# COVER SHEET

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SEC Registration Number

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

(Company's Full Name)

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

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

**Constante T. Santos**

(Contact Person)

**633-7631**

(Company Telephone Number)

1 2 3 1

*Month* *Day*

(Fiscal Year)

1 7 A

(Form Type)

*Month* *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17**
**OF THE SECURITIES REGULATION CODE AND SECTION 141**
**OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2010**

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. **43rd 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 |
|---|---|
| **Common Stock** | **6,797,191,657** |
| **Long-term Debt** | **9,000,000,000** |

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 [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in “Annex B”).

    The aggregate market value of stocks held by non-affiliates is ₱116,455,787,759.

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# PART I - BUSINESS AND GENERAL INFORMATION

## Item 1. Description of Business

### (A) Business Development

JG Summit Holdings, Inc. (the Company), which is controlled by the Gokongwei Family, was incorporated in November 1990 as the holding company for a group of companies with substantial business interests in branded consumer foods, agro-industrial and commodity food products, property development and hotel management, telecommunications, air transportation, petrochemicals and international capital and financial services. In addition, the Company has business interests in other sectors, including power generation and insurance.

The Company is one of the largest and most diversified conglomerates within the Philippines. The Company was listed on the PSE in 1993.

The Company and its subsidiaries (the Group), conduct business throughout the Philippines, but primarily in and around Metro Manila (where it is based) and in the regions of Visayas and Mindanao.

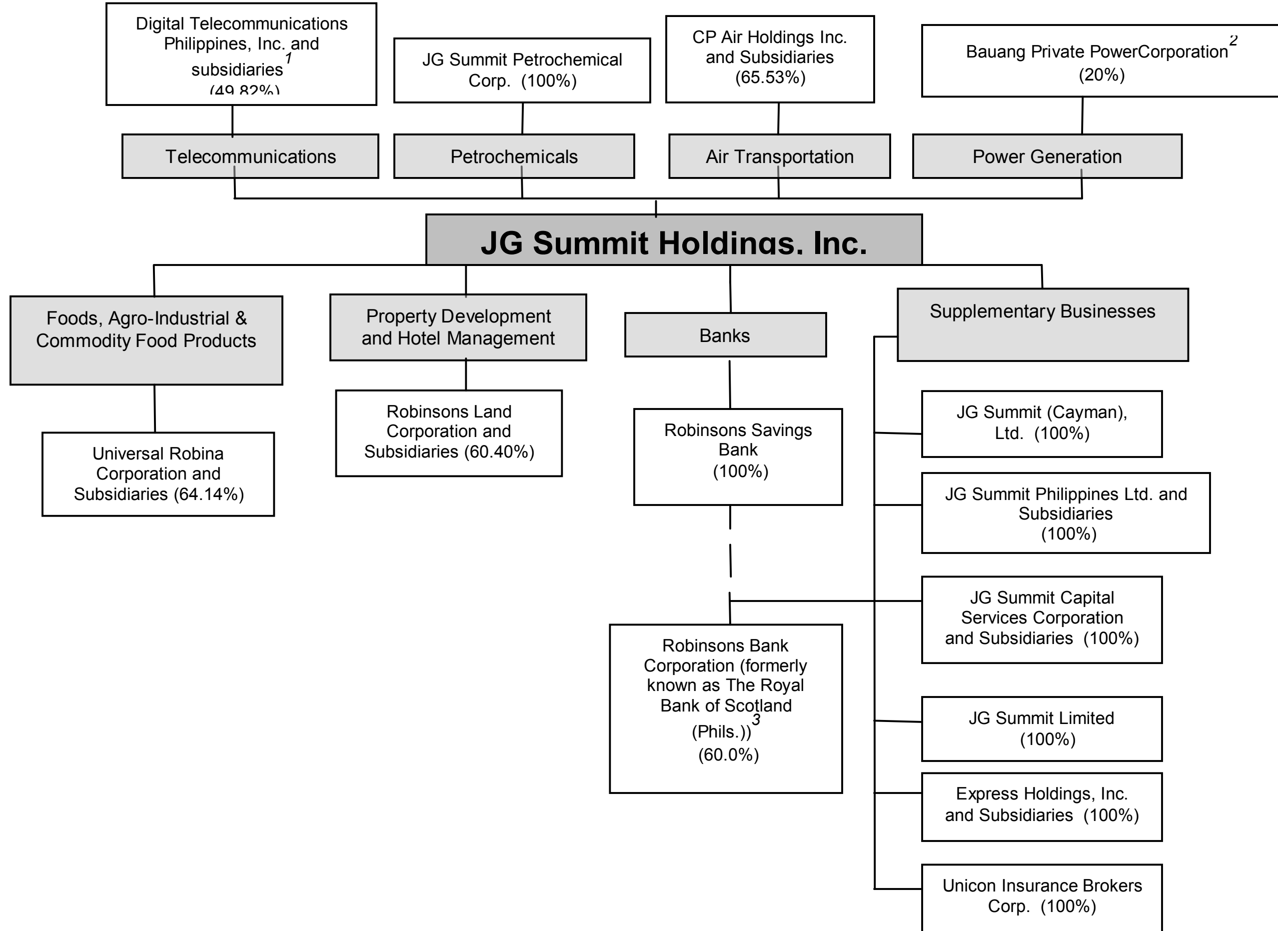
The Group also has a branded foods business in the People's Republic of China (PRC) and the ASEAN region and an interest in a property development company in Singapore.

The Company has not been into any bankruptcy, receivership or similar proceedings for the past two years.

The Gokongwei Family beneficially owns approximately 24.93% of the outstanding share capital of the Company. In addition, certain members of the Gokongwei Family are trustees of the Gokongwei Brothers Foundation, which holds interest in approximately 29.38% of the existing outstanding share capital of the Company.

**(B) Business of Issuer**

The industry segments where the Company and its subsidiaries and affiliates operate are summarized below:




*[1] On March 29, 2011, the Company executed a Sale and Purchase Agreement with Philippine Long Distance Telephone Company (PLDT) for the sale of its investments in shares of stock in Digital Telecommunications Philippines, Inc. The transaction is intended to be completed by the end of June 30, 2011.*

*[2] On October 14, 2010, the BOD and stockholders of Bauang Private Power Corporation (BPPC) and First Private Power Corporation (FPPC) approved a Plan of Merger where FPPC shall be merged into and be part of BPPC, and its separate corporate existence shall cease by operation of law. Subsequently, On December 13, 2010, the Philippine SEC approved the Certificate of Filing of the Articles and Plan of Merger. On December 15, 2010, the effective date of the Merger, FPPC transferred its assets and liabilities at their carrying values to BPPC.*

*[3] In December 2010, the BSP approved the merger of Robinsons Savings Bank and Robinsons Bank Corp. (formerly known as The Royal Bank of Scotland (Phils.)), with Robinsons Bank Corp. (RobinsonsBank) as the surviving entity, making the bank officially a commercial bank.*

The following table shows the breakdown of the Company's revenues and net profits from continuing operations by business areas (in millions except % amounts):

| | REVENUES | | | | | | Net Income attributable to Parent Co. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2008 | | 2009 | | 2010 | |
| | Peso | % | Peso | % | Peso | % | Peso | % | Peso | % | Peso | % |
| Food, Agro-Industrial and Commodity Food Products | 45,483 | 46 | 50,478 | 47 | 57,745 | 47 | 234 | (34) | 2,483 | 29 | 5,014 | 31 |
| Air Transportation | 19,698 | 20 | 23,286 | 22 | 29,114 | 24 | (3,260) | 470 | 3,258 | 38 | 6,556 | 40 |
| Telecommunications | 11,351 | 11 | 14,020 | 13 | 16,544 | 14 | (985) | 142 | 129 | 2 | 262 | 2 |
| Real estate and hotels | 12,650 | 13 | 13,279 | 12 | 13,230 | 11 | 3,868 | (557) | 4,865 | 57 | 4,819 | 30 |
| Petrochemicals | 9,284 | 9 | 6,135 | 6 | 3,872 | 3 | (674) | 97 | (511) | (6) | (102) | (1) |
| Banks | 1,039 | 1 | 1,135 | 1 | 1,729 | 1 | 144 | (21) | 204 | 2 | 298 | 2 |
| Other Supplementary Businesses | 368 | - | 186 | - | 69 | - | 230 | (33) | (1,983) | (23) | (89) | (1) |
| Adjustments/elim | (805) | | (564) | -1 | (566) | - | (251) | 36 | 101 | 1 | (436) | (3) |
| Total from continuing operations | 99,068 | 100 | 107,955 | 100 | 121,737 | 100 | (694) | 100 | 8,546 | 100 | 16,322 | 100 |

Information as to domestic and foreign revenues, including foreign currency denominated revenues and dollar linked revenues, and their contributions to total revenues follow (in millions except % amounts):

| | **2008** | | **2009** | | **2010** | |
|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| Domestic | 70,162 | 71 | 77,752 | 72 | 87,630 | 72 |
| Foreign | 28,906 | 29 | 30,203 | 28 | 34,107 | 28 |
| | 99,068 | 100 | 107,955 | 100 | 121,737 | 100 |

## a) BRANDED CONSUMER FOODS, AGRO-INDUSTRIAL AND COMMODITY FOOD PRODUCTS

### *Business Development*

The Company operates its food business through Universal Robina Corporation (URC), which is one of the largest branded food product companies in the Philippines and has a growing presence in other Asian markets. URC was founded in 1954 when Mr. John Gokongwei, Jr. established Universal Corn Products, Inc., a cornstarch manufacturing plant in Pasig. URC is involved in a wide range of food-related businesses, including the manufacture and distribution of branded consumer foods, production of hogs and day-old chicks, manufacture of animal and fish feeds, glucose and veterinary compounds, flour milling and sugar milling and refining. URC is a dominant player with leading market shares in Savory Snacks, Candies and Chocolates, and is a significant player in Biscuits, with leading positions in Cookies and Pretzels. URC is also the largest player in the RTD Tea market, and is a respectable 2nd player in the Coffee and Noodle business.

### *Principal Products or Services*

URC operates its food business through operating divisions and wholly owned or majority-owned subsidiaries that are organized into three core business segments: branded consumer foods, agro-industrial products and commodity food products.

Branded consumer foods (BCF), including URC's packaging division, is the largest segment contributing about 74.9% of revenues for the fiscal year ended September 30, 2010. Established in the 1960s, URC's BCF division manufactures and distributes a diverse mix of snack, chocolate, candy, biscuit, bakery, beverage, noodles and tomato based-products. The manufacture, distribution, sales and marketing activities for URC's consumer food products are carried out mainly through the branded consumer foods group consisting of snack foods, beverage and grocery divisions, although URC conducts some of its branded consumer foods operations through its wholly-owned or majority-owned subsidiaries and joint venture companies (e.g. Hunt-URC and Nissin-URC). URC established Packaging division to engage in the manufacture of polypropylene films for packaging companies. The bi-axially oriented polypropylene plant (BOPP), located in Batangas, began commercial operations in June 1998. URC also formed the Food Service and Industrial Division that supplies BCF products in bulk to certain institutions like hotels, restaurants and schools.

In 2004, URC introduced and manufactured ready to drink tea in PET bottles, C2. URC expanded the beverage product line to include functional beverages such as fitness and energy drinks. In 2006, URC supplied certain flexible packaging materials to BCF through its wholly-owned subsidiary, CFC Clubhouse Property, Inc. In 2007, URC acquired the water manufacturing facilities and trademark from Nestle Water Philippines Inc., to expand its water business. In 2008, URC acquired General Milling Corp.'s (GMC) Granny Goose brand and snacks line which further expanded its snacks product lines. In December 2009, URC likewise, acquired the coffee plant facilities of GMC to add capacities to its existing coffee business.

In 2000, URC expanded its BCF business more aggressively into other Asian markets primarily through its subsidiary, URC International and its subsidiaries in China: Shanghai Peggy Foods Co. Ltd., Panyu Peggy Foods Co. Ltd. and URC Hongkong Co. Ltd.; in Malaysia: URC Snack Foods (Malaysia) Sdn. Bhd. and Ricellent Sdn. Bhd.; in Thailand: URC (Thailand) Co. Ltd.; in Singapore: URC Foods (Singapore) Pte. Ltd.: Acesfood Network Pte, Ltd. in 2007 and Advanson International Pte, Ltd in 2008; in Indonesia: PT URC Indonesia. In 2006, URC started operations in Vietnam through its subsidiary URC Vietnam Company Ltd. and URC Hanoi Company, Ltd. in 2009. The Asian operations contributed about 25.3% of URC's revenues for the fiscal year ended September 30, 2010.

URC has a strong brand portfolio created and supported through continuous product innovation, extensive marketing and experienced management. Its brands are household names in the Philippines and a growing number of consumers across Asia are purchasing URC's branded consumer food products.

URC's agro-industrial products segment operates three divisions, which engage in hog and poultry farming (Robina Farms or "RF"), the manufacture and distribution of animal feeds, glucose and soya products (Universal Corn Products or "UCP"), and the production and distribution of animal health products (Robichem). This segment contributed approximately 12.4% of the sale of goods and services in fiscal 2011.

URC's commodity food products segment engages in sugar milling and refining through its Sugar divisions URSUMCO, CARSUMCO and SONEDCO and flour milling and pasta manufacturing through URC Flour division. In 2008, URC acquired PASSI I and II, which provided additional capacity to our existing sugar mills. In fiscal 2010, the segment contributed approximately 12.7% of aggregate sale of goods and services.

The percentage contribution to URC's revenues for the three years ended September 30, 2008, 2009 and 2010 by each of URC's principal business segments is as follows:

| | For the fiscal years ended September 30 | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Branded Consumer Foods | 76.5% | 77.6% | 74.9% |
| Agro-Industrial Products | 12.3 | 11.6 | 12.4 |
| Commodity Food Products | 11.2 | 10.8 | 12.7 |
| | 100.0 | 100.0 | 100.0% |

The geographic percentage distribution of the Company's revenues for the period ended September 30, 2008, 2009 and 2010 is as follows:

| | For the fiscal years ended September 30 | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Philippines | 79.6% | 77.1% | 74.7% |
| ASEAN | 18.4 | 21.6 | 23.6 |
| China | 2.0 | 1.3 | 1.7 |
| | 100.0% | 100.0% | 100.0% |

***Customers***

URC's businesses are not dependent upon a single customer or a few customers that a loss of anyone of them would have a material adverse effect on the Company. URC has no single customer that, based upon existing orders, will account for 20.0% or more of its total sale of goods and services.

***Distribution, Sales and Marketing***

URC has developed an effective nationwide distribution chain and sales network that it believes provide its competitive advantage. URC sells its branded food products primarily to supermarkets, as well as directly to top wholesalers, large convenience stores, large scale trading companies and regional distributors, which in turn sell its products to other small retailers and down line markets. URC's branded consumer food products are distributed to approximately 120,000 outlets in the Philippines and sold through its direct sales force and regional distributors. URC intends to enlarge its distribution network coverage in the Philippines by increasing the number of retail outlets that its sales force and distributors directly service.

The branded consumer food products are generally sold by URC either from salesmen to wholesalers or supermarkets, and regional distributors to small retail outlets. 15 to 30 day credit terms are extended to wholesalers, supermarkets and regional distributors.

URC believes that its emphasis on marketing, product innovation and quality, and strong brand equity has played a key role in its success in achieving leading market shares in the different categories where it competes. In particular, URC launched Jack n' Jill as a master umbrella brand in order to enhance customer recognition of its products. URC devotes significant expenditures to support advertising and branding to differentiate its products and further expand market share both in the Philippines and its overseas markets, including

funding for advertising campaigns, such as television commercials and radio and print advertisements, as well as promotions for new product launches by spending on average 6% of its branded consumer food division's net sales this year.

***Competition***

The BCF business is highly competitive and competition varies by country and category. URC believes that the principal competitive factors include price, taste, quality, convenience, brand recognition and awareness, advertising and marketing, availability of products and ability to get its product widely distributed.

Generally, URC faces competition from both local and multinational companies in all of its markets. In the Philippines, major competitors in the market segments in which it competes include, Liwayway Manufacturing Corp., Columbia Foods International, Republic Biscuit Corporation, Suncrest Foods Inc., Del Monte Phil. Inc., Monde Nissin Corporation, Nestle Philippines Inc., San Miguel Pure Foods Company Inc. and Kraft Foods Inc. Internationally, major competitors include Procter & Gamble, Effem Foods/Mars Inc., Lotte Group, Perfetti Van Melle Group, Mayora Inda PT, Calbee Group, Apollo Food, Frito-Lay, Nestle S.A., Cadbury Schweppes Plc, Groupe Danone S.A. and Kraft Foods International.

Competition in the Philippine food and beverage industry is expected to increase in the future with increased liberalization of trade by the Philippine government and the predicted accompanying growth in imports due to the World Trade Organization (WTO), and ASEAN Free Trade Area (AFTA). Under the WTO, tariff rates on food and agricultural items are being decreased and import quotas are being eliminated among member countries, including the Philippines. AFTA is a free trade area formed by 10 South East Asian countries, including the Philippines. Under AFTA, tariffs on manufactured goods, including processed agricultural products, are being minimized or eliminated over a 15-year period starting January 1, 1993, and non-tariff barriers will be subsequently phased out.

The day-old chicks market is cyclical, very competitive and principally domestic. URC believes that the principal competitive factors are chick quality, supply dependability, price, and breeder performance for broiler chicks. For layer chicks, competitive factors are egg productivity and disease resistance. Principal competitors are RFM Corp. and Math Agro for broiler chicks and Bounty Farms, Inc. for both broiler and layer chicks.

The live hog market is highly fragmented, competitive and principally domestic. URC believes that the principal competitive factors are quality, reliability of supply, price and proximity to market. URC's principal competitors are San Miguel Corp. (Monterey) and Foremost Farms, Inc. The main competition is from backyard raisers who supply 65%-75% of the total pork requirement in the country. In 2010, the hog population decreased by 13-18% because of disease outbreaks and farm closure(s) due to high cost inputs (Feeds) and lower live weight prices (due to lower consumer spending). It is expected that live weight prices will relatively be higher in the 1$^{st}$ half of 2011 that will encourage raisers, both backyard and commercial farms to start and expand their operations with the anticipated improvement in profitability.

The commercial animal feed market is highly fragmented and its products compete primarily with domestic feed producers. As of September 30, 2010, there were 200 registered feed mills in the Philippines, 25% of which sell commercial feeds. URC believes the principal competitive factors are quality and price. URC's principal competitors are B-Meg and UNAHCO (Sarimanok & Thunderbird). A number of multinationals including Cargil Purina

Phils. Inc., CJ and Sun Jun of Korea, and Bew Hope of China are also key players in the market.

The animal health products market is highly competitive. The market is dominated by multinationals and URC is one of only a few Philippine companies in this market. Its principal competitors are Pfizer, Inc., Univet Pharmaceuticals Ltd., and Merial Limited, a company jointly owned by Merk and Co., Inc. and Aventis S. A. URC believes that the principal competitive factors are brand equity, price, product effectiveness and customer services.

***Enhancement and development of New Products***

URC intends to continuously introduce innovative new products, product variants and line extensions in the snackfoods (snacks, biscuits, candies, chocolates and bakery), beverage and grocery (instant noodles and tomato-based) products. This fiscal year alone, URC's Branded Consumer Foods has introduced 75 new products.

URC has selectively entered and expanded its presence in segments of the Philippine beverage market through the addition of branded beverage products designed to capture market share in niches that complement its existing branded snack food product lines. In 2004, URC introduced and manufactured ready to drink tea in PET bottles, C2. URC continues to expand the beverage product line to include functional beverages such as fitness and energy drinks. Over the last couple of years, URC has also acquired water manufacturing facilities from Nestle Water Philippines, Inc. and entered into licensing agreements to manufacture and sell bottled water carrying the "Nestle Pure Life" and "Hidden Spring" trademark in the Philippines. In December 2009, URC likewise, acquired the coffee plant facilities of GMC to add capacities to its existing coffee business.

***Raw Materials/Suppliers***

A wide variety of raw materials are required in the manufacture of URC's food products, including corn, wheat, flour, sugar, glucose and potatoes, some of which are purchased domestically and others URC imports. URC also obtains a major portion of its raw materials from its agro-industrial and commodity food products divisions, such as glucose, flour and sugar and pet bottles and flexible packaging materials from wholly owned subsidiary CFC Clubhouse Property, Inc. A portion of flexible packaging material requirement is also purchased both locally and from abroad (Korea and Japan), while Tetra-pak packaging is purchased from Singapore. URC's policy is to maintain a number of suppliers for its raw and packaging materials to ensure a steady supply of quality materials at competitive prices. However, the prices paid for raw materials generally reflect external factors such as weather conditions, commodity market fluctuations, currency fluctuations and the effects of government agricultural programs.

For its day-old chicks business, URC requires a number of raw materials, including parent stock for its layer chicks, grandparent stock for its broiler chicks and medicines and other nutritional products. URC purchases the parent stock for its layer chicks from Hendrix Genetics and from Hy-Line International in the United States under exclusive distribution agreements for the Philippines. URC purchases the grandparent stock for its broiler chicks from Hubbard SAS in France. URC obtains a significant amount of the vitamins, minerals, antibiotics and other medications and nutritional products used for its day-old chicks business from its Robichem division. URC purchases vaccines from various suppliers, including Merial, Intervet Philippines, Inc. (through authorized local distributor Castle Marketing and Vetaide Inc.) and Boehringer Ingelheim GmbH and Ceva.

For its live hog business, URC requires a variety of raw materials, primarily imported breeding stocks or semen. URC obtains all of the feeds it requires from its Universal Corn

Products division and substantially all of the minerals and antibiotics for its hogs from its Robichem division. Ample water supply is also available in its locations. URC maintains approximately one month of inventory of its key raw materials.

For its animal health products, URC requires a variety of antibiotics and vitamins, which it acquires from suppliers in Europe and Asia (particularly China). For its commercial animal feed products, URC requires a variety of raw materials, including corn grains, soya beans and meals, feed-wheat grains, wheat bran, wheat pollard, rice bran, copra meal and fish meal. Tapioca starch and soya bean seeds, on the other hand, are required for its liquid glucose and soya bean products, respectively. Corn is generally sourced from local corn traders and imports from suppliers in China and Europe for feed-wheat and from United States for soya bean seeds. URC imports tapioca starch from a number of suppliers, primarily in Vietnam and Thailand. URC purchases solvents locally from Shell Chemicals Philippines through authorized local distributor Chemisol Inc. for use in the extraction of soya oil and other soya-products from soya beans. URC maintains approximately two months physical inventory and one month in-transit inventory for its imported raw materials.

URC obtains sugar cane from local farmers. Competition for sugar cane supply is very intense and is a critical success factor for its sugar business. Additional material requirements for the sugar cane milling process are either purchased locally or imported.

Wheat, the principal raw materials for flour milling and pasta business, is generally purchased through forward contracts from suppliers in the United States, Canada and Australia.

URC maintains a number of suppliers for its raw materials to ensure a steady supply of quality materials at competitive prices. URC believes that alternative sources of supplies of the raw materials that it uses are readily available. The Company's policy is to maintain approximately 30 to 90 days of inventory.

***Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract***

URC owns a substantial number of trademarks registered with the Bureau of Trademarks of the Philippine Intellectual Property Office. In addition, certain of its trademarks have been registered in other Asian countries in which it operates. These trademarks are important in the aggregate because brand name recognition is a key factor in the success of many of URC's product lines. In the Philippines, URC's licensing agreements are registered with the Philippine Intellectual Property Office. The former Technology Transfer Registry of the Bureau of Patents, Trademarks and Technology Transfer Office issued the relevant certificates of registration for licensing agreements entered into by URC prior to January 1998. These certificates are valid for a 10-year period from the time of issuance which period may be terminated earlier or renewed for 10-year periods thereafter. After the Intellectual Property Code of the Philippines (R.A. No. 8293) became effective in January 1998, technology transfer agreements, as a general rule, are no longer required to be registered with the Documentation, Information and Technology Transfer Bureau of the Intellectual Property Office, but the licensee may apply to the Intellectual Property Office for a certificate of compliance with the Intellectual Property Code to confirm that the licensing agreement is consistent with the provisions of the Intellectual Property Code. In the event that the licensing agreement is found by the Intellectual Property Office to be not in compliance with the Intellectual Property Code, the licensor may obtain from the Intellectual Property Office a certificate of exemption from compliance with the cited provision.

URC also uses brand names under licenses from third parties. These licensing arrangements are generally renewable based on mutual agreement. URC's licensed brands include:

Swiss Miss milk shakes and cocoa mix for sale in the Philippines;
Nissin's Cup instant noodles for sale in the Philippines;
Hunt's tomato and pork and bean products for sale in the Philippines; and
Nestle Purelife for sale in the Philippines

URC has obtained from the Intellectual Property Office certificates of registration for its licensing agreements with Nissin-URC, Hunt-URC and Societes Des Produits Nestle S.A. URC was also able to renew its licenses with Nissin-URC and Hunt-URC for another term.

***Regulatory Overview***
As a manufacturer of consumer food and commodity food products, URC is required to guarantee that the products are pure and safe for human consumption, and that URC conforms to standards and quality measures prescribed by the Bureau of Food and Drug.

URC's sugar mills are licensed to operate by the Sugar Regulatory Administration. The Company renews its sugar milling licenses at the start of every crop year.

All of URC's livestock and feed products have been registered with and approved by the Bureau of Animal Industry, an agency of the Department of Agriculture which prescribes standards, conducts quality control tests of feed samples, and provides technical assistance to farmers and feed millers.

Some of URC's projects, such as the sugar mill and refinery and poultry and hog farm operations, certain snacks products, BOPP packaging, flexible packaging and PET bottle manufacturing, are registered with the Board of Investments (BOI), which allows URC certain fiscal and non-fiscal incentives.

***Effects of Existing or Probable Governmental Regulations on the Business***
URC operates its businesses in a highly regulated environment. These businesses depend upon licenses issued by government authorities or agencies for their operations. The suspension or revocation of such licenses could materially and adversely affect the operation of these businesses.

***Research and Development***
URC develops new products and variants of existing product lines, researches new processes and tests new equipment on a regular basis in order to maintain and improve the quality of its food products. In Philippine operations alone, about ₱40 million was spent for research and development activities for fiscal year 2010 and approximately ₱42 million and ₱41 million for fiscal years 2009 and 2008, respectively.

URC has research and development staff for its branded consumer foods and packaging divisions of approximately 78 people located in its research and development facility in Metro Manila. URC conducts extensive research and development for new products, line extensions for existing products and for improved production, quality control and packaging as well as customizing products to meet the local needs and tastes in the international markets.

URC has dedicated research and development staff for its agro-industrial business of approximately 35 persons. Its researchers are continually exploring advancements in breeding and farming technology.

URC also has a diagnostic laboratory that enables it to perform its own serology tests and offers its laboratory services directly to other commercial farms and some of its customers as a service at a minimal cost.

***Transactions with Related Parties***

URC, in its regular conduct of business, has engaged in transactions with the Company and the latter's affiliates. The Company provides URC Group with certain corporate center services including corporate finance, corporate planning, procurement, human resources, legal and corporate communications. The Company also provides URC with valuable market expertise in the Philippines as well as intra-group synergies.

***Costs and Effects of Compliance with Environmental Laws***

The operations of URC is subject to various laws enacted for the protection of the environment, including the Pollution Control Law (R.A. No. 3931 as amended by P.D. 984), the Solid Waste Management Act (R.A. No. 9003), the Clean Air Act (R.A. No. 8749), the Environmental Impact Statement System (P.D. 1586) and the Laguna Lake Development Authority (LLDA) Act of 1966 (R.A. No. 4850). URC believes that it has complied with all applicable environmental laws and regulations, an example of which is the installation of wastewater treatments in its various facilities. Compliance with such laws does not have, and in URC's opinion, is not expected to have, a material effect upon URC's capital expenditures, earnings or competitive position. As of September 30, 2010, URC has invested about ₱180 million in wastewater treatment in its facilities in the Philippines.

**b) REAL ESTATE DEVELOPMENT AND MANAGEMENT**

***Business Development***

The Company, through Robinsons Land Corporation (RLC), which is one of the Philippines' leading real estate developers in terms of revenues, number of projects and total project size, has adopted a diversified business model, with both an "investment" component, in which it develops, owns and operates commercial real estate projects (principally shopping malls, high-rise office buildings and hotels) and a "development" component, in which it develops residential real estate projects for sale (principally residential condominiums, upper-middle to high-end residential developments and low-and-middle cost lots and houses in its subdivision developments).

RLC was incorporated on June 4, 1980 and its shares were offered to the public in an initial public offering and were subsequently listed in the Manila Stock Exchange and the Makati Stock Exchange (predecessors of the Philippine Stock Exchange) on October 16, 1989. RLC had successful follow-on offering of primary and secondary shares in October 2006 where a total of 932.8 million shares were offered to domestic and international investors generating USD223 million or ₱10.87 billion in proceeds. Of this amount, approximately ₱5.3 billion was raised from the primary portion, intended to fund its capital expenditure programs for fiscal 2007. The additional shares were listed on October 4, 2006.

On November 19, 2010 and February 23, 2011, the Board Directors and Stockholders approved the increase in the authorized capital stock of RLC from three billion common shares into eight billion two hundred million commons shares, with a par value of one peso per share, respectively. On February 16, 2011, the BOD of RLC ratified and confirmed the stock rights offering of the common shares of the RLC with a par value of ₱1.00 per share, up to 1,364,610,228 common shares of the RLC (Offer Shares) to be taken from the increase in the authorized capital stock of the RLC; subject to the applicable rules of the Philippine Stock Exchange (PSE), only shareholders as of record date to be determined by the RLC will be entitled to subscribe to one Offer Share for every two common shares held as of such record

date with the offer price shall be ₱10.00 per Offer Share; and such other terms and conditions as may be determined by the RLC.

***Principal Products or Services***
RLC has four business divisions: a) Commercial Centers, b) Residential, c) Office Buildings, and d) Hotels.

**a.) Commercial Centers**
RLC's Commercial Center Division develops, leases and manages shopping malls throughout the Philippines. As of September 30, 2010, it operated 29 shopping malls, comprising 6 malls in Metro Manila and 23 malls in other urban areas throughout the Philippines, and had another 6 projects that are in the planning and development stage scheduled for completion in the next two years.

**b.) Residential**
As of September 30, 2010, this division had completed twenty seven (27) residential projects, 48 ongoing projects, and 9 projects awaiting the receipt of License to Sell (LS). It currently has several projects in various stages for future development that are scheduled for completion in the next one to five years.

The Residential Division is now categorized into four brands. The different brands differ in terms of target market, location, type of development and price ranges to allow clear differentiation among markets. These four brands are:

- **Luxuria** - sells and develops prestigious residential developments in prime locations. Currently, there are seven (7) residential projects under the Luxuria portfolio, of which one (1) had been completed and six (6) projects are under various stages of development.
- **Robinsons Residences** - are strategically located within business districts and emerging cities and mostly are mixed-use developments. As of September 30, 2010, Robinsons Residences segment had a portfolio of 22 residential projects, of which 11 had been completed and 11 projects are under various stages of development.
- **Robinsons Communities** - is the residential brand of RLC which offers community living by providing functional and compact condominium units with generous open spaces and amenities. It develops affordable to mid-cost residential developments in locations with proximity to major cities or central business districts. As of September 30, 2010, Robinsons Communities had completed ten (10) residential condominium projects and five (5) subdivision projects. It has various projects on-going in different stages that are scheduled for completion in the next one to four years.
- **Robinsons Homes** - offers choice lots in themed subdivisions with option for house construction to satisfy every Filipino's dream of owning his own home. As of September 30, 2010, Robinsons Homes has 29 projects in its portfolio. Twenty (20) of these projects are on-going, while nine (9) are awating for the receipt of License to Sell (LS) to launch. Among the on-going projects, fourteen (14) have been completed and substantially sold.

**c.) Office Building**
This division develops office buildings for lease. As of September 30, 2010, this division has completed seven office buildings, all located in Metro Manila. These offices projects are primarily developed as investment properties, to be leased to tenants by the Company.

**d.) Hotels**
RLC's Hotels division owns and operates hotels within Metro Manila, Cebu City and Tagaytay City. RLC's hotels division currently has a portfolio of five hotels, the Crowne Plaza Galleria Manila, Holiday Inn Galleria Manila, Cebu Midtown Hotel, Tagaytay Summit Ridge Hotel and Go Hotel.

The percentage contribution to RLC's revenues for the three years ended September 30, 2008, 2009 and 2010 by each of business segment is as follows:

| | For the fiscal years ended September 30 | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Commercial Centers | 33.1% | 39.2% | 50.8% |
| Residential Buildings | 48.8% | 40.8% | 28.5% |
| Office Buildings | 7.9% | 10.4% | 10.5% |
| Hotels | 10.2% | 9.6% | 10.2% |
| | 100.0% | 100.0% | 100.0% |

***Competition***

**Commercial Centers Division**
RLC has two major competitors in its commercial centers division. There are a number of other players in the shopping mall business in the Philippines, but they are significantly smaller and, because of the high barriers to entry into the business (which include cost, branding, reputation, scale and access to prime real estate).

**Residential Division**

- Luxuria
  The Luxuria segment continues to develop projects that caters to the high-end market. It strives to compete with developers who have already established their names in tapping this slice of the market. RLC, being new in this segment of the market, continues to learn from the strong players.
- Robinsons Residences
  RLC's close competitors under this segment targets the same market and offers similar products. But because of the significant barriers to entry into the business, such as requirements for industry-specific technological know-how, the considerable capital expenditure required for the acquisition and development of land, the reputation needed to be able to adopt a pre-sale model and the requirement of a large and experienced sales and distribution network.
- Robinsons Communities
  RLC Robinsons Communities in particular, has numerous competitors in the middle income segment. This is in part a function of the fact that as compared to other business areas, RLC does not enjoy the same "early mover" advantage. Currently, Robinsons Communities' competitors include companies like Avida Land, Filinvest Land, SM Development Corporation and DMCI Homes. Based on public records and independent industry reports and its own market knowledge, the Company believes that it is among the top five middle-ranged condominium developers in the Philippines in terms of revenues from sales
- Robinsons Homes
  Based on public records, independent industry reports and its own market knowledge, RLC believes that it is among the top five housing and land project developers in the Philippines in terms of revenues from sales and further believes that it is able to offer competitive commissions and incentives for brokers, and that it

is able to successfully compete on the basis of its brand name and its track record of successful completed quality projects.

**Office Buildings Division**
RLC believes that competition for office space is principally on the basis of location, availability of space and quality of office space. It competes in this market on the basis of the strategic locations of its buildings, including their proximity to the Company's malls and residences as part of mixed-use developments, and has also began to design its office space with BPO- and call center-specific requirements in mind, in order to better serve that market and make its office buildings more attractive to those potential tenants.

**Hotel**
Hotel occupancy trends in the Philippines are affected by a variety of factors, including the general levels of business and tourist travel to the Philippines, which are in turn influenced by general political and economic conditions within the country. Year 2010 sets to end with a 15% growth in tourism arrival, and this positive development can also be attributed to the recognition of the Philippines as one of the world's rising value for money destination by the Country Brand Index.

***Raw Materials/Suppliers***
Construction and development of malls, high-rise office and condominium units as well as land and housing construction are awarded to various reputable construction firms subject to a bidding process and management's evaluation of the price and qualifications of and its relationship with the relevant contractor. Most of the materials used for the construction are provided by the contractors themselves in accordance with the underlying agreements, although sometimes RLC will undertake to procure the construction materials when it believes that it has an advantage in doing so. RLC typically will require the contractor to bid for a project on an itemized basis, including separating the costs for project materials that it intends to charge. If RLC believes that it is able to acquire any of these materials (such as cement or steel) at a more competitive cost than is being quoted to it, it may remove these materials from the project bid and enter into a separate purchase order for the materials itself, to reduce project costs.

***Customers***
RLC has a broad market base. The loss of any one customer would not have a materially adverse effect upon the Company.

***Related Party Transactions***
RLC leases significant portions of its commercial centers and office buildings to various subsidiaries and affiliates. Anchor tenants of the shopping malls are generally composed of affiliates in the retail trade business, namely Robinsons Department Store, Robinsons Supermarket and Handyman. Other affiliates include Top Shop, Robinsons Savings Bank and Cebu Pacific. Digitel also provides RLC with telecommunications services from time to time. RLC's lease contracts and/or supply services with these affiliate companies are under commercial terms at least as favorable as the terms available to non-affiliated parties.

***Regulatory Overview***

**Shopping Malls**
Shopping mall centers are regulated by the local government unit of the city or municipality where the establishment is located. In line with this, mall operators must secure the required mayor's permit or municipal license before operating. In addition, no mall shall be made

operational without complying first with the provisions of the fire code and other applicable local ordinances. Furthermore, shopping malls with food establishments must obtain a sanitary permit from the Department of Health. It is also compulsory for shopping malls discharging commercial wastewater to apply for a wastewater discharge permit from the DENR and to pay the fee incidental to the permit.

**Residential Condominium and Housing and Land Projects**
Presidential Decree No. 957 as amended, is the principal statute which regulates the development and sale of real property as part of a condominium project or subdivision. Presidential Decree No. 957 covers subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes as well as condominium projects for residential or commercial purposes. The HLURB is the administrative agency of the Government which, together with local government units, enforces this decree and has jurisdiction to regulate the real estate trade and business. All subdivision plans and condominium project plans are required to be filed with and approved by the HLURB. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities.

There are essentially two different types of residential subdivision developments, which are distinguished by different development standards issued by the HLURB. The first type of subdivision, aimed at low-cost housing, must comply with Batas Pambansa Blg. 220, which allows for a higher density of building and relaxes some construction standards. Other subdivisions must comply with Presidential Decree 957, which set out standards for lower density developments.

Under current regulations, a developer of a residential subdivision is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads and recreational facilities. A developer of a commercial subdivision is required to reserve at least 3.5% of the gross project area for parking and pedestrian malls. Further, Republic Act No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same or adjacent regions, whenever feasible, and in accordance with the standards set by the HLURB. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with other developers engaged in socialized housing development. Under current law, income derived by domestic corporations from the development and sale of socialized housing which currently, among other things, must have a basic selling price of no more than ₱300,000, is exempt from project related income taxes. Under the current Investment Priorities Plan issued by the Board of Investments, mass housing projects including development and fabrication of housing components, are eligible for government incentives subject to certain policies and guidelines. In the future, since the sale of socialized housing units comprise a portion of homes sold by RLC, any changes in the tax treatment of income derived from the sale of socialized housing units may affect the effective rate of taxation of the latter.

**Hotels**
The Philippine Department of Tourism promulgated the Hotel Code of 1987 (the "Hotel Code") in order to govern the business and operation of all hotels in the Philippines. Investors that wish to operate a hotel must first register and apply for a license with the local government of the city or municipality where the hotel is located. For purposes of registration and licensing, hotels are classified into four groups: De Luxe Class, First Class, Standard Class and Economy Class. The Hotel Code provides minimum standards for the establishment, operation and maintenance of hotels depending on the hotel's classification.

**Zoning and Land Use**
Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the DAR, land classified for agricultural purposes as of or after 15 June 1988, cannot be converted to non-agricultural use without the prior approval of DAR.

**Special Economic Zone**
The Philippine Economic Zone Authority (PEZA) is a government corporation that operates, administers and manages designated special economic zones (Ecozones) around the country. PEZA registered enterprises locating in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation equipment, machinery and raw materials. Information technology (IT) enterprises offering IT services (such as call centers and business process outsourcing using electronic commerce) are entitled to fiscal and non-fiscal incentives if they are PEZA-registered locators. RLC actively seeks PEZA registration of its buildings, as this provides significant benefits to its tenants. As of fiscal September 2010, the Robinsons Pioneer mixed-use complex is in a PEZA Ecozone, the Robinsons Equitable Tower and Robinsons Summit Center are PEZA-registered buildings. A number of malls are also PEZA-registered.

**United Industrial Corporation Limited**
In May 1999, the Company, through a subsidiary, acquired a 23% stake in a Singapore listed company, United Industrial Corporation Limited (UIC) which is one of the largest property developers in Singapore owning various office buildings that are located in prime locations in Singapore and China. In December 2010, the Company's indirect interest in the shares of UIC increased to 35.99%. Other than the Company, the only significant stockholder in UIC is the United Overseas Bank Group of Singapore.

**c) TELECOMMUNICATIONS**

***Business Development***
The Company, through its subsidiary Digital Telecommunications Phils, Inc. (DIGITEL), provides voice and data services through wireless and wireline technology in the Philippine telecommunications industry. Digitel has expanded its interests in wireline services in recent years and currently provides wireless/mobile telecommunication services, wireline telecommunications, hi-speed data transmission and internet services and call cards. As of December 31, 2010, Digitel has approximately 14.03 million wireless subscribers (across its prepaid and postpaid options and its 2G and 3G networks) and over 450,000 subscribers across its data and wireline segments.

