payable every quarter. The proceeds was used to diversify RBC's maturity profile and funding sources and general corporate purposes.

### 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 , and unpaid billings from suppliers and contractors related to construction activities, 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 Mactan-Cebu International Airport and Manila International Airport Authority arising from aviation security, terminal fees and travel taxes.

#### Other Payables

Other payables consist of management bonus and other non-trade payables.

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### 17. Other Current Liabilities

This account consists of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Unearned transportation revenue	<b>₱9,672,141</b>	₱9,050,351
Deposits from real estate buyers (Note 19)	<b>5,206,523</b>	1,397,066
Deposit from lessees (Note 19)	<b>2,573,177</b>	2,356,242
Advances from agents and others	<b>484,952</b>	483,419
Customer's deposits	<b>615,086</b>	402,158
Derivative liabilities	<b>1,880</b>	5,904
	<b>₱18,553,759</b>	₱13,695,140

#### 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. This account also includes commitment fees received for the sale and purchase agreement of aircraft.

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

#### Short-term Debts

Short-term debts consist of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Parent Company:		
Philippine Peso - with interest rates ranging from 2.8% to 3.2% in 2018 and 2.5% to 3.0% in 2017	<b>₱1,000,000</b>	₱12,445,000
	<b>1,000,000</b>	12,445,000



	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>Subsidiaries:</b>		
Foreign currencies - unsecured with interest rates ranging from 2.3% to 3.1% in 2018 and 0.8% to 4.4% in 2017	<b>12,704,135</b>	10,502,409
Philippine Peso - with interest rates of 3.1% to 4.0% in 2018 and 2.6% to 3.0% in 2017	<b>14,789,355</b>	22,900,405
	<b>27,493,490</b>	33,402,814
	<b>₱28,493,490</b>	₱45,847,814

### Long-term Debts

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

	Maturities	Interest Rates	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)	Condition
<b>Parent Company:</b>					
Fixed Rate Retail Bonds:					
₱30.0 billion Fixed Rate Retail Bonds					
₱24.5 billion bonds	2019	5.23%	<b>₱24,489,175</b>	₱24,451,863	Unsecured
₱5.3 billion bonds	2021	5.24%	<b>5,293,975</b>	5,288,517	Unsecured
₱0.2 billion bonds	2024	5.30%	<b>175,345</b>	175,229	Unsecured
Term Loans					
₱5.0 billion Term Loan	2022	4.65%	<b>4,980,636</b>	4,977,185	Unsecured
₱5.0 billion Term Loan	2024	4.93%	<b>4,978,744</b>	4,976,415	Unsecured
₱10.0 billion Term Loan	2023	3.75%	<b>9,929,266</b>	-	Unsecured
₱5.0 billion Term Loan	2023	PDST-R2 + 0.5%	<b>4,964,519</b>	-	Unsecured
			<b>54,811,660</b>	39,869,209	
<b>Subsidiaries:</b>					
Foreign currencies:					
JGSPL					
US\$750.0 million guaranteed notes	2023	4.38%	<b>34,586,893</b>	31,948,270	Guaranteed
CAI					
ECA loans	2024	3-5%; 2-5% (US\$ Libor)	<b>3,287,011</b>	6,491,078	Secured
Commercial loan from foreign banks	2025	3-5%; 2-5% (US\$ Libor)	<b>26,438,139</b>	20,945,328	- do -
URC					
NZ\$420.0 million term loan	2019	NZ BKBM+1.60%	<b>14,959,418</b>	14,703,929	Guaranteed
AU\$484.2 million term loan	2021	AU 3.04% (BBSY BID+1.25%)	<b>18,690,305</b>	18,522,034	- do -
RLC					
RMB170 million term loan	2022	RMB 4.75%	<b>1,533,542</b>	458,326	Secured
RMB50 million term loan	2019	RMB 4.75%	<b>393,216</b>	381,938	Unsecured
			<b>99,888,524</b>	93,450,903	
<b>Philippine Peso:</b>					
RLC					
₱10.6 billion loan facility	2022	4.80%	<b>10,583,113</b>	10,572,735	Unsecured
₱1.4 billion loan facility	2025	4.93%	<b>1,355,643</b>	1,354,785	- do -
₱4.5 billion loan facility	2027	4.95%	<b>4,475,438</b>	4,479,058	- do -
₱7.0 billion loan facility	2024	4.75%	<b>6,971,737</b>	6,968,413	- do -
₱6.5 billion loan facility	2021	3.83%	<b>6,480,775</b>	6,475,939	- do -
₱5.0 billion loan facility	2023	3.89%	<b>4,962,639</b>	4,969,969	- do -
CAI					
Commercial loans	2027	2-5% (US\$ Libor); 3-5% (PDST-R2)	<b>19,536,328</b>	13,545,804	Guaranteed
			<b>54,365,673</b>	48,366,703	
			<b>209,065,857</b>	181,686,815	
<b>Less current portion</b>			<b>30,594,240</b>	5,728,470	
			<b>₱178,471,617</b>	₱175,958,345	