**Wireless telecommunication services**: In September 2001, Digitel established a wholly owned subsidiary, Digitel Mobile Phils.,Inc. (DMPI), to provide wireless telecommunication services in the Philippines. DMPI is one of the Philippines' leading mobile telecommunications companies. DMPI has operated its wireless mobile services under the 'Sun Cellular' brand since 2003. Sun Cellular uses Global Service for Mobile (GSM) technology to provide voice services (local, national, international calling), messaging services (short text or multimedia messaging), outbound and inbound international roaming, broadband wireless technology, and various value-added services.

**Data transmission and internet services**: Digitel's data division, the Enterprise Business Unit, offers consumer and corporate customers access to high-speed data transmission and internet services through domestic and international leased line services, frame relay, and dedicated internet lines. Digitel provides enterprise grade services and solutions to some of the top enterprise customers in the Philippines, with customer

relationships in the banking, manufacturing, logistics, utilities, trading, business process outsourcing (BPO) companies, hospitality and real estate sectors.

**Wireline telecommunication services**: Digitel is one of the major providers of wireline communication systems in Luzon Island. Through over 600 regional and local exchanges, DIGITEL telephones are now available in 281 towns and cities throughout Luzon. As of December 31, 2010, the Group had a total of almost 600,000 installed lines and over 450,000 working lines. Digitel's voice products and value-added services include local call, national, and international toll services, payphones and prepaid phone cards.

Digitel has recently introduced the SunTel Wireless Landline to extend its landline coverage by employing GSM technology using Sun Cellular's network to provide an alternative last mile solution to traditional copper cable facilities.

On March 29, 2011, the Company and certain related parties executed a sale and purchase agreement with PLDT under which PLDT has agreed to purchase all the rights, title and interest in the assets of DTPI as follows: (i) 3,277,135,882 common shares of DTPI, representing approximately 51.55% equity share in DTPI; (ii) zero coupon convertible bonds due 2013 and 2014 issued DTPI and its subsidiariy to the Company which are assumed to be convertible into approximately 18.6 billion shares of DTPI by June 30, 2011; and (iii) intercompany advances of ₱34.1 billion made by the Company and a certain subsidiary to DTPI and Subsidiaries. The total consideration for the assets amounted to ₱69.2 billion.

The transaction is intended to be completed by the end of June 30, 2011.

## d) AIR TRANSPORTATION

***Business Development***

Cebu Air, Inc. (CEB) was incorporated on August 26, 1988. With the liberalization of the airline industry in 1995, JG Summit acquired 49% of Cebu Air's outstanding capital stock to undertake domestic and international flights to and from major cities in the Philippines and around the world. In September 2001, the Company, through a subsidiary, acquired the remaining 51% of Cebu Air's capital stock, thus making it a wholly owned subsidiary as of year end 2001. In May 2006, CEB was acquired by CP Air Holdings Inc. (CPAir) through a deed of assignment by the Company, which resulted in the 100% ownership by CPAir of Cebu Air. CPAir is a wholly owned subsidiary of the Company.

Cebu Air operates under the trade name "Cebu Pacific Air" and is the leading low-cost carrier in the Philippines. It pioneered the "low fare, great value" strategy in the local aviation industry by providing scheduled air travel services targeted to passengers who are willing to forego extras for fares that are typically lower than those offered by traditional full-service airlines while offering reliable services and providing passengers with a fun travel experience.

In 2005, CEB adopted the low cost carrier (LCC) business model. The core element of the LCC strategy is to offer affordable air services to passengers. This is achieved by having: high-load, high-frequency flights; high aircraft utilization; a young and simple fleet composition; and having low distribution costs.

CEB operates an extensive route network serving 50 domestic routes and 23 international routes with a total of 1,832 scheduled weekly flights. It operates from four hubs, including the Ninoy Aquino International Airport (NAIA) Terminal 3 located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport located in Clark, Pampanga; and Davao International Airport located in Davao City, Davao del Sur.

As of December 31, 2010, CEB operated a fleet of 31 aircraft which comprises of ten Airbus A319, 14 Airbus A320, and seven ATR 72-500 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of the CEB's fleet is approximately 3.1 years as of December 31, 2010.

Cebu Air has three principal distribution channels: the internet; direct sales through booking sales offices, call centers and government/corporate client accounts; and third-party sales outlets. Aside from passenger service, it also provides airport-to-airport cargo services on its domestic and international routes. In addition, it offers ancillary services such as cancellation and rebooking options, in-flight merchandising such as sale of duty-free products on international flights, excess baggage and travel-related products and services.

The percentage contributions to the Cebu Air's revenues of its principal business activities are as follows:

| For the years ended December 31 | 2008 | 2009 | 2010 |
|---|---|---|---|
| Passenger Services | 86.9% | 83.7% | 84.8% |
| Cargo Services | 6.8% | 7.2% | 7.2% |
| Ancillary Services | 6.3% | 9.1% | 8.0% |
| | 100.0% | 100.0% | 100.0% |

No material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business was made in the past three years. Cebu Air has not been subjected to any bankruptcy, receivership or similar proceeding in the said period.

***Distribution Methods of Products or Services***

Cebu Air has four principal distribution channels: the internet, direct sales through booking sales offices, call centers and government/corporate client accounts, and third-party sales outlets.

- **Internet**

In January 2006, CEB introduced its internet booking system. Through www.cebupacificair.com, passengers can book flights and purchase services online. The system also provides passengers with real time access to the CEB's flight schedules and fare options.

- **Booking Offices and Call Centers**

As of December 31, 2010, CEB had a network of seven booking offices located throughout the Philippines and one booking office located in Hong Kong. It directly operates these booking offices, which also handle customer service issues, such as customer requests for change of itinerary. In addition, it operates two in-house call centers, one in Manila and the other in Cebu. It also uses a third-party call centre outsourcing service to help accommodate heavy call traffic. Its employees who work as reservation agents are also trained to handle customer service inquiries and to convert inbound calls into sales. Purchases made through call centers can be settled through various modes, such as credit cards, over the counter in banks, automated teller machines and payment centers.

- **Government/Corporate Client Accounts**

As of December 31, 2010, Cebu Air had government and corporate accounts for passenger sales. It provides these accounts with direct access to its reservation system and seat inventory as well as credit lines and certain incentives. Further, clients may choose to settle their accounts by post-transaction remittance or by using pre-enrolled credit cards.

- **Third Party Sales Outlets**

As of December 31, 2010, CEB had a network of distributors in the Philippines selling its domestic and international air services within an agreed territory or geographical coverage. Each distributor maintains and grows its own client base and can impose on their clients a service or transaction fee. Typically, a distributor's client base would include agents, travel agents or end customers. It also had a network of foreign general sales agents, wholesalers, and preferred sales agents who market, sell and distribute its air services in other countries.

***Competition***

The Philippine aviation authorities deregulated the airline industry in 1995 eliminating certain restrictions on domestic routes and frequencies which resulted in fewer regulatory barriers to entry into the Philippine domestic aviation market. On the international market, although the Philippines currently operates under a bilateral framework, whereby foreign carriers are granted landing rights in the Philippines on the basis of reciprocity as set forth in the relevant bilateral agreements between the Philippine government and foreign nations, the Philippine government may consider liberalizing the Philippine aviation industry by allowing foreign carriers to exercise "freedoms of the air" traffic rights beyond those that were established under the bilateral agreements. The Philippine government may pursue "Open Skies" arrangements or policies such as ASEAN Open Skies. It may also pursue arrangements or policies similar to EO 29 or EO 500-A. This will significantly increase competition in the airline business. This will also allow the Company to expand its route network.

Cebu Air faces intense competition on both its domestic and international routes. The level and intensity of competition varies from route to route based on a number of factors. Principally, it competes with other airlines that service the routes it flies. However, on certain domestic routes, CEB also considers alternative modes of transportation, particularly sea and land transport, to be competitors for its services. Substitutes to its services also include video conferencing and other modes of communication.

Cebu Air's main competitor in the Philippines is Philippine Airlines ("PAL"), a full-service Philippine flag carrier. Most of its domestic and international destinations are also serviced by PAL. It also competes in the Philippines with Air Philippines Express, a domestic operator with relations to PAL. Certain smaller airlines, including Zest Air and South East Asian Airlines also compete with the Company domestically. According to Civil Aeronautics Board (CAB) data, Cebu Air is the leading domestic airline in the Philippines by passengers carried, with a market share of 48.2% for the year ended December 31, 2010.

CEB intends to capture a portion of the growing tourist market and the large OFW population. Cebu Air is a leading low-cost airline offering services to more destinations and serving more routes with a higher frequency between the Philippines and other ASEAN countries than any other airline in the Philippines. Currently, it competes with the following LCC's and full-service airlines in its international operations: AirAsia, Tiger Airways, Jetstar Airways, PAL, Cathay Pacific, Singapore Airlines, Thai Airways, among others.

Recently, AirAsia has confirmed the set up of a joint venture in the Philippines which is targeted to start operations in the third quarter of 2011. The Philippine joint venture will operatate out of Clark in Pampanga initially with two A320 aircraft. AirAsia has been

operating in the Philippines since 2005, with one daily flight between Kuala Lumpur and Clark, and one daily flight between Kota Kinabalu and Clark.

In addition, Tiger Airways and Philippine carrier Seair initially set-up a “Partner Airline” program. Seair will operate Singapore flights to/from Clark flights using two 144-seater A319 aircraft leased from Tiger. Seair’s seats and ancillary services for this route will be sold through Tiger’s website. Tiger recently took 32.5% stake in Seair.

Jetstar Airways also recently announced that it is in talks with various local companies, looking for a Filipino partner. Jetstar Airways wants to tap markets outside Manila such as Cebu and Aklan.

***Other Services- Joint Venture***

To service its customers, CEB enters into various service agreements, the most major of which was the formation of the joint venture company with SIA Engineering Co., Ltd. (SIAEC) which formed Aviation Partnership (Philippines) Corporation (A+). SIAEC has 51% voting interest while the remaining 49% is owned by CEB. A+ provides light and line aircraft maintenance services and also offers maintenance services to other airlines operating into or out of the Philippines.

In early 2008, CEB signed a Memorandum of Understanding (“MOU”) with SIAEC for the set up of another joint venture, SIA Engineering (Philippines) Corporation (SIAEP). SIAEP will operate a heavy maintenance and repair facility in Diosdado Macapagal International Airport in Clark, Pampanga. SIAEC will have a voting interest of 65% in the said joint venture. SIAEP’s business is to provide aircraft certification and scheduled heavy maintenance checks and airframe structural inspections, repairs, modifications, paint-stripping, painting of aircraft exteriors and non-destructive testing checks. SIAEP has commenced its operations in 2009.

Other agreements include the outsourcing of baggage handling services and groundhandling services. It has also entered into agreements with global reservations and distribution systems.

***Raw Materials***

Fuel is a major cost component for airlines. CEB’s fuel requirements are classified by location and sourced from various suppliers.

Cebu Air’s fuel suppliers at its international stations include PTT, Petronas, Shell- Singapore, SK-Korea and Chevron HK, among others. It also purchases fuel from PTT Philippines and Phoenix Petroleum. CEB purchases fuel stocks on a per parcel basis, in such quantities as are sufficient to meet its monthly operational requirements. Most of its contracts with fuel suppliers are on a yearly basis and may be renewed for subsequent one-year periods.

***Customers***

CEB has a broad market base and does not have a single customer that would have a materially adverse effect upon CEB. Its customers consist primarily of individuals traveling for personal or business purposes with several tour packages provided to a number of small groups.

***Regulatory Overview***

Cebu Air operates its business in highly regulated environment. The business depends upon the permits and licenses issued by the government authorities or agencies for its operations which include the following:

- Legislative Franchise to Operate a Public Utility
- Certificate of Public Convenience and Necessity
- Letter of Authority
- Air Operator Certificate
- Certificate of Registration
- Certificate of Airworthiness

CEB also has to seek approval from the relevant airport authorities to secure airport slots for its operations.

***Publicly-Announced New Product or Service***

Cebu Air continues to analyze its route network. It can opt to increase frequencies on existing routes or add new routes/destinations. It can also opt to eliminate unprofitable routes and redeploy capacity.

CEB plans to expand its fleet over the course of the next four years to 47 aircraft by the end of 2014 (net of redelivery of six leased aircraft). It has already signed a purchase agreement in February 2007 (as amended) on the basis of which it has firm orders for 22 Airbus A320 aircraft, which are scheduled to be delivered starting October 2010, three of which have already arrived as of December 31, 2010. It has also entered into operating lease agreements for two Airbus A320 aircraft.

The additional aircraft will support Cebu Air's plans to increase frequency on current routes and to add new city pairs and destinations. It has increased frequencies on domestic routes such as Manila to Cagayan de Oro, Cebu, Davao, Gen. Santos, and Puerto Princesa and international routes such as Manila to Hong Kong, Singapore, Kuala Lumpur, Bangkok, and Incheon. It plans to launch services from Manila to Pusan which is expected to start in 2011.

***Effects of Existing or Probable Government Regulations on the Business***

Civil Aeronautics Administration and Civil Aviation Authority of the Philippines (CAAP)

Policy-making for the Philippine civil aviation industry started with RA 776, known as the Civil Aeronautics Act of the Philippines (the "Act"), passed in 1952. The Act established the policies and laws governing the economic and technical regulation of civil aeronautics in the country. It established the guidelines for the operation of two regulatory organizations, CAB for the regulation of the economic activities of airline industry participants and the Air Transportation Office, which was later transformed into the CAAP, created pursuant to RA 9497, otherwise known as the Civil Aviation Authority Act of 2008.

The CAB is authorized to regulate the economic aspects of air transportation, to issue general rules and regulations to carry out the provisions of RA 776, and to approve or disapprove the conditions of carriage or tariff which an airline desires to adopt. It has general supervision and regulation over air carriers, general sales agents, cargo sales agents, and airfreight forwarders, as well as their property, property rights, equipment, facilities and franchises.

The CAAP, a government agency under the supervision of the Department of Transportation and Communications for purposes of policy coordination, regulates the technical and operational aspects of air transportation in the Philippines, ensuring safe, economic and efficient air travel. In particular, it establishes the rules and regulations for the inspection and registration of all aircraft and facilities owned and operated in the Philippines, determines the charges and/or rates pertinent to the operation of public air utility facilities and services, and coordinates with the relevant government agencies in relation to airport security. Moreover,

CAAP is likewise tasked to operate and maintain domestic airports, air navigation and other similar facilities in compliance with the International Civil Aviation Organization (ICAO), the specialized agency of the United Nations whose mandate is to ensure the safe, efficient and orderly evolution of international civil aviation.

Cebu Air complies with and adheres to existing government regulations.

Category 2 Rating

In early January 2008, the Federal Aviation Administration (FAA) of the United States downgraded the aviation safety ranking of the Philippines to Category 2 from the previous Category 1 rating. The FAA assesses the civil aviation authorities of all countries with air carriers that operate to the U.S. to determine whether or not foreign civil aviation authorities are meeting the safety standards set by the ICAO. The lower Category 2 rating means a country either lacks laws or regulations necessary to oversee airlines in accordance with minimum international standards, or its civil aviation authority is deficient in one or more areas, such as technical expertise, trained personnel, recordkeeping or inspection procedures. Further, it means Philippine carriers can continue flying to the U.S. but only under heightened FAA surveillance or limitations. In addition, the Philippines has been included in the "Significant Safety Concerns" posting by the ICAO as a result of an unaddressed safety concern highlighted in the recent ICAO audit. As a result of this unaddressed safety concern, Air Safety Committee (ASC) of the European Union banned all Philippine commercial air carriers from operating flights to and from Europe. The ASC based its decision on the absence of sufficient oversight by the CAAP.

Although CEB does not currently operate flights to the U.S. and Europe, the foregoing may adversely affect its ability to establish new routes to other countries that base their decision on flight access on the FAA and ASC's evaluation.

EO 28 and 29

In March 2011, the Government issued EO 28 which provides for the reconstitution and reorganization of the existing Single Negotiating Panel into the Philippine Air Negotiating Panel (PANP) and Philippine Air Consultation Panel (PACP) (collectively, the Philippine Air Panels). The PANP shall be responsible for the initial negotiations leading to the conclusion of the relevant Air Services Agreements (ASAs) while the PACP shall be responsible for the succeeding negotiations of such ASAs or similar arrangements.

Also in March 2011, the government issued EO 29 which authorizes the CAB and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location. Among others, EO 29 provides the following:

- In the negotiation of the ASAs, the Philippine Air Panels may offer and promote third, fourth and fifth freedom rights to the country's airports other than the NAIA without restriction as to frequency, capacity and type of aircraft, and other arrangements that will serve the national interest as may be determined by the CAB; and
- Notwithstanding the provisions of the relevant ASAs, the CAB may grant any foreign air carriers increases in frequencies and/or capacities in the country's airports other than the NAIA, subject to conditions required by existing laws, rules and regulations. All grants of frequencies and/or capacities which shall be subject to the approval of the President shall operate as a waiver by the Philippines of the restrictions on frequencies and capacities under the relevant ASAs.

The issuance of the foregoing EOs may significantly increase competition.

## e) PETROCHEMICALS

***Business Development***

The JG Summit Petrochemical Corporation (JGSPC) was incorporated in the Philippines on February 24, 1994 and is 100% owned by the Company.

On October 11, 2007, the Company, owner of 82.28% and Marubeni Corporation of Japan, owner of 17.72% of JGSPC entered into a sale and purchase agreement for the transfer of the 17.72% of 220,402,784 shares owned by Marubeni to the Company.

Its primary purpose is to engage in, operate, conduct, maintain, manage and carry on the business of manufacturing, dealing and marketing of polyethylene and polypropylene and related petrochemical products or by-products, in all their forms, varieties and stages of production and preparation, or of any article or commodity consisting of, or partly consisting of petrochemicals. JGSPC constructed the Philippines' first integrated polypropylene and polyethylene complex on a site at Bgy. Simlong, Batangas City. The total project cost amounted to US$300 million and the plant has the capacity to produce 180,000 tons of polypropylene and 175,000 tons of polyethylene annually.

***Principal Products or Services***

JGSPC manufactures polypropylene and polyethylene.

The percentage contribution to JGSPC's revenues for the three years ended September 30, 2008, 2009 and 2010 by each of its principal product categories is as follows:

| | For the years ended September 30 | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Polypropylene | 54.6% | 53.2% | 58.1% |
| Polyethylene | 45.4% | 46.8% | 41.9% |
| | 100.0% | 100.0% | 100.0% |

JGSPC products are sold under the EVALENE brand name and are manufactured under strict compliance with a Quality Management System based on ISO 9002 certified standards.

***Distribution, Sales and Marketing***

JGSPC has a rated capacity of 175,000 MT per year for polyethylene (PE) and 180,000 MT for Polypropylene (PP). JGSPC manufactures High Density and Linear Low Density polyethylene (HDPE and LLDPE) as well as Random Copolymer and Homopolymer polypropylene (PP) using the industry-renowned Unipol technology from Union Carbide Corporation. JGSPC sells directly to small, medium and large plastic converters in the Philippines through its sales group. It has taken a leading role in the markets it serves, providing 55% of total market requirements. Product distribution is handled directly by JGSPC in coordination with third party trucking services.

***Competition***

To be highly competitive, JGSPC commits to produce consistently good quality products using world-class technology and by employing highly competent plastics processing personnel. Continuous research and development is conducted in-house by the Product R&D and Technical Services Department, with the assistance of Univation, formerly a Union Carbide Corporation Company. Importation and smuggling of PE and PP resin goods are currently JGSPC's primary competition. Although there are two other local polyolefin plants

only the PE plant of NPC Alliance Corp. formerly Bataan Polyethylene Corp., is currently operational and whose production is largely exported. Philippine Polypropylene Inc.'s PP plant formerly owned by Petrochemical Corp. of Asia and the Pacific (PetroCorp), has been decommissioned since 2003. And in 2010, Petron Corporation acquired a 40% stake in Petrochemical Asia (HK) Ltd. (PAHL), owner of Philippine Polypropylene Inc. (PPI) (formerly Petro Corp). Petron Corp. has entered into a technical services agreement with IRPC, an affiliate of PTT Thailand, for the rehabilitation, commissioning and start-up of the PP plant, reported target restart of which is by the first quarter of 2011

***Raw Materials/Suppliers***

The principal raw materials used by JGSPC in the production of its products, namely olefins, are purchased internationally. Suppliers include Marubeni Corporation and Mitsui & Co. Ltd.

***Customers***

JGSPC aims to supply the majority of manufacturers of plastic-based products in the Philippines. It sells its products to internal and external parties. Internal parties include the Packaging Division of URC while some of our top external customers are Calypso Plastic, Chemvision Inc., Cofta Mouldings, Anson/Astrobag Group, Basic Packaging and Rolex Mfg. Loss of any one customer would not have a materially adverse effect upon JGSPC.

***Related Party Transactions***

JGSPC, in its regular conduct of business, has engaged in transactions with the Company and its affiliates. These transactions principally consist of sales, advances to and from these affiliated companies. JGSPC has also dollar advances from the Company that were used to finance the construction of its plant in Batangas, Philippines. These advances were converted into equity in 2003. Also, it obtains other advances for its operations from the Company.

***Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract***

JGSPC has existing technology and licensing agreements (Agreement) with a foreign company covering the construction, manufacture, use and sale of its PP and PE lines. In further consideration for the rights granted to JGSPC pursuant to the Agreement, JGSPC shall pay the foreign company a royalty fee equivalent to a certain percentage of net peso sales value of high-density PE and low-density PE and a certain percentage of net sales value based on Platts rate per metric ton of licensed homopolymer PP and random copolymer PP up to the end of the royalty terms.

***Regulatory Overview***

The BOI implements policies which directly affect the petrochemical industry. Under the Philippine Investment Priorities Plan, the BOI also has the power to grant incentives to manufacturers establishing new plants or undertaking rehabilitation or expansion programs such as tax holidays and duty free importation of capital equipment, as well as tax credits on locally purchased equipment.

***Costs and Effects of Compliance with Environmental Laws***

JGSPC takes pride in consistently making efforts to preserve the environment. The safety of employees and the community is never compromised. JGSPC complies with all applicable laws on the environment and is committed to be environmentally responsible by having an effective Environmental Management System based on the requirements of ISO 14001:2004 certified by Certification International which is our accredited third party certifying body.

## f) OLEFINS

**JG SUMMIT OLEFINS CORP (JGSOC)** is a company wholly-owned by JG Summit Holdings and is set-up to operate the Naphtha Cracker Project.

The naphtha cracker project is a back integration for the existing Polyethylene and Polypropylene plants of JG Summit Petrochemical Corporation (JGSPC). It will be constructed in Barangay Simlong, Batangas City, adjacent to the existing Polyethylene (PE) / Polypropylene (PP) Plant of JGSPC. The main feedstock, naphtha, will be sourced from local as well as overseas sources, with condensate as an alternative feedstock.

***Principal Products or Services***
The cracker will use the CB&I-Lummus (USA) technology and will be a simple cracker, to produce ethylene and propylene, and by-products. The project will be implemented basically via a cost-plus, turnkey project. Construction will be undertaken by Daelim Industrial Corporation of Korea.

The Plant will produce the following per annum:

| | | |
|---|---|---|
| Ethylene | : | 320,000 MT |
| Propylene | : | 190,000 MT |
| PyGas | : | 216,124 MT |

Ethylene ($C_2H_4$) is a colorless gas derived from the thermal cracking of hydrocarbon gases or naphtha. Freezing Point: -169 deg C: boiling point : -103.9 deg C. This will be the main feedstock for Polyethylene Production.

The existing downstream Polyethylene plant of JG Summit Petrochemical Corporation with a combined capacity of 200,000mty will also be de-bottlenecked/expanded using technology from Univation of the USA to be able to absorb all the ethylene production from JGSOC. As economics may dictate, ethylene will be directly exported rather than converted to PE.

Propylene ($C_3H_6$) - A colorless gas, freezing point: -185.2 deg C; boiling point: -47.7 deg C. Propylene is derived from the catalytic and thermal cracking of naphtha. Propylene is the primary feedstock for Polypropylene production

Production of propylene will be for local consumption.

Pyrolysis gasoline (Pygas) is a by-product that will be partially hydrogenated (treated with hydrogen) to make it relatively more stable, and then exported. It is use is as a feed to aromatics extraction units which produce toluene, benzene and xylene.

Other by-products of the Naphtha Cracker Plant are:

- Methane , $CH_4$ . It is an odorless, tasteless gas and in our case is a by-product of the cracking process. It is a severe fire and explosion hazard, and forms an explosive mixture with air. We will not be selling this product but instead will use it as part of our fuel gas system, together with LPG, to fire up our heaters.

- Pyrolysis Fuel Oil (PFO) represents the heavier fraction of the cracked materials from naphtha. It will not be sold, and instead will be used to fuel our boilers

- Acid gases are waste gases and contain carbon dioxide and sulfides. They are caustic-washed to remove acidity and are exhausted. These are separated from the cracked gas and do not go back to the cracking process.

Methane, PFO and acid gases are either internally utilized or exhausted.

***Customers***

The ethylene and propylene output will be primarily sold / transferred to JGSPC's existing polyethylene and polypropylene plants. It is projected that the naphtha cracker will operate between 90% to 100% of capacity. Depending on the relative economics at various times of the petrochemical cycle, the Naphtha Cracker Plant will have the option of exporting ethylene and/or propylene if the netbacks are better by doing so.

Pyrolysis gasoline will be partially hydrogenated and sold to the export market, primarily as a feedstock for the production of benzene, toluene and xylene. It is expected that the Naphtha Cracker Plant will have product offtake agreements with one or more traders to ensure regular offtake of the product.

Pyrolysis fuel oil will be partially consumed by the existing power plant of JGSPC, with the bulk either sold off to local refinery operations for blending and subsequent sale as bunker fuel, or exported.

***Registration with the Board of Investments (BOI)***

The Company is registered with the BOI under the Omnibus Investments Code of 1987 (E.O. 226) on December 15, 2010 as a new producer of ethylene, propylene, py gas and other by-products produced by the Naphtha cracker project on a Pioneer status. Under its certificate of registration, the Company shall be entitled to certain tax and nontax incentives such as: (a) income tax holiday (ITH) for six (6) years from January 2014 or from actual start of commercial operations whichever comes first; only income generated from the registered activity shall be entitled to ITH incentives; additional deduction for from taxable income of fifty percent (50%) of wages corresponding to the increment of direct labor; (c) employment of foreign nationals, (d) tax credit for taxes and duties on raw materials and supplies and semi-manufactured products used on its export products and forming part thereof, among others; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to Customs Bonded Manufacturing Warehouse (CBMW); (g) exemption from wharfage dues, export taxes, duties, imposts and fees on export products; (h) importation of consigned equipment.

**g) BANKING SERVICES**

Robinsons Savings Bank, a wholly-owned subsidiary of JG Summit Capital Services Corp. (JG Capital Services) was incorporated to engage in the business of savings and mortgage bank. It started commercial operations in November 1997.

In the second quarter of 2010, JG Capital Services (100%-owned subsidiary of the Company) and Robinsons Holdings Inc. (RHI) bought 100% of the shares of The Royal Bank of Scotland (Phils.). Then in December 2010, the BSP approved the merger of Robinsons Savings Bank and Robinsons Bank Corp. (formerly known as The Royal Bank of Scotland (Phils.)), with Robinsons Bank Corp. (RobinsonsBank) as the surviving entity, making the bank officially a commercial bank.

***Principal Products or Services***
As of December 2010, RobinsonsBank has a network of fifty-six (56) branches; twenty-five (25) of which are strategically located in Metro Manila and thirty-one (31) others are situated in Luzon, Visayas and Mindanao. Moreover, thirty-one (31) of its branches are located inside malls, mostly in Robinsons' Malls, that are easily accessible and available six (6) days a week until Saturday. RobinsonsBank also has ninety-seven (97) ATMs, which are part of the Bancnet consortium, all of which are within reach and available 24 hours a day 7 days a week. To date, the Bank has a total one hundred and two (102) ATMs.

RobinsonsBank started its operations as a savings bank on November 27, 1997. Through the years, the Bank is committed to position itself for further business growth and aims to be among the top big banks in the country. Having a decade-long track record in the banking industry and as JG Summit Group's major financial service arm, RobinsonsBank continuously strives to carry on its vision of leading the country to global-competitiveness through quality and innovative banking products and services. It provides a broad range of traditional banking services such as savings, current and time deposits, treasury products, unit investment trust funds and other trust products, and foreign-currency denominated deposits. It also offers commercial loans, housing, car, personal, jewelry loans, micro financing, motorcycle financing, cash management, trade financing and remittance, among others. And with the license upgrade, the Bank intends to offer a wider range of products and services that are permissible to a commercial bank.

In support to the bank's response to changing times and the challenges that come along with it, RobinsonsBank prides itself with a business portfolio of market leaders, a solid financial position, and a formidable management team.

The new commercial bank, RobinsonsBank, is now positioned not only to be more responsive in meeting the banking requirements of its retail customers and business partners, but also to fully serve the general banking public.

***Strong Investor Base***
RobinsonsBank is part of the JG Summit Holdings conglomerate. It maintains good patronage of the concessionaires, contractors and suppliers of the JG Group of Companies; exhibiting strong deposit and loan acquisitions. It being owned JG Summit Capital Services Corp. and Robinsons Holdings Inc., RobinsonsBank is in the company of leading and established corporations in the country today.

***Regulatory Overview***
The earnings of banks are affected not only by general economic conditions, but also by the policies of various governmental and regulatory authorities in the country and abroad. The establishment and operation of banking institution in the Philippines is governed by the General Banking Act. The Central Bank acting through the Monetary Board, exercises overall supervision of, and regulates the industry.

**h) OTHER BUSINESS INTERESTS**

The Company has foreign exchange and securities dealing operations and offshore financial subsidiaries.

To complement RSB's traditional banking activities, the Company put up JG Summit Capital Markets Corp. (JGSCMC) which aim to be major players in the global foreign exchange fixed

income and equity markets. JGSCMC was incorporated in January 2000 under the supervision of the Securities and Exchange Commission.

The Company has an interest in insurance brokering and securities investments. The Company also holds interest in power generation, through its 20% ownership in First Private Power Corporation (FPPC).

On October 14, 2010, the BOD and stockholders of Bauang Private Power Corporation (BPPC), which used to be a 93.25%-owned subsidiary by FPPC, and FPPC approved a Plan of Merger where FPPC shall be merged into and be part of BPPC, and its separate corporate existence shall cease by operation of law. Subsequently, on December 13, 2010, the Philippine SEC approved the Certificate of Filing of the Articles and Plan of Merger. On December 15, 2010, the effective date of the Merger, FPPC transferred its assets and liabilities at their carrying values to BPPC. BPPC owns and operates a 215 MW diesel-fired power plant in Bauang, La Union.

In August 2000, the Company entered into a joint venture agreement with five other conglomerates establishing a business to business electronic purchasing exchange under name Bayantrade Dotcom, Inc. (Bayantrade). In 2009, the Company sold its interest in Bayantrade. The Company also entered into other IT related services with the formation of Summit Internet Investments, Inc. in September 2000.

***Competition***

Many of the Group's activities are carried on in highly competitive industries. Given the Group's diversity, the Group competes with different companies domestically and internationally, depending on the product, service or geographic area. While the Group is one of the largest conglomerates in the Philippines, its subsidiaries compete in different sectors against a number of companies with greater manufacturing, financial, research and development and market resources than the Group.

The following table sets out the Group's principal competitors in each of the principal industry segments in which it operates:

| Industry Segment | Principal Competitors |
|---|---|
| Branded Consumer Foods, Agro-Industrial and Commodity Food Products | General Milling Corp., Liwayway, Rebisco, Nissin Monde, Storck, Van Melle, Hersheys, Best Chemicals and Plastics, Vitarich Corp., Tyson Agro-Ventures, San Miguel Corporation, Central Azucarera de Bais and RFM Corporation |
| Telecommunications | Wireline: PLDT, Innove and Bayantel |
| | Wireless: Smart, Piltel and Globe |
| Banking and Financial Services | PS Bank and BPI |
| Petrochemicals | Imports |
| Air Transportation | Philippine Airlines, Air Philippines Express, Zest Air and Southeast Asian Airlines for Domestic flights. Air Asia, Tiger Airways, Jetstar Airways, Cathay Pacific, Singapore Airlines and Thai Airways, among others for International flights |
| Property Development and Hotel Management | SM Prime/Shoemart and Ayala Land Inc. |

***Publicly-Announced New Product or Service***

The Company and its subsidiaries have no publicly-announced new product or service as of the date of the report.

***Patents, Trademarks, Licenses, Franchises Concessions, Royalty Agreements***

The Company has trademarks registered with the Bureau of Patents, Trademarks and Technology Transfer. Unless terminated earlier or renewed, patent registration of materials is protected for a period of 17 years, while trademarks and brand name registration have a protected period of 20 years.

The Company also has various licenses and franchises issued by the government to enable the Company to operate its diverse businesses including food, real estate, banking and financial services, telecommunications, air transportation and power generation.

***Effect of Existing or Probable Governmental Regulations on the Business***

The Company operates the majority of its businesses, including food, real estate, banking and financial services, telecommunications, air transportation and power generation activities, in a highly regulated environment. Many of these businesses depend upon licenses or franchises issued by the government authorities or agencies for their operations. These businesses would be materially adversely affected by the suspension or revocation of these licenses or franchises, which in turn may have a material adverse effect upon the Company. In addition, the introduction or inconsistent application of, or changes in regulations may from time to time materially affect the Company's operations.

***Cost and Effects of Compliance with Environmental Laws***

The operations of the Company are subject to various laws enacted for the protection of the environment. The Company believes that it has complied with all applicable Philippine environmental laws and regulations, an example of which is the installation of waste and industrial water treatments in its various facilities. Compliance with such laws has not had, and in the Company's opinion, is not expected to have, a material effect upon the Company's capital expenditures, earnings or competitive position.

***Employees and Labor***

The number of full-time employees employed by the Company and its operating subsidiaries as of December 31, 2010 is shown in the following table:

| **Company** | **No. of Employees** |
|---|---:|
| Branded Consumer Foods, Agro-industrial, & Commodity Food Products | 9,117 |
| Telecommunications | 4,379 |
| Property Development and Hotel Management | 1,421 |
| Airlines | 2,475 |
| Petrochemicals | 305 |
| Finance | 610 |
| Supplementary Businesses | 15 |
| | 18,322 |

The Company's management believes that good labor relations generally exist throughout the operating companies. For most of the operating companies, collective bargaining agreements exist between the relevant representative unions for the employees and the relevant operating companies. The collective bargaining agreements are usually valid for a

term of five years, and include a right to renegotiate the economic terms of the agreement after three years, and generally provide for annual salary increment, health and insurance benefits and closed-shop arrangements. The management believes that those collective bargaining agreements, which are soon to expire or which have expired, will, as a result of existing good labour relations, be successfully renewed or renegotiated.

***Working Capital***

The working capital requirement of each subsidiary varies depending on the industry it is engaged in and is financed by operations and short-term loans from banks.

## Item 2. Properties

JG Summit and subsidiaries conduct business throughout the Philippines, but primarily in and around Metro Manila (where it is based) and in the regions of Visayas and Mindanao. Substantially all facilities are owned by the Company and are in good condition.

URC operates manufacturing/farm facilities located in the following:

| Location (Number of facilities) | Type of Facility | Owned/ Rented | Condition |
|---|---|---|---|
| Pasig City (5) | Branded consumer food plants, feedmills and flourmill | Owned | Good |
| Libis, Quezon City (1) | Branded consumer food plant | Owned | Good |
| Canlubang, Laguna (1) | Branded consumer food plant | Owned | Good |
| Mandaue City, Cebu (2) | Branded consumer food plant, poultry farm and feedmill | Owned | Good |
| Luisita, Tarlac (1) | Branded consumer food plant | Owned | Good |
| San Fernando, Pampanga (1) | Branded consumer food plants | Owned | Good |
| Dasmariñas, Cavite (2) | Branded consumer food plants | Owned | Good |
| Cagayan de Oro (1) | Branded consumer food plant | Owned | Good |
| San Pedro, Laguna (1) | Branded consumer food plant | Rented | Good |
| Calamba, Laguna (1) | Branded consumer food plant | Rented | Good |
| San Pablo, Laguna (1) | Branded consumer food plant | Owned | Good |
| Antipolo, Rizal (3) | Poultry and piggery farm | Owned/ Rented | Good |
| Teresa, Rizal (2) | Piggery farms | Owned/ Rented | Good |
| Angono, Rizal (1) | Poultry farm | Owned | Good |
| Taytay, Rizal (1) | Poultry farm | Rented | Good |
| Naic, Cavite (1) | Poultry farm | Owned | Good |
| San Miguel, Bulacan (3) | Poultry and piggery farms | Owned | Good |
| Bustos, Bulacan (1) | Piggery farm | Rented | Good |
| Novaliches, Quezon City (1) | Piggery farm | Owned | Good |
| Rosario, Batangas (1) | Piggery farm | Owned | Good |
| Davao City, Davao (1) | Flourmill | Owned | Good |
| Manjuyod, Negros Oriental (1) | Sugar mill | Owned | Good |
| Piat, Cagayan (1) | Sugar mill | Owned | Good |
| Kabankalan, Negros Occidental (2) | Sugar mill | Owned | Good |
| San Enrique, Iloilo City (1) | Sugar mill | Owned | Good |
| Man-it, Passi City (1) | Sugar mill | Owned | Good |
| Simlong, Batangas (2) | BOPP plant/Flexible packaging | Owned | Good |

| | | | |
|---|---|---|---|
| Samutsakhorn Industrial Estate, Samutsakhorn, Thailand (1) | Branded consumer food plant | Owned | Good |
| Pasir Gudang, Johor, Malaysia (1) | Branded consumer food plant | Owned | Good |
| Shiqiao Town, Guandong, China (1) | Branded consumer food plant | Owned | Good |
| Shanghai, China (1) | Branded consumer food plant | Owned | Good |
| Industrial Town, Indonesia (1) | Branded consumer food plant | Owned | Good |
| VSIP, Bin Duong Province, Vietnam (1) | Branded consumer food plant | Owned | Good |
| Acesfoods, Shantou, China (1) | Branded consumer food plant | Owned | Good |

Sugar mill facilities in Kabankalan, Negros Occidental has a net book value of ₱2.05 billion in fiscal 2010 and ₱2.15 billion in fiscal 2009 of which ₱47 million and ₱59 million were used to secure the loan from Philippine Sugar Corporation in fiscals 2010 and 2009, respectively. (See Note 24 Long-Term Debt in the Consolidated Financial Statements for more details).

Annual lease payments for Calamba plant for fiscal year 2010 amounted to ₱53 million. Lease contract is renewable annually. Land in Taytay, Teresa and Antipolo, Rizal where farm's facilities are located, are owned by an affiliate and are rent-free.

RLC has invested in a number of properties located across the Philippines for existing and future development projects. These properties are in prime locations, thus affording RLC utmost flexibility for future development. These properties are fully owned by RLC and none of which are subject of any mortgage, lien or any form of encumbrance. RLC also enters into joint venture arrangements with land owners in order to optimize their capital resources. Not only does this encourage raw land development for future projects but it also provides them with exclusive development and marketing rights.

Breakdown of RLC's properties is set forth below:

a) Land

| Location | Use | Status |
|---|---|---|
| Antipolo Rizal | Residential | No encumbrances |
| Aurora Boulevard, Quezon City | Residential | No encumbrances |
| Aurora Boulevard, Quezon City | Mixed-use (mall/residential) | No encumbrances |
| Ayala Avenue, Makati City | Office Building | No encumbrances |
| Bacolod City | Mall | No encumbrances |
| Butuan, Agusan Del Norte | Mall | No encumbrances |
| Calasiao, Pangasinan | Mall | No encumbrances |
| Cabanatuan, Nueva Ecija | Mall | No encumbrances |
| Cebu | Mixed-use (mall/hotel/residential) | No encumbrances |
| Dasmariñas, Cavite | Mall | No encumbrances |
| Davao City, Davao del Sur | Mall | No encumbrances |
| Dumaguete City | Mixed-use (mall/hotel) | No encumbrances |
| EDSA, Mandaluyong City | Mixed-use (mall/hotel/residential) | No encumbrances |
| EDSA, Ortigas, Quezon City | Mixed-use (mall/hotel/ residential) | No encumbrances |
| Ermita, Manila | Mixed-use (mall/ residential) | No encumbrances |
| Fort Bonifacio, Taguig | Residential | No encumbrances |
| General Santos City, South Cotabato | Mall | No encumbrances |
| General Santos City, South Cotabato | Residential | No encumbrances |

| | | |
|---|---|---|
| General Trias, Cavite | Residential | No encumbrances |
| Horseshoe Village, Cubao, Quezon City | Residential | No encumbrances |
| Imus, Cavite | Mall | No encumbrances |
| Iloilo City | Mall | No encumbrances |
| Lipa City, Batangas | Mall | No encumbrances |
| Lipa City, Batangas | Residential | No encumbrances |
| Los Baños, Laguna | Mall | No encumbrances |
| Luisita, Tarlac City | Mall | No encumbrances |
| Malolos, Bulacan | Mall | No encumbrances |
| Naga City, Camarines Sur | Land bank | No encumbrances |
| Novaliches, Quezon City | Mixed-use (mall/residential) | No encumbrances |
| Ortigas, Pasig City | Mixed-use (mall/residential/hotel) | No encumbrances |
| Ortigas Center, Pasig City | Mixed-use (mall/residential/hotel) | No encumbrances |
| Ortigas, Pasig | Residential | No encumbrances |
| Ortigas, Pasig (formerly Uniwide) | Mall | No encumbrances |
| Paco, Manila | Mixed-use (mall/residential) | No encumbrances |
| Palawan | Mixed-use (mall/residential/hotel) | No encumbrances |
| Parañaque City | Residential | No encumbrances |
| Pinamucan, Ibaba, Batangas | Land bank | No encumbrances |
| Roxas Blvd., Pasay City | Residential | No encumbrances |
| San Isidro, Batangas City | Residential | No encumbrances |
| San Fernando, Pampanga | Mall | No encumbrances |
| San Fernando, La Union | Residential | No encumbrances |
| Santa Rosa, Laguna | Mall | No encumbrances |
| Soro-soro, Tanauan, Batangas | Residential | No encumbrances |
| Sucat, Muntinlupa City | Mixed-use (mall/residential) | No encumbrances |
| Tacloban City | Mall | No encumbrances |
| Tagaytay City, Cavite | Mixed-use (mall/hotel/residential) | No encumbrances |
| Taytay, Rizal | Land bank | No encumbrances |

b) Building and Improvements

| Location | Use | Status |
|---|---|---|
| Angeles City, Pampanga | Mall | No encumbrances |
| Ayala Avenue, Makati City | Office Building | No encumbrances |
| Bacolod City | Mall | No encumbrances |
| Cabanatuan, Nueva Ecija | Mall | No encumbrances |
| Cagayan De Oro City, Misamis Oriental | Mall | No encumbrances |
| Cainta, Rizal | Mall | No encumbrances |
| Fuente Osmena, Cebu City | Mixed-use (mall/hotel) | No encumbrances |
| Dasmariñas, Cavite | Mall | No encumbrances |
| Davao City | Mall | No encumbrances |
| Dumaguete City | Mall | No encumbrances |
| Don Gil Garcia, Cebu City | Mixed-use (mall/clinics/office) | No encumbrances |
| EDSA, Mandaluyong City | Mixed-use (mall/hotel/residential) | No encumbrances |
| EDSA, Ortigas, Quezon City | Mixed-use (mall/hotel/residential) | No encumbrances |
| Ermita, Manila | Mixed-use (mall/residential) | No encumbrances |
| General Santos City | Mall | No encumbrances |
| Iloilo City | Mall | No encumbrances |

| | | |
|---|---|---|
| Imus, Cavite | Mall | No encumbrances |
| Lipa City, Batangas | Mall | No encumbrances |
| Los Baños, Laguna | Mall | No encumbrances |
| Luisita, Tarlac City | Mall | No encumbrances |
| Novaliches, Quezon City | Mixed-use (mall/residential) | No encumbrances |
| Ortigas, Pasig City | Mixed-use (mall/hotel/residential) | No encumbrances |
| Paco, Manila | Mixed-use (mall/residential) | No encumbrances |
| Pulilan, Bulacan | Mall | No encumbrances |
| San Fernando, Pampanga | Mall | No encumbrances |
| San Nicolas, Ilocos Norte | Mall | No encumbrances |
| Santa Rosa, Laguna | Mall | No encumbrances |
| Tacloban City, Leyte | Mall | No encumbrances |
| Tagaytay City, Cavite | Mixed-use (mall/hotel) | No encumbrances |

RLC owns all the properties where its existing commercial centers are located except for the following: Robinsons Place – Iloilo, Robinsons - Cagayan De Oro, Robinsons Cainta and Robinsons Pulilan. These four properties are leased at prevailing market rates. The leases for Iloilo and Cagayan de Oro properties are for 50 years each and commenced in October 2001 and December 2002, respectively. The leases for the Cainta and Pulilan properties are for 25 years and commenced in December 2003 and January 2008, respectively. Renewal options for Cainta and Pulilan are available to RLC. Total rent expense amounted to ₱131 million in 2010, ₱156 million in 2009, and ₱159 million in 2008.

JGSPC constructed its polypropylene and polyethylene complex on a site at Bo. Simlong, Batangas.

## Item 3. Risks

The major business risks facing the Group are as follows:

### a. Political Situation and State of the Economy of the Country

The growth and profitability of the Group is greatly influenced by the general political situation in, and the state of the economy of, the Philippines. Any political or economic instability in the future could adversely affect the Group's business, financial condition or results of operations.

### b. Competition

Many of the Group's activities are in highly competitive industries. The Group faces competition in all segments of its businesses both in the Philippine market and in international markets. The Group's ability to compete effectively will require continuous efforts in sales and marketing of our existing products, development of new products and cost rationalization. There can be no assurance that the Group's sales volume and market share will not be adversely affected by negative consumer reaction to higher prices as a result of price reduction or promotional sales undertaken by its competitors.

### c. Financial Market

The Group has a foreign exchange exposure primarily associated with fluctuations in the value of the Philippine Peso against the U.S. dollar and other foreign currencies. The

Group's revenues are predominantly denominated in Pesos, while certain expenses, including fixed debt obligations, are denominated in foreign currencies. Prudent fund management is employed to minimize effects of fluctuations in interest and currency rates.

**d. Raw Materials**

Production operations of some of the Group's manufacturing operations are dependent in obtaining adequate supply of raw materials on a timely basis. In addition, its profitability depends in part on the prices of raw materials since a portion of the Group's raw material requirements is imported including packaging materials. To mitigate these risks, alternative sources of raw materials are used in operations.

**d. Key Executives**

The Company's key executives play an integral part in the latter's success. The experience, knowledge, business relationships and expertise of these executives could be difficult to replace and may result in a decrease in the Company's operating proficiency and financial performance should any of them decide to leave the Company.

**e. Philippine Regulations**

The Group operates a material part of its businesses in a highly regulated environment. Many of these businesses depend upon licenses and franchises issued by government authorities or agencies for their operation. These businesses would be materially adversely affected by the suspension or revocation of these licenses or franchises.

The Group is also subject to numerous environmental laws and regulations relating to the protection of the environment and human health and safety, among others. Many of these environmental laws and regulations are becoming increasingly stringent and compliance to such is becoming increasingly complex and costly.

**f. Weather and Catastrophe**

Severe weather conditions may have an impact on some aspect of the Group's businesses such as its manufacturing, air transportation and telecommunications segments. The Philippines have experienced a number of major natural catastrophes over the years including floods, droughts, volcanic eruptions and earthquakes. The Company faces the risk of incurring losses if directly hit by any of these calamities.

## Item 4. Legal Proceedings

Certain consolidated subsidiaries are defendants to lawsuits or claims filed by third parties which have pending decisions by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial position. Refer to Note 43 of the Consolidated Financial Statements attached to this report for a detailed description.

**Item 5. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### Item 6. Market for Registrant's Common Equity and Related Stockholder Matters

**PRINCIPAL MARKET OR MARKETS WHERE THE REGISTRANT'S COMMON EQUITY IS TRADED.**

The common stock of the Company is listed on the Philippine Stock Exchange.

**STOCK PRICES**

| | High | Low |
|---|---|---|
| **2010** | | |
| First Quarter | ₱11.00 | ₱5.50 |
| Second Quarter | 16.75 | 9.30 |
| Third Quarter | 26.00 | 15.75 |
| Fourth Quarter | 26.55 | 19.60 |
| **2009** | | |
| First Quarter | ₱3.15 | ₱1.80 |
| Second Quarter | 5.50 | 2.85 |
| Third Quarter | 6.60 | 4.10 |
| Fourth Quarter | 6.70 | 5.90 |
| **2008** | | |
| First Quarter | ₱10.75 | ₱8.90 |
| Second Quarter | 9.70 | 8.70 |
| Third Quarter | 8.20 | 6.40 |
| Fourth Quarter | 7.00 | 1.58 |

The stock price of the Company's shares as of April 8, 2011 is ₱24.85.

On January 27, 2011, the stockholders' of the Parent Company approved the amendment of its articles of incorporation to implement the following: (a) increase in authorized capital stock from Fourteen Billion Eight Hundred Fifty Million Eight Hundred Thousand Pesos (₱14,850,800,000) to Fourteen Billion Eight Hundred Ninety Million Eight Hundred Thousand Pesos (₱14,890,800,000); and (b) to create Four Billion (4,000,000,000) voting and non-redeemable preferred shares with a par value of One Centavo (₱0.01) per share, for a total par value of Forty Million Pesos (₱40,000,000).

**CASH DIVIDENDS PER SHARE**

On June 28, 2010, the Company declared cash dividend of ₱0.05 per share from the Unrestricted Retained Earnings as of December 31, 1997 to all stockholders of record as of July 16, 2010 and payable on August 6, 2010.

On June 26, 2009, the Company declared cash dividend of ₱0.03 per share from the Unrestricted Retained Earnings as of December 31, 1997 to all stockholders of record as of July 24, 2009 and payable on August 19, 2009.

On July 30, 2008, the Company declared cash dividend of ₱0.03 per share from the Unrestricted Retained Earnings as of December 31, 1997 to all stockholders of record as of August 29, 2008 and payable on September 24, 2008.

**STOCK DIVIDENDS DECLARED**

No stock dividend was declared in 2010, 2009 and 2008.

Retained earnings of the Company as of December 31, 2010 include undistributed earnings amounting to ₱33.34 billion representing accumulated equity in net earnings of consolidated and unconsolidated subsidiaries and affiliates which is not available for dividend declaration until received in the form of dividends from the investees.

**RECENT SALES OF UNREGISTERED SECURITIES**

Not Applicable.

The number of shareholders of record as of December 31, 2010 was 1,233. Total shares outstanding as of December 31, 2010 were 6,797,191,657 shares with a par value of P1.00.

**Top 20 stockholders as of December 31, 2010:**

| | Name | No. of Shares Held | % to Total Outstanding |
|---|---|---|---|
| 1. | Gokongwei Brothers Foundation, Inc. | 1,997,076,451 | 29.38 |
| 2. | PCD Nominee Corporation (Filipino) | 1,091,041,775 | 16.05 |
| 3. | RSB-TIG No. 030-46-000001-9 | 1,033,319,225 | 15.20 |
| 4. | John Gokongwei, Jr. | 866,509,465 | 12.75 |
| 5. | PCD Nominee Corporation (Non-Filipino) | 285,220,618 | 4.20 |
| 6. | Express Holdings, Inc. | 284,676,715 | 4.19 |
| 7. | Lance Y. Gokongwei &/or Elizabeth Gokongwei | 234,845,280 | 3.46 |
| 8. | James L. Go | 216,679,656 | 3.19 |
| 9. | John Gokongwei &/or Lance Gokongwei | 141,030,450 | 2.08 |
| 10. | Gosotto & Co., Inc. | 105,644,494 | 1.55 |
| 11. | Robina Gokongwei Pe &/or Elizabeth Gokongwei | 72,345,278 | 1.06 |
| 12. | Universal Robina Corporation | 57,663,430 | 0.85 |
| 13. | Liza Yu Gokongwei &/or Elizabeth Gokongwei | 54,200,000 | 0.80 |
| 14. | Faith Gokongwei Ong &/or Elizabeth Gokongwei | 36,100,000 | 0.53 |
| 14. | Marcia Gokongwei Sy &/or Elizabeth Gokongwei | 36,100,000 | 0.53 |
| 14. | Hope Gokongwei Tang &/or Elizabeth Gokongwei | 36,100,000 | 0.53 |
| 15. | Nicris Development Corporation | 36,073,252 | 0.53 |
| 16. | Emma G. See | 23,552,125 | 0.35 |
| 17. | Pacred Service & Investment Corporation | 18,733,226 | 0.28 |
| 18. | Michael Seetekbeng | 13,400,327 | 0.20 |
| 19. | Manuel Ahyong Sr. | 10,000,000 | 0.15 |
| 20. | Evelyn Yap | 9,708,319 | 0.14 |
| | | 6,660,020,086 | 98.00 |

## Item 7. Management's Discussion and Analysis or Plan of Operation.

The following discussion and analysis should be read in conjunction with the accompanying financial statements and the related notes as of December 31, 2010, 2009 and 2008, included elsewhere in this Annual Report. Our financial statements, and the financial information discussed below, have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Management's Discussion of Results of Operations is presented in two parts: Consolidated Operations and Segment Operations.

### 2010 vs. 2009

### I. CONSOLIDATED OPERATIONS

#### Results of Operations

The Group's reported consolidated net income showed an increase of 91% from ₱8.55 billion in 2009 to ₱16.32 billion in 2010 as most of our subsidiaries posted record performance. Core earnings before taxes for the year ended December 31, 2010, excluding the effects of foreign exchange and mark-to-market gains or losses, increased 75% from ₱10.68 billion to ₱18.71 billion. Likewise, our EBITDA (operating income adding back depreciation and amortization), recorded a 31% improvement from previous year's ₱27.04 billion to ₱35.29 billion in 2010, due to the strong performance of its subsidiaries.

Significant increase in net income was brought about by:

- The food business, Universal Robina Corporation's (URC) net income attributable to equity holders of the parent significantly improved 101.1% brought about by higher revenues for the period.

- Cebu Pacific Air's net income reached another record ₱6.92 billion, more than double of last year's net income amounting to ₱3.26 billion as it recorded a 24.8% growth in its gross revenues.

- Digitel posted a consolidated net income of ₱526.63 million from ₱259.72 billion last year mainly due to the strong performance of its mobile phone business.

Consolidated revenues posted a double digit growth of 12.8% from ₱107.96 billion in 2009 to ₱121.74 billion this year due to the strong performance of our food, airlines and telecoms businesses.

- URC's revenue grew 14.4% from ₱50.45 billion in 2009, to ₱57.52 billion in 2010 due to due to the strong performance of the branded consumer foods Philippines and international.
- CEB's 24.8% growth in gross revenues from ₱23.31 billion in 2009 to ₱29.09 billion in 2010 brought about by its continuous expansion of its route and flight network, additional passenger and cargo traffic and significantly increased ancillary revenues.

- Digitel's consolidated service and non-service revenues posted an 18.0% growth from ₱14.02 billion to ₱16.54 billion largely due to the significant revenue growth of 27.1% in the wireless segment driven by the growth in subscribers fueled by the introduction of more affordable and innovative products.

Gross income increased by 21.7% to ₱52.99 billion, a result of higher revenues and slight increase in cost of sales. The petrochemical business recorded lower cost of sales during the year due to lower production. Aside from this, URC's increase in cost of sales due to increase in sales volume was partially tempered by lower costs of raw materials this year.

Consolidated operating expenses increased 10.3% as a result of a higher level of business activity of food, telecommunications and airline businesses, consolidated operating income increased by 42.8% due to better operating efficiencies that led to improved margins in 2010.

The Group's financing costs and other charges (net of interest income) incurred for the year ended December 31, 2010 decreased by 18.4% from ₱4.75 billion in 2009 to ₱3.87 billion as the Group was able to generate additional interest income on the latter part of the year on the proceeds from the successful IPO of Cebu Pacific in October 2010. The Group recognized gains from market valuation of its financial assets amounting to ₱1.63 billion for the year ended December 31, 2010 and foreign exchange gains of ₱2.8 billion as the Group benefited from the stabilization of the capital markets as well as the strengthening of the peso currency. Provision for income tax increased by 86.1% because of higher taxable income recorded by our food division and an increase in our provision for deferred tax on unrealized foreign exchange gains recorded for the year.

## II. Segment Operations

### A. Results from Continuing Operations

**Foods** posted a consolidated sale of goods and services of ₱57.72 billion for the fiscal year ended September 30, 2010, 14.4% higher than the sales posted last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods segment, excluding packaging division, increased by ₱4.22 billion, or 11.1%, to ₱42.32 billion in fiscal 2010 from ₱38.10 billion reported in 2009. Domestic sales increased by ₱1.12 billion to ₱27.69 billion in fiscal 2010 from ₱26.57 billion in fiscal 2009 due to strong performance of its beverage division which posted a 21.2% growth due to the successful rollout of C2 in 220ml at the beginning of fiscal year while the growth for snackfoods division was tempered by several supply issues as well as some shift in consumer demand for extruded or palletized snacks and functional candies. BCFG's international sales significantly increased by 26.9% due to considerable increase in sales volume by 34.8%. This was supported by strong sales growth from Vietnam, Thailand, Malaysia, Singapore and China. Thailand and Vietnam have reached the scale with sales of more than US$100 million each with Thailand solidifying its leadership in biscuits while the strong demand for C2 product in Vietnam continues. Sale in URC's packaging division went down by 12.5% to ₱928 million in fiscal 2010 from ₱1.06 billion recorded in fiscal 2009 due to decrease in sales volume. (2) Agro-Industrial segment (AIG) posted revenues of ₱7.17 billion in fiscal 2010, an increase of 22.6% from ₱5.85 billion recorded in 2009. The increase is substantially driven by farm business, which grew by 35.2% due to higher sales volume of hogs and broiler coupled by increases in farm gate prices, which was partly driven by strong election spending in the third quarter of fiscal year. Feed sales went up by 8.2% on the back of increases in sales volume. (3) Sale of goods and services in commodity foods segment increased by ₱1.86 billion or 34.1% to ₱7.30 billion in fiscal 2010 from ₱5.45 billion recorded in fiscal 2009. This was primarily due to upsurge in net sales of sugar business by 97% driven by increases in selling prices while our flour

business was affected by price rollbacks despite the growth in sales volume.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by ₱3.64 billion, or 9.7%, to ₱41.11 billion in fiscal 2010 from ₱37.48 billion in fiscal 2009. Cost of sales went up due to increase in sales volume, partially tempered by lower costs of major raw materials this year against last year.

URC's gross profit increased by ₱3.63 billion, or 28.0%, to ₱16.61 billion in fiscal 2010 from ₱12.98 billion reported in fiscal 2009. Gross profit as a percentage of net sales grew by 3 percentage points to 28.8% in fiscal 2010 from 25.7% in fiscal 2009 as URC took advantage of lower input costs this year. Selling and distribution costs and general and administrative expenses increased by ₱603 million or 7.2% to ₱8.93 billion in fiscal 2010 from to ₱8.32 billion recorded in fiscal 2009. This increase resulted primarily from the following factors: (1) 12.3% increase in advertising and promotion costs to ₱3.50 billion in fiscal 2010 from ₱3.11 billion in fiscal 2009 to support the new SKUs launched and to boost up sales of existing products in light of increasing market competition; (2) 16.0% increase in freight and delivery charges to ₱2.04 billion in fiscal 2010 from ₱1.76 billion in fiscal 2009 due to increase in trucking and shipping costs associated with increased volume.

Market valuation gain on financial instruments at fair value through profit or loss increased by ₱1.30 billion or 185.8% to ₱2.01 billion in fiscal 2010 from ₱702 million in fiscal 2009 due to significant recovery in market values of bonds and equity securities investments.

URC's finance costs consist mainly of interest expense which decreased by ₱379.47 million or 26.8%, to ₱1.03 billion in fiscal 2010 from ₱1.41 billion recorded in fiscal 2009 due to decline in level of financial debt.

Foreign exchange loss amounted to ₱335 million in fiscal 2010 from ₱46 million reported in fiscal 2009 due to currency translation losses.

Net income attributable to equity holders of the parent increased by ₱3.93 billion or 101.1% to ₱7.82 billion in fiscal 2010 from ₱3.89 billion in fiscal 2009 as a result of factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱10.96 billion for fiscal 2010, 42.5% higher than ₱7.69 billion posted in fiscal 2009. Core earnings before tax (operating profit after equity earnings, net finance costs and other expense-net) for fiscal 2010 amounted to ₱7.69 billion, an increase of 83.6% from ₱4.19 billion recorded for fiscal 2009.

**Real estate and hotels** generated total gross revenues of ₱11.30 billion for fiscal year 2010, an increase of 5.3% from ₱10.73 billion of total gross revenues for fiscal year 2009. Net profit for the fiscal year 2010 amounted to ₱3.59 billion, up by 10.1% compared to fiscal year 2009. RLC's net profit growth would have been higher at 13% if the ₱103 million gain from interest rate swap transaction last year was excluded. EBITDA amounted to ₱6.41 billion this year, up by 7.8% from last year.

The Commercial Centers Division accounted for ₱5.74 billion of the real estate revenues for the year versus ₱4.21 billion last year. The 36% increase in revenues of the Commercial Centers Division was principally due to newly opened malls particularly Robinsons Place General Santos, Robinsons Ilocos Norte, Robinsons Place Dumaguete and Cybergate Cebu. Rental escalations and strong take up of leased areas of RLC's mall space after renovation and expansion work of existing malls increased the rental revenue by 7.7%. Significant rental

contribution came from Robinsons Place Manila, Galleria mall, Robinsons Place Tacloban, Robinsons Place Lipa and Robinsons Cybergate Davao, among others. Amusement revenue during the year of ₱712 million was likewise recorded as a result of operating the Robinsons Movieworld starting fiscal year 2010. The Division's EBIT and EBITDA have shown positive variances of 34% and 29%, respectively.

The Residential Division realized gross revenues of ₱3.22 billion lower by 26.3% from ₱4.37 billion last year due to lower construction completion. As a result of the decrease in realized gross revenues, EBIT has shown a negative variance of 45%, while EBITDA showed a decrease of 44%.

The Office Buildings Division reported revenues of ₱1.18 billion compared to ₱1.11 billion over the same period last year. This 6.3% increase in lease income was due mainly to new office space available for lease in Robinsons Cybergate Tower 3 and completion of Cybergate Plaza. The Division's EBIT and EBITDA have shown positive variances of 14% and 10%, respectively.

The Hotels Division, a major contributor of RLC's recurring revenues registered gross revenues of ₱1.15 billion, as against last year's ₱1.04 billion. The 10.9% increase in hotel revenues was principally due to the opening Summit Ridge Hotel in Tagaytay and Go Hotel in Mandaluyong City. The average occupancy rates of RLC's hotels are 75% for Crowne Plaza Galleria Regency, 76% for Holiday Inn Galleria Manila, 56% for Cebu Midtown Hotel, 36% for the Summit Ridge Hotel and 73% for the newly opened Go Hotel. Hotel's Division EBIT has shown a positive variance of 17%, while EBITDA showed a positive variance of 13%.

Real estate cost and expenses remained steady at ₱4.13 billion this year. Lower cost of real estate sale of sold residential units was offset by higher depreciation and cinema cost. Hotel expenses increased to ₱996.91million or 10.0% as compared to last year of ₱905.88 million due to higher operational expenses at Summit Ridge Hotel and Go Hotel.

Interest income increased to ₱702.1 million from ₱237.8 million last year due to higher level of money market placements and other financial assets.

**Telecommunications** registered consolidated revenues of ₱16.54 billion for the year ended December 31, 2010, an 18.0% growth from last year's ₱14.02 billion.

Wireless communication services recorded a 27.1% revenue growth from ₱10.33 billion in 2009 to ₱13.12 billion in 2010 fueled by the growth in subscriber base and introduction of more affordable and innovative products. Subscriber base stood at 14.04 million as at December 31, 2010 higher by 29.3% from last year's 10.86 million. Postpaid subscribers account for 1.22 million comprising of 1.07 million 2G subscribers and 0.15 million 3G subscribers, an improvement of 35.6% from 0.9 million subscribers in 2009 comprising of 0.83 million 2G subscribers and 0.07 million 3G subscribers. On the other hand, prepaid subscribers totaled 12.82 million as at year-end 2010 comprising of 12.71 million 2G subscribers and 0.11 million 3G subscribers up from last year's prepaid subscribers count totaling 9.96 million comprising of 9.93 million 2G subscribers and 0.03 million 3G subscribers.

Wireline voice communication service revenues however, dipped by 9.7% during the year to ₱2.95 billion from ₱3.26 billion in 2009. This was mainly due to lower international and domestic tolls and local exchange partially offset by the growth in Suntel and ADSL products which registered a 17% increase over the same period last year.

Wireline data communication service revenues amounted to ₱475.3 million in 2010, higher by 10.2% against last year's ₱431.1 million due to the increase in domestic data and Internet services through its IPVPN services new subscriptions.

Consolidated costs and operating expenses increased to ₱15.31 billion from ₱12.99 billion in 2009 due to higher network-related and general and administrative expenses and depreciation and amortization.

Consolidated EBITDA (Earnings before interest, taxes and depreciation and amortization) increased 20.7% to ₱5.60 billion from ₱4.64 billion in 2009.

After considering depreciation and amortization, consolidated EBIT (Earnings before interests, foreign exchange gain, market valuation loss and taxes) amounted to ₱1.23 billion in 2010, a 19.9% improvement from last year's ₱1.03 billion.

DIGITEL's consolidated income before income tax amounted to ₱1.22 billion in 2010, 541.8% more than last year's figure of ₱190.9 million.

Net income for the year 2010 significantly improved to ₱526.6 million, from last year's ₱259.7 million.

**Air transportation** generated gross revenues of ₱29.09 billion for the year ended December 31, 2010 a 24.8% increase from last year's ₱23.31billion, largely driven by the increased number of flights and higher load factor in 2010. Increase in number of flights is brought about by additional flight frequencies to existing destinations and the opening of 1 domestic destination (Pagadian) and the launching of 2 new regional destinations (Brunei and Beijing) in 2010. It also increased its fleet by adding 2 Airbus A320 aircraft and 2 ATR 72-500 aircraft in 2009 and 3 Airbus A320 aircraft in 2010 which were used in operations during the last quarter of 2010. Moreover, increase in average fares and the automatic recognition of revenue from no-shows also boosted revenues. Correspondingly, cost of services and operating expenses went up to ₱22.64 billion from ₱20.15 billion last year. Cebu Pacific recognized gains from foreign exchange, fuel hedging and market valuation of its financial assets designated at fair value through profit or loss totaling ₱1.16 billion during the year compared to ₱1.10 billion recorded last year. All these factors contributed to the 112.5% growth in net income for the year from ₱3.26 billion last year to ₱6.92 billion this year. EBITDAR (earnings before interest, taxes, depreciation and amortization and rent expenses) increased by 49.2% to ₱10.16 billion in 2010 from ₱ 6.81 billion last year.

**Petrochemicals** revenues declined to ₱3.31 billion for the fiscal year ended September 30, 2010, from last year's ₱5.57 billion as sales volume decreased from 108,836 MT last year to 61,115 MT due to lower sales. Cost of sales was likewise reduced from ₱ 6.09 billion to only ₱3.75 billion as production slowed down significantly this year compared to last year. This resulted to an improved gross income for JGSPC for the year with ₱126.81 million as compared to last year's ₱ 42.45 milion and a decrease in net loss by 80.0% from ₱ 511.10 million to ₱ 102.15 million. Foreign exchange gain recognized during the year amounting to ₱ 36.48 million from a foreign exchange loss last year of ₱95.4 million also contributed to the reduced net loss.

**Banking Services,** which include **Robinsons Savings Bank (RSB)** and **Robinsons Bank Corporation (RBS),** formerly Royal Bank of Scotland, Phils.**,** generated net earnings of ₱298.34 million for the year ended December 31, 2010, a 47.1% growth from last year's net income of ₱202.81 million. The increase is mainly due to higher revenues recorded this year from ₱1.13 billion last year to ₱1.73 billion this year. Aside from this, RSB also recorded a

significant growth from its trading gain from ₱32.08 million last year to ₱254.86 million this year. As of December 31, 2010, total resources amounted to ₱ 24.59 billion from last year's ₱16.89 billion. Loans increased to ₱10.20 billion from last year's ₱8.23 billion, deposit liabilities decreased to ₱9.75 billion this year from ₱14.09 billion last year.

**Equity in net earnings of associates companies and joint ventures** amounted to ₱2.77 billion for the year ended December 31, 2010, a 10.4% decline from last year's ₱3.09 billion. Decrease in equity income is mainly due to UIC, which recorded a higher net income before fair value gain (loss) on investment properties last year from a deferred income tax write-back of SGD21.7 million in 2009. **United Industrial Corporation, Limited** recorded a 1.6% decrease in its net income from operations S$237.01 million in 2010 from S$240.82 million in 2009. 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. **First Private Power Corporation (FPPC)**, ceased business operations last July 2010. As of December 31, 2010, FPPC merged with **Bauang Private Power Corporation (BPPC),** with the latter as the surviving company.

**Other Supplementary Business, Unicon** recognized net income of ₱23.76 million in 2010 a slight decrease from last year's ₱25.08 million despite increase in commission income of 4.0%. The decrease is mainly due to higher operating expenses during the period from ₱65.60 million last year to ₱72.80 million this year.

## 2009 vs. 2008

## I. CONSOLIDATED OPERATIONS

### Results of Operations

The Group's consolidated financial performance for the year ended 2009 generated a net income from equity holders of the parent of ₱8.55 billion, a complete turnaround from last year's net loss of ₱0.69 billion. With the global financial markets front stabilizing in 2009, the Group was able to recoup and more, the losses from the mark-to-market of financial assets and fuel hedges it recorded in 2008. Market valuation gains recorded for this year totaled ₱2.33 billion as compared to losses of ₱7.14 billion last year. Likewise, foreign exchange losses have been kept to only ₱21.63 million compared to a huge ₱2.93 billion in 2008, with the peso strengthening by the end of the year. However, even without the impact of these two items, our Group still showed a remarkable improvement as our core earnings increased 16.5% from ₱9.16 billion in 2008 to ₱10.68 billion in 2009. Likewise, our EBITDA grew 27.8% this year to ₱27.04 billion from last year's ₱21.16 billion.

Significant increase in net income was brought about by:

- The food business, Universal Robina Corporation's (URC) 920.2% increase in net income brought about by higher revenues and the recovery of the market valuation of its financial assets.

- Cebu Pacific Air's net income reached a record ₱3.26 billion, a complete turnaround from last year's net loss as it recovered from the losses it incurred from its fuel hedges last year.

- Digitel, our telecommunications arm, posted a consolidated net income of ₱259.72 million from a net loss of ₱1.98 billion last year, Its mobile phone business, Sun

Cellular is now in the black, registering a net income of ₱1.24 billion this year from a net loss of ₱929.40 million last year.

- Consistent income contribution from Robinsons Land Corporation, our Group's real estate business, with a 3.6% increase in net income from ₱3.15 billion in 2008 to ₱ 3.26 billion in 2009.

- Equity in net earnings of associates increased by 29.3%, from ₱2.39 billion in 2008 to ₱3.09 billion in 2009 mainly due to higher equity earnings recognized from UIC.

Consolidated revenues reached ₱107.96 billion in 2009, a 9.0% increase from last year's ₱99.07 billion due to the strong performance of our food, airlines and telecoms businesses.

- URC's revenue grew 11% from ₱45.45 billion in 2008, to ₱50.45 billion in 2009 due to growth in sales of almost all its segments, most significant of which is from its branded consumer foods international sales.
- CEB's posting of 18.4% growth from ₱19.68 billion in 2008 to ₱23.31 billion in 2009 caused by the increase in number of passengers as a result of additional flights during the period. Ancillary revenues also showed significant growth as a result of the new services provided with the introduction of Navitaire reservation systems.
- Service and non-service revenues from Digitel posted a 23.5% increase from ₱11.35 billion to ₱14.02 billion largely due to the 40.3% improvement of the wireless segment during the year attributable to the growth in subscriber base more significantly in the prepaid segment that boosted revenues in unlimited fees, voice, SMS, roaming and value added services.

Gross income increased by 25.0% to ₱43.55 billion, a result of higher revenues and slight increase in cost of sales. The petrochemical and the real estate businesses recorded lower cost of sales during the year due to lower production and lower project completion, respectively. URC also contributed to higher gross margin this year, as it took advantage of lower input costs.

General and administrative expenses increased 20.0% due to higher depreciation recorded and increase in advertising and promotion costs during the year.

Financing costs and other charges incurred for the year ended December 31, 2009 increased 4.6% from ₱6.03 billion to ₱6.31 billion due to higher level of debt financing.

Impairment losses grew 29.8% to ₱1.07 billion due to higher impairment on receivables and available-for-sale investments this year.

As earlier mentioned, market valuation gain during the year amounted to ₱2.33 billion compared to a market valuation loss of ₱7.14 billion last year as the capital markets recovered during the period.

Foreign exchange loss – net dropped significantly from ₱2.93 billion in 2008 to ₱21.63 million in 2009 as the peso strengthened during the latter part of the year.

Interest income recorded in 2009 decreased 37.8% to ₱1.56 billion due to lower average investment portfolio during the period as compared to last year's.

Other income dropped to ₱203.20 million this year from ₱1.38 billion last year since there was a gain recognized on early repayment of various debts by a certain subsidiary last year.

Provision for income tax amounted to ₱1.22 billion from a net benefit of ₱321.83 million last year mainly due to the deferred taxes recognized from the foreign exchange and market valuation losses recorded last year.

## II. Segment Operations

### A. Results from Continuing Operations

**Foods** generated a consolidated sales of goods and services of ₱50.45 billion for the fiscal year ended September 30, 2009, 11.0% higher than the sales posted last year. Sale of goods and services performance by business segment follow: (1) URC's branded consumer foods segment, excluding packaging division, increased by ₱4.84 billion, or 14.5%, to ₱38.10 billion in fiscal 2009 from ₱33.26 billion reported in 2008. The increase was due to a 10.7% increase in net sales from domestic operations, which was largely driven by the strong performance of its snackfoods which posted a 12.4% growth on the back of price increases implemented at the end of last fiscal year and in the first quarter of the current year. BCFG's international sales significantly increased by 24.4% due to considerable increase in sales volume by 34.0%. This was supported by higher revenues from Singapore, Hong Kong and Vietnam. Sales in URC's packaging division went down by 29.2% to ₱1.06 billion in fiscal 2009 from ₱1.50 billion posted in fiscal 2008 due to decrease in sales volume and commodity prices worldwide. (2) Agro-Industrial segment (AIG) posted revenues of ₱5.85 billion in fiscal 2009, a 4.9% increase from ₱5.57 billion recorded in 2008. Revenue growth was brought about by higher sales of the farm business due to higher sales volume and prices of hogs and increase in sales of commercial table eggs and broiler this year. (3) Net sales of commodity foods segment amounted to due to ₱5.45 billion in fiscal 2009 or up by 6.3% from ₱5.12 billion reported in fiscal 2008. Flour sales grew by 5.1% to ₱3.49 billion from ₱3.32 billion reported last year due to higher sales volume. Sugar net sales increased by 8.7% to ₱1.96 billion from ₱1.80 billion posted last year due to increase in sales to external customers.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by 8.3% to ₱37.48 billion in fiscal 2009 from ₱34.60 billion in fiscal 2008 due to increases in sales volume coupled with significant increases in costs of major raw materials during the first quarter of fiscal 2009.

URC's gross profit for fiscal 2009 amounted to ₱12.98 billion, an increase of 19.5% from ₱10.86 billion posted in fiscal 2008. Gross profit margin is up by 200 basis points versus last year and has improved since the first half quarter of the year when URC took advantage of lower input costs. Selling and distribution costs and general and administrative expenses rose by 16.2% from ₱7.17 billion to ₱8.32 billion primarily due to the following factors: (1) increase in advertising and promotion costs by 22.9% from ₱2.53 billion in fiscal 2008 to ₱3.11 billion in fiscal 2009 to support the new SKUs launched and to boost up sales of existing products in light of increasing market competition; (2) increase in compensation and benefits by 27.6% is due to annual salary adjustments and pension expense resulting from net actuarial loss during the year; (3) increase in freight and handling expenses by 5.1% or ₱85 million due to increase in trucking and shipping costs associated with higher fuel prices and increased volume; and (4) increase in miscellaneous expense by 54.6% to ₱428 million in fiscal 2009 from ₱277 million in fiscal 2008 which was substantially due to increase in computer hardware maintenance costs and technical expenses.

URC recognized a market valuation gain of ₱702 million on financial instruments at fair value through profit or loss reported in fiscal 2009 against the ₱2.26 billion market valuation loss in

fiscal 2008. This was due to significant recovery in market values of investments in bonds and equity securities in the second half of this year.

Foreign exchange loss amounted to ₱46 million in fiscal 2009 from ₱424 million reported in fiscal 2008 due to effects of realized foreign exchange and currency translation gains.

Net income attributable to equity holders of the parent increased by ₱3.51 billion or 920.2% to ₱3.89 billion in fiscal 2009 from ₱381 million in fiscal 2008 due to higher operating income, mark-to-market gain in bond and equity holdings as a result of recovery of market prices during the first half of the year and lower foreign exchange loss.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱7.69 billion for fiscal 2009, 20.5% higher than ₱6.38 billion recorded in fiscal 2008. Core earnings before tax (operating profit after equity earnings, net of finance costs and other expense-net) for fiscal 2009 amounted to ₱4.19 billion, an increase of 19.7% from ₱3.50 billion reported for fiscal 2008.

**Real estate and hotels** net profit for the fiscal year 2009 amounted to ₱3.27 billion, up by 4% compared to fiscal year 2008. Excluding ₱103 million gain from interest rate swap transaction this year and ₱253 million reduction of deferred income tax last year, RLC's net profit growth is much higher at 10%. Although revenues was slightly down by 4% to ₱10.73 billion, pre-tax profits still grew by 14% due to better cost control management. EBITDA amounted to ₱5.95 billion this year, up by 12%. Net income attributable to equity holders of parent amounted to ₱3.26 billion this year compared to ₱3.15 billion last year.

The Commercial Centers Division accounted for ₱4.21 billion of the real estate revenues for the year versus ₱3.69 billion last year. The 14% increase in revenues of the Commercial Centers Division was principally due to newly opened malls particularly Summit Ridge – Tagaytay, Robinsons Place – Tacloban, Robinsons Cabanatuan and Robinsons Place – Davao. Rental escalations and strong take up of leased areas of RLC's mall space after renovation and expansion work of existing malls increased the rental revenue by 9.7%. Significant rental contribution came from Robinsons Place Manila, Galleria mall, Robinsons Place Sta. Rosa and Robinsons Place Lipa, among others. The Division's EBIT and EBITDA have shown positive variances of 29.9% and 20.0%, respectively.

The Residential Division realized gross revenues of ₱4.37 billion down by 20% from ₱5.46 billion last year due to construction completion. Despite the decrease in gross revenues, EBIT has shown a slight decrease of 1% to ₱1.36 billion, and EBITDA also showed a slight contraction of 0.5% from last year's figures due to lower cost of sales.

The Office Buildings Division reported revenues of ₱1.11 billion compared to ₱883.4 million over the same period last year. This 25.9% increase in lease income was due mainly to new office space available for lease in Robinsons Cybergate Towers 2 and 3.

The Hotels Division, a major contributor of RLC's recurring revenues registered gross revenues of ₱1.04 billion, as against last year's ₱1.14 billion. The 9.1% decrease in hotel revenues was principally due to the global travel slowdown. The average occupancy rates of RLC's hotels are 72% for Crowne Plaza Galleria Regency, 77% for Holiday Inn Galleria Manila, 54% for Cebu Midtown Hotel and 23% for the newly opened Summit Ridge Hotel.

Real estate cost and expenses decreased by 18.9% from ₱5.09 billion last year to ₱4.13 billion this year due to lower project completion at Residential Division, particularly Otis 888 Residences, Gateway Garden Ridge and Three Adriatico Place. Hotel expenses decreased

to ₱905.9 million or 4% as compared to last year of ₱947.52 million due to lower operational expenses as a result of lower room occupancy.

**Telecommunications** registered consolidated revenues of ₱14.02 billion for the year ended December 31, 2009, up by 23.5% or ₱2.67 billion from last year's ₱11.35 billion. The increase was largely due to the significant growth in the wireless segment driven by the growth in subscribers fueled by the introduction of more affordable and innovative products.

Wireline voice communication service revenues however, dropped by 10.2% during the year to ₱3.26 billion in 2009 from ₱3.63 billion in 2008. This was mainly due to lower international and domestic tolls and local exchange. The decline was partially offset by the growth of ADSL products which registered a 23% increase over the same period last year.

Wireline data communication service revenues amounted to ₱431.1 million in 2009, higher by 20.4% against last year's ₱358.1 million. This was due to the increase in domestic data and Internet services through its IP VPN services new subscriptions.

Consolidated costs and operating expenses rose by ₱2.41 billion or 22.7% due to higher general and administrative expenses and cost of sales.
With the significant growth in the wireless segment, the company realized earnings before interests, foreign exchange gain, market valuation loss and taxes of ₱1.03 billion in 2009, a 34.3% improvement over last year's income before interests, foreign exchange loss, market valuation loss and taxes of ₱764.4 million.