The details of the Group's long-term debt follow:

#### Subsidiaries' Foreign Currency Loans

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

On January 24, 2013, JGSHPL 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, JGSHPL, 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. These notes are hedged items in a cash flow hedge (see Note 8). In October 2016, JGSHPL prepaid the notes under Clause 7.1 of the underlying Term Loan Facility Agreement. Total payment amounted to US\$251.8 million (₱12.5 billion).

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

On various dates from 2007 to 2016, CAI entered into a commercial loan facility to partially finance the purchase of 19 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 SPEs, namely ILL, PTALL, PTHALL, SAALL, SBALL and SCALL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to a: (a) 10-year finance lease arrangement for the Airbus A320 aircraft, (b) six-year finance lease arrangement for the engines and (c) five-year finance lease arrangement for the QEC Kit. The quarterly and semi-annual rental payments of CAI to those SPEs correspond to the principal and interest payments made by these SPEs to the commercial lenders and are guaranteed by CAI. CAI has the option to purchase the aircraft, the engines and the QEC Kit for a nominal amount at the end of such leases.

The terms of the CAI commercial loans from foreign banks follow:

- Term of ten years starting from the delivery date of each aircraft.
- Combination of annuity style and equal principal repayments made on a quarterly and semi-annual basis for the aircraft and engines.
- Interests on loans are a mix of fixed and variable rates. Interest rates ranges from 2.00% to 5.00%.
- The facilities provide for material breach as an event of default, upon which, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose on secured assets, namely the aircraft.

As of June 30, 2018 and December 31, 2017, the total outstanding balance of the US dollar commercial loans amounted to ₱27.3 billion (US\$511.0 million) and ₱20.9 billion (US\$419.5 million), respectively. Interest expense amounted to ₱504.7 million and ₱382.2 million in 2018 and 2017, respectively.

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

On various dates from 2005 to 2012, CAI entered into ECA-backed loan facilities to partially finance the purchase of ten Airbus A319 aircraft, seven ATR 72-500 turboprop aircraft and ten Airbus A320 aircraft. The security trustee of the ECA loans established SPEs, namely CALL, BLL, SLL, SALL, VALL and POALL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to (a) ten-year finance lease arrangement for the ATR 72-500 turboprop aircraft and (b) twelve-year finance lease arrangement for the Airbus A319 and A320 aircraft. The quarterly and semi-annual rental payments made by CAI to these SPEs correspond to the principal and interest payments made by the SPEs to the ECA-backed lenders. The quarterly and semi-annual

lease rentals to the SPEs are guaranteed by CPAHI and CAI. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2017 and 2016, CAI exercised the option to purchase three and four of the ten Airbus A319 aircraft, respectively, which were subsequently sold to a third party as part of a forward sale arrangement. The purchase required the prepayment of the balance of the loan facility attributed to the sold Airbus A319 aircraft. The total amount of loans paid amounted to ₱494.1 million and ₱870.5 million in 2017 and 2016, respectively. The breakage cost for the related loan prepayments amounted to ₱12.0 million and ₱45.6 million in 2017 and 2016, respectively.

The terms of the remaining ECA-backed facilities, which are the same for the six (6) Airbus A320 aircraft and seven (7) ATR 72-500 turboprop aircraft, follow:

- Term of 12 years starting from the delivery date of each Airbus A320 aircraft and ten years for each ATR 72-500 turboprop aircraft.
- Combination of annuity style and equal principal repayments for the ATR 72-500 turboprop aircraft and 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 A320 aircraft.
- Interest on loans from the ECA lenders are a mix of fixed and variable rates. Fixed annual interest rates ranges from 2.00% to 5.00% and variable rates are based on US dollar LIBOR plus margin.
- As provided under the ECA-backed facility, the SPEs cannot create or allow to exist any security interest, other than what is permitted by the transaction documents or the ECA administrative parties. SPEs 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 SPEs becomes insolvent, (e) failure to discharge any attachment or sequestration order against SPEs' 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 the SPEs, the Group, JGSHI 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 loan will be payable, including interest accrued. Also, the ECA lenders will foreclose on 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.