After considering finance costs, foreign exchange gain, market valuation loss and other income, DIGITEL posted a consolidated income before income tax of ₱190.9 million in 2009, a turnaround from a consolidated loss before income tax of ₱3.04 billion in 2008

Net income for the year 2009 is at ₱259.7 million versus a net loss of ₱1.98 billion in 2008, which was primarily due to the increase in revenue and the positive impact of foreign exchange in 2009.

DIGITEL continues to project an uptrend in its results of operation moving forward as the Company aggressively grow its coverage and capacity in the wireless network and integrating its wireline and wireless services to continuously bring in new, innovative and trend setting products.

**Air transportation** revenues increased 18.4% to ₱23.31 billion for the year ended December 31, 2009 from last year's ₱19.68 billion, mainly due to increase in number of passenger resulting from additional flights during the period. This was brought about by the opening of five new domestic destinations. Aside from this, the addition of two new Airbus A320 and two ATR72-500 brought about additional flight frequencies and capacity increase. Ancillary revenues also grew 71.2% from ₱1.24 billion last year to ₱2.12 billion this year due to the new services provided with the introduction of Navitaire reservation systems, such as charges for prepaid baggage, advance seat selection and website administration. Correspondingly, cost of services and operating expenses went up 10.9% from ₱17.95 billion to ₱20.15 billion this year. CEB recognized a net foreign exchange gain of ₱418.47 million in 2009 compared to a foreign exchange loss of ₱1.51 billion in 2008. Market valuation from fuel hedging recorded a gain of ₱685.57 million for the year versus a loss ₱2.59 billion recognized in 2008. As a result, CEB recorded a net income of ₱3.26 billion this year, a complete turn around from last year's net loss of ₱3.26 billion.

**Petrochemicals** revenues dropped 33.9% to ₱6.14 billion for the fiscal year ended September 30, 2009, from last year's ₱9.28 billion as sales volume decreased from 153,712 MT last year to 95,361 MT this year, mainly due to lower production during the period. JGSPC's gross income went down by 82.6% to ₱42.45 million from ₱243.78 million last year. Operating expenses decreased by 96.7% mainly due to reversal of impairment losses on inventory and receivables amounting to ₱180.56 million and ₱40.24 million, respectively. Foreign exchange loss also decreased during the year from ₱295.27 million last year to ₱89.56 million this year, thus, net loss for fiscal 2009 amounted to ₱511.10 million compared to last year's ₱673.80 million despite last year's higher revenues..

**Robinsons Savings Bank** generated net earnings of ₱202.81 million for the year ended December 31, 2009, a 41.2% growth from last year's net income of ₱143.59 million. The increase is mainly due to higher interest income recorded this year from ₱893.81 million last year to ₱1.02 billion this year. As of December 31, 2009, total resources amounted to ₱16.89 billion from last year's ₱12.71 billion. Loans increased to ₱8.23 billion from last year's ₱7.06 billion, deposit liabilities increased to ₱14.09 billion this year compared to ₱8.58 billion last year.

**Equity in net earnings of associates companies and joint ventures** amounted to ₱3.09 billion for the year ended December 31, 2009, a 29.3% growth from last year's ₱2.39 billion. Increase in equity income is mainly due to UIC, which recorded a higher net income before fair value gain (loss) on investment properties. **United Industrial Corporation, Limited** recorded a 28.4% growth in its net income from operations S$187.50 million in 2008 to S$240.82 million in 2009. Increase is mainly due to higher sales of residential properties and rental income. 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. **First Private Power Corporation (FPPC)**, reported a net income of US$11.74 million, from last year's US$8.46 million. Last year's net income includes a lower equity income recognized by FPPC from BPPC, brought about by the latter's adoption of a new accounting standard.

**Other Supplementary Business, Unicon** recognized net income of ₱22.64 million in 2009, a significant increase from last year's ₱2.45 million. This growth was brought about by higher commission income during the year, from ₱14.58 million last year to ₱87.05 million this year.

## 2008 vs 2007

## I. Consolidated Operations

JG Summit's consolidated revenues grew by 29.2% to ₱99.87 billion from last year's ₱77.37 billion as most of its subsidiaries posted double-digit revenue growth:

- Revenues from foods subsidiary, Universal Robina Corporation (URC) grew 20.5%, from ₱37.72 billion to ₱45.45 billion mainly because of the strong performances of its branded consumer foods group and commodity foods group.

- Revenues of Cebu Pacific Air reached ₱19.68 billion, a 31.1% increase over last year's ₱15.02 billion. It has successfully carried about 6.4 million passengers compared to the 5.2 million passengers flown in 2007. This can be attributed to the increase in number of flights during the year brought about by the opening of five

international routes and seven domestic destinations in 2008.

- Digitel posted an increase of about 36.5% in its service revenues. Its mobile phone business, Sun Cellular registered a remarkable improvement of 82.4% in revenures as it reached a wider subscriber base more significantly in prepaid that boosted revenues in unlimited fees, voice, SMS, roaming and value added services.

- Robinsons Land Corporation generated gross revenues of ₱10.67 billion in 2008, an increase of 30.7% from last year's ₱8.17 billion. Its High-rise division continues lead growth because of the continuing strong demand for condominiums and BPO office space.

- Petrochemicals business recorded an 80.2% increase in its revenues, from ₱5.15 billion in 2007 to ₱9.28 billion in 2008 as a result of higher sales volume (76,737MT last year to 132,049 MT).

- Equity in net income of associates increased by 47.1%, from ₱1.62 billion in 2007 to ₱2.39 billion in 2008 because of higher equity earnings recognized from UIC, a Singapore-based listed company where we have a 35.0% stake.

Gross income increased only by 18.5% to ₱P34.84 billion, a result of substantial increases in input costs for our food, property, airline, and petrochemical businesses. Effective management of general and administrative expenses led to a higher growth in Operating income of 77.3% to ₱11.30 billion.

Financing costs and other charges incurred for the year ended December 31, 2008 dropped 7.8% due to lower average interest rates offsetting the effects of a devalued currency.

Provision for income tax declined 109.7% due to recognition of a net benefit from deferred income tax this year brought about by recognition of deferred tax on unrealized foreign exchange loss during the period.

JG Summit's core earnings before taxes which exclude effects of foreign exchange and market valuation on financial instruments for the year ended December 31, 2008, increased 60.6% from ₱5.70 billion to ₱9.16 billion, on the back of the 29.2% increase in revenues.

EBITDA (operating income add back depreciation and amortization) for the period, amounted to ₱21.16 billion, a 19.2% increase from last year's ₱17.76 billion.

Incorporating the negative effects of foreign exchange translation losses, as well as the mark-to-market losses on the Group's financial assets and fuel hedges, consolidated net income (attributable to equity holders of the parent) amounted to a net loss of ₱694 million, a complete turnaround from last year's net income of ₱8.61 billion. The net foreign exchange translation loss amounted to ₱2.93 billion compared to a gain of ₱7.21 billion in the same period last year. This is a direct result of translating the value of the company's dollar-denominated assets and liabilities with a much devalued Philippine peso at the close of the year 2008. The mark-to-market losses amounted to ₱7.14 billion versus a gain of ₱1.96 billion for the same period last year. Again this was brought about by the combined effects of the lower market value of its financial assets and fuel hedges coming out of the collapse and volatility of global financial and commodity markets, as well as the lower value of the peso.

## II. Segment Reporting

**Foods** generated a consolidated sales of goods and services of ₱45.45 billion for the fiscal year ended September 30, 2008, a 20.5% increase over last year. The principal reasons for this increase were as follows: (1) ₱5.94 billion, or 21.7% increase in net sales of URC's branded consumer foods segment, excluding packaging division. Domestic operations posted a 19.2% increase in net sales, which was largely driven by the strong performance of its snackfoods. The launch of 89 SKU's during the year, which contributed 4% of the total sales and acquisition of Granny Goose snacks line also boosted sales in fiscal 2008. BCFG's international sales increased by 28.9% due to higher revenues from Vietnam, Thailand, Malaysia and China operations. Vietnam posted a phenomenal sales growth due to surging C2 sales volume coupled by price increases. Sale of goods and services in packaging division rose to ₱1.50 billion, up 44.0% from ₱1.04 billion last year due to increase in sales volume and prices. (2) ₱1.4 billion or 38.3% increase in net sales of commodity foods segment due to increase in sales of flour, from ₱2.53 billion last year to ₱3.32 billion this fiscal 2008. Moreover, sugar net sales increased by 54.6% to ₱1.80 billion this year as a result of higher sales volume due to acquisition earlier this year of PASSI sugar milling and increased production volume in two Negros mills. The agro-industrial segment of URC however, registered a slight drop in its sales of goods and services from ₱5.65 billion in fiscal 2007 to ₱5.57 billion in fiscal 2008 mainly due to decline in sales of the farm business brought about by lower sales volume caused by an influx of cheap imported meat.

URC's gross profit for fiscal 2008 amounted to ₱10.86 billion, up 7.4% from ₱10.10 billion recorded in fiscal 2007 despite the drop in gross margin to 23.9% from 26.8% last year. Selling and distribution costs and general and administrative expenses rose by 3.5% from ₱6.92 billion to ₱7.17 billion primarily due to the following factors: (1) increase in freight and handling expenses by 13.0% or ₱196 million due to higher volume and freight rate charges associated with higher fuel prices and increase in trucking and shipping costs; (2) increase in advertising and promotion costs by 8.0% from ₱2.35 billion in fiscal 2007 to ₱2.53 billion in fiscal 2008 to support the new SKUs launched and to boost sales of existing products in light of increasing market competition; and (3) increase in personnel related expenses due to pension income resulting from net actuarial gain recognized during the year.

URC recognized a market valuation loss on financial instruments at fair value through profit or loss of ₱2.26 billion in fiscal 2008 compared to a ₱452 million market valuation gain in fiscal 2007. This was due to significant drop in market values of both bond investments and equity securities as a result of global financial crisis.

Gain on sale of investment in fiscal 2007 amounting to ₱2.86 billion represents gain on sale of equity investment in RLC.

Net income attributable to equity holders of the parent decreased by ₱5.18 billion or 93.1% to ₱381.03 million in fiscal 2008 from ₱5.56 billion in fiscal 2007 due to the one-time gain recognized last year and the market valuation losses recorded this year.

URC's EBITDA increased by 16.7% to ₱6.38 billion for fiscal 2008. Core earnings, which is operating profit after equity earnings, net of finance costs and other expenses reached ₱3.50 billion in fiscal 2008 compared to ₱3.24 billion last year.

**Real estate and hotels** generated total gross revenues of ₱11.18. billion for fiscal year 2008, an increase of 25.8% from ₱8.89 billion of total gross revenues for fiscal year 2007. RLC's Commercial Centers Division contributed 33.1% while its High Rise Division accounted for 50.4% of its gross revenues. Income Before Income Tax for the year was ₱3.76 billion, an increase of 10.2% from ₱3.42 billion the previous year. EBITDA recorded a positive variance

of 10.4% from ₱4.82 billion last year to ₱5.32 billion mainly due to higher revenues. RLC's net income increased by 29% to ₱3.15 billion compared to ₱2.45 billion last year. In 2008, the income includes an extraordinary adjustment to reduce provision for deferred income tax amounting to ₱300 million. This adjustment was necessitated by the reduction of the legislated corporate income tax rate starting January 2009.

The Commercial Centers Division accounted for ₱3.70 billion of the real estate revenues for the year, versus ₱3.54 billion last year. The 4.5% increase in revenues of the Commercial Centers Division was principally due to rental escalations and strong take up of leased areas of RLC's mall space after renovation and expansion work. Significant rental contribution came from Galleria mall, Robinsons Place Manila, Robinsons Place Novaliches, Otis mall and Luisita mall in Tarlac City, among others.

The Company's Residential Division realized gross revenues of ₱5.64 billion, up by 55% from ₱3.53 billion last year due to initial take up of realized revenues from its ongoing residential condominium properties, specifically, East of Galleria, Gateway Garden Ridge, Otis 888 Residences and Gateway Garden Heights.

The Office Buildings Division reported revenues of ₱883.4 million compared to ₱714.5 million over the same period last year. This 24% increase in lease income was largely attributable to the opening of new Cybergate Center Tower 3 during the year as well as increased occupancy rates and generally higher rental rates of its office buildings.

The Hotels Division, a major contributor of RLC's recurring revenues registered gross revenues of ₱1.14 billion, as against last year's ₱1.11 billion. The 2.8% increase in hotel revenues was principally due to revenue attributable to Crowne Plaza Hotel. RLC's two other hotels continue to register satisfactory occupancy rates.

Real estate cost and expenses increased by 60.2% from ₱3.18 billion last year to ₱5.09 billion this year due to higher units sold and to higher project completion at High Rise Division, particularly East of Galleria, Gateway Garden Ridge, Otis 888 Residences and Gateway Garden Heights. Hotel expenses increased to ₱947.9 million or 2.8% as compared to last year of ₱922.0 million due to higher depreciation.

Interest income decreased from ₱710.4 million last year to ₱494.7 million due to lower level of discount amortization of installment contract receivables and lower level of interest from money market placements.

**Telecommunications** consolidated revenues posted a significant growth in 2008 of 36.5% or ₱3,037.8 million to ₱11,351.2 million for the year ended December 31, 2008 from last year's ₱8,313.3 million. The increase was largely due to the 82.4% improvement in the service and nonservice revenues of the wireless segment during the year attributable to the growth in subscriber base more significantly in the prepaid segment that boosted revenues in unlimited fees, voice, SMS, roaming and value added services.

Wireline voice communication service revenues however, declined 6.8% during the year to ₱3,630.7 million in 2008 from ₱3,895.5 million in 2007. This was mainly due to lower international and domestic tolls, decreasing average rate per minute and the effect of the foreign exchange. Providing cushion to the reduced international and domestic traffic is the growth of ADSL products which registered an increase of 33% compared to last year.

Wireline data communication services generated revenues of ₱358.1 million in 2008, lower by 6.0% against last year's ₱381.0 million. The decrease was due to the adverse impact of

foreign exchange and last year's revenues include a one-time rental revenues of International Private Leased Circuit (IPLC) services from certain carriers.

Consolidated costs and operating expenses is lower by ₱1,146.0 million or 9.8% due to lower depreciation charges. Excluding depreciation charges, consolidated costs and operating expenses would have been higher by 22.7% or ₱1,428.4 million due to the increase in cost of sales by 30.3%, general and administrative expense by 23.4% and network-related expenses by 19.0%.

With the significant growth in the wireless segment, the company realized earnings before interests, foreign exchange loss, market valuation loss and taxes of ₱764.4 million in 2008, a remarkable improvement over last year's loss before interests, foreign exchange gain, market valuation gain and taxes of ₱3,419.5 million.

After considering finance costs, foreign exchange loss, market valuation loss and other income, DIGITEL posted a consolidated loss before income tax of ₱3,041.9 million in 2008 compared with the consolidated income before income tax of ₱2,692.1 million in 2007.

Net loss for the year 2008 is at ₱1,978.1 million versus a net income of ₱1,170.5 million in 2007. This is primarily due to the adverse impact of foreign exchange rate and market valuation.

DIGITEL continues to project an uptrend in its results of operation moving forward as it aggressively grows its coverage and capacity in the wireless network to bring in new and innovative products. The Company likewise continues to pursue cost-containment measures to efficiently manage its costs and expenses.

**Air transportation** revenues increased 31.1% to ₱19.68 billion for the year ended December 31, 2008 from last year's ₱15.02 billion, a result of increased passenger load factor due to expansion of routes for the year. This was brought about by the opening of five international routes and seven domestic destinations. Additional flight frequencies and capacity increase due to the addition of four airbus A320 and six ATR72-500 aircraft also contributed to the increase. Furthermore, Cebu Air opened its Davao and Clark hub in 2008, thereby strengthening the number of passengers flown during the year by about 23.2%. Correspondingly, cost of services and operating expenses went up 44.1% from ₱12.46 billion to ₱17.95 billion this year. This is due to higher operations-related expenses, particularly, fuel costs, which posted an 81.8% growth during the period. Cebu Air recognized a foreign exchange loss of ₱1.51 billion in 2008 compared to a foreign exchange gain of ₱1.97 billion in 2007. In addition to this, a mark-to-market loss of ₱2.59 billion was recognized during the period for its fuel hedging compared to mark-to-market gain of ₱29.82 million last year. As a result, Cebu Air recorded a net loss of ₱3.26 billion this year, a complete turn around from last year's net income of ₱3.61 billion.

**Petrochemicals** revenues grew 80.2% to ₱9.28 billion for the fiscal year ended September 30, 2008, from last year's ₱5.15 billion, mainly due to higher production during the period. JGSPC recognized a gross income this year of ₱243.78 million from a gross loss of ₱308.66 million last year. Operating expenses also increased by 35.9% mainly due to higher freight charges relative to the growth in sales during the year. However, net loss only dropped by 6.7% despite the recognition of a gross income, mainly due to the foreign exchange loss of ₱290.74 million recorded during the year. Net loss for fiscal 2008 amounted to ₱673.80 million compared to last year's ₱722.44 million.

**Robinsons Savings Bank** generated net earnings of ₱143.59 million for the year ended December 31, 2008, a 49.7% drop from last year's net income of ₱285.36 million. The decrease is mainly due to lower interest income recorded this year from ₱1.08 billion last year to only ₱0.89 billion this year. Aside from this, trading and securities gain also decreased by 72.4% during the period. As of December 31, 2008, total resources amounted to ₱12.72 billion from last year's ₱12.42 billion. Loans increased to ₱7.06 billion from last year's ₱5.47 billion, deposit liabilities decreased to ₱8.58 billion this year compared to ₱9.58 billion last year.

**Equity earnings** from associated companies and joint ventures were reported at ₱2.39 billion for the year ended December 31, 2008, a 47.1% growth from last year's ₱1.62 billion. Increase in equity income is mainly due to UIC, which recorded a higher net income before fair value gain (loss) on investment properties. **United Industrial Corporation, Limited** recorded a 51.7% growth in its net income from operations S$123.59 million in 2007 to S$187.50 million in 2008. Increase is mainly due to higher sales of residential properties and hotel revenues. 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. **First Private Power Corporation (FPPC)**, reported a net income of US$8.46 million, from last year's US$ 20.24 million. The decrease was mainly due to lower equity income recognized by FPPC from BPPC, which was brought about by the latter's adoption of a new accounting standard.

**Other Supplementary Business, JG Summit Capital Markets Corporation** recognized negative revenues of ₱358.81 million during the year, as it recorded losses from forex and forward swap points. This contributed to the turnaround in its bottom line, from a net profit of ₱163.08 million last year to a ₱324.04 million net loss this year.

## FINANCIAL RESOURCES AND LIQUIDITY

### 2010 vs 2009

Cash & cash equivalents increased significantly from ₱18.47 billion as of December 31, 2009, to ₱42.11 billion as of December 31, 2010 mainly due to proceeds from the successful IPO of Cebu Pacific in October 2010. Our financial assets, including those held at fair value through profit and loss and available for sale investments, increased by 3.7% due to acquisition of new investments by URC during the period.

Cash from operating activities amounted to ₱18.30 billion and cash from financing activities amounted to ₱22.58 billion, which includes proceeds from Cebu Air's IPO amounting to ₱24.53 billion. Cash was principally used for the capital expenditure program of the Company's operating subsidiaries and to service debt maturity.

Derivative assets increased 78.8% from ₱0.66 billion to ₱1.19 billion this year mainly due to higher balance of Cebu Air's derivatives on its fuel hedges and Digitel's derivaties on its currency forwards.

Inventories rose 24.8% from ₱13.08 billion as of December 31, 2009 to ₱16.31 billion as of December 31, 2010 mainly due to higher level of subdivision land and condominium and

residential units for sale of real estate business. Aside from this, level of raw materials, finished goods and materials in transit of the food business has increased during the period.

Biological assets, including the noncurrent portion, dropped 17.3% from ₱1.56 billion last year, to ₱1.30 billion this year due to decline in market value of hogs and population of livestock.

Held to maturity investments of our banking business were all reclassified to Available for Sale investments during the period because of tainting.

Investment in associates and joint ventures increased 8.3% to ₱30.42 billion in 2010 due to additional UIC shares acquired during the year.

Investment properties rose 9.0% from ₱29.53 billion as of December 31, 2009 to ₱32.18 billion as of December 31, 2010 due to acquisition of land for future development, completion of two malls and on-going renovations and construction of the real estate business of the Company.

Property, plant and equipment increased 10.6% from ₱132.26 billion to ₱146.34 billion attributed mainly to the on-going expansion of the facilities of our mobile phone business, additional aircrafts by the airline division, expansion of our branded consumer foods business and start of construction of the naphtha cracker project.

Intangibles increased 14.8% to ₱993.83 million in 2010 from ₱865.79 million in 2009 due to recognition of licenses from the newly acquired Robinsons Bank Corp. (formerly known as Royal Bank of Scotland (Phils.))

Other noncurrent assets dropped 8.8% from ₱3.94 billion in 2009 to ₱3.59 billion in 2010 due to lower level of deferred tax asset.

Consolidated total assets reached ₱326.32 billion this year.

Accounts payable and accrued expenses decreased 11.3% from ₱34.10 billion as of December 31, 2009 to ₱30.26 billion as of December 31, 2010, which can be attributed to lower level of deposit liabilities of RSB and decrease in balance of due to related parties.

Short-term debt increased 10.0% from ₱13.96 billion as of December 31, 2009 to ₱15.35 billion as of December 31, 2010 mainly due to availment of new loans by the Parent and offshore companies.

Derivative liabilities, including noncurrent portion, increased 7.8% from ₱750.34 million in 2009 to ₱809.16 million in 2010 mainly due to higher derivative liability recognized by Digitel from its IR swap transaction.

Income tax payable dropped 11.4% mainly due to lower level of tax payable of the real estate business as their construction slowed down during the period compared to last year’s.

Other current liabilities increased 22.8% from ₱5.55 billion in 2009 to ₱6.81 billion this year mainly due to higher level of unearned revenue recorded by the airline business.

Long-term debt, including current portion, dropped 0.1% from ₱97.74 billion as of December 31, 2009 to ₱97.66 billion as of December 31, 2010 mainly due to lower exchange rate for

the period, partially offset by higher loans of air transportation and the mobile businesses during the period.

Deferred tax liabilities amounted to ₱5.06 billion in 2010, up by 11.7% from last year's ₱4.52 billion. The increase was mainly due to recognition of deferred tax on unrealized foreign exchange gain this year.

Other noncurrent liabilities increased 27.6% from ₱16.46 billion last year to ₱21.01 billion mainly due to higher level of accrued project cost of the telecoms business.

Stockholders' equity, excluding minority interest, stood at ₱117.57 billion as of December 31, 2010 from ₱83.16 billion last year.

**2009 vs 2008**

Cash & cash equivalents increased significantly from ₱7.16 billion as of December 31, 2008, to ₱18.47 billion as of December 31, 2009 mainly due to proceeds from RLC's and JG's peso retail bond offerings. Our financial assets, including those held at fair value through profit and loss, available for sale investments and held-to-maturity investments, increased by 27.5% due to the recovery in the market value of these financial assets which were greatly affected by the crisis which hit the financial markets globally last year.

Cash from operating activities amounted to ₱28.79 billion and cash from financing activities amounted to ₱6.47 billion. Cash was principally used for the capital expenditure program of the Company's operating subsidiaries and to service debt maturity. The Group spent ₱11.46 billion on Digitel's capital expenditures as Digitel continues its network rollout on its mobile phone business; RLC spent about ₱3.85 billion in its landbanking and high-rise projects; Cebu Pacific's aircraft acquisitions cost around ₱3.42 billion, while URC's ₱3.87 billion capex was used in the expansion of its international operations.

Derivative assets dropped 41.7% from ₱1.14 billion to ₱0.66 billion this year mainly due to the maturity of JG Parent's cross currency swap during the period.

Inventories dropped 12.2% from ₱14.89 billion as of December 31, 2009 to ₱13.08 billion as of December 31, 2008 mainly due to lower level of raw materials, finished goods and materials in transit of the food business.

Biological assets, including the noncurrent portion, increased 8.5% to ₱1.56 billion this year, from ₱1.44 billion last year due to expansion increase in market value of hogs and expansion of breeder stock.

Other current assets decreased by 27.4% from last year's ₱8.64 billion to ₱6.27 billion since last year's balance include refundable deposits of the airline business, which were now capitalized to PPE during the year upon delivery of the aircraft.

Assets of disposal group classified as held for sale pertaining to assets Tianjin Pacific Foods Manufacturing Co., Ltd was finally sold during the year.

Investment in associates and joint ventures increased 11.7% to ₱28.09 billion in 2009 due to additional UIC shares acquired during the year and higher take up in net income.

Investment properties rose by 6.5% from ₱27.74 billion as of December 31, 2009 to ₱29.53 billion as of December 31, 2009 due to acquisition of land for future development of the real estate business of the Company.

Property, plant and equipment increased 8.8% from ₱121.61 billion to ₱132.26 billion attributed mainly to the on-going expansion of the facilities of our mobile phone business, additional aircrafts by the airline division, expansion of our branded consumer foods business and continuous construction of the real estate business.

Other noncurrent assets grew by 19.0% from ₱3.31 billion in 2008 to ₱3.94 billion in 2009 due to higher level of deferred subscriber acquisition and retention costs of the telecoms business.

Consolidated total assets reached ₱277.88 billion this year.

Accounts payable and accrued expenses increased 26.0% from ₱27.06 billion as of December 31, 2008 to ₱34.10 billion as of December 31, 2009, which can be attributed to higher deposit liabilities of RSB and increase in accrued expenses.

Short-term debt dropped by 44.5% from ₱25.14 billion as of December 31, 2008 to ₱13.96 billion as of December 31, 2009 mainly due to settlement of most of the Group's bank loans and trust receipts during the year.

The cumulative redeemable preferred shares amounting to ₱2.1 billion was settled during the year.

Derivative liabilities, including noncurrent portion, dropped significantly from ₱2.96 billion in 2008 to ₱0.75 billion in 2009 due to settlement of the airline business of its fuel hedges during the period.

Other current liabilities increased 19.7% from ₱4.64 billion in 2008 to ₱5.55 billion this year mainly due to higher level of unearned revenue recorded by the airline business.

Liabilities directly associated with the assets classified as held for sale pertaining to Tianjin Pacific Foods Manufacturing Co., Ltd were settled during the year.

Long-term debt, including current portion, grew 27.0% from ₱76.94 billion as of December 31, 2008 to ₱97.74 billion as of December 31, 2009 due to the Group's issuance of peso retail bonds (RLC and JG Parent Company) totaling to ₱19 billion during the year.

Other noncurrent liabilities increased 5.5% from ₱15.60 billion last year to ₱16.46 billion mainly due to higher level of deposits from real estate buyers and lessees of the real estate business.

Stockholders' equity, excluding minority interest, stood at ₱83.16 billion as of December 31, 2009 from ₱72.91 billion.

**2008 vs 2007**

Cash & cash equivalents dropped significantly from ₱12.45 billion as of December 31, 2007, to ₱7.16 billion as of December 31, 2008 mainly due to the settlement of a US$ 125 million note and the buyback of the food division of its shares. Our financial assets, including those

held at fair value through profit and loss, available for sale investments and held-to-maturity investments, dropped by 37.2% with the sale of certain debt securities and the more significantly, due to the decline in the market value of these financial assets greatly affected by the crisis which hit the financial markets globally.

Cash from operating activities amounted to ₱8.45 billion and cash from financing activities amounted to ₱19.14 billion. Cash was principally used for the capital expenditure program of the Company's operating subsidiaries and to service debt maturity. The Group spent ₱12.53 billion on Digitel's capital expenditures as Digitel continues its network rollout on its mobile phone business; RLC spent about ₱3.95 billion in its landbanking and high-rise projects; Cebu Pacific's aircraft acquisitions cost around ₱6.98 billion, while URC's ₱5.06 billion capex was used in the expansion of its snackfoods production facilities, sugar mills, refinery and farms and the acquisition of GMC machineries.

Derivative assets dropped 65.5% from ₱3.30 billion to ₱1.14 billion this year mainly due to the effect of the turmoil in the credit markets, which greatly affected Capital Market's trading position. Aside from this, the telecoms business' balance of derivative assets related to its embedded derivatives in foreign currency denominated purchase orders and contracts for network-related projects significantly went down during the period by ₱879.7 million.

Receivables, including noncurrent portion, increased to ₱22.64 billion as of December 31, 2008 from last year's ₱17.84 billion due to higher trade and finance receivables.

Inventories increased from ₱14.17 billion as of December 31, 2007 to ₱14.89 billion as of December 31, 2008 mainly due to increase in inventory level of raw materials, finished goods and materials in transit of the food business.

Biological assets, including the noncurrent portion, increased 37.4% to ₱1.44 billion this year, from ₱1.05 billion last year due to expansion of breeder stock and increase in market value of hogs.

Other current assets increased by 67.9% from last year's ₱5.14 billion to ₱8.64 billion due to higher level of input tax of the telecommunication business in relation to their acquisition of equipment for the continuous expansion project of its wireless segment.

Assets of disposal group classified as held for sale dropped significantly from ₱791.63 million in 2007 to ₱197.42 million in 2008 since last year's balance include the assets of textile business which were already disposed during the year. Assets remaining in this account, pertains to a subsidiary of the food group, Tianjin Pacific Foods Manufacturing Co., Ltd.

Investment properties rose by 18.2% from ₱23.46 billion as of December 31, 2007 to ₱27.74 billion as of December 31, 2008 due to acquisition of land for future development of the real estate business of the Company.

Property, plant and equipment increased 17.1% from ₱103.88 billion to ₱121.61 billion attributed mainly to the on-going expansion of the facilities of our cellular telecommunications business, additional aircrafts by the airline division, expansion of our branded consumer foods business and continuous construction of the real estate business.

Intangibles increased by 122.0% mainly due to acquisition of trademark and product formulation of the food business during the year.

Other noncurrent assets grew by 25.2% from ₱2.64 billion in 2007 to ₱3.31 billion in 2008 due to higher level of deferred subscriber acquisition and retention costs of the telecoms business.

Consolidated total assets reached ₱250.89 billion due to all these factors.

Accounts payable and accrued expenses increased from ₱23.91 billion as of December 31, 2007 to ₱27.06 billion as of December 31, 2008, which can be attributed to higher trade payables of the telecommunications, real estate and airline businesses.

Short-term debt increased by 43.9% from ₱17.47 billion as of December 31, 2007 to ₱25.14 billion as of December 31, 2008 mainly due to higher level of bank loans and trust receipts of the food business during the year to meet its working capital requirements. RLC also obtained a new loan of ₱677 million during the year.

The cumulative redeemable preferred shares account was reclassified from noncurrent to current liability this year since this will be maturing on the third quarter of 2009.

Derivative liabilities, including noncurrent portion, increased significantly from ₱978.16 million in 2007 to ₱2.96 billion in 2008 due to recognition of fuel hedging losses of the airline business and the mark-to-market losses recorded by an offshore company from its interest rate swap activity.

Long-term debt, including current portion, grew 22.6% from ₱62.75 billion as of December 31, 2007 to ₱76.94 billion as of December 31, 2008 as the Group availed of new credit facilities. The Parent Company and RLC availed of new peso corporate notes amounting to ₱4.31 billion and ₱2 billion, respectively. Digitel and Cebu Air's outstanding foreign borrowings, mostly supplier's credit and export loans, increased during the period. All these, plus the effect of peso depreciation contributed to the increase in this year's balance of long-term debt.

Deferred income tax liabilities dropped to ₱4.35 billion, from last year's ₱6.46 billion which is due to deferred tax effects of unrealized foreign exchange losses and mark-to-market losses of our financial instruments.

Other noncurrent liabilities increased significantly from ₱10.89 billion last year to ₱15.60 billion mainly due to higher level of accrued project cost of the telecoms business. This account also includes the noncurrent portion of derivative liability amounting to ₱865.67 million this year.

Stockholders' equity, excluding minority interest, stood at ₱72.91 billion as of December 31, 2008 from ₱76.77 billion.

**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 December 31, 2010, 2009 and 2008.

| Key Financial Indicators | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenues | P121.74 Billion | P107.96 Billion | P99.07 Billion |
| EBIT | P21.74 Billion | P15.22 Billion | P11.30 Billion |
| EBITDA | P35.29 Billion | P27.04 Billion | P21.16 Billion |
| Current ratio | 1.59 | 1.28 | 1.00 |
| Gearing ratio | 0.76 | 1.07 | 1.16 |
| Net debt to equity ratio | 0.37 | 0.76 | 0.98 |
| Book value per share | 17.44 | 12.23 | 10.73 |

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

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

Current assets amounted to ₱101.44 billion while current liabilities reached ₱63.75 billion, for a current ratio of 1.59:1. The Company and the Group as a whole, do not expect any liquidity problems that may arise in the near future.

Total financial debt amounted to ₱113.82 billion in 2010, higher than last year's ₱112.45 billion. Additional borrowing contributed to this increase, bringing our gearing ratio to a level of 0.76:1, well within the financial covenant of 2.0:1. Net debt stood at ₱55.64 billion, bringing our net debt to equity ratio to 0.37:1.

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.

**DISCLOSURE OF EFFECTS OF PESO DEPRECIATION AND OTHER CURRENT EVENTS**

Refer to Management Discussion and Analysis on pages 39-60 of this report and Note 4 of the Consolidated Financial Statements.

**Item 8. Financial Statements**

The Consolidated financial statements are filed as part of this report.

**Item 9. Information on Independent Accountant and other Related Matters**

**A. External Audit Fees and Services**

**Audit and Audit - Related Fees**

The following table sets out the aggregate fees billed to the Company for each of the last three (3) years for professional services rendered by SyCip, Gorres Velayo & Co.,

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Audit and Audit-Related Fees** | | | |
| Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements | ₱1,862,825 | ₱1,400,764 | ₱1,309,125 |
| Professional Fees for due diligence review for bond offering | None | 4,000,000 | 4,638,500 |
| Tax Fees | None | None | None |
| All Other Fees | None | None | None |
| **Total** | **₱1,862,825** | **₱5,400,764** | **₱5,947,625** |

No other service was provided by external auditors to the Company for the calendar years 2010, 2009 and 2008.

**The audit committee's approval policies and procedures for the services rendered by the external auditors**

The Corporate Governance Manual of the Company provides that the audit committee shall, among others:

1. Evaluate all significant issues reported by the external auditors relating to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company.

2. Ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors.

3. Ensure the compliance of the Company with acceptable auditing and accounting standards and regulations.

**B. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

NONE.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 10. Directors and Executive Officers of the Registrant

**DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The names and ages of directors and executive officers of the Company are as follow:

**1. DIRECTORS**

| Position | Name | Age | Citizenship |
|---|---|---|---|
| Director, Chairman Emeritus | John Gokongwei, Jr. | 84 | Filipino |
| Director, Chairman and Chief Executive Officer | James L. Go | 71 | Filipino |
| Director, President and Chief Operating Officer | Lance Y. Gokongwei | 44 | Filipino |
| Director | Lily G. Ngochua | 79 | Filipino |
| Director | Patrick Henry C. Go | 40 | Filipino |
| Director | Johnson Robert G. Go Jr. | 45 | Filipino |
| Director | Robina Y. Gokongwei-Pe | 49 | Filipino |
| Director | Gabriel C. Singson | 81 | Filipino |
| Director | Ricardo J. Romulo | 77 | Filipino |
| Director (Independent) | Cornelio T. Peralta | 77 | Filipino |
| Director(Independent) | Jose T. Pardo | 71 | Filipino |

**2. MEMBERS OF ADVISORY BOARD**

| Position | Name | Age | Citizenship |
|---|---|---|---|
| Member of Advisory Board | Aloysius B. Colayco | 60 | Filipino |
| Member of Advisory Board | Washington Z. SyCip | 89 | Filipino |

**3. EXECUTIVE OFFICERS**

| Position | Name | Age | Citizenship |
|---|---|---|---|
| Senior Vice President/Chief Financial Officer- Treasurer | Eugenie ML. Villena | 62 | Filipino |
| Senior Vice President - Corporate Controller | Constante T. Santos | 62 | Filipino |
| Senior Vice President - Corporate Planning | Bach Johann M. Sebastian | 49 | Filipino |

| | | | |
|---|---|---|---|
| Senior Vice President - Corporate Human Resource | Nicasio L. Lim | 54 | Filipino |
| Assistant Treasurer | Chona R. Ferrer | 54 | Filipino |
| Corporate Secretary | Rosalinda F. Rivera | 40 | Filipino |

All of the above directors and officers have served their respective offices since June 28, 2010.

Messrs. Cornelio T. Peralta and Jose T. Pardo are the “Independent Directors” of the Company as defined under SRC Rule 38.1.

The directors of the Company are elected at the annual stockholders’ meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Officers are appointed or elected annually by the Board of Directors. Appointed or elected officers are to hold office until a successor shall have been elected, appointed or shall have qualified.

A brief description of the directors’ and executive officers’ business experience and other directorships held in other reporting companies are provided as follows:

**1. John L. Gokongwei, Jr**., 84**,** is the founder and Chairman Emeritus of JG Summit Holdings, Inc. (JGSHI). He continues to be a member of the Board of Directors of JGSHI and certain of its subsidiaries. He also continues to be a member of the Executive Committee of JGSHI and is Chairman Emeritus of certain of its subsidiaries. He is currently the Chairman of the Gokongwei Brothers Foundation, Inc. (GBFI); Deputy Chairman and Director of United Industrial Corporation, Ltd. (UIC) and Singapore Land, Limited (Singland), and a director of JG Summit Capital Markets Corporation (JGSCMC), Digital Telecommunications, Phils. Inc. (DIGITEL), Oriental Petroleum and Minerals Corporation (OPMC), First Private Power Corporation (FPPC) and Bauang Private Power Corporation (BPPC). He is also a non-executive director of A. Soriano Corporation. Mr. Gokongwei received a Masters degree in Business Administration from De La Salle University and attended the Advanced Management Program at Harvard Business School.

**2. James L. Go,** 71, is the Chairman and Chief Executive Officer of JGSHI. He had been President and Chief Operating Officer of JGSHI and was elected to his current position effective January 1, 2002. As Chairman and Chief Executive Officer, he heads the Executive Committee of JGSHI. He is currently the Chairman and Chief Executive Officer of Universal Robina Corporation (URC), Robinsons Land Corporation (RLC), JG Summit Petrochemical Corporation (JGSPC), CFC Corporation (CFC), Robinsons, Inc. and OPMC. In addition, he is the President and a Trustee of the GBFI and the Vice Chairman, President and Chief Executive Officer of DIGITEL. He is also a director of FPPC, BPPC, Cebu Air, Inc., Panay Electric Co., UIC, Singland, Marina Center Holdings, Inc., Hotel Marina City Private Limited and JGSCMC. He received a Bachelor of Science and a Master of Science in Chemical Engineering from Massachusetts Institute of Technology. He is a brother of Mr. John L. Gokongwei, Jr.

**3. Lance Y. Gokongwei,** 44, is the President and Chief Operating Officer of JGSHI. He had been Executive Vice President of JGSHI and was elected President and Chief Operating

Officer effective January 1, 2002. He is also President and Chief Operating Officer of URC and JGSPC. He is the Vice-Chairman and Deputy Chief Executive Officer of RLC. In addition, he is the President and Chief Executive Officer of Cebu Air, Inc., Chairman of Robinsons Savings Bank (RSB), Vice Chairman of JGSCMC, and a director of DIGITEL, OPMC, UIC and Singland. He is a trustee, secretary and treasurer of the GBFI. He received a Bachelor of Science in Finance and a Bachelor of Science in Applied Science from the University of Pennsylvania. He is the son of Mr. John L. Gokongwei, Jr.

4. **Lily G. Ngochua,** 79, has been a director of JGSHI since its formation in 1990. She is responsible for overseeing the Company's hotel and agro-industrial business in Cebu. She also supervises the purchasing and treasury departments of the URC Biscuit and Noodle Plants in Cebu and handles the treasury and accounting functions of the retail business in Cebu. She received a Bachelor of Arts degree from Maryknoll College in Quezon City in 1957.

5. **Johnson Robert G. Go, Jr.**, 45, was elected as a director of JGSHI on August 18, 2005. He is currently a director of URC, RLC, RSB and CFC. He is also the President of Robinsons Convenience Stores, Inc. and Vice President of Robinsons Daiso Diversified Corporation. He is also a trustee of the GBFI. He received a Bachelor of Arts degree in Interdisciplinary Studies (Liberal Arts) from the Ateneo de Manila University. He is a nephew of Mr. John L. Gokongwei, Jr.

6. **Patrick Henry C. Go,** 40, has been a director of JGSHI since 2000. He is currently a director and Vice President of URC and Group Business Unit General Manager of URC Packaging Division (BOPP) and CFC Flexible Packaging Division. In addition, he is a director of RLC, CFC, RSB and JGSPC where he is also Group Business Unit General Manager. He is also a trustee of the GBFI. He received a Bachelor of Science degree in Management from the Ateneo de Manila University and attended a General Manager Program from Harvard Business School. Mr. Patrick Henry C. Go is a nephew of Mr. John L. Gokongwei, Jr.

7. **Robina Y. Gokongwei-Pe**, 49, was elected as a director of JGSHI on April 15, 2009. She is also a director of RLC, Cebu Air, RSB and JGSCMC. She is currently the President and Chief Operating Officer of the Robinsons Retail Group consisting of Robinsons Department Store, Robinsons Supermarket, Handyman, True Value, Robinsons Specialty Stores, Robinsons Appliances and Toys R Us She obtained her Bachelor of Arts degree in Journalism from the New York University. She is a daughter of Mr. John L. Gokongwei, Jr.

8. **Gabriel C. Singson**, 81, has been a director and Senior Adviser of JGSHI since 1999. He is the Chairman of the Board of Directors and President of JGSCMC, director of OPMC, Multinational Finance Group Ltd., Summit Forex Brokers Corporation, Summit Point Corporation, and a trustee of the GBFI, Tan Yan Kee Foundation and the Ateneo de Manila University. He is also the Chairman of Grepalife Financial Corporation and Chairman and Advisory Board of Rizal Commercial Banking Corporation. He was former Governor of the Bangko Sentral ng Pilipinas (1993-1999) and President of the Philippine National Bank (1992-1993). He obtained his Bachelor of Laws degree, cum laude, from the Ateneo Law School and received his Master of Laws from the University of Michigan Law School as a Dewitt Fellow and Fulbright scholar.

9. **Ricardo J. Romulo,** 77, was elected as a director of JGSHI. He is a Senior Partner of Romulo, Mabanta, Buenaventura, Sayoc & De Los Angeles Law Office. He is the Chairman of Cebu Air, Inc., DIGITEL, Federal Phoenix Assurance Company, Inc., and InterPhil Laboratories, Inc. and Manchester International Holdings Unlimited Corporation. He is Vice Chairman of Planters Development Bank and Director of SM Development Corporation,

Philippine American Life and General Insurance Company, and Zuellig Pharma Corporation. He received his Bachelor of Laws degree from Georgetown University and Doctor of Laws degree from Harvard Law School.

**10. Cornelio T. Peralta,** 77, was elected as a director of JGSHI on July 26, 2000. He is a director of Philippine Stock Exchange, University of the East, UERM Medical Center Inc., Makati Commercial Estate Association, Inc., Securities Clearing Corporation of the Philippines, Wan Hai Lines, Inc. and Grow Holdings Phils. Inc., where he is one of the incorporators. He is also Chairman of Pacific East Asia Cargo Airlines, Inc. and ZIPP Cargo Corporation and a member of the Advisory Board of the Philippine Airlines. He was formerly Chairman, CEO and President of Kimberly Clark Philippines, Inc. (1971 - 1998) and former President of P. T. Kimsari Paper Indonesia (1985 - 1998) and Chairman and CEO of University of the East (1982 - 1984). He finished Bachelor of Arts, cum laude, and Bachelor of Laws degrees from the University of the Philippines and took up Advanced Management Program at Harvard Graduate School of Business.

**11. Jose T. Pardo,** 71, was elected as an independent director of JGSHI on August 6, 2003. He is presently the Chairman of Philippine Savings Bank, Electronic Commerce Payment Network, Inc. (ECPay) anc OOCC General Construction Corp. He is also a director of National GRID Corporation of the Philippines, ZNN Radio Veritas, Bank of Commerce, San Miguel Pure Foods Co., Inc., and Bank of Commerce Investment Corporation. He also held positions in government as former Secretary of the Department of Finance and former Secretary of the Department of Trade and Industry. He obtained his Bachelor of Science in Commerce, Major in Accounting and his Masters Degree in Business Administration from the De La Salle University.

**Members of Advisory Board**

**1. Aloysius B. Colayco**, 60, was appointed to the advisory board of JGSHI. in August 2001 and is presently the Country Chairman for the Jardine Matheson Group in the Philippines. He is also the Managing Director of Argosy Partners, a private equity firm. He is the Chairman of Republic Cement and Colliers Philippines. Previously, Mr. Colayco was president of AIG Investment Corporation in New York, the AIG subsidiary responsible for managing the Group's investment portfolios outside the US (primarily Europe, Asia, Latin America, the Middle East and Africa).

**2. Washington Z. Sycip**, 89, was appointed to the advisory board of JGSHI in 2001 and is the founder of The SGV Group, a firm of auditors and management consultants. He is also Chairman Emeritus of the Board of Trustees and Board of Governors of the Asian Institute of Management, member of Board of Overseers, Columbia University's Graduate School of Business, member of the International Advisory Board of American International Group and Council on Foreign Relations (1995 – 2010) and Counsellor of the Conference Board. Among his awards are the Management Man of the Year given by the Management Association of the Philippines, Ramon Magsaysay Award for International Understanding, Officer's Cross of the Order of Merit given by the Federal Republic of Germany, Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden, Star of the Order of Merit conferred by the Republic of Austria and Philippine Legion of Honor, degree of Commander conferred by the Philippine Government.

**Executive Officers**

**1. Eugenie ML Villena,** has been the Senior Vice President and Chief Financial Officer-Treasurer of JGSHI since 1992. She is responsible for finance and treasury operations of the

Company. She is also Senior Vice President–Chief Financial Officer of URC. Prior to joining the Company, she worked for Bancom Development Corporation, Philippine Pacific Capital Corporation and Pacific Basin Securities, Co., Inc. She is a member of the Financial Executives Institute of the Philippines. She received her Bachelor of Science in Business Administration and Masters in Business Administration degrees from the University of the Philippines.

**2. Constante T. Santos,** 62, has been the Senior Vice President - Corporate Controller of JGSHI since 1998. He is also Senior Vice President - Corporate Controller of URC and RLC. Prior to joining the Company, he practiced public accounting with SGV & Co. in the Philippines and Ernst & Whinney in the United States. He is a member of the Philippine Institute of Certified Public Accountants. Mr. Santos obtained his Bachelor of Science degree in Business Administration from the University of the East and attended the Management Development Program at the Asian Institute of Management.

**3. Bach Johann M. Sebastian,** 49, was appointed as Senior Vice President - Corporate Planning of JGSHI on June 28, 2007. He is also Senior Vice President for Corporate Planning of URC and RLC. Prior to joining JGSHI in 2002, he was Senior Vice President and Chief Corporate Strategist at PSI Technologies and RFM Corporation. He was also Chief Economist, Director of Policy and Planning Group at the Department of Trade and Industry. He received a Bachelor of Arts degree in Economics from the University of the Philippines and his Masters in Business Management degree from the Asian Institute of Management.

**4. Nicasio L. Lim,** 54, was appointed as Senior Vice President (SVP), Corporate Human Resources (CHR) of JGSHI on March 1, 2008. He is a top human resource executive with 32 years solid training experience in the Human Resources both here and abroad, 20 of those years in San Miguel Corporation (SMC), 5 in Kraft Foods International (KFI) and now in JGSHI. Prior to his current role as SVP of CHR, he was Director, Human Resources of URC starting May 2004. In that role, he managed HR functions for the whole URC group comprising of several businesses: Branded Consumer Foods, Agro-Industrial, Flour, Sugar, Packaging and CFC Flexible. When he retired from San Miguel in 1999, he was Vice President for HR & Communications of the Beer Division. It was in his stint in SMC when he had his first crack at going international through his assignment as Vice President for Human Resources of San Miguel Brewing International based in Hong Kong in 1997. After SMC, he joined KFI in 2000 as Human Resources Director for Southeast Asia. He was able to forge a very strong HR organization which took care of managing the needed HR imperatives of KFI across 16 countries. He was conferred the People Manager of the Year Award, the highest award an HR practitioner can receive in his lifetime given by the People Management Association of the Philippines (PMAP) in 2007. He was Director, PMAP Board from 2004 to 2005. In his capacity as Director, he headed the Committees on International Affairs and Industrial Relations. Moreover, he is among the esteemed HR professionals in the country who was bestowed the title Fellow in People Management by PMAP. He graduated with a Bachelor's Degree on Business Administration at the De La Salle University and pursued advanced Human Resource Executive Program at the University of Michigan-USA.

**5. Chona R. Ferrer,** 54, was appointed as Assistant Treasurer of JGSHI on September 15, 2008. She is also the First Vice President for Corporate Treasury of URC and Treasurer of Outreach Home Development Corporation. Prior to joining JGSHI in 1983, she was Assistant Treasurer of Guevent Industrial Development Corporation. She received a Bachelor of Science degree in Business Administration from the University of the Philippines.

**6. Rosalinda F. Rivera**, 40, was appointed as Corporate Secretary of JGSHI on August 6, 2003 and had been Assistant Corporate Secretary since May 2002. She is also the Corporate Secretary of URC, RLC, Cebu Air, Inc., JGSPC, CFC Corporation and JG Cement

Corporation. Prior to joining the Company, she was a Senior Associate in Puno and Puno Law Offices. She received a degree of Juris Doctor from the Ateneo de Manila University School of Law and a Masters of Law in International Banking from the Boston University School of Law.

**SIGNIFICANT EMPLOYEE**

There are no persons who are not executive officers of the Company who are expected to make a significant contribution to the business.

**INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS WHICH OCCURRED DURING THE PAST FIVE YEARS.**
None.

**FAMILY RELATIONSHIPS**

1. Mr. James L. Go is the brother of John L. Gokongwei, Jr.
2. Ms. Lily G. Ngochua is the sister of John L. Gokongwei, Jr.
3. Mr. Lance Y. Gokongwei is the son of John L. Gokongwei, Jr.
4. Mr. Patrick Henry C. Go is the nephew of John L. Gokongwei, Jr.
5. Mr. Johnson Robert G. Go, Jr. is the nephew of John L. Gokongwei, Jr.
6. Ms. Robina Y. Gokongwei-Pe is the daughter of John L. Gokongwei, Jr.

## Item 11. Executive Compensation

The aggregate compensation of executive officers and directors of the Company for the last 2 years and projected for the ensuing year (2010) are as follows:

| | ACTUAL | | | | |
|---|---|---|---|---|---|
| | Salary | Bonus | Others | **2010 Total** | 2009 |
| A. CEO and Five (5) most highly compensated Executive officer | ₱55,398,450 | ₱810,000 | ₱90,000 | ₱56,298,450 | ₱57,313,389 |
| All directors and executive officers as a group unnamed | ₱96,821,011 | ₱3,090,000 | ₱290,000 | ₱100,201,011 | ₱84,006,751 |

| | PROJECTED 2011 | | | |
|---|---|---|---|---|
| | Salary | Bonus | Others | Total |
| A. CEO and Five (5) most highly compensated Executive officer | ₱57,486,893 | ₱800,000 | ₱110,000 | ₱58,396,893 |
| All directors and executive officers as a group unnamed | ₱110,423,779 | ₱3,090,000 | ₱320,000 | ₱113,833,779 |

The following are the five (5) highest compensated directors/or executive officers of the Company; 1. Chairman Emeritus- John Gokongwei, Jr.; 2. Director, Chairman and CEO – James L. Go; 3. Director, President and COO– Lance Y. Gokongwei; 4. Director - Johnson Robert G. Go Jr.; and 5. Director – Gabriel C. Singson

Standard Arrangement

Other than payment of reasonable per diem, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services rendered provided as a director for the last completed fiscal year and the ensuing year.

Other Arrangements

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the Company's last completed fiscal year, and the ensuing year, for any service provided as a director.

Terms and Conditions of any Employment Contract or any Compensatory Plan or Arrangement between the Company and the Executive Officers.

None.

Outstanding Warrants or Options Held by the Company's CEO, the Executive Officers and Directors.

None.

**Item 12. Security Ownership of Certain Record and Beneficial Owners and Management**

As of December 31, 2010, the Company is not aware of anyone who beneficially owns in excess of 5% of JG Summit's capital stock except as set forth in the table below:

(1) SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS

| Title of Class | Names and addresses of record owners and relationship with the Corporation | Names of beneficial owner and relationship with record owner | Citizenship | No. of Shares Held | % to Total Outstanding |
|---|---|---|---|---|---|
| Common | Gokongwei Brothers Foundation, Inc. 43/F Robinsons-Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder) | Same as record owner (see note 1) | Filipino | 1,997,076,451 | 29.38% |
| Common | PCD Nominee Corporation (Filipino) 37/F Tower I, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City (stockholder) | PCD Participants and their clients (see note 2) | Filipino | 1,091,041,775 | 16.05% |
| Common | Robinsons Savings Bank – Trust & Investment Group No. 030-46-000001-9 17/F Galleria Corporate Center Edsa Cor. Ortigas Ave., Quezon City (stockholder) | Trustee's designated officers (see note 3) | Filipino | 1,033,319,225 | 15.20% |
| Common | John Gokongwei, Jr. 43/F Robinsons-Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder and Chairman Emeritus) | Same as record owner (see note 4) | Filipino | 1,007,539,915 | 14.82% |

**Notes:**

1 Gokongwei Brothers Foundation, Inc. (the "Foundation") is a non-stock, non-profit corporation organized by the irrevocable donation by the incorporators, who are also Trustees of the Foundation, of JG Summit Holdings, Inc. shares. Under the Articles of Incorporation and By-Laws of the Foundation, except for salaries of employees and honoraria of consultants and similar expenses for actual services rendered to the Foundation or its projects, no part of the corpus or its income and increments shall benefit or be used for the private gain of any member, trustee, officer or any juridical or natural person whatsoever. The Chairman of the Board of Trustees shall exercise exclusive power and authority to represent and vote for any shares of stock owned by the Foundation in other corporate entities. The incumbent Chairman of the Board of Trustees of the Foundation is Mr. John L. Gokongwei, Jr.

2 PCD Nominee Corporation is the registered owner of the shares in the books of the Corporation's transfer agent. PCD Nominee Corporation is a corporation wholly owned by the Philippine Depository & Trust Corporation Inc. (formerly the Philippine Central Depository) ("PDTC"), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. PDTC is a private corporation organized to establish a central depository in the Philippines and introduce scripless or book- entry trading in the Philippines. Under the current PDTC system, only participants (brokers and custodians) will be recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participants will be beneficial owner to the extent of the number of shares held by such participant in the

records of the PCD Nominee. Out of this account, "ATR-Kim Eng Securities, Inc." and "The Hongkong and Shanghai Banking Corp. Ltd. – Clients' Acct." holds for various trust accounts the following shares of the Corporation as of December 31, 2010:

| | No. of shares held | % to total outstanding |
|---|---|---|
| The Hongkong and Shanghai Banking Corp. Ltd. – Clients' Acct. | 626,761,916 | 9.22% |
| ATR-Kim Eng Securities, Inc. | 396,670,491 | 5.84% |

3 Robinsons Savings Bank – Trust & Investment Group is the trustee of this trust account. The securities are voted by the trustee's designated officers who are not known to the Corporation.

4 Sum of shares in the name of "John Gokongwei, Jr. " and "John Gokongwei, Jr. and/or Lance Gokongwei" for 866,509,465 and 141,030,450 shares, respectively.

## (2) SECURITY OWNERSHIP OF MANAGEMENT AS OF DECEMBER 31, 2010:

| Title of Class | Names of beneficial owner | Position | Amount and nature of Beneficial Ownership | Citizenship | % to Total Outstanding |
|---|---|---|---|---|---|
| A. Named Executive Officers [1] | | | | | |
| Common | 1. John L. Gokongwei, Jr. | Chairman Emeritus | 1,007,539,915[2](D) | Filipino | 14.82% |
| Common | 2. James L. Go | Director, Chairman and CEO | 216,679,656(D) | Filipino | 3.19% |
| Common | 3. Lance Y. Gokongwei | Director, President and COO | 235,513,855[3](D) | Filipino | 3.46% |
| Common | 4. Johnson Robert G. Go, Jr. | Director | 1(D) | Filipino | * |
| | *Sub-Total* | | 1,459,733,427 | | 21.47% |
| B. Other Directors and Executive Officers and Nominees | | | | | |
| Common | 5. Lily G. Ngochua | Director | 74,591,775(D) | Filipino | 1.10% |
| Common | 6. Patrick Henry C. Go | Director | 93,500(D) | Filipino | * |
| Common | 7. Robina Y. Gokongwei-Pe | | 74,145,278[4](D) | Filipino | 1.09% |
| Common | 8. Gabriel C. Singson | Director | 1(D) | Filipino | * |
| Common | 9. Ricardo J. Romulo | Director | 1(D) | Filipino | * |
| Common | 10. Cornelio T. Peralta | Director (Independent) | 11,000(D) | Filipino | * |
| Common | 10. Jose T. Pardo | Director (Independent) | 1(D) | Filipino | * |
| | *Sub-Total* | | 148,841,556 | | 2.19% |
| C. All directors, executive officers & nominees as a group unnamed | | | 1,608,574,983 | | 23.67% |

Notes:

D - Direct

1 As defined under Part IV (B) (1) (b) of SRC Rule 12, the "named executive officers" to be listed refer to the Chief Executive Officer and those that are the four (4) most highly compensated executive officers as of December 31, 2010.

2 Sum of shares in the name of "John Gokongwei, Jr.", "John Gokongwei, Jr. and/or Lance Gokongwei" for 866,509,465 and 141,030,450 shares, respectively.

3 Sum of shares in the name of "Lance Gokongwei. " and "Lance Y. Gokongwei &/or Elizabeth Gokongwei" for 668,575 and 234,845,280 shares, respectively.

4 Held in the name of "Robina Y. Gokongwei-Pe &/or Elizabeth Gokongwei.

* less than 0.01%.

The other Executive Officers of the Company have no beneficial ownership over any shares of the Company as of December 31, 2010, namely:

1. Eugenie ML Villena - Senior Vice President and Chief Financial Officer – Treasurer
2. Constante T. Santos - Senior Vice President - Corporate Controller
3. Bach Johann M. Sebastian - Senior Vice President - Corporate Planning
4. Nicasio L. Lim – Senior Vice President – Corporate Human Resources
5. Chona R. Ferrer – Assistant Treasurer
6. Rosalinda F. Rivera - Corporate Secretary

(3) VOTING TRUST HOLDERS OF 5% OR MORE

As of December 31, 2010, there are no persons holding more than 5% of a class under a voting trust or similar agreement.

(4) CHANGES IN CONTROL

None.

**Item 13. Certain Relationships and Related Transactions**

See Note 40 (Related Party Transactions Disclosures) of the Notes to Consolidated Financial Statements.

The Company and its subsidiaries and affiliates, in their regular conduct of business, have engaged in transactions with each other and with other affiliated companies, consisting principally of sales and purchases at market prices and advances made and obtained.

## PART IV – CORPORATE GOVERNANCE

### Item 14. Corporate Governance

The Company adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual and pertinent SEC Circulars. Continuous improvement and monitoring have been undertaken to ensure that the Company observes good governance and management practices.

The Board of Directors has approved its Corporate Governance Compliance Evaluation System in late 2003 in order to check and assess the level of compliance of the Company with leading practices on good corporate governance as specified in its Corporate Governance Manual and pertinent SEC Circulars. The System likewise highlights areas for compliance improvement and actions to be taken. One of the system's output is the Annual Corporate Governance Compliance Evaluation Form submitted to the SEC and PSE on or before January 30 of every year starting with calendar year 2003.

Likewise, JG Summit Holdings, Inc. has consistently strived to raise its level of reporting to adopt and implement prescribed Philippine Financial Reporting Standards.

## PART V - EXHIBITS AND SCHEDULES

### Item 15. Exhibits and Reports on SEC Form 17-C

**(a) Exhibits -** See accompanying Index to Exhibits

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

**(b) Reports on SEC Form 17-C (Current Report)**

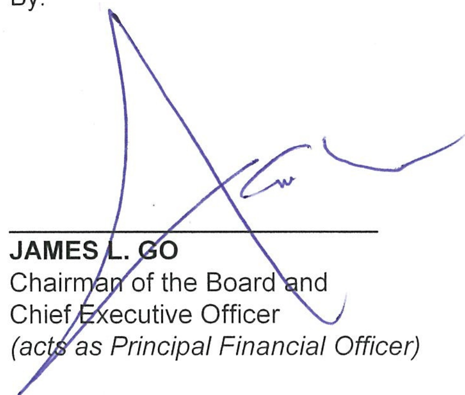
Following is a list of disclosures filed by JGSHI under SEC Form 17-C for the six month period from July 1, 2010 to December 31, 2010:

| Date of Disclosure | Subject Matter |
|---|---|
| July 1, 2010 | 1. Clarification of news article entitled "JG bullish on 2010"<br>2. Clarification of news article entitled "Conversion to commercial bank to lift Robinsons Bank earnings" |
| August 3, 2010 | A press release entitled "JG Summit goes into the BPO business" |
| December 2, 2010 | Clarification of news article entitled "JG allots $500 M for naphtha cracker plant" |
| December 10, 2010 | Approval by the Board of Directors of a proposed equity fund raising consisting of a placing and subscription transaction and amendment of the Articles of Incorporation in order to increase its authorized capital stock to P14,890,,800,000.00. |
| December 17, 2010 | Clarification of news article entitled "JG Summit to hike naphtha cracker investment" |

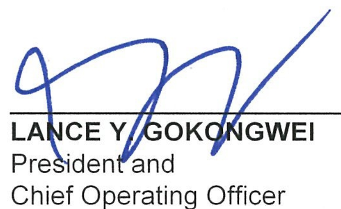
## SIGNATURES

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, in the City of Pasig on April 13, 2011.

By:



**JAMES L. GO**
Chairman of the Board and
Chief Executive Officer
*(acts as Principal Financial Officer)*



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

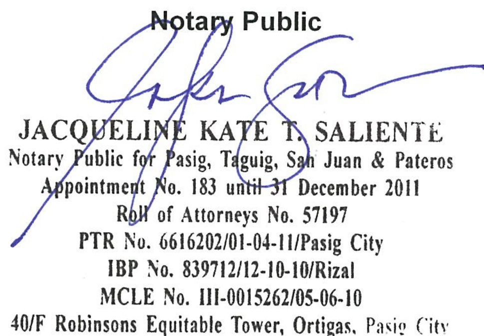
**CONSTANTE T. SANTOS**
Senior Vice President and
Corporate Controller

**ROSALINDA F. RIVERA**
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this 14th day of April 2011 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

| NAMES | CTC NO. | DATE OF ISSUE | PLACE OF ISSUE |
|---|---|---|---|
| James L. Go | 12183273 | January 26, 2011 | Pasig City |
| Lance Gokongwei | 12183274 | January 26, 2011 | Pasig City |
| Constante T. Santos | 26344299 | March 30, 2011 | Pasig City |
| Rosalinda F. Rivera | Passport No. TT0258545 | June 9, 2006 | Manila |

**Notary Public**



JACQUELINE KATE T. SALIENTE
Notary Public for Pasig, Taguig, San Juan & Pateros
Appointment No. 183 until 31 December 2011
Roll of Attorneys No. 57197
PTR No. 6616202/01-04-11/Pasig City
IBP No. 839712/12-10-10/Rizal
MCLE No. III-0015262/05-06-10
40/F Robinsons Equitable Tower, Ortigas, Pasig City

**Doc. No.** 347
**Book No.** 1
**Page No.** 71
**Series of** 2011

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

**FORM 17-A, Item 7**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*** These schedules which are required by part IV (e) of RSC Rule 68, have been omitted because they are either not required, not applicable of the information required to be presented is included in the Company's consolidated financial statements or notes to consolidated financial statements.**

JG SUMMIT
HOLDINGS, INC.
43rd FLOOR ROBINSONS EQUITABLE TOWER ADB AVE. COR. POVEDA RD. ORTIGAS CENTER, PASIG CITY
TEL. NO.: 633-7631, 637-1670, 240-8801 FAX NO.: 633-9387 OR 633-9207

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES and EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
Mandulong City

The management of JG Summit Holdings, Inc., is responsible for all information and representations contained in the financial statements as of and for the years ended December 31, 2010 and 2009, and the schedules referred therein as of December 31, 2010. The financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditors: (a) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

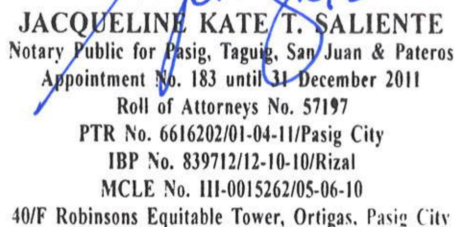
The board of directors (BOD) reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the BOD, has audited the financial statements of the Company as of and for the years ended December 31, 2010 and 2009 in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation, upon completion of such audit, in its report to the stockholders and the BOD.

| **James L. Go** | **Lance Y. Gokongwei** | **Constante T. Santos** |
|---|---|---|
| Chairman and CEO | President and COO | SVP-Corp. Controller \ CFO |

Subscribed and Sworn to before me this April 13, 2011 affiants(s) exhibiting to me his/her Residence Certificates, as follows:

| Names | CTC No. | Date of Issue | Place of Issue |
|---|---|---|---|
| James L. Go | 12183274 | January 26, 2011 | Pasig City |
| Lance Y. Gokongwei | 12183274 | January 26, 2011 | Pasig City |
| Constante T. Santos | 26344299 | March 30, 2011 | Pasig City |



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Book No. 70
Page No. 1
Series of 2011

**JACQUELINE KATE T. SALIENTE**
**Notary Public for Pasig, Taguig, San Juan & Pateros**
**Appointment No. 183 until 31 December 2011**
**Roll of Attorneys No. 57197**
**PTR No. 6616202/01-04-11/Pasig City**
**IBP No. 839712/12-10-10/Rizal**
**MCLE No. III-0015262/05-06-10**
**40/F Robinsons Equitable Tower, Ortigas, Pasig City**

SGV & Co
Ernst & Young

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

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

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
JG Summit Holdings, Inc.
43rd Floor, Robinsons-Equitable Tower
ADB Avenue corner Poveda Road, Pasig City

We have audited the accompanying consolidated financial statements of JG Summit Holdings, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

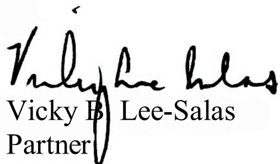
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JG Summit Holdings, Inc. and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Vicky B. Lee-Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-2
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2009,
    June 1, 2009, Valid until May 31, 2012
PTR No. 2641532, January 3, 2011, Makati City

March 29, 2011

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

| | December 31 | |
|---|---|---|
| | **2010** | 2009 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 7) | **₱42,110,003,522** | ₱18,473,692,704 |
| Derivative assets (Note 8) | **1,186,178,607** | 663,231,959 |
| Financial assets at fair value through profit or loss (Note 9) | **10,258,823,027** | 8,214,779,749 |
| Available-for-sale investments (Note 10) | **9,850,895,715** | 10,209,907,024 |
| Receivables (Notes 11 and 40) | **14,609,814,424** | 18,149,006,089 |
| Inventories (Note 12) | **16,313,054,198** | 13,075,802,827 |
| Biological assets (Note 18) | **846,876,801** | 1,060,628,145 |
| Other current assets (Note 13) | **6,263,440,644** | 6,268,032,384 |
| Total Current Assets | **101,439,086,938** | 76,115,080,881 |
| **Noncurrent Assets** | | |
| Receivables (Note 11) | **10,016,683,749** | 4,709,051,268 |
| Held-to-maturity investments (Note 14) | **–** | 970,094,734 |
| Investments in associates and joint ventures (Note 15) | **30,425,762,248** | 28,091,879,159 |
| Property, plant and equipment (Note 17) | **146,336,664,209** | 132,258,672,721 |
| Investment properties (Note 16) | **32,178,986,041** | 29,531,690,983 |
| Goodwill (Note 20) | **890,375,020** | 890,375,020 |
| Biological assets (Note 18) | **448,700,235** | 505,251,240 |
| Intangible assets (Note 19) | **993,831,456** | 865,790,925 |
| Other noncurrent assets (Note 21) | **3,593,546,503** | 3,942,112,460 |
| Total Noncurrent Assets | **224,884,549,461** | 201,764,918,510 |
| | **₱326,323,636,399** | ₱277,879,999,391 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Notes 22 and 40) | **₱30,257,526,072** | ₱34,098,986,975 |
| Short-term debt (Note 24) | **15,352,046,410** | 13,960,074,007 |
| Derivative liabilities (Note 8) | **262,393,820** | 124,891,412 |
| Income tax payable | **462,209,232** | 521,701,533 |
| Current portion of long-term debt (Note 24) | **10,602,053,608** | 5,206,601,663 |
| Other current liabilities (Note 23) | **6,810,943,690** | 5,548,067,758 |
| Total Current Liabilities | **63,747,172,832** | 59,460,323,348 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Note 24) | **87,054,044,533** | 92,536,596,303 |
| Deferred tax liabilities (Note 38) | **5,056,558,803** | 4,525,257,396 |
| Other noncurrent liabilities (Notes 25 and 40) | **21,005,462,878** | 16,463,327,689 |
| Total Noncurrent Liabilities | **113,116,066,214** | 113,525,181,388 |
| Total Liabilities | **176,863,239,046** | 172,985,504,736 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2010** | 2009 |
| **Equity** | | |
| Equity attributable to equity holders of the Parent Company: | | |
| Paid-up capital | **₱12,856,988,094** | ₱12,856,988,094 |
| Retained earnings (Note 26) | **88,970,323,920** | 72,988,583,702 |
| Equity reserve (Notes 2 and 26) | **18,563,003,092** | − |
| Other comprehensive loss (Note 36) | **(1,846,478,730)** | (1,965,984,878) |
| Treasury shares (Note 26) | **(974,690,819)** | (721,848,289) |
| | **117,569,145,557** | 83,157,738,629 |
| Non-controlling interests (Note 26) | **31,891,251,796** | 21,736,756,026 |
| Total Equity | **149,460,397,353** | 104,894,494,655 |
| | **₱326,323,636,399** | ₱277,879,999,391 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2010** | 2009 | 2008 |
| **REVENUE** | | | |
| Sale of goods and services: | | | |
| Foods | **₱57,719,996,079** | ₱50,452,959,964 | ₱45,454,500,015 |
| Air transportation | **29,088,798,959** | 23,311,006,311 | 19,682,140,058 |
| Telecommunications | **16,543,916,906** | 14,020,021,311 | 11,351,149,841 |
| Real estate and hotels (Note 16) | **10,581,142,605** | 10,376,286,528 | 10,672,746,492 |
| Petrochemicals | **3,306,184,683** | 5,570,751,354 | 8,479,117,287 |
| Banking (Note 27) | **1,728,555,680** | 1,134,848,716 | 1,038,942,792 |
| Equity in net earnings of associates and joint ventures (Note 15) | **2,768,724,722** | 3,089,302,759 | 2,389,830,800 |
| | **121,737,319,634** | 107,955,176,943 | 99,068,427,285 |
| **COST OF SALES AND SERVICES** (Note 30) | **68,748,474,505** | 64,403,012,366 | 64,228,749,087 |
| **GROSS INCOME** | **52,988,845,129** | 43,552,164,577 | 34,839,678,198 |
| General and administrative expenses (Note 31) | **30,543,058,596** | 27,258,681,692 | 22,708,399,834 |
| Impairment losses and others (Note 34) | **705,866,816** | 1,073,630,250 | 827,124,734 |
| **OTHER OPERATING EXPENSES** | **31,248,925,412** | 28,332,311,942 | 23,535,524,568 |
| **OPERATING INCOME** | **21,739,919,717** | 15,219,852,635 | 11,304,153,630 |
| Financing costs and other charges (Note 35) | **(6,087,474,168)** | (6,309,924,955) | (6,033,237,404) |
| Market valuation gains (losses) on financial assets at fair value through profit or loss (Note 9) | **1,194,186,764** | 1,979,891,923 | (3,664,880,243) |
| Finance income (Note 28) | **2,216,082,709** | 1,563,859,497 | 2,514,281,808 |
| Market valuation gains (losses) on derivative financial instruments (Note 8) | **432,751,286** | 349,787,107 | (3,474,278,826) |
| Foreign exchange gains (losses) | **2,846,297,517** | (21,627,447) | (2,930,519,010) |
| Others (Notes 9, 24, 30 and 29) | **838,638,164** | 203,197,210 | 1,377,122,100 |
| **INCOME (LOSS) BEFORE INCOME TAX** | **23,180,401,989** | 12,985,035,970 | (907,357,945) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 38) | **2,265,838,657** | 1,217,229,896 | (321,828,720) |
| **NET INCOME (LOSS) FOR THE YEAR** | **20,914,563,332** | 11,767,806,074 | (585,529,225) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** (Note 36) | | | |
| Net gains (losses) on available-for-sale investments (Note 10) | **190,802,780** | 2,282,447,752 | (2,765,871,850) |
| Net gains (losses) from cash flow hedges (Note 8) | **133,290,238** | 468,170,534 | (865,669,863) |
| Cumulative translation adjustments | **(91,091,377)** | (95,351,176) | (36,438,689) |
| Net unrealized gains (losses) on available-for-sale investments of an associate (Notes 10 and 15) | **175,748** | 2,758,591 | (1,398,003) |
| **OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX** | **233,177,389** | 2,658,025,701 | (3,669,378,405) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **₱21,147,740,721** | ₱14,425,831,775 | (₱4,254,907,630) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2010** | 2009 | 2008 |
| **NET INCOME (LOSS) ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent Company (Note 39) | **₱16,321,599,801** | ₱8,545,641,600 | (₱693,666,085) |
| Non-controlling interests (Note 26) | **4,592,963,531** | 3,222,164,474 | 108,136,860 |
| | **₱20,914,563,332** | ₱11,767,806,074 | (₱585,529,225) |
| **TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent Company | **₱16,441,105,949** | ₱10,450,003,982 | (₱3,657,196,521) |
| Non-controlling interests (Note 26) | **4,706,634,772** | 3,975,827,793 | (597,711,109) |
| | **₱21,147,740,721** | ₱14,425,831,775 | (₱4,254,907,630) |
| **Earnings (Loss) Per Share Attributable to Equity Holders of the Parent Company** (Note 39) | | | |
| Basic/diluted earnings (loss) per share | **₱2.42** | ₱1.26 | (₱0.10) |

*See accompanying Notes to Consolidated Financial Statements.*

## JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2010, 2009 and 2008

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Paid-up Capital | | | Retained Earnings (Note 26) | | | | Other Comprehensive Income (Loss) | | | | | | | |
| | Capital Stock (Note 26) | Additional Paid-in Capital | Total Paid-up Capital | Unrestricted Retained Earnings | Restricted Retained Earnings | Total Retained Earnings | Equity Reserve (Note 2) | Cumulative Translation Adjustments | Net Unrealized Gains (Losses) on Available-for-Sale Investments (Note 10) | Net Unrealized Losses on Cash Flow Hedge (Note 8) | Total Other Comprehensive Income (Loss) | Treasury Shares | Total | NON-CONTROLLING INTERESTS (Note 26) | TOTAL EQUITY |
| **Balance at January 1, 2010** | **₱6,895,273,657** | **₱5,961,714,437** | **₱12,856,988,094** | **₱36,354,709,282** | **₱36,633,874,420** | **₱72,988,583,702** | **₱–** | **(₱1,746,826,705)** | **₱178,341,156** | **(₱397,499,329)** | **(₱1,965,984,878)** | **(₱721,848,289)** | **₱83,157,738,629** | **₱21,736,756,026** | **₱104,894,494,655** |
| Total comprehensive income (loss) | – | – | – | **16,321,599,801** | – | **16,321,599,801** | – | **(51,804,964)** | **38,020,874** | **133,290,238** | **119,506,148** | – | **16,441,105,949** | **4,706,634,772** | **21,147,740,721** |
| Gain from primary and secondary offering of a subsidiary's shares of stock (Note 26) | – | – | – | – | – | – | **18,563,003,092** | – | – | – | – | – | **18,563,003,092** | – | **18,563,003,092** |
| Appropriation of retained earnings (Note 26) | – | – | – | **(19,000,000,000)** | **19,000,000,000** | – | – | – | – | – | – | – | – | – | – |
| Cash dividends (Note 26) | – | – | – | **(339,859,583)** | – | **(339,859,583)** | – | – | – | – | – | – | **(339,859,583)** | – | **(339,859,583)** |
| Cash dividends paid to non-controlling interests (Note 26) | – | – | – | – | – | – | – | – | – | – | – | – | – | **(1,217,749,826)** | **(1,217,749,826)** |
| Increase in subsidiaries' treasury shares (Note 26) | – | – | – | – | – | – | – | – | – | – | – | – | – | **(718,184,546)** | **(718,184,546)** |
| Additional non-controlling interests in subsidiaries (Note 26) | – | – | – | – | – | – | – | – | – | – | – | – | – | **7,383,795,370** | **7,383,795,370** |
| Acquisition of Parent Company shares by a Subsidiary (Note 26) | – | – | – | – | – | – | – | – | – | – | – | **(252,842,530)** | **(252,842,530)** | – | **(252,842,530)** |
| **Balance at December 31, 2010** | **₱6,895,273,657** | **₱5,961,714,437** | **₱12,856,988,094** | **₱33,336,449,500** | **₱55,633,874,420** | **₱88,970,323,920** | **₱18,563,003,092** | **(₱1,798,631,669)** | **₱216,362,030** | **(₱264,209,091)** | **(₱1,846,478,730)** | **(₱974,690,819)** | **₱117,569,145,557** | **₱31,891,251,796** | **₱149,460,397,353** |
| Balance at January 1, 2009 | ₱6,895,273,657 | ₱5,961,714,437 | ₱12,856,988,094 | ₱50,022,583,432 | ₱14,624,274,420 | ₱64,646,857,852 | ₱– | (₱1,665,749,434) | (₱1,338,927,963) | (₱865,669,863) | (₱3,870,347,260) | (₱721,848,289) | ₱72,911,650,397 | ₱19,750,489,997 | ₱92,662,140,394 |
| Total comprehensive income (loss) | – | – | – | 8,545,641,600 | – | 8,545,641,600 | – | (81,077,271) | 1,517,269,119 | 468,170,534 | 1,904,362,382 | – | 10,450,003,982 | 3,975,827,793 | 14,425,831,775 |
| Appropriation of retained earnings (Note 26) | – | – | – | (22,009,600,000) | 22,009,600,000 | – | – | – | – | – | – | – | – | – | – |
| Cash dividends (Note 26) | – | – | – | (203,915,750) | – | (203,915,750) | – | – | – | – | – | – | (203,915,750) | – | (203,915,750) |
| Cash dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | – | (468,346,673) | (468,346,673) |
| Purchase of subsidiaries' treasury shares (Note 26) | – | – | – | – | – | – | – | – | – | – | – | – | – | (1,256,286,392) | (1,256,286,392) |
| Adjustment on subscription receivables | – | – | – | – | – | – | – | – | – | – | – | – | – | (264,928,699) | (264,928,699) |
| **Balance at December 31, 2009** | ₱6,895,273,657 | ₱5,961,714,437 | ₱12,856,988,094 | ₱36,354,709,282 | ₱36,633,874,420 | ₱72,988,583,702 | ₱– | (₱1,746,826,705) | ₱178,341,156 | (₱397,499,329) | (₱1,965,984,878) | (₱721,848,289) | ₱83,157,738,629 | ₱21,736,756,026 | ₱104,894,494,655 |

(Forward)