The Group is not in breach of any terms on the ECA and commercial loans.

As of September 30, 2018 and December 31, 2017, the total outstanding balance of the ECA loans amounted to ₱3.3 billion (US\$60.8 million) and ₱6.5 billion (US\$130.0 million), respectively. Interest expense amounted to ₱143.5 million and ₱226.5 million for the nine months ended September 30, 2018 and 2017, respectively.

*URC NZ Finance Company Limited NZD420 Million Term Loan due 2019*

On November 13, 2014, URC New Zealand Holding Finance Company, Ltd. (URCNZH Fin Co) entered into a secured term loan facility agreement payable in five (5) years, amounting to NZD420M (₱13.4 billion), with various banks for payment of acquisition costs and refinancing certain indebtedness of an acquired company, NZ Snack Foods Holdings Limited. The loan obtained

bears a market rate plus a certain spread, payable quarterly, maturing on November 13, 2019. This long-term loan is guaranteed by URC Parent Company.

*URC Oceania Company Limited NZD322 Million Term Loan due 2019*

On November 13, 2014, URC Oceania entered into a secured term loan facility agreement payable in five (5) years, amounting to NZD322.0 million (₱9.6 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, NZ Snack Foods Holdings Limited. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on November 13, 2019.

On February 16, 2016, URC Oceania prepaid its 5-year term loan under Clause 7.1 of the underlying Facility Agreement. Total payment amounted NZ\$326.0 million (approximately ₱10.1 billion), including interest.

*URC Australia Finance Company Limited Term Loan US\$484.2 Million*

On September 30, 2016, URC AU FinCo entered into a secured syndicated term loan facility agreement payable in five (5) years, amounting to AU\$484.2 million (₱17.9 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, CSPL. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on September 30, 2021. This long-term loan is guaranteed by URC Parent Company.

*RLC Five-year loan from Agricultural Bank of China (ABC) maturing in August 2022*

In 2017, Chengdu Xin Yao entered into a facility loan agreement with ABC amounting to RMB500.0 million. On August 22, 2017, RLC made a drawdown amounting to ₱459.6 million or RMB60.0 million which is payable after a period of 5 years. In 2018, RLC made a drawdown totaling RMB110.0 million or ₱886.0 million. Interest on the loan shall be based on the rates released by the People's Bank of China which is 4.75% per annum as of loan agreement date. This long-term loan is guaranteed with RLC's land use rights in China under Chengdu Xin Yao.

*Three-year entrusted loan from Chengdu Ding Feng Real Estate Development Co. Ltd. Maturing in December 2019*

In 2017, Chengdu Xin Yao entered into a loan agreement with Chengdu Ding Feng Real Estate Development Co. Ltd. amounting to RMB50.0 million. Interest on the loan is 4.75%.

Philippine Peso Loans

*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 ₱24.5 billion fixed at 5.2317% due 2019; (2) Seven-year bond amounting to ₱5.3 billion fixed at 5.2242% due 2021; and (3) Ten year bond amounting to ₱176.3 million fixed at 5.3% due 2024. Interest is calculated on a 30/360-day count basis and are payable semi-annually starting August 27, 2014 and the 27th day of February and August of each year thereafter. Net proceeds from the bond issuance were used to partially finance its acquisition of Meralco shares and for general corporate purposes.

*Parent Company ₱5.0 Billion Term Loan with BPI due in July 2022*

On July 6, 2017, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with BPI with a fixed rate at 4.65% per annum and shall be payable quarterly in arrears.

*Parent Company ₱5.0 Billion Term Loan with MBTC due in July 2024*

On July 13, 2017, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with MBTC with a fixed rate at 4.93% per annum and shall be payable quarterly in arrears.

*Parent Company ₱10.0 Billion Term Loan with BDO due in June 2023*

On June 8, 2018, the Company borrowed ₱10.0 billion under Term Loan Facility Agreement with BDO. Interest for the six months ended June 30, 2018 amounted to ₱22.9 million.

*Parent Company ₱5.0 Billion Term Loan with MBTC due in June 2023*

On June 14, 2018, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with MBTC. Interest for the six months ended June 30, 2018 amounted to ₱8.4 million.