For the Years Ended December 31, 2010, 2009 and 2008

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Paid-up Capital | | | Retained Earnings (Note 26) | | | | Other Comprehensive Income (Loss) | | | | | | | |
| | **Capital Stock** (Note 26) | **Additional Paid-in Capital** | **Total Paid-up Capital** | **Unrestricted Retained Earnings** | **Restricted Retained Earnings** | **Total Retained Earnings** | **Equity Reserve** | **Cumulative Translation Adjustments** | **Net Unrealized Gains (Losses) On Available-for-Sale Investments** (Note 10) | **Net Unrealized Losses on Cash Flow Hedge** (Note 8) | **Total Other Comprehensive Income (Loss)** | **Treasury Shares** | **Total** | **NON-CONTROLLING INTERESTS** (Note 26) | **TOTAL EQUITY** |
| Balance at January 1, 2008 | ₱6,895,273,657 | ₱5,961,714,437 | ₱12,856,988,094 | ₱47,931,444,790 | ₱17,614,674,420 | ₱65,546,119,210 | ₱– | (₱1,617,353,982) | ₱710,537,158 | ₱– | (₱906,816,824) | (₱721,848,289) | ₱76,774,442,191 | ₱22,611,043,424 | ₱99,385,485,615 |
| Total comprehensive income (loss) | – | – | – | (693,666,085) | – | (693,666,085) | – | (48,395,452) | (2,049,465,121) | (865,669,863) | (2,963,530,436) | – | (3,657,196,521) | (597,711,109) | (4,254,907,630) |
| Appropriation of retained earnings (Note 26) | – | – | – | (1,009,600,000) | 1,009,600,000 | – | – | – | – | – | – | – | – | – | – |
| Reversal of appropriation (Note 26) | – | – | – | 4,000,000,000 | (4,000,000,000) | – | – | – | – | – | – | – | – | – | – |
| Cash dividends (Note 26) | – | – | – | (203,915,750) | – | (203,915,750) | – | – | – | – | – | – | (203,915,750) | – | (203,915,750) |
| Cash dividends paid to non-controlling interest | – | – | – | – | – | – | – | – | – | – | – | – | – | (1,154,401,939) | (1,154,401,939) |
| Increase in subsidiaries' treasury shares (Note 26) | – | – | – | – | – | – | – | – | – | – | – | – | – | (1,107,382,344) | (1,107,382,344) |
| Effect of restatement of Acesfood Network Pte. Ltd. | – | – | – | (1,679,523) | – | (1,679,523) | – | – | – | – | – | – | (1,679,523) | (1,058,035) | (2,737,558) |
| **Balance at December 31, 2008** | ₱6,895,273,657 | ₱5,961,714,437 | ₱12,856,988,094 | ₱50,022,583,432 | ₱14,624,274,420 | ₱64,646,857,852 | ₱– | (₱1,665,749,434) | (₱1,338,927,963) | (₱865,669,863) | (₱3,870,347,260) | (₱721,848,289) | ₱72,911,650,397 | ₱19,750,489,997 | ₱92,662,140,394 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2010** | 2009 | 2008 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income (loss) before income tax | **₱23,180,401,989** | ₱12,985,035,970 | (₱907,357,945) |
| Adjustments for: | | | |
| Depreciation and amortization of: | | | |
| Property, plant and equipment (Note 17) | **10,269,237,773** | 9,024,316,157 | 7,514,794,643 |
| Investment properties (Note 16) | **1,625,749,212** | 1,425,959,484 | 1,331,338,705 |
| Deferred subscriber acquisition and retention costs (Note 21) | **1,505,116,389** | 1,202,867,577 | 890,855,563 |
| Biological assets Note 18) | **139,105,194** | 158,024,602 | 113,824,013 |
| Intangible assets (Note 19) | **7,035,669** | 7,492,937 | 9,874,618 |
| Market valuation loss (gain) on: | | | |
| Financial assets at fair value through profit or loss (Note 9) | **(1,194,186,764)** | (1,979,891,923) | 3,664,880,243 |
| Derivative instruments (Note 8) | **(432,751,286)** | (349,787,107) | 3,474,278,826 |
| Interest expense (Note 35) | **5,932,066,425** | 6,029,448,280 | 5,714,212,456 |
| Interest income (Note 28) | **(2,216,082,709)** | (1,563,859,497) | (2,514,281,808) |
| Foreign exchange loss (gain) | **(2,846,297,517)** | 21,627,447 | 2,930,519,010 |
| Equity in net income of associates and joint ventures (Note 15) | **(2,768,724,722)** | (3,089,302,759) | (2,389,830,800) |
| Inventory obsolescence and market decline (Note 34) | **17,580,211** | 60,223,436 | 419,171,122 |
| Provision for impairment losses on receivables (Note 34) | **688,286,605** | 765,594,017 | 396,279,058 |
| Impairment loss on available-for-sale investments (Note 34) | **–** | 247,812,797 | 11,674,554 |
| Loss (gain) arising from changes in fair value less estimated costs to sell of swine stocks (Note 18) | **44,745,566** | (96,802,397) | (3,518,369) |
| Dividends on cumulative redeemable preferred shares (Note 35) | **–** | 174,417,813 | 253,991,250 |
| Dividend income (Note 29) | **(192,886,520)** | (152,951,456) | (140,824,885) |
| Amortization of debt issuance costs | **76,087,507** | 71,203,771 | 71,874,048 |
| Gain on initial recognition of investment properties | **(2,531,342)** | (1,147,334) | – |
| Loss (gain) on sale of: | | | |
| Financial assets at fair value through profit or loss and available-for-sale investments (Note 29) | **(173,368,876)** | (37,584,955) | 19,652,106 |
| Investment in an associate | **–** | (9,118,793) | – |
| Investment properties | **(5,190,424)** | 29,814,936 | 4,060,331 |
| Property, plant and equipment | **(14,597,827)** | (21,414,507) | 2,693,255 |
| Operating income before changes in working capital accounts | **33,638,794,553** | 24,901,978,496 | 20,868,159,994 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2010** | 2009 | 2008 |
| Decrease (increase) in the amounts of: | | | |
| Derivative assets | **₱173,722,661** | (₱673,228,430) | (₱196,588,140) |
| Financial assets at fair value through profit or loss | **(1,965,483,498)** | (632,408,303) | (322,210,326) |
| Receivables | **(1,824,255,758)** | (959,621,140) | (4,233,008,369) |
| Inventories | **(3,254,831,582)** | 1,756,251,389 | (2,837,849,382) |
| Biological assets | **86,451,589** | (183,841,848) | (502,996,613) |
| Other current assets | **4,591,740** | 2,367,464,490 | (3,376,867,880) |
| Increase (decrease) in the amounts of: | | | |
| Accounts payable and accrued expenses | **(4,587,209,987)** | 6,258,517,590 | 2,928,170,912 |
| Other current liabilities | **1,262,875,932** | 911,256,433 | (196,151,181) |
| Net cash generated from operations | **23,534,655,650** | 33,746,368,677 | 12,130,659,015 |
| Interest paid | **(5,702,116,987)** | (5,806,714,009) | (5,806,853,052) |
| Interest received | **1,943,595,642** | 1,531,231,130 | 2,810,660,684 |
| Income taxes paid | **(1,673,749,172)** | (831,574,760) | (827,454,839) |
| Dividends received | **192,886,520** | 152,951,456 | 140,824,885 |
| Net cash provided by operating activities | **18,295,271,653** | 28,792,262,494 | 8,447,836,693 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Property, plant and equipment (Note 17) | **(15,647,640,099)** | (19,576,384,822) | (24,926,781,411) |
| Investment properties (Note 16) | **(4,481,765,282)** | (3,301,728,976) | (4,803,403,954) |
| Available-for-sale investments | **(14,157,195,773)** | (1,841,424,158) | (4,233,716,873) |
| Held-to-maturity investments | **(207,553,359)** | (475,467,772) | (10,217,442) |
| Investments in associates and joint ventures (Note 15) | **(594,409,921)** | (275,708,252) | (1,782,946,138) |
| Intangible assets (Notes 19 and 45) | **(800,000)** | (2,193,640) | (488,685,536) |
| Subsidiaries, net of cash acquired (Note 45) | **1,657,507,883** | – | (61,188,275) |
| Proceeds from sale of: | | | |
| Available-for-sale investments | **15,937,923,027** | 2,373,454,519 | 4,244,812,964 |
| Property, plant and equipment | **228,007,033** | 135,698,280 | 88,822,745 |
| Investment properties | **28,386,973** | 48,346,627 | 11,386,453 |
| Investment in an associate | **–** | 9,481,415 | – |
| Increase in the amounts of other noncurrent assets | **(879,092,279)** | (1,829,684,268) | (1,672,951,016) |
| Return of investment from an associate | **179,812,500** | | |
| Dividends received on investments in associates and joint ventures (Note 15) | **697,648,858** | 766,973,931 | 745,354,210 |
| Proceeds from: | | | |
| Maturity of held-to-maturity investments | **–** | 18,142,786 | 3,622,189 |
| Net cash used in investing activities | **(17,239,170,439)** | (23,950,494,330) | (32,885,892,084) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2010** | 2009 | 2008 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of (Note 24): | | | |
| Long-term debt | **₱5,161,318,927** | ₱28,376,697,021 | ₱33,379,171,927 |
| Short-term debt | **18,691,647,718** | 17,733,868,806 | 21,602,265,637 |
| Settlements of (Note 24): | | | |
| Short-term debt | **(17,299,675,315)** | (28,910,393,171) | (13,932,744,264) |
| Long-term debt | **(5,807,962,530)** | (7,665,856,364) | (22,194,758,184) |
| Proceeds from sale of interest in Cebu Air, Inc. | **24,527,649,549** | – | – |
| Redemption of cumulative redeemable preferred shares (Note 35) | **–** | (2,107,818,750) | – |
| Increase in other noncurrent liabilities | **(526,974,790)** | 1,150,597,947 | 3,011,422,762 |
| Purchase of subsidiaries' treasury shares and others (Note 26) | **(608,184,546)** | (1,256,286,392) | (1,108,440,379) |
| Dividends paid to non-controlling interests (Note 26) | **(1,217,749,826)** | (468,346,673) | (1,154,401,939) |
| Dividends paid on: | | | |
| Common shares (Note 26) | **(339,859,583)** | (203,915,750) | (203,915,750) |
| Cumulative redeemable preferred shares (Note 35) | **–** | (174,417,813) | (253,991,250) |
| Net cash provided by financing activities | **22,580,209,604** | 6,474,128,861 | 19,144,608,560 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **23,636,310,818** | 11,315,897,025 | (5,293,446,831) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **18,473,692,704** | 7,157,795,679 | 12,451,242,510 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱42,110,003,522** | ₱18,473,692,704 | ₱7,157,795,679 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

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

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

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

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

## 2. Summary of Significant Accounting Policies

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

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

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

| Subsidiaries | Country of Incorporation | Functional Currency |
|---|---|---|
| **Parent Company** | | |
| JG Summit Cayman Limited | Cayman Islands | Philippine Peso |
| JG Summit Philippines, Ltd. and Subsidiaries | | |
| JG Summit Philippines, Ltd. | Cayman Islands | Philippine Peso |
| JGSH Philippines Ltd. | British Virgin Islands | - do - |
| Multinational Finance Group, Ltd. | - do - | - do - |
| Telegraph Development, Ltd. | Singapore | - do - |
| Summit Top Investment, Ltd. | - do - | - do - |

(Forward)

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

| | | Effective Percentage of Ownership | | |
|---|---|---|---|---|
| | Country of | December 31 | | |
| Subsidiaries | Incorporation | **2010** | 2009 | 2008 |
| **Food** | | | | |
| URC and Subsidiaries | Philippines* | **64.14** | 63.87 | 61.35 |
| **Air Transportation** | | | | |
| CP Air Holdings, Inc. (CPAHI) and Subsidiaries | -do- | **100.00** | 100.00 | 100.00 |
| Cebu Air, Inc. (CAI) and Subsidiaries (Note 26) | -do- | **65.53** | 100.00 | 100.00 |
| Pacific Virgin Islands Holdings, Co., Ltd. | British Virgin Islands | **100.00** | 100.00 | 100.00 |

(Forward)

| Subsidiaries | Country of Incorporation | Effective Percentage of Ownership December 31 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **Telecommunications** | | | | |
| Digital Telecommunications Phils., Inc. (Digitel) and Subsidiaries** | Philippines | **49.57** | 49.82 | 49.81 |
| **Real Estate and Hotels** | | | | |
| Robinsons Land Corporation (RLC) and Subsidiaries | Philippines | **60.40** | 60.11 | 60.01 |
| Adia Development and Management Corporation (ADMC) (Note 46) | -do- | – | 100.00 | 100.00 |
| **Petrochemicals** | | | | |
| JG Summit Petrochemical Corporation (JGSPC) | -do- | **100.00** | 100.00 | 100.00 |
| **Banking** (Notes 45 and 46) | | | | |
| Robinsons Savings Bank Corporation (RSBC) | -do- | **100.00** | 100.00 | 100.00 |
| Robinsons Bank Corporation (RBC) | -do- | **60.00** | – | – |
| **Supplementary Businesses** | | | | |
| Westpoint Industrial Mills Corporation (WIMC) (Note 46) | -do- | – | 100.00 | 100.00 |
| Litton Mills, Inc. (LMI) (Note 46) | -do- | **100.00** | 100.00 | 100.00 |
| Express Holdings, Inc. (EHI) and a Subsidiary | -do- | **100.00** | 100.00 | 100.00 |
| Summit Forex Brokers Corporation | -do- | **100.00** | 100.00 | 100.00 |
| JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries (Notes 45 and 46) | -do- | **100.00** | 100.00 | 100.00 |
| JG Summit Capital Markets Corporation | -do- | **100.00** | 100.00 | 100.00 |
| Summit Point Services Ltd. | -do- | **100.00** | 100.00 | 100.00 |
| Summit Internet Investments, Inc. | -do- | **100.00** | 100.00 | 100.00 |
| JG Summit (Cayman), Ltd. (JGSCL) | Cayman Islands | **100.00** | 100.00 | 100.00 |
| JG Summit Philippines Ltd. (JGSPL) and Subsidiaries | Cayman Islands | **100.00** | 100.00 | 100.00 |
| JGSH Philippines Ltd. | British Virgin Islands | **100.00** | 100.00 | 100.00 |
| Multinational Finance Group, Ltd. | -do- | **100.00** | 100.00 | 100.00 |
| Telegraph Development, Ltd. | Singapore | **100.00** | 100.00 | 100.00 |
| Summit Top Investment, Ltd. | British Virgin Islands | **100.00** | 100.00 | 100.00 |
| JG Summit Limited (JGSL) | -do- | **100.00** | 100.00 | 100.00 |
| Cebu Pacific Manufacturing Corporation (CPMC) (Note 46) | Philippines | – | 100.00 | 100.00 |
| Hello Snack Foods Corporation (HSFC) (Note 46) | -do- | – | 100.00 | 100.00 |
| JG Cement Corporation (JGCC) (Note 46) | -do- | **100.00** | 100.00 | 100.00 |
| Savannah Industrial Corporation (SIC) (Note 46) | -do- | – | 100.00 | 100.00 |
| Terai Industrial Corporation (TIC) (Note 46) | -do- | – | 100.00 | 100.00 |
| Unicon Insurance Brokers Corporation | -do- | **100.00** | 100.00 | 100.00 |
| Premiere Printing Company, Inc.(PPCI) (Note 46) | -do- | **100.00** | 100.00 | 100.00 |
| JG Summit Olefins Corporation | -do- | **100.00** | 100.00 | 100.00 |

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

** *The consolidated financial statements include the accounts of entities over which the Group has the ability to govern the financial and operating policies to obtain benefits from their activities. The Group's consolidated financial statements include the accounts of Digital Telecommunications Phils., Inc, and its wholly owned subsidiaries (the Digitel Group). As disclosed above, the Digitel Group is a 49.57%, 49.82% and 49.81% owned company as of December 31, 2010, 2009 and 2008, respectively.*

Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, prescribes guidance on the consolidation of special purpose entities (SPE). Under SIC 12, an SPE should be consolidated when the substance of the relationship between a certain company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist even in cases where an enterprise owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE or its assets in order to obtain benefits from its

activities. In accordance with SIC 12, the Group's consolidated financial statements include the accounts of SPEs namely: Surigao Leasing Limited (SLL), Cebu Aircraft Leasing Limited (CALL), IBON Leasing Limited (ILL), Boracay Leasing Limited (BLL) and Sharp Aircraft Leasing Limited (SALL). SLL, CALL, ILL, BLL and SALL are SPEs in which the Group does not have equity interest. SLL, CALL, ILL, BLL and SALL acquired the passenger aircraft for lease to CAI under finance lease arrangements (Notes 17 and 42) and funded the acquisitions through long-term debt (Note 24).

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

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

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

Non-controlling interests (NCI) in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured at fair value or at the non-controlling interest's proportionate share of the aqcquiree'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 losses control over a subsidiary, it:

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

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

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

| Subsidiaries | Fiscal Year |
|---|---|
| **Food** | |
| URC and Subsidiaries | September 30 |
| **Real Estate and Hotels** | |
| RLC and Subsidiaries | -do- |
| **Petrochemicals** | |
| JGSPC | -do- |
| JG Summit Olefins Corp. | -do- |
| **Textiles** | |
| LMI | -do- |
| **Supplementary Business** | |
| JG Cement Corporation | -do- |

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

Business Combinations from January 1, 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire. Acquisition-related costs are recognized in profit or loss as incurred.

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

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date the control is recognized as an asset at the date that 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 valueof the identifiable net assets recognized.

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

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

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

Business Combinations prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:

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

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

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

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

Non-controlling Interests

Non-controlling interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separate from the Group's equity attributable to the equity holders of the Parent Company.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended PFRS, PAS and Philippine Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2010:

**New and Revised Standards**

- PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)
  The amended Standards have resulted in a change in accounting policy regarding increases or decreases in the Group's ownership interests in its subsidiaries. In prior years, in the absence of specific requirements in PFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized, where appropriate. The impact of decreases in interests in existing subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognized in profit or loss. Under PAS 27 (Amended), these treatments are no longer acceptable. All increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

  In respect of the disposal during the period of part of the Group's interest in Cebu Air, Inc., the impact of the change in policy has been that the difference of ₱18.6 billion between the consideration received and the transfer between the parent's equity and non-controlling interests has been recognized directly in equity. Had the previous accounting policy been applied, this amount would have been recognized in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in the profit for the period of ₱18.6 billion, with a consequential decrease in basic and diluted earnings per share of ₱2.8.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
  This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Group.

**Amendments to Standards**
- PFRS 2, *Share-based Payment*
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

**Improvements to PFRSs**
*Improvements to PFRSs*, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 6.

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

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

**Significant Accounting Policies**

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

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

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

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

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

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

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

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

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

*Determination of fair value*
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

*'Day 1' difference*
Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where variables used are made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit of loss in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

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

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

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

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

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

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

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

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

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

In 2010 and 2009, the Group applied cash flow hedge accounting treatment on certain currency swap and interest rate swap transactions (Note 8).

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

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

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

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

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

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

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

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

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

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

**Current versus non-current classification**

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

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

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

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

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

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

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

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

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

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

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

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).

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

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

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include

indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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

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

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

and recognized in the profit or loss in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the profit or loss in the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized as part of other comprehensive income.

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

Derecognition of Financial Instruments

*Financial assets*

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

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

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

*Financial liabilities*

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

Offsetting Financial Instruments

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

Inventories

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

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

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

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

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

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

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

*Subdivision land and condominium and residential units for sale*

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

Assets Held for Sale

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

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

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

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

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

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

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

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

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

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

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

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

Investment in Subsidiaries, Associates and Joint Ventures

*Investments in subsidiaries*

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

*Investments in associates and joint ventures*

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

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

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

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

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

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

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 and are no longer capitalized.

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

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

| | EUL |
|---|---|
| Land improvements | 10 to 40 years |
| Building and improvements | 10 to 50 years |
| Machinery and equipment | 4 to 50 years |
| Telecommunications equipment: | |
| Tower | 20 years |
| Switch | 10 to 20 years |
| Outside plant facilities | 10 to 20 years |
| Distribution dropwires | 5 years |
| Cellular facilities and others | 3 to 20 years |

| | EUL |
|---|---|
| Investments in cable systems | 15 years |
| Assets under lease | 15 years |
| Passenger aircraft* | 15 years |
| Other flight equipment | 5 years |
| Transportation, furnishing and other equipment | 3 to 5 years |

** With 15% residual value after 15 years*

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

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

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

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

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

*ARO*

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

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

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

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

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

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

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

Poultry livestock
- Breeders (livestock bearer)
- Chicks (breeders' offspring intended to be sold as breeders)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred Subscriber Acquisition and Retention Costs
Subscriber acquisition costs primarily include handset and phonekit subsidies. Handset and phonekit subsidies represent the difference between the cost of handsets, accessories and subcriber's identification module (SIM) cards (included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income), and the price offered to the subscribers (included under 'Sale of telecommunications services' in the profit or loss in the consolidated statement of comprehensive income). Retention costs for existing postpaid subscribers are in the form of free handsets.

Subscriber acquisition and retention costs pertaining to postpaid subscriptions are deferred and amortized over the base contract period, which ranges from 18 to 24 months from the date in which they are incurred. Deferred subscriber acquisition and retention costs are shown under 'Other noncurrent assets' account in the consolidated statement of financial position (Note 21). The related amortization of subscriber acquisition costs is included under 'Cost of sales and services' in the profit or loss in the consolidated statement of comprehensive income.

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

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Group's investments in associates and joint ventures (Note 15), investment properties (Note 16), property, plant and equipment (Note 17), biological assets at cost (Note 18), intangible assets and goodwill (Notes 19 and 20) and deferred subscriber acquisition and retention costs (Note 21).

Except for goodwill and intangible assets with indefinite lives which are tested for impairment annually, the Group assesses at each reporting date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable

amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

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

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

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

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss in the consolidated statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

The Group performs its impairment test of goodwill every December 31.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Others*
Gain from sale of properties is recognized upon completion of the earning process and the collectability 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 profit or loss in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

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

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

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

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

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

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

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

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Otherwise, no deferred tax liability is set-up.

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

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

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

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

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

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

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

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

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;

c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

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

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

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

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

Earnings (Loss) Per Share (EPS)
Basic EPS is computed by dividing net income (loss) attributable to the equity holders of the Parent Company by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

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

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

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

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

**Future Changes in Accounting Policies**

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

**New Standards and Interpretations**

*Effective 2011*

- PAS 24, *Related Party Disclosures* (Revised)
  The standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.

- Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*
  The interpretation is effective for annual periods on or after July 1, 2010, with earlier application permitted. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

*Effective 2012*

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate*
  This Interpretation is effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as a construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

*Effective 2013*

- PFRS 9, *Financial Instruments: Classification and Measurements*
  The standard has mandatory effectivity on January 1, 2013, however earlier application is permitted for financial statements beginning on or after January 1, 2010. The standard introduces new requirements on the classification and measurement of financial assets and liabilities. It uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the many different rules in PAS 39. The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

  PFRS 9, as issued in 2010, reflects the first part of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The second part of the project will address proposals on the impairment methodology for financial assets and the third part, on hedge accounting. The completion of this project is expected in the middle of 2011. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Amendments to Standards

*Effective 2011*

- PAS 32, *Financial Instruments: Presentation - Classification of Rights Issue*
  The amended standard is effective for annual periods beginning on or after February 1, 2010, with earlier application permitted. It amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC-14, *Prepayments of a Minimum Funding Requirement*
  The amended interpretation is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

*Effective 2012*

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets*
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets*
  The amendment is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

<u>Improvements to PFRSs</u>
*Improvements to PFRSs* issued in May 2010 is an omnibus of amendments to PFRSs. Generally, these amendments are effective for annual periods beginning on or after January 1, 2011 unless otherwise stated. Except as otherwise indicated, the Group does not expect the adoption of these improvements to have significant impact on its financial statements.

- PFRS 3, *Business Combinations*
  a. It clarifies that the amendments to PFRS 7, PAS 32 and PAS 39, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008). The amendment is applicable to annual periods beginning on or after July 1, 2010 and is applied retrospectively.
  b. The amendment limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS, e.g., PFRS 2. It is applicable to annual periods beginning on or after July 1, 2010. The amendment is applied prospectively from the date the entity applies PFRS 3 (revised).
  c. It requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of NCI and measured at their market-based measure; if unvested - they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense. The amendment is applicable to annual periods beginning on or after July 1, 2010 and is applied prospectively.

- PFRS 7, *Financial Instruments: Disclosures*
  The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

  The amendment is applicable for annual periods beginning January 1, 2011 and is applied retrospectively. Amendments to quantitative and credit risk disclosures are as follow:
  a. Clarify that only a financial asset whose carrying amount does not reflect the maximum exposure to credit risk needs to provide further disclosure of the amount that represents the maximum exposure to such risk;
  b. Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);
  c. Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;
  d. Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and

e. Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

   The Group expects that the additional disclosure requirements will only have minor impact as information is expected to be readily available.

- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 21, *The Effect of Changes in Foreign Exchange Rates*
- PAS 28, *Investments in Associates*
- PAS 31, *Interests in Joint Ventures*
- Philippine Interpretation IFRIC-13, *Customer Loyalty Programmes*

## 3. Significant Accounting Judgments and Estimates

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

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

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

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

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

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

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

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

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

The fair values of the Group's financial instruments are presented in Note 5 to the consolidated financial statements.

d. *Revenue from real estate sales*
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgment based on, among others:

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

The related balances from real estate transactions follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Revenue | **₱2,720,062,815** | ₱3,903,963,162 | ₱4,942,149,125 |
| Cost and expenses | **1,745,032,612** | 2,304,166,017 | 3,302,412,914 |

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

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

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

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

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

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

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

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 (Note 43).

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

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

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

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

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.

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

The balances of the Group's unearned telecommunications revenue are disclosed in Note 23 to the financial statements.

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

The total unsettled net inbound traffic revenue from local and foreign traffic carriers (included under 'Receivables' in the consolidated statements of financial position) are shown in Note 11, while the total unsettled net outbound traffic revenue to local and foreign carriers (included under 'Accounts payable and accrued expenses') are shown in Note 22.

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

  The related balances from real estate transactions follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Revenue | **₱2,720,062,815** | ₱3,903,963,162 | ₱4,942,149,125 |
| Cost and expenses | **1,745,032,612** | 2,304,166,017 | 3,302,412,914 |

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

  The balances of the Group's unearned transportation revenue is disclosed in Note 23 to the financial statements. Ticket sales that are not expected to be used for transportation are recognized as revenue using estimates regarding the timing of recognition based on the terms and conditions of the tickets and historical trends.

b. *Impairment of AFS investments*

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

The Group recognized a provision for impairment loss on AFS debt investments, included under 'Impairment losses and others' in the consolidated statements of comprehensive income, amounting to nil, ₱185.5 million and ₱11.7 million in 2010, 2009 and 2008, respectively (Notes 10 and 34).

The carrying value of the Group's AFS debt investments is disclosed in Note 10 to the 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% 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 2009, the Group recognized impairment losses amounting to ₱62.3 million on its AFS equity investments while in 2010 and 2008, the Group did not recognize impairment on its AFS equity investments (Notes 10 and 34).

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

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

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

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

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

Provisions for impairment losses on receivables included in 'Impairment losses and others' in the profit or loss in the consolidated statements of comprehensive income amounted to ₱688.3 million, ₱765.6 million and ₱396.3 million in 2010, 2009 and 2008, respectively (Note 34).

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

d. *Determination of NRV of inventories*
The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally providing a 100% 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' account in the profit or loss in the consolidated statements of comprehensive income) amounted to ₱17.6 million, ₱60.2 million and ₱419.2 million in 2010, 2009 and 2008, respectively (Note 34).

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

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

In 2010, the air transportation segment of the Group contracted a third party engineer to reassess the amount of future restoration costs. Based on the reassessment, the Group recognized additional ARO asset and ARO liability amounting to ₱705.7 million (Note 17).

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

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

The carrying values of the Group's ARO (included under 'Other noncurrent liabilities' account in the consolidated statements of financial position) is disclosed in Note 25 to the financial statements.

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

As of December 31, 2010 and 2009, the balance of the Group's depreciable property, plant and equipment, investment properties, intangible assets and biological assets at cost follow:

| | **2010** | 2009 |
|---|---:|---:|
| Property, plant and equipment | **₱143,781,594,050** | ₱129,851,679,680 |
| Investment properties | **20,428,664,653** | 19,480,442,394 |
| Intangible assets (Note 19) | **168,798,879** | 175,834,549 |
| Biological asset at cost - Breeder (Note 18) | **448,700,235** | 505,251,240 |

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

The Group recognized loss arising from changes in the fair market value of biological assets assets (included in the 'Cost of sales and services' in the statements of comprehensive income) amounted to ₱44.7 million in 2010 while the recognized gains arising from changes in the fair market values of biological assets (included in the 'Cost of sales and services' in the statements of comprehensive income) amounted to ₱96.8 million and ₱3.5 million in 2009 and 2008, respectively.

The carrying value of the Group's biological assets carried at fair values less estimated costs to sell is disclosed in Note 18 to the financial statements.

h. *Estimation of pension and other benefits costs*
The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates (Note 37). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

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

As of December 31, 2010 and 2009, the balance of the Group's present value of defined benefit obligations and other employee benefits is shown in Note 37.

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

- Significant or prolonged decline in the fair value of the asset;
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- Significant underperformance relative to expected historical or projected future operating results;

- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

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

The Group did not recognize any impairment losses on nonfinancial assets in 2010, 2009 and in 2008.

As of December 31, 2010 and 2009, the balance of the Group's nonfinancial assets, net of accumulated depreciation, amortization and impairment loss follow:

| | **2010** | 2009 |
|---|---|---|
| Property, plant and equipment (Note 17) | **₱146,336,664,209** | ₱132,258,672,721 |
| Investment properties (Note 16) | **32,178,986,041** | 29,531,690,983 |
| Investments in associates and joint ventures (Note 15) | **30,425,762,248** | 28,091,879,159 |
| Goodwill (Note 20) | **890,375,020** | 890,375,020 |
| Intangible assets (Note 19) | **993,831,456** | 865,790,925 |

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

As of December 31, 2010 and 2009 , the Group's recognized deferred tax assets are shown in Note 38.

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 (Notes 38 and 41).

As of December 31, 2010 and 2009, the total amounts of temporary differences, in which the Group did not recognize any deferred tax assets are shown in Note 38.

## 4. Financial Risk Management Objectives and Policies

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

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

Risk Management Structure

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

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

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

*AC*

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

The AC also aims to ensure that:

a. financial reports comply with established internal policies and procedures, pertinent accounting and audit standards and other regulatory requirements;
b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;

c. audit activities of internal auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal auditors; and
d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

*Enterprise Risk Management Group (ERMG)*
The ERMG was created to be primarily responsible for the execution of the enterprise risk management framework. The ERMG's main concerns include:

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

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

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

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

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

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

1. Internal Environmental Scanning. It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the Group.
2. Objective Setting. The Group's BOD mandates the business unit's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.

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

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

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

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

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

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

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

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

a. Credit risk exposure

The table below shows the gross maximum exposure to credit risk (including derivatives) of the Group as of December 31, 2010 and 2009, without considering the effects of collaterals and other credit risk mitigation techniques.

| | **2010** | 2009 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand amounting to ₱783,767,940 and ₱869,249,578 as of December 31, 2010 and 2009, respectively) | **₱41,326,235,582** | ₱17,604,443,126 |
| Derivative financial assets: | | |
| Designated as accounting hedges | **102,271,000** | 23,650,032 |
| Financial assets at FVPL: | | |
| Held-for-trading: | | |
| Debt securities: | | |
| Private | **6,528,895,745** | 5,277,566,296 |
| Government | **1,289,922,199** | 1,038,368,701 |
| Subtotal | **7,818,817,944** | 6,315,934,997 |
| Equity securities: | | |
| Quoted | **2,440,000,567** | 1,898,839,984 |
| Unquoted | **4,516** | 4,768 |
| Subtotal | **2,440,005,083** | 1,898,844,752 |
| Derivative financial assets: | | |
| Not designated as accounting hedges | **1,083,907,607** | 639,581,927 |
| | **11,342,730,634** | 8,854,361,676 |
| AFS investments: | | |
| Debt securities: | | |
| Government | **4,775,865,587** | 4,780,573,833 |
| Private | **3,695,869,519** | 3,989,253,211 |
| Subtotal | **8,471,735,106** | 8,769,827,044 |
| Equity securities: | | |
| Quoted | **1,168,562,938** | 1,367,142,809 |
| Unquoted | **210,597,671** | 72,937,171 |
| Subtotal | **1,379,160,609** | 1,440,079,980 |
| | **9,850,895,715** | 10,209,907,024 |

(Forward)

| | **2010** | 2009 |
|---|---|---|
| Receivables: | | |
| Trade receivables | **₱9,982,616,285** | ₱11,096,619,734 |
| Finance receivables | **9,687,998,417** | 7,965,950,775 |
| Due from related parties | **2,226,813,907** | 1,920,475,472 |
| Interest receivable | **711,403,659** | 438,916,592 |
| Other receivables | **2,017,665,905** | 1,436,094,784 |
| | **24,626,498,173** | 22,858,057,357 |
| HTM investments: | | |
| Private bonds | – | 478,111,408 |
| Government securities | – | 377,350,805 |
| Treasury notes | – | 114,632,521 |
| | – | 970,094,734 |
| Refundable security deposits (included under Other Current and Other Noncurrent Assets in the consolidated statement of financial position) | **526,999,627** | 492,060,128 |
| Advances to suppliers | **489,040,439** | 307,345,076 |
| Others financial assets (included under Other Noncurrent Assets in the consolidated statement of financial position) | **87,976,029** | 54,172,428 |
| | **₱88,352,647,199** | ₱61,374,091,581 |

b. Risk concentrations of the maximum exposure to credit risk

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

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

i. Concentration by geographical location

The Group's credit risk exposures as of December 31, 2010 and 2009, before taking into account any collateral held or other credit enhancements, is categorized by geographic location as follows:

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Philippines | Asia (excluding Philippines) | United States | Europe | Others* | Total |
| Cash and cash equivalents | | | | | | |
| (excluding cash on hand) | ₱38,536,685,766 | ₱2,789,202,071 | ₱– | ₱347,745 | ₱– | ₱41,326,235,582 |
| Derivative financial assets: | | | | | | |
| Designated as accounting hedges | 102,271,000 | – | – | – | – | 102,271,000 |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | 2,053,479,607 | 915,147,740 | 440,633,307 | 1,736,314,362 | 1,383,320,729 | 6,528,895,745 |
| Government | 948,259,200 | 190,065,964 | – | – | 151,597,035 | 1,289,922,199 |
| | 3,001,738,807 | 1,105,213,704 | 440,633,307 | 1,736,314,362 | 1,534,917,764 | 7,818,817,944 |
| Equity securities: | | | | | | |
| Quoted | 282,608,536 | 232,563,353 | 926,758,141 | 712,119,753 | 285,950,784 | 2,440,000,567 |
| Unquoted | – | 4,516 | – | – | – | 4,516 |
| | 282,608,536 | 232,567,869 | 926,758,141 | 712,119,753 | 285,950,784 | 2,440,005,083 |
| | 3,284,347,343 | 1,337,781,573 | 1,367,391,448 | 2,448,434,115 | 1,820,868,548 | 10,258,823,027 |
| Derivative assets: | | | | | | |
| Not designated as | | | | | | |
| accounting hedges | 673,542,090 | 260,937,463 | – | 149,428,054 | – | 1,083,907,607 |
| | 3,957,889,433 | 1,598,719,036 | 1,367,391,448 | 2,597,862,169 | 1,820,868,548 | 11,342,730,634 |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Government | 3,914,067,346 | 158,773,681 | – | – | 703,024,560 | 4,775,865,587 |
| Private | 456,878,991 | 379,175,308 | 761,354,929 | 2,046,873,879 | 51,586,412 | 3,695,869,519 |
| | 4,370,946,337 | 537,948,989 | 761,354,929 | 2,046,873,879 | 754,610,972 | 8,471,735,106 |
| Equity securities: | | | | | | |
| Quoted | 110,336,688 | 943,694,250 | – | – | 114,532,000 | 1,168,562,938 |
| Unquoted | 210,597,671 | – | – | – | – | 210,597,671 |
| | 320,934,359 | 943,694,250 | – | – | 114,532,000 | 1,379,160,609 |
| | 4,691,880,696 | 1,481,643,239 | 761,354,929 | 2,046,873,879 | 869,142,972 | 9,850,895,715 |
| Receivables: | | | | | | |
| Trade receivables | 8,318,457,791 | 1,409,714,130 | 192,447,000 | 61,997,364 | – | 9,982,616,285 |
| Finance receivables | 9,687,998,417 | – | – | – | – | 9,687,998,417 |
| Due from related parties | 589,129,115 | 431,557,672 | 1,206,127,120 | – | – | 2,226,813,907 |
| Interest receivable | 470,727,566 | 27,862,137 | 58,487,433 | 57,885,218 | 96,441,305 | 711,403,659 |
| Other receivables | 1,636,205,157 | 275,132,149 | 67,607,101 | 38,721,498 | – | 2,017,665,905 |
| | 20,702,518,046 | 2,144,266,088 | 1,524,668,654 | 158,604,080 | 96,441,305 | 24,626,498,173 |
| HTM investments: | | | | | | |
| Private bonds | – | – | – | – | – | – |
| Government securities | – | – | – | – | – | – |
| Treasury notes | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement of financial position) | 517,759,627 | – | – | 9,240,000 | – | 526,999,627 |
| Advances to suppliers | 252,654,844 | 236,385,595 | – | – | – | 489,040,439 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) | 87,976,029 | – | – | – | – | 87,976,029 |
| | ₱68,849,635,441 | ₱8,250,216,029 | ₱3,653,415,031 | ₱4,812,927,873 | ₱2,786,452,825 | ₱88,352,647,199 |

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

| | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Philippines | Asia (excluding Philippines) | United States | Europe | Others* | Total |
| Cash and cash equivalents | | | | | | |
| (excluding cash on hand) | ₱13,608,293,128 | ₱3,996,149,998 | ₱– | ₱– | ₱– | ₱17,604,443,126 |
| Derivative financial assets: | | | | | | |
| Designated as accounting hedges | 23,650,032 | – | – | – | – | 23,650,032 |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | 1,802,917,369 | 583,347,937 | 309,501,426 | 2,034,932,564 | 546,867,000 | 5,277,566,296 |
| Government | 915,222,000 | 67,902,441 | – | – | 55,244,260 | 1,038,368,701 |
| | 2,718,139,369 | 651,250,378 | 309,501,426 | 2,034,932,564 | 602,111,260 | 6,315,934,997 |
| Equity securities: | | | | | | |
| Quoted | 583,167,435 | 186,210,430 | 513,467,949 | 615,994,170 | – | 1,898,839,984 |
| Unquoted | – | 4,768 | – | – | – | 4,768 |
| | 583,167,435 | 186,215,198 | 513,467,949 | 615,994,170 | – | 1,898,844,752 |
| | 3,301,306,804 | 837,465,576 | 822,969,375 | 2,650,926,734 | 602,111,260 | 8,214,779,749 |
| Derivative financial assets: | | | | | | |
| Not designated as | | | | | | |
| accounting hedges | 384,317,253 | 244,098,595 | – | 11,166,079 | – | 639,581,927 |
| | 3,685,624,057 | 1,081,564,171 | 822,969,375 | 2,662,092,813 | 602,111,260 | 8,854,361,676 |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Government | 3,859,538,555 | 154,878,579 | – | – | 766,156,699 | 4,780,573,833 |
| Private | 137,537,349 | 355,213,522 | 1,009,644,598 | 2,433,480,827 | 53,376,915 | 3,989,253,211 |
| | 3,997,075,904 | 510,092,101 | 1,009,644,598 | 2,433,480,827 | 819,533,614 | 8,769,827,044 |
| Equity securities: | | | | | | |
| Quoted | 76,261,458 | 1,185,545,351 | 105,336,000 | – | – | 1,367,142,809 |
| Unquoted | 72,937,171 | – | – | – | – | 72,937,171 |
| | 149,198,629 | 1,185,545,351 | 105,336,000 | – | – | 1,440,079,980 |
| | 4,146,274,533 | 1,695,637,452 | 1,114,980,598 | 2,433,480,827 | 819,533,614 | 10,209,907,024 |
| Receivables: | | | | | | |
| Trade receivables | 9,085,257,433 | 1,599,290,841 | 195,796,651 | 216,274,809 | – | 11,096,619,734 |
| Finance receivables | 7,965,950,775 | – | – | – | – | 7,965,950,775 |
| Due from related parties | 228,299,291 | 449,161,990 | 1,243,014,191 | – | – | 1,920,475,472 |
| Interest receivable | 272,253,148 | 25,883,993 | 70,663,844 | 45,651,765 | 24,463,842 | 438,916,592 |
| Other receivables | 1,242,998,728 | 193,096,056 | – | – | – | 1,436,094,784 |
| | 18,794,759,375 | 2,267,432,880 | 1,509,474,686 | 261,926,574 | 24,463,842 | 22,858,057,357 |
| HTM investments: | | | | | | |
| Private bonds | 478,111,408 | – | – | – | – | 478,111,408 |
| Government securities | 377,350,805 | – | – | – | – | 377,350,805 |
| Treasury notes | 114,632,521 | – | – | – | – | 114,632,521 |
| | 970,094,734 | – | – | – | – | 970,094,734 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) (Note 21) | 482,820,128 | – | – | 9,240,000 | – | 492,060,128 |
| Advances to suppliers (Note 23) | 140,004,563 | 167,340,513 | – | – | – | 307,345,076 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | 54,172,428 | – | – | – | – | 54,172,428 |
| | 41,905,692,978 | 9,208,125,014 | 3,447,424,659 | 5,366,740,214 | 1,446,108,716 | 61,374,091,581 |

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

ii. Concentration by industry

The tables below show the industry sector analysis of the Group's financial assets as of December 31, 2010 and 2009, before taking into account any collateral held or other credit enhancements.

| | December 31, 2010 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Manufacturing | Real Estate, Renting and Related Business Activities | Wholesale and Retail Trade | Private Households | Financial Intermediaries | Transportation, Storage and Communication | Construction | Agricultural, Hunting and Forestry | Electricity, Gas and Water | Public Administration and Defense | Others* | Total |
| Cash and cash equivalents (excluding cash on hand) | ₱– | ₱– | ₱– | ₱– | ₱41,326,235,582 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱41,326,235,582 |
| Derivative financial assets: | | | | | | | | | | | | |
| Designated as accounting hedges | – | – | – | – | 102,271,000 | – | – | – | – | – | – | 102,271,000 |
| Financial assets at FVPL: | | | | | | | | | | | | |
| Held-for-trading: | | | | | | | | | | | | |
| Debt securities: | | | | | | | | | | | | |
| Private | – | 668,627,033 | – | – | 1,898,825,150 | 466,811,399 | – | – | 97,740,506 | – | 3,396,891,657 | 6,528,895,745 |
| Government | – | – | – | – | 1,138,031,535 | – | – | – | – | – | 151,890,664 | 1,289,922,199 |
| | – | 668,627,033 | – | – | 3,036,856,685 | 466,811,399 | – | – | 97,740,506 | – | 3,548,782,321 | 7,818,817,944 |
| Equity securities: | | | | | | | | | | | | |
| Quoted | – | – | – | – | 1,797,137,222 | 221,399,960 | – | – | – | – | 421,463,385 | 2,440,000,567 |
| Unquoted | – | – | – | – | – | – | – | – | – | – | 4,516 | 4,516 |
| | – | – | – | – | 1,797,137,222 | 221,399,960 | – | – | – | – | 421,467,901 | 2,440,005,083 |
| | – | 668,627,033 | – | – | 4,833,993,907 | 688,211,359 | – | – | 97,740,506 | – | 3,970,250,222 | 10,258,823,027 |
| Derivative financial assets: | | | | | | | | | | | | |
| Not designated as accounting hedges | – | – | 316,134,415 | – | 113,486,167 | – | – | – | 489,917,466 | – | 164,369,559 | 1,083,907,607 |
| | – | 668,627,033 | 316,134,415 | – | 4,947,480,074 | 688,211,359 | – | – | 587,657,972 | – | 4,134,619,781 | 11,342,730,634 |
| AFS investments: | | | | | | | | | | | | |
| Debt securities: | | | | | | | | | | | | |
| Government | – | – | – | – | 2,231,875,899 | – | – | – | – | – | 2,543,989,688 | 4,775,865,587 |
| Private | – | – | – | – | 1,662,997,703 | 659,476,908 | – | – | 465,152,683 | – | 908,242,225 | 3,695,869,519 |
| | – | – | – | – | 3,894,873,602 | 659,476,908 | – | – | 465,152,683 | – | 3,452,231,913 | 8,471,735,106 |
| Equity securities: | | | | | | | | | | | | |
| Quoted | – | – | – | – | 186,038,398 | – | – | – | – | – | 982,524,540 | 1,168,562,938 |
| Unquoted | – | – | – | – | 210,000,000 | – | – | – | – | – | 597,671 | 210,597,671 |
| | – | – | – | – | 396,038,398 | – | – | – | – | – | 983,122,211 | 1,379,160,609 |
| | – | – | – | – | 4,290,912,000 | 659,476,908 | – | – | 465,152,683 | – | 4,435,354,124 | 9,850,895,715 |

(Forward)

| | December 31, 2010 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Manufacturing** | **Real Estate, Renting and Related Business Activities** | **Wholesale and Retail Trade** | **Private Households** | **Financial Intermediaries** | **Transportation, Storage and Communication** | **Construction** | **Agricultural, Hunting and Forestry** | **Electricity, Gas and Water** | **Public Administration and Defense** | **Others*** | **Total** |
| Receivables: | | | | | | | | | | | | |
| Trade receivables | **₱3,602,661,658** | **₱3,224,224,250** | **₱391,595,000** | **₱529,640,000** | **₱15,928,000** | **₱1,085,750,660** | **₱–** | **₱109,100,070** | **₱9,591,000** | **₱–** | **₱1,014,125,647** | **₱9,982,616,285** |
| Finance receivables | **673,003,502** | **1,735,623,721** | **1,053,797,696** | **–** | **5,901,428** | **547,082,329** | **131,865,566** | **638,407,682** | **867,173,173** | **–** | **4,035,143,320** | **9,687,998,417** |
| Interest receivable | **239,293** | **3,083,985** | **–** | **–** | **325,686,369** | **13,520,964** | **–** | | **5,682,987** | **–** | **363,190,061** | **711,403,659** |
| Due from related parties | **29,349,376** | **854,449,405** | **6,891,517** | **–** | **33,251,887** | **54,269,012** | **–** | **114,990,272** | **1,332,197** | **–** | **1,132,280,241** | **2,226,813,907** |
| Other receivables | **629,139,140** | **338,869,216** | **3,613,000** | **–** | | **185,301,385** | **–** | **69,166,837** | **–** | **33,881,539** | **757,694,788** | **2,017,665,905** |
| | **4,934,392,969** | **6,156,250,577** | **1,455,897,213** | **529,640,000** | **380,767,684** | **1,885,924,350** | **131,865,566** | **931,664,861** | **883,779,357** | **33,881,539** | **7,302,434,057** | **24,626,498,173** |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | **903,835** | **497,229,677** | **–** | **–** | **–** | **9,240,000** | **–** | **–** | **–** | **–** | **19,626,115** | **526,999,627** |
| Advances to suppliers (Note 13) | **236,865,316** | **122,916,608** | **–** | **–** | **–** | **–** | **–** | **57,290,923** | **–** | **–** | **71,967,592** | **489,040,439** |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **87,976,029** | **87,976,029** |
| | **₱5,172,162,120** | **₱7,445,023,895** | **₱1,772,031,628** | **₱529,640,000** | **₱51,047,666,340** | **₱3,242,852,617** | **₱131,865,566** | **₱988,955,784** | **₱1,936,590,012** | **₱33,881,539** | **₱16,051,977,698** | **₱88,352,647,199** |

**Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.*

| | December 31, 2009 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Manufacturing | Real Estate, Renting and Related Business Activities | Wholesale and Retail Trade | Private Households | Financial Intermediaries | Transportation, Storage and Communication | Construction | Agricultural, Hunting and Forestry | Electricity, Gas and Water | Public Administration and Defense | Others* | Total |
| Cash and cash equivalents (excluding cash on hand) | ₱– | ₱– | ₱– | ₱– | ₱17,604,443,126 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱17,604,443,126 |
| Derivative financial instruments: | | | | | | | | | | | | |
| Designated as accounting hedges | – | – | – | – | 23,650,032 | – | – | – | – | – | – | 23,650,032 |
| Financial assets at FVPL: | | | | | | | | | | | | |
| Held-for-trading: | | | | | | | | | | | | |
| Debt securities: | | | | | | | | | | | | |
| Private | – | – | – | – | 1,198,092,368 | 563,910,025 | – | – | 78,641,062 | – | 3,436,922,841 | 5,277,566,296 |
| Government | – | – | – | – | 1,038,368,701 | – | – | – | – | – | – | 1,038,368,701 |
| | – | – | – | – | 2,236,461,069 | 563,910,025 | – | – | 78,641,062 | – | 3,436,922,841 | 6,315,934,997 |
| Equity securities: | | | | | | | | | | | | |
| Quoted | – | – | – | – | 1,080,803,497 | 142,000 | – | – | – | – | 817,894,487 | 1,898,839,984 |
| Unquoted | – | – | – | – | 4,768 | – | – | – | – | – | – | 4,768 |
| | – | – | – | – | 1,080,808,265 | 142,000 | – | – | – | – | 817,894,487 | 1,898,844,752 |
| | | | | | 3,317,269,334 | 564,052,025 | | | 78,641,062 | | 4,254,817,328 | 8,214,779,749 |
| Derivative financial instruments: | | | | | | | | | | | | |
| Not designated as accounting hedges | 9,709,660 | – | 220,383,442 | – | 108,442,397 | – | – | – | 227,794,364 | – | 73,252,064 | 639,581,927 |
| | 9,709,660 | – | 220,383,442 | – | 3,425,711,731 | 564,052,025 | – | – | 306,435,426 | – | 4,328,069,392 | 8,854,361,676 |
| AFS investments: | | | | | | | | | | | | |
| Debt securities: | | | | | | | | | | | | |
| Government | 45,369,931 | – | – | – | 2,330,553,443 | – | – | – | – | – | 2,404,650,459 | 4,780,573,833 |
| Private | 159,267,221 | – | – | – | 1,330,458,249 | 292,282,564 | – | – | – | – | 2,207,245,177 | 3,989,253,211 |
| | 204,637,152 | – | – | – | 3,661,011,692 | 292,282,564 | – | – | – | – | 4,611,895,636 | 8,769,827,044 |
| Equity securities: | | | | | | | | | | | | |
| Quoted | – | – | – | – | 442,253,803 | – | – | – | – | – | 924,889,006 | 1,367,142,809 |
| Unquoted | – | – | – | – | – | – | – | – | – | – | 72,937,171 | 72,937,171 |
| | – | – | – | – | 442,253,803 | – | – | – | – | – | 997,826,177 | 1,440,079,980 |
| | 204,637,152 | | | | 4,103,265,495 | 292,282,564 | | | | | 5,609,721,813 | 10,209,907,024 |

(Forward)

| | 2009 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Manufacturing | Real Estate, Renting and Related Business Activities | Wholesale and Retail Trade | Private Households | Financial Intermediaries | Transportation, Storage and Communication | Construction | Agricultural, Hunting and Forestry | Electricity, Gas and Water | Public Administration and Defense | Others* | Total |
| Receivables: | | | | | | | | | | | | |
| Trade receivables | ₱3,811,989,237 | ₱3,820,711,804 | ₱340,536,896 | ₱390,818,118 | ₱38,808,193 | ₱1,321,806,379 | ₱13,046,690 | ₱– | ₱4,121,450 | ₱26,699,573 | ₱1,328,081,394 | ₱11,096,619,734 |
| Finance receivables | 575,106,621 | 2,531,175,980 | 1,009,577,982 | – | 101,148,477 | 431,209,859 | 83,163,649 | 120,367,185 | 785,599,998 | – | 2,328,601,024 | 7,965,950,775 |
| Due from related parties | 104,755,389 | 519,254,655 | 8,903,032 | – | 20,791,850 | 40,294,661 | – | – | – | – | 1,226,475,885 | 1,920,475,472 |
| Interest receivable | 970,196 | – | – | – | 268,294,202 | 12,259,741 | – | – | 1,195,979 | – | 156,196,474 | 438,916,592 |
| Other receivables | 587,929,444 | 278,583,949 | 11,948,735 | – | 102,028,270 | 10,758,450 | 8,109,046 | – | – | 109,792,607 | 326,944,283 | 1,436,094,784 |
| | 5,080,750,887 | 7,149,726,388 | 1,370,966,645 | 390,818,118 | 531,070,992 | 1,816,329,090 | 104,319,385 | 120,367,185 | 790,917,427 | 136,492,180 | 5,366,299,060 | 22,858,057,357 |
| HTM investments: | | | | | | | | | | | | |
| Private bonds | – | – | – | – | 478,111,408 | – | – | – | – | – | – | 478,111,408 |
| Government securities | – | – | – | – | 377,350,805 | – | – | – | – | – | – | 377,350,805 |
| Treasury notes | – | – | – | – | 114,632,521 | – | – | – | – | – | – | 114,632,521 |
| | – | – | – | – | 970,094,734 | – | – | – | – | – | – | 970,094,734 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | 900,402 | 466,233,372 | – | – | 15,686,354 | 9,240,000 | – | – | – | – | – | 492,060,128 |
| Advances to suppliers (Note 13) | 263,101,798 | 12,507,954 | – | – | – | – | – | – | – | – | 31,735,324 | 307,345,076 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | – | – | – | – | 54,172,428 | – | – | – | – | – | – | 54,172,428 |
| | ₱5,559,099,899 | ₱7,628,467,714 | ₱1,591,350,087 | ₱390,818,118 | ₱26,728,094,892 | ₱2,681,903,679 | ₱104,319,385 | ₱120,367,185 | ₱1,097,352,853 | ₱136,492,180 | ₱15,335,825,589 | ₱61,374,091,581 |

**Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.*

c. Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets gross of allowance for impairment losses:

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | Past Due | |
| | High Grade | Standard Grade | Substandard Grade | Unrated | or Individually Impaired | Total |
| Cash and cash equivalents (excluding cash on hand) | ₱39,610,076,426 | ₱1,716,159,156 | ₱– | ₱– | ₱– | ₱41,326,235,582 |
| Derivative financial assets: | | | | | | |
| Designated as accounting hedges | – | 102,271,000 | – | – | – | 102,271,000 |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | 2,961,243,455 | 2,839,306,600 | 728,345,690 | – | – | 6,528,895,745 |
| Government | – | 1,289,922,199 | – | – | – | 1,289,922,199 |
| | 2,961,243,455 | 4,129,228,799 | 728,345,690 | – | – | 7,818,817,944 |
| Equity securities: | | | | | | |
| Quoted | 1,643,767,874 | 579,623,461 | 216,609,232 | – | – | 2,440,000,567 |
| Unquoted | 4,516 | – | – | – | – | 4,516 |
| | 1,643,772,390 | 579,623,461 | 216,609,232 | – | – | 2,440,005,083 |
| | 4,605,015,845 | 4,708,852,260 | 944,954,922 | – | – | 10,258,823,027 |
| Derivative financial assets: | | | | | | |
| Not designated as accounting hedges | 1,083,907,607 | – | – | – | – | 1,083,907,607 |
| | 5,688,923,452 | 4,708,852,260 | 944,954,922 | – | – | 11,342,730,634 |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Government | 4,088,364,939 | 477,913,755 | – | 209,586,893 | – | 4,775,865,587 |
| Private | 1,634,264,850 | 1,116,893,217 | 558,975,244 | 87,446,901 | 298,289,307 | 3,695,869,519 |
| | 5,722,629,789 | 1,594,806,972 | 558,975,244 | 297,033,794 | 298,289,307 | 8,471,735,106 |
| Equity securities: | | | | | | |
| Quoted | 110,336,688 | 1,058,226,250 | – | – | – | 1,168,562,938 |
| Unquoted | 210,597,671 | – | – | – | – | 210,597,671 |
| | 320,934,359 | 1,058,226,250 | – | – | – | 1,379,160,609 |
| | 6,043,564,148 | 2,653,033,222 | 558,975,244 | 297,033,794 | 298,289,307 | 9,850,895,715 |
| Receivables: | | | | | | |
| Trade receivables | 5,362,426,113 | 2,148,474,778 | 229,846,876 | – | 4,295,192,255 | 12,035,940,022 |
| Finance receivables | 1,496,414,620 | 7,729,760,939 | 346,452,826 | – | 625,585,031 | 10,198,213,416 |
| Due from related parties | 1,137,529,412 | 1,089,284,495 | – | – | – | 2,226,813,907 |
| Interest receivable | 480,334,593 | 230,827,935 | – | – | 241,131 | 711,403,659 |
| Other receivables | 649,813,970 | 1,260,507,017 | 41,287,827 | – | 514,132,033 | 2,465,740,847 |
| | 9,126,518,708 | 12,458,855,164 | 617,587,529 | – | 5,435,150,450 | 27,638,111,851 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | 506,469,677 | 20,529,950 | | – | – | 526,999,627 |
| Advances to suppliers (Note 13) | 297,415,764 | 64,240,811 | 34,977,879 | – | 92,405,985 | 489,040,439 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | – | 87,976,029 | – | – | – | 87,976,029 |
| | ₱61,272,968,175 | ₱21,811,917,592 | ₱2,156,495,574 | ₱297,033,794 | ₱5,825,845,742 | ₱91,364,260,877 |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | | Past Due | |
| | High Grade | Standard Grade | Substandard Grade | Unrated | or Individually Impaired | Total |
| Cash and cash equivalents (excluding cash on hand) | ₱17,604,443,126 | ₱– | ₱– | ₱– | ₱– | ₱17,604,443,126 |
| Derivative financial assets: | | | | | | |
| Designated as accounting hedges | – | 23,650,032 | – | – | – | 23,650,032 |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | 3,619,162,958 | 1,219,723,586 | 438,679,752 | – | – | 5,277,566,296 |
| Government | 983,124,441 | 55,244,260 | – | – | – | 1,038,368,701 |
| | 4,602,287,399 | 1,274,967,846 | 438,679,752 | – | – | 6,315,934,997 |
| Equity securities: | | | | | | |
| Quoted | 991,022,216 | 813,129,524 | 94,688,244 | – | – | 1,898,839,984 |
| Unquoted | 4,768 | – | – | – | – | 4,768 |
| | 991,026,984 | 813,129,524 | 94,688,244 | – | – | 1,898,844,752 |
| | 5,593,314,383 | 2,088,097,370 | 533,367,996 | – | – | 8,214,779,749 |
| Derivative financial assets: | | | | | | |
| Not designated as accounting hedges | 639,581,927 | – | – | – | – | 639,581,927 |
| | 6,232,896,310 | 2,088,097,370 | 533,367,996 | – | – | 8,854,361,676 |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Private | 3,165,686,040 | 282,984,646 | 224,277,721 | – | 316,304,804 | 3,989,253,211 |
| Government | 4,612,635,520 | 167,938,313 | – | – | – | 4,780,573,833 |
| | 7,778,321,560 | 450,922,959 | 224,277,721 | – | 316,304,804 | 8,769,827,044 |
| Equity securities: | | | | | | |
| Quoted | 1,078,038,547 | – | – | – | 289,104,262 | 1,367,142,809 |
| Unquoted | 60,000,000 | 12,937,171 | – | – | – | 72,937,171 |
| | 1,138,038,547 | 12,937,171 | – | – | 289,104,262 | 1,440,079,980 |
| | 8,916,360,107 | 463,860,130 | 224,277,721 | – | 605,409,066 | 10,209,907,024 |
| Receivables: | | | | | | |
| Trade receivables | 7,332,484,091 | 885,296,968 | 228,393,152 | – | 5,036,297,525 | 13,482,471,736 |
| Finance receivables | 2,213,397,492 | 5,534,563,480 | 217,989,803 | – | 188,002,410 | 8,153,953,185 |
| Due from related parties | 763,470,551 | 1,157,004,921 | – | – | – | 1,920,475,472 |
| Interest receivable | 279,866,224 | – | – | 158,704,652 | 345,716 | 438,916,592 |
| Other receivables | 1,156,025,626 | 240,712,456 | 3,400,796 | 102,028,270 | 281,757,531 | 1,783,924,679 |
| | 11,745,243,984 | 7,817,577,825 | 449,783,751 | 260,732,922 | 5,506,403,182 | 25,779,741,664 |
| HTM investments: | | | | | | |
| Private | 478,111,408 | – | – | – | – | 478,111,408 |
| Government securities | 377,350,805 | – | – | – | – | 377,350,805 |
| Treasury notes | 114,632,521 | – | – | – | – | 114,632,521 |
| | 970,094,734 | – | – | – | – | 970,094,734 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | 475,473,372 | 900,402 | – | 15,686,354 | – | 492,060,128 |
| Advances to suppliers (Note 13) | 99,045,514 | 123,814,062 | 10,528,755 | – | 73,956,745 | 307,345,076 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | 33,698,718 | – | – | 20,473,710 | – | 54,172,428 |
| | ₱46,077,255,865 | ₱10,517,899,821 | ₱1,217,958,223 | ₱296,892,986 | ₱6,185,768,993 | ₱64,295,775,888 |

*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 to customers, the Banking Segment's internal credit rating system was approved in 2007 and covers corporate credit exposures and SMEs, which is defined by the BSP as exposures to companies with assets of more than ₱15.0 million. Around ₱5.0 billion of loans and receivables to customers do not have available credit ratings, including microfinance, automobile and real estate loans. Due from foreign banks are investment grade based on Fitch ratings. The Banking Segment considers Philippine peso-denominated securities related to the Philippine government as credit risk-free.

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

| **Grades** | **Categories** | **Description** |
|---|---|---|
| High grade | | |
| *Risk rating 1* | Excellent | Very low probability of default, high degree of substance/stability/diversity of counterparty |
| *Risk rating 2* | Strong | Low probability of default, comfortable degree of stability/substance/diversity of counterparty |
| *Risk rating 3* | Good | Quite low probability of default, some degree of stability/substance of counterparty |
| Standard | | |
| *Risk rating 4* | Satisfactory | Greater probability of default, volatile earnings/performance |
| *Risk rating 5* | Acceptable | Risk elements existing, but able to withstand normal business cycle |
| Sub-standard grade | | |
| *Risk rating 6* | Watchlist | Unfavorable industry or company specific risk factors represent a concern, will find it difficult to cope with significant downturn |
| *Risk rating 7* | Special mention | Risk of inability to pay interest and principal due to evidence of weakness in financial condition, ability/willingness to service debt are in doubt |
| *Risk rating 8* | Substandard | Unfavorable record or unsatisfactory characteristics jeopardize liquidation, with well-defined weaknesses |

(Forward)

| Grades | Categories | Description |
|---|---|---|
| Impaired | | |
| *Risk rating 9* | Doubtful | Weaknesses similar to “Substandard”, but with added characteristics that make liquidation highly improbable |
| *Risk rating 10* | 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.

External Ratings
In ensuring a quality investment portfolio, the Banking Segment uses the credit risk rating based on the rating of Moody’s Investors Service (Moody’s rating) as follows:

| Credit Quality | External Rating | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| High grade | Aaa | Aa1 | Aa2 | Aa3 | A1 | A2 | A3 | Baa1 | Baa2 | Baa3 |
| Standard grade | Ba1 | Ba2 | Ba3 | B1 | B2 | B3 | | | | |
| Substandard grade | Caa1 | Caa2 | Caa3 | Ca | C | | | | | |
| Impaired | D | | | | | | | | | |

Fitch Ratings are as follows:

| Credit Quality | External Rating | | |
|---|---|---|---|
| High grade | AAA | AA± | A± |
| Standard grade | BBB± | – | – |
| Substandard grade | BB± | B± | – |
| Impaired | CCC± | CC± | C± |

d. Aging analysis of receivables by class

The aging analysis of the Group’s receivables as of December 31, 2010 and 2009 follow:

| | **2010** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Neither Past Due Nor Impaired** | **Past Due But Not Impaired** | | | | **Past Due and Impaired** | |
| | | **Less than 30 Days** | **30 to 60 Days** | **61 to 90 Days** | **Over 90 Days** | | **Total** |
| Trade receivables | **₱8,135,182,336** | **₱349,751,606** | **₱511,312,358** | **₱387,729,409** | **₱372,387,311** | **₱2,279,577,002** | **₱12,035,940,022** |
| Finance receivables | **9,248,852,787** | **20,509,472** | **11,185,427** | **120,084,858** | **287,365,873** | **510,214,999** | **10,198,213,416** |
| Due from related parties | **2,226,813,907** | – | – | – | – | – | **2,226,813,907** |
| Interest receivable | **711,162,528** | **241,131** | – | – | – | – | **711,403,659** |
| Others | **1,880,949,843** | **59,979,990** | **24,085,074** | **161,721,779** | **117,182,484** | **221,821,677** | **2,465,740,847** |
| | **₱22,202,961,401** | **₱430,482,199** | **₱546,582,859** | **₱669,536,046** | **₱776,935,668** | **₱3,011,613,678** | **₱27,638,111,851** |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | Past Due But Not Impaired | | | | Past Due and Impaired | |
| | | Less than 30 Days | 30 to 60 Days | 61 to 90 Days | Over 90 Days | | Total |
| Trade receivables | ₱8,852,240,243 | ₱374,715,819 | ₱299,276,791 | ₱150,615,567 | ₱1,180,585,380 | ₱2,625,037,936 | ₱13,482,471,736 |
| Finance receivables | 7,620,621,225 | 29,699,841 | 12,131,363 | 48,720,589 | 254,777,757 | 188,002,410 | 8,153,953,185 |
| Due from related parties | 1,920,475,472 | – | – | – | – | – | 1,920,475,472 |
| Interest receivable | 420,686,545 | 18,230,047 | – | – | – | – | 438,916,592 |
| Others | 1,459,314,997 | 61,530,895 | 5,789,943 | 60,138,158 | 88,506,725 | 108,643,961 | 1,783,924,679 |
| | ₱20,273,338,482 | ₱484,176,602 | ₱317,198,097 | ₱259,474,314 | ₱1,523,869,862 | ₱2,921,684,307 | ₱25,779,741,664 |

e. Impairment assessment

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

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

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

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

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

f. Collateral and other credit enhancements

*Collateral and other credit enhancements on finance receivables of RSBC*
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:
a. for reverse repurchase transactions, securities;
b. for commercial lending, government guarantee; and
c. for retail lending, mortgages over real estate and chattel.

The fair value of collateral held against finance receivables which are impaired, representing land and building, amounted to ₱119.8 million and ₱35.2 million as of December 31, 2010 and 2009, respectively.

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

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

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

*Collateral and other credit enhancements on trade receivables of CAI*
As collateral against trade receivables from sales ticket offices or agents, CAI requires cash bonds from major sales ticket offices or agents ranging from ₱50,000 to ₱2.1 million depending on CAI's assessment of sales ticket offices and agents' credit standing and volume of transactions. As of December 31, 2010 and 2009, outstanding cash bonds (included under 'Accounts payable and other accrued liabilities' in the consolidated statement of financial position) amounted to ₱136.9 million and ₱101.0 million, respectively (Note 22).

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

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

Restructuring of loans requires the approval of the following:
- President - for loans amounting to ₱1.00 million and below.
- BOD - for loans larger than ₱1.00 million.

The carrying amount per class of RBSC's restructured loans follows:

| | **2010** | 2009 |
|---|---:|---:|
| Receivables from customers | | |
| Commercial | **₱117,935,920** | ₱– |
| Real estate | **8,808,194** | 19,558,295 |
| Consumption | **1,427,396** | – |
| Total restructured financial assets | **₱128,171,510** | ₱19,558,295 |

Liquidity risk

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities based on undiscounted contractual payments as of December 31, 2010 and 2009:

| | **2010** | | | | | |
|---|---:|---:|---:|---:|---:|---:|
| | **On Demand** | **1 to 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **More Than 5 Years** | **Total** |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | **₱15,339,127,692** | **₱21,555,519,444** | **₱5,399,110,620** | **₱–** | **₱–** | **₱42,293,757,756** |
| Derivative financial assets: | | | | | | |
| Designated as accounting hedges | **–** | **–** | **–** | **102,271,000** | **–** | **102,271,000** |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | **51,745,229** | **81,363,733** | **7,061,527,111** | **–** | **–** | **7,194,636,073** |
| Government | **–** | **33,438,623** | **987,214,384** | **–** | **–** | **1,020,653,007** |
| | **51,745,229** | **114,802,356** | **8,048,741,495** | **–** | **–** | **8,215,289,080** |
| Equity securities: | | | | | | |
| Quoted | **–** | **65,889,872** | **2,088,159,911** | **–** | **285,950,784** | **2,440,000,567** |
| Unquoted | **–** | **–** | **4,516** | **–** | **–** | **4,516** |
| | **–** | **65,889,872** | **2,088,164,427** | **–** | **285,950,784** | **2,440,005,083** |
| | **51,745,229** | **180,692,228** | **10,136,905,922** | **–** | **285,950,784** | **10,655,294,163** |
| Derivative financial assets: | | | | | | |
| Not designated as accounting hedges | **–** | **252,383,064** | **351,587,670** | **480,503,974** | **–** | **1,084,474,708** |
| | **51,745,229** | **433,075,292** | **10,488,493,592** | **480,503,974** | **285,950,784** | **11,739,768,871** |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Government | **–** | **167,716,105** | **3,469,773,351** | **420,607,735** | **1,801,560,956** | **5,859,658,147** |
| Private | **–** | **129,844,052** | **3,568,883,940** | **26,481,478** | **400,364,250** | **4,125,573,720** |
| | **–** | **297,560,157** | **7,038,657,291** | **447,089,213** | **2,201,925,206** | **9,985,231,867** |
| Equity securities: | | | | | | |
| Quoted | **–** | **71,488,208** | **982,542,731** | **–** | **114,532,000** | **1,168,562,939** |
| Unquoted | **–** | **–** | **210,597,671** | **–** | **–** | **210,597,671** |
| | **–** | **71,488,208** | **1,193,140,402** | **–** | **114,532,000** | **1,379,160,610** |
| | **–** | **369,048,365** | **8,231,797,693** | **447,089,213** | **2,316,457,206** | **11,364,392,477** |

(Forward)

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | On Demand | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | More Than 5 Years | Total |
| Receivables: | | | | | | |
| Trade receivables | **₱2,437,994,810** | **₱3,866,500,439** | **₱1,125,240,751** | **₱1,971,082,863** | **₱581,797,422** | **₱9,982,616,285** |
| Finance receivables | **186,089,039** | **961,128,130** | **1,572,539,808** | **5,678,235,721** | **5,088,047,548** | **13,486,040,246** |
| Due from related parties | **2,112,817,872** | **24,214,357** | **89,781,678** | **–** | **–** | **2,226,813,907** |
| Interest receivable | **339,027,005** | **292,579,061** | **79,797,593** | **–** | **–** | **711,403,659** |
| Other receivables | **246,043,981** | **158,776,059** | **858,534,113** | **652,110,572** | **102,201,181** | **2,017,665,906** |
| | **5,321,972,707** | **5,303,198,046** | **3,725,893,943** | **8,301,429,156** | **5,772,046,151** | **28,424,540,003** |
| Refundable security deposits | **273,500,223** | **11,186,473** | **33,559,418** | **163,103,787** | **45,649,726** | **526,999,627** |
| Advances to suppliers | **1,010,171** | **285,151,552** | **104,545,429** | **73,749,965** | **24,583,322** | **489,040,439** |
| Other receivables (included under 'Other noncurrent assets' in the consolidated statement of financial position) | **76,597,929** | **–** | **–** | **11,378,100** | **–** | **87,976,029** |
| | **₱21,063,953,951** | **₱27,957,179,172** | **₱27,983,400,695** | **₱9,579,525,195** | **₱8,444,687,189** | **₱95,028,746,202** |
| Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties') | **₱4,819,445,225** | **₱7,535,900,632** | **₱4,649,995,018** | **₱4,450,351,757** | **₱1,009,026,159** | **₱22,464,718,791** |
| Short-term debt | **–** | **15,368,138,209** | **–** | **–** | **–** | **15,368,138,209** |
| Deposit liabilities | **6,115,394,776** | **1,675,754,989** | **805,023,852** | **1,406,718,140** | **–** | **10,002,891,757** |
| Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position) | **1,078,713,944** | **373,647,753** | **174,243** | **–** | **–** | **1,452,535,940** |
| Deposits from real estate buyers and lessees (included under 'Other current' and 'Noncurrent liabilities' in the consolidated statement of financial position) | **–** | **194,515,293** | **535,831,126** | **3,067,415,775** | **714,441,501** | **4,512,203,695** |
| Derivative financial liability (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position) | **–** | **13,094,803** | **249,299,017** | **546,764,107** | **–** | **809,157,927** |
| Long-term debt (including current portion) | **–** | **2,315,090,104** | **14,149,789,615** | **80,600,292,665** | **20,915,037,758** | **117,980,210,142** |
| | **₱12,013,553,945** | **₱27,476,141,783** | **₱20,390,112,871** | **₱90,071,542,444** | **₱22,638,505,418** | **₱172,589,856,461** |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | On Demand | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | More Than 5 Years | Total |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | ₱10,616,842,525 | ₱6,555,999,021 | ₱1,338,854,419 | ₱– | ₱– | ₱18,511,695,965 |
| Derivative financial assets: | | | | | | |
| Designated as accounting hedges | – | – | 23,650,032 | – | – | 23,650,032 |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Debt securities: | | | | | | |
| Private | – | – | 5,734,722,815 | – | – | 5,734,722,815 |
| Government | – | – | 1,060,703,259 | – | – | 1,060,703,259 |
| | – | – | 6,795,426,074 | – | – | 6,795,426,074 |
| Equity securities: | | | | | | |
| Quoted | – | 56,387,054 | 1,842,452,930 | – | – | 1,898,839,984 |
| Unquoted | – | – | 4,768 | – | – | 4,768 |
| | – | 56,387,054 | 1,842,457,698 | – | – | 1,898,844,752 |
| | – | 56,387,054 | 8,637,883,772 | – | – | 8,694,270,826 |
| Derivative financial assets: | | | | | | |
| Not designated as accounting hedges | – | 159,933,982 | 479,647,945 | – | – | 639,581,927 |
| | – | 216,321,036 | 9,117,531,717 | – | – | 9,333,852,753 |
| AFS investments: | | | | | | |
| Debt securities: | | | | | | |
| Government | – | – | 2,798,952,818 | 2,803,663,523 | – | 5,602,616,341 |
| Private | – | – | 137,537,350 | – | 4,053,636,251 | 4,191,173,601 |
| | – | – | 2,936,490,168 | 2,803,663,523 | 4,053,636,251 | 9,793,789,942 |
| Equity securities: | | | | | | |
| Quoted | – | – | 448,981,721 | 918,161,088 | – | 1,367,142,809 |
| Unquoted | – | – | 72,937,171 | – | – | 72,937,171 |
| | – | – | 521,918,892 | 918,161,088 | – | 1,440,079,980 |
| | | | 3,458,409,060 | 3,721,824,611 | 4,053,636,251 | 11,233,869,922 |
| Receivables: | | | | | | |
| Trade receivables | 1,753,007,720 | 4,511,241,745 | 1,838,055,745 | 2,283,251,957 | 711,062,567 | 11,096,619,734 |
| Finance receivables | – | 3,497,441,765 | 2,808,514,498 | 1,666,961,896 | – | 7,972,918,159 |
| Due from related parties | 1,801,543,481 | 30,461,556 | 88,470,435 | – | – | 1,920,475,472 |
| Interest receivable | 956,408 | 22,118,146 | 415,842,038 | – | – | 438,916,592 |
| Other receivables | 235,105,132 | 483,714,500 | 800,204,054 | 136,108,608 | 45,369,536 | 1,700,501,830 |
| | 3,790,612,741 | 8,544,977,712 | 5,951,086,770 | 4,086,322,461 | 756,432,103 | 23,129,431,787 |
| HTM investments: | | | | | | |
| Private | – | – | – | – | 478,111,408 | 478,111,408 |
| Government | – | – | – | – | 829,712,342 | 829,712,342 |
| Treasury notes | – | – | – | 114,632,521 | 465,429,021 | 580,061,542 |
| | – | – | – | 114,632,521 | 1,773,252,771 | 1,887,885,292 |
| Advances to suppliers | 3,601,630 | 248,527,944 | 45,209,139 | 7,504,772 | 2,501,591 | 307,345,076 |
| Refundable security deposits | – | 11,355,560 | 43,306,683 | 391,075,239 | 46,322,646 | 492,060,128 |
| Other receivables (included under 'Other noncurrent assets' in the consolidated statement of financial position) | – | – | – | 54,172,428 | – | 54,172,428 |
| | ₱14,411,056,896 | ₱15,577,181,273 | ₱19,978,047,820 | ₱8,375,532,032 | ₱6,632,145,362 | ₱64,973,963,383 |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | On Demand | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | More Than 5 Years | Total |
| Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Due to related parties') | ₱6,400,162,335 | ₱10,268,980,164 | ₱2,642,106,855 | ₱3,542,160,073 | ₱1,073,099,986 | ₱23,926,509,413 |
| Short-term debt | – | 14,019,605,299 | – | – | – | 14,019,605,299 |
| Deposit liabilities | 11,691,225,505 | 613,229,478 | 59,021,027 | 1,010,270,595 | 170,206,986 | 13,543,953,591 |
| Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position) | 290,146,787 | 1,237,980,114 | 18,250,623 | 1,517,894,311 | – | 3,064,271,835 |
| Deposits from real estate buyers and lessees (included under 'Other current' and 'Noncurrent liabilities' in the consolidated statement of financial position) | – | 70,491,643 | 211,474,929 | 845,899,716 | 1,192,631,946 | 2,320,498,234 |
| Derivative financial liabilities: (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position) | – | 3,805,492 | 121,085,920 | 625,449,086 | – | 750,340,498 |
| Long-term debt (including current portion) | – | 2,200,196,034 | 7,504,273,336 | 82,588,187,144 | 28,070,349,904 | 120,363,006,418 |
| | ₱18,381,534,627 | ₱28,414,288,224 | ₱10,556,212,690 | ₱90,129,860,925 | ₱30,506,288,822 | ₱177,988,185,288 |

Market Risk

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

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

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Group makes use of derivative financial instruments, such as currency swaps, to hedge foreign currency exposure (Note 8).

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. As of December 31, 2010, 2009 and 2008, approximately 28.0%, 28.0 % and 29.2% of the Group's total sales are denominated in currencies other than the functional currency. In addition, approximately 71.6%, and 71.7% of total debt are denominated in US Dollar as of December 31, 2010 and 2009, respectively. The Group's capital expenditures are likewise substantially denominated in US Dollar.

The tables below summarize the Group's exposure to foreign currency risk as of December 31, 2010 and 2009:

| | 2010 | | |
|---|---|---|---|
| | **US Dollar** | **Other Currencies*** | **Total** |
| **Assets** | | | |
| Cash and cash equivalents | **₱4,632,314,076** | **₱1,049,069,341** | **₱5,681,383,417** |
| Financial assets at FVPL | **8,372,787,677** | **92,459,548** | **8,465,247,225** |
| AFS investments | **6,159,491,706** | **681,714,760** | **6,841,206,466** |
| Receivables | **1,385,157,734** | **2,352,930,584** | **3,738,088,318** |
| Derivative assets | **1,061,647,025** | **–** | **1,061,647,025** |
| Other current assets | **31,205,461** | **–** | **31,205,461** |
| Other noncurrent assets | **175,013,052** | **2,257,526** | **177,270,578** |
| | **21,817,616,731** | **4,178,431,759** | **25,996,048,490** |
| **Liabilities** | | | |
| Accounts payable and accrued expenses | **4,599,401,357** | **2,537,626,831** | **7,137,028,188** |
| Short-term debt | **8,138,178,927** | **6,396,967,483** | **14,535,146,410** |
| Derivative liability | **547,032,270** | **–** | **547,032,270** |
| Long-term debt (including current portion) | **64,401,379,652** | **–** | **64,401,379,652** |
| Other noncurrent liabilities | **923,451,375** | **–** | **923,451,375** |
| | **78,609,443,581** | **8,934,594,314** | **87,544,037,895** |
| **Net Foreign Currency-Denominated Liabilities** | **(₱56,791,826,850)** | **(₱4,756,162,555)** | **(₱61,547,989,405)** |

**Other currencies include Hong Kong Dollar, Singaporean Dollar, Thai Baht, Chinese Yuan, Indonesian Rupiah, Vietnam Dong, Malaysian Ringgit, Korean Won, New Taiwan Dollar, Japanese Yen, Australian Dollar and Euro.*

| | 2009 | | |
|---|---|---|---|
| | US Dollar | Other Currencies* | Total |
| **Assets** | | | |
| Cash and cash equivalents | ₱2,844,387,736 | ₱1,263,913,513 | ₱4,108,301,249 |
| Financial assets at FVPL | 7,750,298,401 | – | 7,750,298,401 |
| AFS investments | 6,919,096,583 | 804,711,919 | 7,723,808,502 |
| Receivables | 1,160,766,960 | 1,923,173,241 | 3,083,940,201 |
| Derivative assets | 308,802,172 | – | 308,802,172 |
| Other noncurrent assets | 189,290,681 | – | 189,290,681 |
| | 19,172,642,533 | 3,991,798,673 | 23,164,441,206 |
| **Liabilities** | | | |
| Accounts payable and accrued expenses | 6,330,842,104 | 2,055,123,632 | 8,385,965,736 |
| Short-term debt | 5,993,617,312 | 6,828,101,045 | 12,821,718,357 |
| Derivative liabilities | 625,449,086 | – | 625,449,086 |
| Long-term debt (including current potion) | 59,097,730,029 | – | 59,097,730,029 |
| Other noncurrent liabilities | 910,665,374 | – | 910,665,374 |
| | 72,958,303,905 | 8,883,224,677 | 81,841,528,582 |
| **Net Foreign Currency-Denominated Liabilities** | (₱53,785,661,372) | (₱4,891,426,004) | (₱58,677,087,376) |

**Other currencies include Hong Kong Dollar, Singaporean Dollar, Thai Baht, Chinese Yuan, Indonesian Rupiah, Vietnam Dong, Malaysian Ringgit, Korean Won, New Taiwan Dollar, Japanese Yen, Australian Dollar and Euro.*

The exchange rates used to convert the Group's US Dollar-denominated assets and liabilities into Philippine Peso as of December 31, 2010 and 2009 follow:

| | **2010** | 2009 |
|---|---|---|
| US Dollar-Philippine Peso exchange rate | **₱43.84 to US$1.00** | ₱46.20 to US$1.00 |

Foreign currency borrowings of certain subsidiaries with fiscal year ending September 30 were converted at ₱43.88 and ₱47.39 to US$1.00 as of September 30, 2010 and 2009, respectively.