*RLC ₱10.6 Billion Term Loan due in February 2022*

On February 23, 2015, RLC issued ₱10.6 billion bonds constituting direct, unconditional, unsubordinated, and unsecured obligation obligations of RLC and shall at all times rank pari-passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of RLC, except for any statutory preference or priority established under Philippine law. The net proceeds of the issue shall be used by RLC to refinance existing debt obligations and to partially fund investment capital expenditures.

Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on February 23 and August 23 of each year at which the bonds are outstanding. Interest rate is 4.80% per annum.

*RLC ₱1.4 Billion Term Loan due in February 2025*

On February 23, 2015, RLC issued ₱1.4 billion bonds constituting direct, unconditional, unsubordinated, and unsecured obligation obligations of RLC and shall at all times rank pari-passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of RLC, except for any statutory preference or priority established under Philippine law. The net proceeds of the issue shall be used by RLC to refinance existing debt obligations and to partially fund investment capital expenditures.

Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on February 23 and August 23 of each year at which the bonds are outstanding. Interest rate is 4.93% per annum.

*RLC ₱6.5 Billion Term Loan due in July 2021*

On July 8, 2016, RLC borrowed ₱6.5 billion under Term Loan Facility Agreements with BDO Unibank, Inc.

The loan was released on July 8, 2016 amounting to ₱3.0 billion and on September 27, 2016 amounting to ₱3.5 billion with interest rate at 3.83% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

*RLC ₱5.0 Billion Term Loan due in August 2023*

On August 10, 2016, RLC borrowed ₱5.0 billion under Term Loan Facility Agreements with Bank of the Philippine Islands. The ₱5.0 billion loan was released on August 10, 2016 with interest rate at 3.89% per annum and shall be payable quarterly, computed on the basis of a 360-day year and on the actual number of days elapsed.

*RLC ₱7.0 Billion Term Loan due in March 2024*

On March 15, 2017, RLC borrowed ₱7.0 billion million under Term Loan Facility Agreements with Metropolitan Bank & Trust Company. The loan was released on March 15, 2017 amounting to ₱7.0 billion with interest rate at 4.75% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

#### *RLC ₱4.5 Billion Term Loan due February 2027*

On February 10, 2017, RLC borrowed ₱4.5 billion under Term Loan Facility Agreements with Bank of the Philippine Islands. The loan was released on February 10, 2017 amounting to ₱4.5 billion with interest rate at 4.95% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

#### *CAI Philippine Peso Commercial Loans*

In 2017, CAI entered into a Philippine peso commercial loan facility to partially finance the acquisition of six ATR 72-600 aircraft and one Airbus A330 aircraft.

The terms of the commercial loans follow:

- Term of ten years starting from the delivery date of each aircraft.
- Forty equal consecutive principal repayments made on a quarterly basis
- Interests on loans are variable rates. Interest rates ranges from 2.00% to 3.00%.
- The facilities provide that, upon event of default, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose mortgaged assets, namely the aircraft.

#### Debt Covenants

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.

For the Parent Company's ₱5.0 Billion Term Loan Facilities, the Group is required to maintain a financial ratio of Group's total borrowings to Group's shareholders' equity not exceeding 2.0:1.0.

For the Parent Company's ₱30.0 Billion Fixed Rate Retail Bonds, the Group is required to maintain the following financial ratios:

- the Group's current ratio of not less than 0.5:1.0;
- the Group's debt-to-equity ratio of not greater than 2.0:1.0

For the RLC's ₱10.6 Billion Retail Bonds due in February 2022, ₱1.4 Billion Retail Bonds due in February 2025, ₱10.0 Billion Term Loan due in July 2019, ₱6.5 Billion Term Loan due in July 2021, ₱5.0 Billion Term Loan due in August 2023, ₱4.5 Billion Term Loan due in February 2027 and ₱7.0 Billion Term Loan due in March 2024, RLC is required to maintain a debt-to-equity ratio not exceeding 2:1 as referenced from its consolidated financial statement as of its year end December 31 and consolidated interim financial statements as of September 30. These loans were not guaranteed by the Parent Company.

For the RLC's RMB100 million loan from Agricultural Bank of China (ABC) maturing in August 2022, Chengdu Xin Yao is required to maintain the following financial indicators: (a) actual revenue in its operating period which should not be lower than 20%; (b) asset-liability ratio should not equal or exceed 70%; (c) the borrower should not have a bad credit; and (d) borrower contingent liability ratio should not exceed 4%. Chengdu Xin Yao has complied with the debt covenant as of June 30, 2018.

For CEB's ECA loans, the Group is required to maintain the following financial ratios:

- Consolidated EBITDA to consolidated interest payable ratio should not be less than 3:1 ratio;
- Consolidated total borrowings to consolidated equity should not exceed 2:1 ratio; and
- Consolidated current liabilities should not exceed consolidated current assets.

The agreements for the ECA loans also include conditions that has to be met prior to declaring CAI or the Parent Company in default or in breach of the related debt covenants, such as but not limited to, written notice of default and lapse of the relevant grace period.

For JGSPL's US\$750.0 million Senior Unsecured Notes due in 2023, the guarantor shall procure:

- Consolidated Current Assets to Consolidated Current Liabilities is not at any time less than 0.5:1.0; and
- Consolidated Total Borrowings to Consolidated Stockholders' Equity does not at any time exceed 2:1.

For the NZ and AU Term loans, these loans contain negative covenants which include, among others, maintenance of a debt to equity ratio of not greater than 2.5 to 1.0.

The Group has complied with all of its debt covenants as of September 30, 2018 and December 31, 2017.

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## 19. Other Noncurrent Liabilities

This account consists of:

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Deposit liabilities - net of current portion	<b>₱17,650,685</b>	₱16,803,718
ARO	<b>5,413,919</b>	3,824,447
Deposit from lessees - net of current portion	<b>2,557,153</b>	2,341,569
Deposits from real estate buyers - net of current portion	<b>5,276,939</b>	1,443,705
Pension liabilities	<b>1,468,895</b>	1,431,167
Accrued rent expense	<b>1,458,845</b>	1,458,844
Others	<b>744,917</b>	887,317
	<b>₱34,571,353</b>	₱28,190,767

### Deposit Liabilities

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

### ARO

CAI 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 estimates made by CAI's engineers, which include estimates of certain redelivery costs at the end of the operating aircraft lease.

URC also has obligations to restore the leased manufacturing sites, warehouses and offices at the end of the respective lease terms. These provisions are calculated as the present value of the estimated expenditures required to remove any leasehold improvements. These costs are currently capitalized as part of the cost of the plant and equipment and are amortized over the shorter of the lease term and the useful life of assets.

### Deposits from Lessees

Deposits from lessees (including the current portion shown in Note 17) represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of lease term. These are initially recorded at fair value, which is obtained by discounting its future cash flows using the applicable rates of similar types of instruments. The deposits from lessees were discounted using PDST-F rate plus 2.0% spread.

### Accrued Rent

Accrued rent expense represents the portion of the lease as a consequence of recognizing expense on a straight-line basis. These pertain to various lease of land entered by the Group where the malls are located.

### Deposits from Real Estate Buyers

Deposits from real estate buyers (including the current portion shown in Note 17) 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 17).

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

### Others

Others include retention payable which represents amounts withheld from payments to contractors as guaranty for any claims against them. These are noninterest-bearing and will be remitted to contractors at the end of the contracted work.

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## 20. Equity

Details of the Parent Company's authorized capital stock as of September 30, 2018 and December 31, 2017 follow:

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

As of September 30, 2018 and December 31, 2017, the paid-up capital of the Group consists of the following:

Capital stock:	
Common shares - ₱1 par value	<b>₱7,162,842</b>
Preferred voting shares - ₱0.01 par value	<b>40,000</b>
	<b>7,202,842</b>
Additional paid-in capital	<b>23,553,025</b>
Total paid-up capital	<b>₱30,755,867</b>



#### 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	–	P1.00	P–	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 common shares	1.00	4.40	–	1,428,175 common shares
June 30, 1994	Conversion of convertible bonds into common shares	428,175 common shares	1.00	13.75	–	3,725 common shares
July 3, 1998	Stock rights offering (1:2)	2,060,922 common shares	1.00	2.00	–	2,060,922 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, 2018 (Unaudited)	December 31, 2017 (Audited)
(a) Gross debt		
Short-term debt (Note 18)	<b>P28,493,490</b>	P45,847,814
Current portion of long-term debt (Note 18)	<b>30,594,240</b>	5,728,470
Long-term debt, net of current portion (Note 18)	<b>178,471,617</b>	175,958,345
Derivative liabilities (Note 8)	<b>1,880</b>	5,904
	<b>P237,561,227</b>	P227,540,533
(b) Capital	<b>P367,874,178</b>	P346,419,548
(c) Debt-to-capital ratio (a/b)	<b>0.65:1</b>	0.66:1

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

### Regulatory Qualifying Capital

Under existing BSP regulations, the determination of RBC's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of RBC consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary nonfinancial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 125.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors. Following is a summary of risk weights and selected exposure types:

Risk weight	Exposure/Asset type*
0%	Cash on hand; claims collateralized by securities issued by the non-government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75%	Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage
100%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred tax)
125%	All NPLs (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities

\* *Not all inclusive*

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50%

(interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For CLNs and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

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 circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% 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), starting January 1, 2011 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.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.0% CET1 capital ratio and 10% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25% on the Group's real estate exposure. These limits shall be complied with at all times.

On October 29, 2014, the Bangko Sentral ng Pilipinas (BSP) issued amendments to Circular No. 854, *Minimum Capitalization of Banks*. Based on the amendments, RBC as a commercial bank with more than 100 branches, is required to increase its capitalization to ₱15.00 billion.

RBC 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.

As of September 30, 2018, RBC was in compliance with the required CAR.

#### Restricted Retained Earnings

##### *Parent Company*

On December 14, 2017, the BOD approved the appropriation of retained earnings amounting to ₱3.7 billion.

As of June 30, 2018, the Parent Company's restricted retained earnings amounted to ₱100.7 billion 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 follow:

	<b>Subsidiary</b>	<b>Amount</b>	<b>Settlement</b>
<b>Loan Obligations</b>			
4.38% senior unsecured notes	JGSH Philippines, Limited	US\$750.0 million	10 years maturing in 2023
Term loans	Parent Company	₱10.0 billion	Maturing in 2022 and 2024
Retail Bonds	Parent Company	₱30.0 billion	Maturing in 2019, 2021 and 2024
Short-term loans	Parent Company	₱12.7 billion	Maturing in 2018

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 the Parent Company's retained earnings is restricted to maintain these financial ratios.

#### *URC*

On December 15, 2017, the BOD approved the additional appropriation of retained earnings amounting to ₱1.5 billion for capital expenditure commitments to expand capacities in the snack foods and beverage businesses across branded consumer food operations, which are expected to be completed within the next two years.

#### *RLC*

On December 12, 2017, the BOD approved the reversal of the retained earnings it appropriated in 2016 amounting to ₱16.0 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of the Group for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

On the same date, the BOD also approved the appropriation of ₱24.5 billion, out of the unappropriated retained earnings, to support the capital expenditure requirements of the Group for various projects approved by the Executive Committee during meetings held in September 2016. These projects and acquisitions are expected to be completed in various dates in 2018 to 2022.

#### *CAI*

On December 15, 2017, CAI's BOD appropriated ₱18.3 billion from its unrestricted retained earnings for purposes of CAI's re-fleeting program. The appropriated amount will be used for the settlement of pre-delivery payments and aircraft lease commitments. As of June 30, 2018 and December 31, 2017, CAI has appropriated retained earnings totaling ₱18.3 billion.

#### *RBC*

In 2017, RBC's BOD approved to appropriate reserves for trust reserves amounting to ₱0.6 million and to reverse appropriation of reserves for self-insurance amounting to ₱107.0 million.

#### *Accumulated equity in net earnings of the subsidiaries and associates*

A portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates and joint ventures amounting to ₱93.4 billion and ₱86.7 billion as of September 30, 2018 and December 31, 2017, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

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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 ₱139.0 million into the pension fund in 2018.

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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, 2018</b> <b>(Unaudited)</b>	September 30, 2017 (Unaudited)
Income attributable to equity holders of common shares of the Parent Company	<b>₱14,797,723</b>	₱21,242,771
Weighted average number of common shares	<b>7,162,842</b>	7,162,842
Basic/diluted earnings per share	<b>₱2.07</b>	₱2.97

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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 and are generally settled in cash. 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 subsidiaries (see Note 18). 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.

#### *Compensation of key management personnel*

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

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## **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.

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

**FINANCIAL RATIOS**

**AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE  
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

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

<b>Financial Ratios:</b>	<b>2018</b>	<b>2017</b>
<b>Profitability Ratio:</b>		
Operating Margin	16%	19%
<b>Liquidity Ratio:</b>		
Current ratio	0.97	1.14
<b>Capital Structure Ratios:</b>		
Gearing ratio	0.65	0.66
Net debt to equity ratio	0.49	0.50
Asset to equity ratio	2.16	2.13
Interest rate coverage ratio	7.35	9.15