The following table sets forth the impact of the range of reasonably possible changes in the US Dollar-Philippine Peso exchange rate on the Group's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the year ended December 31, 2010 and 2009.

| | **2010** | |
|---|---|---|
| **Reasonably Possible Changes in US Dollar-Philippine Peso Exchange Rates** | **Change in Income Before Income Tax** | **Change in Equity** |
| **11.4%** | **(₱6,342,373,647)** | **₱120,593,750** |
| **(11.4)** | **6,342,373,647** | **(120,593,750)** |

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

| | 2008 | |
|---|---|---|
| **Reasonably Possible Changes in US Dollar-Philippine Peso Exchange Rates** | Change in Income Before Income Tax | Change in Equity |
| **10.8%** | (₱2,172,157,209) | (₱875,792,645) |
| **(10.8)** | 2,172,157,209 | 875,792,645 |

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

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

In 2010, 2009 and 2008, changes in fair value of equity instruments held as financial assets at FVPL due to a reasonably possible change in equity indices, with all other variables held constant, will increase profit by ₱28.6 million, ₱38.6 million and ₱17.6 million, respectively, if equity prices will increase by 1.5%. A similar increase in equity indices on AFS equity instruments will also increase net unrealized gains on other comprehensive income by ₱20.6 million, ₱8.1 million and ₱3.2 million as of December 31, 2010, 2009 and 2008, respectively. An equal change in the opposite direction would have decreased equity and profit by the same amount.

*Interest rate risk*
The Group's exposure to market risk for changes in interest rates relates primarily to the Parent Company's and its subsidiaries' long-term debt obligations which are subject to floating rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group makes use of derivative financial instruments, such as interest rate swaps, to hedge the variability in cash flows arising from fluctuation in benchmark interest rates (Note 8).

The following tables show information about the Group's financial instruments that are exposed to interest rate risk and presented by maturity profile:

| | 2010 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **<1 year** | **>1-<2 years** | **>2-<3 years** | **>3-<4 years** | **>4-<5 years** | **>5 years** | **Total (In US Dollar)** | **Total (in Philippine Peso)** | **Debt Issuance Costs** | **Carrying Value (in Philippine Peso)** | **Fair Value** |
| Long-term debt | | | | | | | | | | | |
| Foreign currencies: | | | | | | | | | | | |
| *Floating rate* | | | | | | | | | | | |
| US Dollar loans | **US$82,295,907** | **US$72,880,475** | **US$371,967,803** | **US$63,055,577** | **US$52,559,070** | **US$147,808,596** | **US$790,567,428** | **₱34,658,476,061** | **₱901,854,106** | **₱33,756,621,955** | **₱33,991,244,717** |
| Interest rate (LIBOR plus margin) | | | | | | | | | | | |
| *Fixed rate* | | | | | | | | | | | |
| US Dollar loans | **45,497,730** | **225,256,064** | **290,783,126** | **37,174,793** | **37,948,215** | **109,860,431** | **746,520,359** | **32,734,956,244** | **46,377,747** | **32,688,578,497** | **36,438,487,013** |
| Interest rate (3.7% to12.0%) | | | | | | | | | | | |
| Local currencies: | | | | | | | | | | | |
| *Floating rate* | | | | | | | | | | | |
| Philippine Peso loans | – | – | **2,000,000,000** | – | – | – | – | **2,000,000,000** | – | **2,000,000,000** | **1,835,380,756** |
| Interest rate (3M + MART 1 + 1.0-2.0%) | | | | | | | | | | | |
| *Fixed rate* | | | | | | | | | | | |
| Philippine Peso loans | **7,401,385** | **3,007,956,489** | **4,318,553,226** | **22,009,194,718** | – | – | – | **29,343,105,818** | **132,208,129** | **29,210,897,689** | **31,401,394,228** |
| Interest rate (6.4% to 8.8% | | | | | | | | | | | |
| | | | | | | | **US$1,537,087,784** | **₱98,736,538,123** | **₱1,080,439,982** | **₱97,656,098,141** | **₱103,666,506,714** |

| | 2009 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | <1 year | >1-<2 years | >2-<3 years | >3-<4 years | >4-<5 years | >5 years | Total (In US Dollar) | Total (in Philippine Peso) | Debt Issuance Costs | Carrying Value (in Philippine Peso) | Fair Value |
| Long-term debt | | | | | | | | | | | |
| Foreign currencies: | | | | | | | | | | | |
| *Floating rate* | | | | | | | | | | | |
| US Dollar loans | US$68,584,570 | US$58,686,235 | US$49,151,446 | US$347,945,037 | US$38,754,387 | US$61,814,427 | US$624,936,102 | ₱28,872,574,364 | ₱948,548,284 | ₱27,924,026,080 | ₱26,173,578,904 |
| Interest rate (LIBOR plus margin) | | | | | | | | | | | |
| *Fixed rate* | | | | | | | | | | | |
| US Dollar loans | 47,189,618 | 48,144,869 | 235,424,615 | 297,020,100 | 40,177,103 | 162,311,671 | 830,267,976 | 38,590,522,862 | 74,695,271 | 38,515,827,591 | 39,692,604,253 |
| Interest rate (3.7% to12.0%) | | | | | | | | | | | |
| Local currencies: | | | | | | | | | | | |
| *Floating rate* | | | | | | | | | | | |
| Philippine Peso loans | – | – | – | 2,000,000,000 | – | – | – | 2,000,000,000 | – | 2,000,000,000 | 2,207,471,672 |
| Interest rate (3M + MART 1 + 1.0-2.0%) | | | | | | | | | | | |
| *Fixed rate* | | | | | | | | | | | |
| Philippine Peso loans | 121,885,010 | 7,401,385 | 3,007,956,489 | 4,318,553,226 | 22,009,194,718 | – | – | 29,464,990,828 | 161,646,533 | 29,303,344,295 | 29,688,730,104 |
| Interest rate (6.4% to 8.8% | | | | | | | | | | | |
| | | | | | | | US$1,455,204,078 | ₱98,928,088,054 | ₱1,184,890,088 | ₱97,743,197,966 | ₱97,762,384,933 |

The following table sets forth the impact of the range of reasonably possible changes in the interest rates on the Group's income from floating debt obligations before income tax:

| | **2010** | 2009 |
|---|---|---|
| Reasonably Possible Changes in Interest Rates | Change in Income Before Income Tax | |
| +150 basis points (bps) | (₱104,871,775) | (₱166,942,698) |
| -150 bps | 104,871,775 | 166,942,698 |

Other than the potential impact on income before income tax, there is no other effect on equity.

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

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

| | | **2010** | |
|---|---|---|---|
| | **Reasonably Possible Changes in Market Prices** | **Change in Income Before Income Tax** | **Change in Equity** |
| **Derivative financial assets:** | | | |
| **Designated as accounting hedges** | **1.5%** | **₱4,564,897** | **₱–** |
| | **(1.5)** | **(4,564,897)** | **–** |
| **FVPL** | **1.5** | **(368,795,005)** | **–** |
| | **(1.5)** | **404,654,396** | **–** |
| **AFS** | **1.5** | **–** | **(374,030,961)** |
| | **(1.5)** | **–** | **426,990,357** |
| **Derivative financial assets:** | | | |
| **Not designated as accounting hedges** | **1.5** | **2,343,244** | **–** |
| | **(1.5)** | **(327,626,972)** | **–** |

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

| | Reasonably Possible Changes in Market Prices | 2008 Change in Income Before Income Tax | Change in Equity |
|---|---|---|---|
| Derivative financial assets: | | | |
| Designated as accounting hedges | 1.5% | ₱ 15,404,584 | ₱– |
| | (1.5) | (15,404,584) | – |
| FVPL | 1.5 | (261,625,548) | – |
| | (1.5) | 402,918,148 | – |
| AFS | 1.5 | – | (382,085,372) |
| | (1.5) | – | 435,212,942 |
| Derivative financial assets: | | | |
| Not designated as accounting hedges | 1.5 | – | – |
| | (1.5) | – | – |

*Commodity price risk*
The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel. A change in price by US$10.0 per barrel of jet fuel affects the Group's fuel annual costs on pre-tax income by ₱989.8 million in 2010, ₱938.2 million in 2009 and ₱707.9 million in 2008, assuming no change in volume of fuel is consumed.

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

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

RSBC presently uses historical method, a non-parametric approach for estimating VaR. It estimates future prices/rates directly from historical data based on the assumption that the market movement over the holding period will be the same as a movement which occurred within the specified historical data set.

RSBC observes market risk limits, which are approved by its BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are commensurate to the expected return, 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. The approving authorities include the treasury head, an investment committee composed of top management, and the chairman of the BOD. Limit breaches are periodically presented to the BOD.

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

The historical data used by RSBC covers the most recent 500 business days (approximately 2 years). In accordance with the regulations, RSBC updates its data set no less frequently than once every quarter. RSBC estimates VaR using a 1-day holding period. Initially a $99^{th}$ percentile one-tailed confidence interval was used however in October 2008, RSBC adjusted the VaR confidence level to $99.5^{th}$ percentile, which is higher than the 99% required by the BSP.

*Objectives and limitations of the VaR methodology*
VaR is used by RBSC to measure market risk from the trading of financial instruments. 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.

Historical Simulation, the model being presently used by RSBC is a non-parametric approach of estimating VaR. The returns are not subjected to any functional distribution. VaR is estimated directly from the data without deriving parameters or making assumptions about the entire distribution of the data. This methodology is also based on the premise that the pattern of historical returns is indicative of future returns. This shortcoming is addressed by supplementing the VaR figure with stress testing.

*VaR methodology assumptions and parameters*
Discussed below are the limitations and assumptions applied by RSBC on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss. In statistical terms, rather than giving the entire tail, it is giving an arbitrary point in the tail;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e. an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated; and
d. The shortcoming relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR figure with stress testing.

   VaR backtesting is the process by which financial institutions periodically compare MTM Profit or Loss with the VaR figures to gauge the quality and accuracy of the VaR model. Quarterly backtesting was performed in 2010 and there were no instances that the actual MTM Profit or Loss exceeded the computed VaR figures.

   RSBC supplements the VaR figures with weekly stress testing reported weekly to the MANCOM.

RSBC's interest rate VaR are as follows (in millions):

| | 2010 | | | |
|---|---|---|---|---|
| | **Average** | **High** | **Low** | **Year-end** |
| **Instruments sensitive to local interest rates** | **₱56.83** | **₱96.59** | **₱9.93** | **₱10.63** |
| **Instruments sensitive to foreign interest rates** | **27.50** | **63.03** | **7.18** | **7.18** |
| **Total VaR** | **55.58** | **91.93** | **13.41** | **14.07** |

| | 2009 | | | |
|---|---|---|---|---|
| | Average | High | Low | Year-end |
| Instruments sensitive to local interest rates | ₱26.33 | ₱40.12 | ₱12.60 | ₱38.41 |
| Instruments sensitive to foreign interest rates | 24.18 | 32.98 | 18.49 | 27.48 |
| Total VaR | 34.16 | 42.21 | 24.59 | 39.17 |

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

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

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

Sensitivity analysis for several market factors showing how profit or loss and equity could be affected by changes in the relevant risk factor are in the following tables below. In general, sensitivity is estimated by comparing an initial value to the value derived after a specified change in the market factor, assuming all other variables are constant. The sensitivity of profit or loss may be the estimated effect of the assumed change in interest rates on net interest income, based on assets and liabilities held. The sensitivity of profit or loss may also be the estimated effect of the assumed change in foreign exchange rates on income, based on foreign currency assets and liabilities. On the other hand, AFS investments are revalued using the assumed market factor change to estimate the sensitivity of equity. A negative amount in a table reflects a potential reduction in profit or loss and equity, while a positive amount reflects a potential increase.

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

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Change in basis points** | **Net interest income estimated effect in million pesos** | **Change in basis points** | **Net interest income estimated effect in million pesos** | **Change in basis points** | **Net interest income estimated effect in million pesos** |
| Philippine peso (PhP) | **+50** | **22.71** | **+100** | **45.43** | **+150** | **68.14** |
| | **-50** | **(22.71)** | **-100** | **(45.43)** | **-150** | **(68.14)** |
| USD | **+50** | **(1.70)** | **+100** | **(3.40)** | **+150** | **(5.10)** |
| | **-50** | **1.70** | **-100** | **3.40** | **-150** | **5.10** |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Change in basis points | Net interest income estimated effect in million pesos | Change in basis points | Net interest income estimated effect in million pesos | Change in basis points | Net interest income estimated effect in million pesos |
| Philippine peso (PhP) | +50 | 14.72 | +100 | 29.44 | +150 | 44.16 |
| | -50 | (14.72) | -100 | (29.44) | -150 | (44.16) |
| USD | +50 | (2.09) | +100 | (4.18) | +150 | (6.27) |
| | -50 | 2.09 | -100 | 4.18 | -150 | 6.27 |

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

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

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Change in basis points | Equity estimated effect in million pesos | Change in basis points | Equity estimated effect in million pesos | Change in basis points | Equity estimated effect in million pesos |
| PhP | +50 | (21.18) | +100 | (41.95) | +150 | (62.33) |
| | -50 | 21.18 | -100 | 41.95 | -150 | 62.33 |
| USD | +50 | (14.70) | +100 | (28.45) | +150 | (41.33) |
| | -50 | 14.70 | -100 | 28.45 | -150 | 41.33 |

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

The tables below demonstrate the sensitivity of income to reasonably possible changes in foreign exchange rates. RSBC's equity is not sensitive to changes in foreign exchange rates (amounts in millions).

| | | | **2010** | | | |
|---|---|---|---|---|---|---|
| **USD/PhP FX rate increase/decrease** | **+5%** | **-5%** | **+15%** | **-15%** | **+25%** | **-25%** |
| **Income before income tax estimated effect** | **2.19** | **(2.19)** | **6.58** | **(6.58)** | **10.96** | **(10.96)** |

| | | | 2009 | | | |
|---|---|---|---|---|---|---|
| **USD/PhP FX rate increase/decrease** | +5% | -5% | +15% | -15% | +25% | -25% |
| **Income before income tax estimated effect** | 1.90 | (1.90) | 5.70 | (5.70) | 9.51 | (9.51) |

## 5. Fair Value of Financial Assets and Liabilities

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

*Cash and cash equivalents, receivables (except for finance receivables and installment contract receivables), accounts payable and accrued expenses and short-term debt*
Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

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

*Installment contract receivables*
Fair values of installment contract receivables are based on the discounted value of future cash flows using the applicable rates for similar types of receivables. The discount rates used range from 8.0% to 10.0% in 2010 and 8.0% to 10.1% in 2009.

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

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

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

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

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

*Deposit liabilities and bills payable*
Fair values are estimated using the discounted cash flow methodology using RSBC's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

*Noninterest-bearing refundable security deposits*
The fair values are determined as the present value of estimated future cash flows using prevailing market rates. Discount rates used ranged from 4.3% to 8.7% in 2010, 4.1% to 8.7% in 2009 and 3.2% to 6.7% in 2008.

*Long-term debt*
The fair value of floating rate loans are determined by discounting the future cash flows (interests and principal) using prevailing market rates. The frequency of repricing per year affects the fair value. In general, a loan that is repriced every three months will have a carrying value closer to the fair value than a six-month repriceable loan with similar maturity and interest basis. For loans repricing every six months (in US Dollar), the discount curve ranged from 2.9% to 8.3% in 2010, 0.4% to 6.9% in 2009 and from 1.4% to 3.7% in 2008.

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

The table below presents a comparison by category of the carrying values and estimated fair values of all the Group's financial instruments as of December 31, 2010 and 2009.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| Derivative assets | | | | |
| Designated as accounting hedges | **₱102,271,000** | **₱102,271,000** | ₱23,650,032 | ₱23,650,032 |
| Financial assets at FVPL: | | | | |
| Held-for-trading: | | | | |
| Debt securities: | | | | |
| Private | **6,528,895,745** | **6,528,895,745** | 5,277,566,296 | 5,277,566,296 |
| Government | **1,289,922,199** | **1,289,922,199** | 1,038,368,701 | 1,038,368,701 |
| | **7,818,817,944** | **7,818,817,944** | 6,315,934,997 | 6,315,934,997 |
| Equity securities: | | | | |
| Quoted | **2,440,000,567** | **2,440,000,567** | 1,898,839,984 | 1,898,839,984 |
| Unquoted | **4,516** | **4,516** | 4,768 | 4,768 |
| | **2,440,005,083** | **2,440,005,083** | 1,898,844,752 | 1,898,844,752 |
| Derivative financial assets: | | | | |
| Not designated as accounting hedges | **1,083,907,607** | **1,083,907,607** | 639,581,927 | 639,581,927 |
| | **11,342,730,634** | **11,342,730,634** | 8,854,361,676 | 8,854,361,676 |
| AFS investments: | | | | |
| Debt securities: | | | | |
| Government | **4,775,865,587** | **4,775,865,587** | 4,780,573,833 | 4,780,573,833 |
| Private | **3,695,869,519** | **3,695,869,519** | 3,989,253,211 | 3,989,253,211 |
| | **8,471,735,106** | **8,471,735,106** | 8,769,827,044 | 8,769,827,044 |
| Equity securities: | | | | |
| Quoted | **1,168,562,938** | **1,168,562,938** | 1,367,142,809 | 1,367,142,809 |
| Unquoted | **210,597,671** | **210,597,671** | 72,937,171 | 72,937,171 |
| | **1,379,160,609** | **1,379,160,609** | 1,440,079,980 | 1,440,079,980 |
| | **9,850,895,715** | **9,850,895,715** | 10,209,907,024 | 10,209,907,024 |
| Loans and receivables: | | | | |
| Cash and cash equivalents | **42,110,003,522** | **42,110,003,522** | 18,473,692,704 | 18,473,692,704 |
| Receivables: | | | | |
| Trade receivables | **9,982,616,285** | **9,656,500,995** | 11,096,619,734 | 10,782,955,515 |
| Finance receivables | **9,687,998,417** | **9,730,442,208** | 7,965,950,775 | 7,977,728,362 |
| Due from related parties | **2,226,813,907** | **2,226,813,907** | 1,920,475,472 | 1,920,475,472 |
| Interest receivable | **711,403,659** | **711,403,659** | 438,916,592 | 438,916,592 |
| Other receivables | **2,017,665,905** | **2,093,554,852** | 1,436,094,784 | 1,436,094,784 |
| | **24,626,498,173** | **24,418,715,621** | 22,858,057,357 | 22,556,170,725 |
| | **66,736,501,695** | **66,528,719,143** | 41,331,750,061 | 41,029,863,429 |
| HTM investments: | | | | |
| Government securities | – | – | 377,350,805 | 387,746,068 |
| Treasury notes | – | – | 114,632,521 | 114,897,751 |
| Private bonds | – | – | 478,111,408 | 477,846,178 |
| | – | – | 970,094,734 | 980,489,997 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) (Note 21) | **526,999,627** | **523,338,615** | 492,060,128 | 413,817,161 |
| Advances to suppliers (Note 13) | **489,040,439** | **489,040,439** | 307,345,076 | 307,345,076 |
| Other financial assets (included under 'Other noncurrent assets' in the consolidated statement of financial position) (Note 21) | **87,976,029** | **87,976,029** | 54,172,428 | 54,172,428 |
| | **₱89,136,415,139** | **₱88,924,971,575** | ₱62,243,341,159 | ₱61,873,606,823 |

(Forward)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Liabilities** | | | | |
| Accounts payable and accrued expenses (including noncurrent portion booked under 'Noncurrent liabilities' in the consolidated statements of financial position but excluding 'Due to related parties') | **₱21,226,103,406** | **₱21,226,103,406** | ₱9,835,219,935 | ₱9,835,219,935 |
| Short-term debt | **15,352,046,410** | **15,352,046,410** | 13,960,074,007 | 13,960,074,007 |
| Deposit liabilities | **9,749,514,635** | **9,455,069,817** | 13,536,301,630 | 13,647,950,923 |
| Deposits from real estate buyers and lessees (included under 'Other current' and 'Noncurrent liabilities' in the consolidated statements of financial position) | **4,512,203,695** | **4,267,571,484** | 2,320,498,234 | 2,107,239,151 |
| Due to related parties (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position) | **1,452,535,940** | **1,452,535,940** | 3,064,271,835 | 3,064,271,835 |
| Long-term debt (including current portion) | **97,656,098,141** | **103,666,506,714** | 97,743,197,966 | 97,762,384,933 |
| Total financial liabilities at amortized cost | **149,948,502,227** | **155,419,833,771** | 140,459,563,607 | 140,377,140,784 |
| Financial liabilities at FVPL | | | | |
| Derivative financial liabilities: | | | | |
| Not designated as accounting hedges | **444,863,622** | **262,393,820** | 333,750,044 | 329,944,555 |
| Designated as accounting hedges | **364,294,305** | **546,764,107** | 416,590,454 | 420,395,943 |
| | **809,157,927** | **809,157,927** | 750,340,498 | 750,340,498 |
| | **₱150,757,660,154** | **₱156,228,991,698** | ₱141,209,904,105 | ₱141,127,481,282 |

*Fair Value Hierarchy of Financial Instruments*
The following table shows the Group's financial instruments carried at fair value, analyzed between those whose fair value is based on:

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

| | December 31, 2010 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** |
| **Financial Assets** | | | |
| Derivative financial asset | | | |
| Designated as accounting hedges | **₱–** | **₱102,271,000** | **₱102,271,000** |
| Financial assets at FVPL: | | | |
| Held-for-trading: | | | |
| Debt securities: | | | |
| Private | **6,471,600,623** | **–** | **6,471,600,623** |
| Government | **1,289,922,199** | **–** | **1,289,922,199** |
| | **7,761,522,822** | **–** | **7,761,522,822** |
| Equity securities: | | | |
| Quoted | **2,440,000,567** | **–** | **2,440,000,567** |
| | **10,201,523,389** | **–** | **10,201,523,389** |
| Derivative financial assets: | | | |
| Not designated as accounting hedges | **–** | **1,083,907,607** | **1,083,907,607** |
| | **10,201,523,389** | **1,083,907,607** | **11,285,430,996** |
| AFS investments: | | | |
| Debt securities: | | | |
| Government | **4,775,865,587** | **–** | **4,775,865,587** |
| Private | **3,695,869,519** | **–** | **3,695,869,519** |
| | **8,471,735,106** | **–** | **8,471,735,106** |
| Equity securities: | | | |
| Quoted | **1,168,562,938** | **–** | **1,168,562,938** |
| | **9,640,298,044** | **–** | **9,640,298,044** |
| | **₱19,841,821,433** | **₱1,186,178,607** | **₱21,028,000,040** |
| **Financial Liabilities** | | | |
| Financial liabilities at FVPL: | | | |
| Derivative financial liabilities: | | | |
| Not designated as accounting hedges | **₱–** | **₱262,393,820** | **₱262,393,820** |
| Designated as accounting hedges | **–** | **546,764,107** | **546,764,107** |
| | **₱–** | **₱809,157,927** | **₱809,157,927** |

| | December 31, 2009 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| **Financial Assets** | | | |
| Derivative financial asset | | | |
| Designated as accounting hedges | ₱– | ₱23,650,032 | ₱23,650,032 |
| Financial assets at FVPL: | | | |
| Held-for-trading: | | | |
| Debt securities: | | | |
| Private | 6,220,514,489 | – | 6,220,514,489 |
| Government | 983,124,450 | – | 983,124,450 |
| | 7,203,638,939 | – | 7,203,638,939 |
| Equity securities: | | | |
| Quoted | 1,959,571,981 | – | 1,959,571,981 |
| | 9,163,210,920 | – | 9,163,210,920 |
| Derivative financial instruments: | | | |
| Not designated as accounting hedges | – | 639,581,927 | 639,581,927 |
| | 9,163,210,920 | 639,581,927 | 9,802,792,847 |
| AFS investments: | | | |
| Debt securities: | | | |
| Government | 4,780,573,833 | – | 4,780,573,833 |
| Private | 3,851,715,862 | 137,520,120 | 3,989,235,982 |
| | 8,632,289,695 | 137,520,120 | 8,769,809,815 |
| Equity securities: | | | |
| Quoted | 1,367,142,808 | – | 1,367,142,808 |
| | 9,999,432,503 | 137,520,120 | 10,136,952,623 |
| | ₱19,162,643,423 | ₱800,752,079 | ₱19,963,395,502 |
| **Financial Liabilities** | | | |
| Financial liabilities at FVPL: | | | |
| Derivative financial instruments: | | | |
| Not designated as accounting hedges | ₱– | ₱124,891,412 | ₱124,891,412 |
| Designated as accounting hedges | – | 625,449,085 | 625,449,085 |
| | ₱– | ₱750,340,497 | ₱750,340,497 |

In 2010 and 2009, there were no transfers between level 1 and level 2 fair value measurements.

## 6. Segment Information

Operating Segments

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

The industry segments where the Group operates are as follows:

- Food, agro-industrial and commodities businesses - manufacturing of snack foods, granulated coffee and pre-mixed coffee, chocolates, candies, biscuits, instant noodles, ice cream and frozen novelties, pasta and tomato-based products and canned beans; raising of hog, chicken and manufacturing and distribution of animal feeds, corn products and vegetable oil and the synthesis of veterinary compound; and sugar milling and refining and flour milling.
- Air transportation - air transport services.
- Telecommunications - service provider of voice and data telecommunications services which include international gateway facilities, a local exchange network and traditional business services (fax, telex, leased lines and other value-added network products, value-added network provider using electronics data interchange).
- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.
- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), and other industrial chemicals.
- Banking - commercial and thrift banking operations.
- Other supplementary businesses - printing services, textile insurance brokering, foreign exchange and securities dealing.

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

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

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', 'Earnings before interest and income taxes (EBIT)' and 'Earnings before interest, income taxes and depreciation/amortization (EBITDA)' as of and for the years ended December 31, 2010, 2009 and 2008.

The Group’s operating segment information follows:

| | December 31, 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Foods, Agro-Industrial and Commodities | Air Transportation | Tele-communications | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | TOTAL OPERATIONS |
| **Revenue** | | | | | | | | | |
| Sale of goods and services: | | | | | | | | | |
| External customer | ₱57,719,996,079 | ₱29,088,798,959 | ₱16,543,916,906 | ₱10,581,142,605 | ₱3,306,184,683 | ₱1,728,555,680 | ₱– | ₱– | ₱118,968,594,912 |
| Intersegment revenue | – | – | – | – | 566,078,600 | – | – | (566,078,600) | – |
| | 57,719,996,079 | 29,088,798,959 | 16,543,916,906 | 10,581,142,605 | 3,872,263,283 | 1,728,555,680 | – | (566,078,600) | 118,968,594,912 |
| Equity in net income (loss) of associates and joint ventures | 25,246,000 | 25,248,534 | – | 2,648,908,487 | – | – | 69,321,701 | – | 2,768,724,722 |
| **Total Revenue** | 57,745,242,079 | 29,114,047,493 | 16,543,916,906 | 13,230,051,092 | 3,872,263,283 | 1,728,555,680 | 69,321,701 | (566,078,600) | 121,737,319,634 |
| Cost of sales and services (Note 30) | 41,113,405,237 | 16,792,906,706 | 2,074,712,276 | 5,131,720,440 | 3,745,456,507 | 456,351,939 | – | (566,078,600) | 68,748,474,505 |
| **Gross Income** | ₱16,631,836,842 | ₱12,321,140,787 | ₱14,469,204,630 | ₱8,098,330,652 | ₱126,806,776 | ₱1,272,203,741 | ₱69,321,701 | ₱– | 52,988,845,129 |
| General and administrative expenses (Note 31) | | | | | | | | | 30,543,058,596 |
| Impairment losses and others (Note 34) | | | | | | | | | 705,866,816 |
| **Operating Income** | | | | | | | | | 21,739,919,717 |
| Financing cost and other charges (Note 35) | | | | | | | | | (6,087,474,168) |
| Finance income (Note 28) | | | | | | | | | 2,216,082,709 |
| Other operating income(Note 29) | | | | | | | | | 838,638,164 |
| **Core earnings** | | | | | | | | | 18,707,166,422 |
| Market valuation gain (loss) on financial assets | | | | | | | | | 1,626,938,050 |
| Foreign exchange loss | | | | | | | | | 2,846,297,517 |
| **Income before income tax** | | | | | | | | | 23,180,401,989 |
| Provision for income tax (Note 38) | | | | | | | | | 2,265,838,657 |
| **Net income** | | | | | | | | | ₱20,914,563,332 |
| **Net income (loss) from equity holders of the Parent Company** | ₱5,014,063,930 | ₱6,555,670,912 | ₱262,352,853 | ₱4,818,939,274 | (₱102,146,004) | ₱298,339,070 | (₱89,038,495) | (₱436,581,739) | ₱16,321,599,801 |
| **Earnings before interest and income tax** | ₱7,678,208,385 | ₱6,475,374,244 | ₱1,231,416,000 | ₱3,867,898,445 | (₱90,617,302) | ₱342,860,225 | ₱ 2,234,779,720 | ₱– | ₱21,739,919,717 |
| Depreciation and amortization (Notes 16, 17, 18, 19, 21 and 33) | 3,419,905,367 | 2,100,929,764 | 5,877,050,996 | 1,912,198,868 | 131,665,885 | 65,085,613 | 39,407,744 | – | 13,546,244,237 |
| **Earnings before interest, income taxes and depreciation/amortization (EBITDA)** | ₱11,098,113,752 | ₱8,576,304,008 | ₱7,108,466,996 | ₱5,780,097,313 | ₱41,048,583 | ₱407,945,838 | ₱2,274,187,464 | ₱– | ₱35,286,163,954 |
| **Other Information** | | | | | | | | | |
| Non-cash expenses other than depreciation and amortization: | | | | | | | | | |
| Impairment losses on receivables (Note 11) | ₱163,552,126 | ₱2,127,309 | ₱357,402,880 | ₱– | ₱1,248,635 | ₱151,285,298 | ₱12,670,357 | ₱– | ₱688,286,605 |
| Inventory obsolescence and market decline (Note 12) | 248,805 | – | 2,480,671 | – | 14,850,735 | – | – | – | 17,580,211 |
| | ₱163,800,931 | ₱2,127,309 | ₱359,883,551 | ₱– | ₱16,099,370 | ₱151,285,298 | ₱12,670,357 | ₱– | ₱705,866,816 |

| | December 31, 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Foods, Agro-Industrial and Commodities | Air Transportation | Tele-communications | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | TOTAL OPERATIONS |
| **Revenue** | | | | | | | | | |
| Sale of goods and services: | | | | | | | | | |
| External customer | ₱50,452,959,964 | ₱23,311,006,311 | ₱14,020,021,311 | ₱10,376,286,528 | ₱5,570,751,354 | ₱1,134,848,716 | ₱– | ₱– | ₱104,865,874,184 |
| Intersegment revenue | – | – | – | – | 564,551,354 | – | – | (564,551,354) | – |
| | 50,452,959,964 | 23,311,006,311 | 14,020,021,311 | 10,376,286,528 | 6,135,302,708 | 1,134,848,716 | – | (564,551,354) | 104,865,874,184 |
| Equity in net income (loss) of associates and joint ventures | 25,246,000 | (25,474,123) | – | 2,903,040,251 | – | – | 186,490,631 | – | 3,089,302,759 |
| **Total Revenue** | 50,478,205,964 | 23,285,532,188 | 14,020,021,311 | 13,279,326,779 | 6,135,302,708 | 1,134,848,716 | 186,490,631 | (564,551,354) | 107,955,176,943 |
| Cost of sales and services (Note 30) | 37,477,094,637 | 14,420,146,122 | 1,656,424,753 | 5,036,271,310 | 6,092,856,205 | 284,770,693 | – | (564,551,354) | 64,403,012,366 |
| **Gross Income** | ₱13,001,111,327 | ₱8,865,386,066 | ₱12,363,596,558 | ₱8,243,055,469 | ₱42,446,503 | ₱850,078,023 | ₱186,490,631 | ₱– | 43,552,164,577 |
| General and administrative expenses (Note 31) | | | | | | | | | 27,258,681,692 |
| Impairment losses and others (Note 34) | | | | | | | | | 1,073,630,250 |
| **Operating Income** | | | | | | | | | 15,219,852,635 |
| Financing cost and other charges (Note 35) | | | | | | | | | (6,309,924,955) |
| Finance income (Note 28) | | | | | | | | | 1,563,859,497 |
| Other operating income (Note 29) | | | | | | | | | 203,197,210 |
| **Core earnings** | | | | | | | | | 10,676,984,387 |
| Market valuation gain (loss) on financial assets | | | | | | | | | 2,329,679,030 |
| Foreign exchange loss | | | | | | | | | (21,627,447) |
| **Income before income tax** | | | | | | | | | 12,985,035,970 |
| Provision for income tax (Note 38) | | | | | | | | | 1,217,229,896 |
| **Net income** | | | | | | | | | ₱11,767,806,074 |
| **Net income (loss) from equity holders of the Parent Company** | ₱2,482,978,163 | ₱3,257,833,344 | ₱129,382,986 | ₱4,865,312,459 | (₱511,103,296) | ₱202,811,777 | (₱1,982,226,173) | ₱100,652,340 | ₱8,545,641,600 |
| **Earnings before interest and income tax** | ₱4,650,690,173 | ₱3,138,568,639 | ₱1,026,760,362 | ₱4,110,947,313 | ₱30,828,344 | ₱241,993,240 | ₱2,020,064,564 | ₱– | ₱15,219,852,635 |
| Depreciation and amortization (Notes 16, 17, 18, 19, 21 and 33) | 3,196,942,269 | 1,917,683,713 | 4,819,148,414 | 1,668,846,295 | 127,702,927 | 55,780,264 | 32,556,875 | – | 11,818,660,757 |
| **Earnings before interest, income taxes and depreciation/amortization (EBITDA)** | ₱7,847,632,442 | ₱5,056,252,352 | ₱5,845,908,776 | ₱5,779,793,608 | ₱158,531,271 | ₱297,773,504 | ₱2,052,621,439 | ₱– | ₱27,038,513,392 |
| **Other Information** | | | | | | | | | |
| Non-cash expenses other than depreciation and amortization: | | | | | | | | | |
| Impairment losses on receivables (Note 11) | ₱228,279,324 | ₱209,662,427 | ₱288,655,343 | ₱1,000,601 | ₱– | ₱37,565,551 | ₱430,771 | ₱– | ₱765,594,017 |
| Realized loss on AFS investments (Note 10) | 185,454,636 | – | – | – | – | – | 62,358,161 | – | 247,812,797 |
| Inventory obsolescence and market decline (Note 12) | – | – | 10,626,100 | – | 49,597,336 | – | – | – | 60,223,436 |
| | ₱413,733,960 | ₱209,662,427 | ₱299,281,443 | ₱1,000,601 | ₱49,597,336 | ₱37,565,551 | ₱62,788,932 | ₱– | ₱1,073,630,250 |

| | December 31, 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Foods, Agro-Industrial and Commodities | Air Transportation | Tele-communications | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | TOTAL OPERATIONS |
| **Revenue** | | | | | | | | | |
| Sale of goods and services: | | | | | | | | | |
| External customer | ₱45,454,500,015 | ₱19,682,140,058 | ₱11,351,149,841 | ₱10,672,746,492 | ₱8,479,117,287 | ₱1,038,942,792 | ₱– | ₱– | ₱96,678,596,485 |
| Intersegment revenue | – | – | – | – | 804,902,669 | – | – | (804,902,669) | – |
| | 45,454,500,015 | 19,682,140,058 | 11,351,149,841 | 10,672,746,492 | 9,284,019,956 | 1,038,942,792 | – | (804,902,669) | 96,678,596,485 |
| Equity in net income (loss) of associates and joint ventures | 28,184,000 | 15,530,008 | – | 1,977,777,384 | – | – | 368,339,408 | – | 2,389,830,800 |
| **Total Revenue** | 45,482,684,015 | 19,697,670,066 | 11,351,149,841 | 12,650,523,876 | 9,284,019,956 | 1,038,942,792 | 368,339,408 | (804,902,669) | 99,068,427,285 |
| Cost of sales and services (Note 30) | 34,599,920,305 | 13,937,810,300 | 1,101,731,262 | 6,042,573,107 | 9,040,235,739 | 311,381,043 | – | (804,902,669) | 64,228,749,087 |
| **Gross Income** | ₱10,882,763,710 | ₱5,759,859,766 | ₱10,249,418,579 | ₱6,607,950,769 | ₱243,784,217 | ₱727,561,749 | ₱368,339,408 | ₱– | 34,839,678,198 |
| General and administrative expenses (Note 31) | | | | | | | | | 22,708,399,834 |
| Impairment losses and others (Note 34) | | | | | | | | | 827,124,734 |
| **Operating Income** | | | | | | | | | 11,304,153,630 |
| Financing cost and other charges (Note 35) | | | | | | | | | (6,033,237,404) |
| Finance income (Note 28) | | | | | | | | | 2,514,281,808 |
| Other operating income (Note 29) | | | | | | | | | 1,377,122,100 |
| **Core earnings** | | | | | | | | | 9,162,320,134 |
| Market valuation gain (loss) on financial assets | | | | | | | | | (₱7,139,159,069) |
| Foreign exchange loss | | | | | | | | | (2,930,519,010) |
| **Income before income tax** | | | | | | | | | (907,357,945) |
| Provision for income tax (Note 38) | | | | | | | | | (321,828,720) |
| **Net income** | | | | | | | | | (₱585,529,225) |
| **Net income (loss) from equity holders of the Parent Company** | ₱233,765,961 | (₱3,259,898,168) | (₱985,232,104) | ₱3,868,105,913 | (₱673,802,846) | ₱143,592,558 | ₱230,234,659 | (₱250,432,059) | (₱693,666,086) |
| **Earnings before interest and income tax** | ₱3,688,201,692 | ₱1,743,390,543 | ₱764,358,000 | ₱3,329,263,930 | (₱111,499,721) | ₱206,443,223 | ₱1,683,995,963 | ₱– | ₱11,304,153,630 |
| Depreciation and amortization (Notes 16, 17, 18, 19, 21 and 33) | 2,807,244,548 | 1,546,753,381 | 3,746,624,524 | 1,557,862,231 | 114,694,290 | 54,925,651 | 32,582,917 | – | 9,860,687,542 |
| **Earnings before interest, income taxes and depreciation/amortization (EBITDA)** | ₱6,495,446,240 | ₱3,290,143,924 | ₱4,510,982,524 | ₱4,887,126,161 | ₱3,194,569 | ₱261,368,874 | ₱1,716,578,880 | ₱– | ₱21,164,841,172 |
| **Other Information** | | | | | | | | | |
| Non-cash expenses other than depreciation and amortization: | | | | | | | | | |
| Impairment losses on receivables (Note 11) | ₱94,901,001 | ₱28,700,892 | ₱229,479,529 | ₱18,982,104 | ₱– | ₱16,333,309 | ₱7,882,223 | ₱– | ₱396,279,058 |
| Realized loss on AFS investments (Note 10) | 11,674,554 | – | – | – | – | – | – | – | 11,674,554 |
| Inventory obsolescence and market decline (Note 12) | 192,391,148 | – | 27,546,306 | – | 108,308,472 | – | 90,925,196 | – | 419,171,122 |
| | ₱298,966,703 | ₱28,700,892 | ₱257,025,835 | ₱18,982,104 | ₱108,308,472 | ₱16,333,309 | ₱98,807,419 | ₱– | ₱827,124,734 |

Other information on the Group's operating segment follows:

| | December 31, 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Foods, Agro-Industrial and Commodities** | **Air Transportation** | **Tele-communications** | **Real Estate and Hotels** | **Petrochemicals** | **Banking** | **Other Supplementary Businesses** | **Adjustments and Eliminations** | **Consolidated** |
| Investments in associates and joint ventures (Note 15) | **₱89,497,240** | **₱369,644,738** | **₱–** | **₱29,361,243,640** | **₱–** | **₱–** | **₱605,376,630** | **₱–** | **₱30,425,762,248** |
| Segment assets | **₱65,367,175,366** | **₱50,116,559,705** | **₱90,897,908,000** | **₱53,101,135,224** | **₱7,679,208,825** | **₱24,590,673,476** | **₱157,085,570,977** | **(₱122,514,595,174)** | **₱326,323,636,399** |
| Short-term debt | **₱5,111,859,534** | **₱–** | **₱449,404,721** | **₱–** | **₱2,255,696,545** | **₱–** | **₱7,535,085,610** | **₱–** | **₱15,352,046,410** |
| Long-term debt | **₱11,226,348,770** | **₱18,432,708,704** | **₱15,264,176,622** | **₱15,000,000,000** | **₱–** | **₱–** | **₱37,732,864,044** | **₱–** | **₱97,656,098,140** |
| Segment liabilities | **₱23,528,934,357** | **₱39,729,399,583** | **₱90,853,393,000** | **₱25,363,707,010** | **₱9,687,852,790** | **₱19,955,942,974** | **₱88,934,335,230** | **(₱121,190,325,898)** | **₱176,863,239,046** |
| Capital expenditures (Notes 16 and 17) | **₱3,582,808,089** | **₱6,870,792,379** | **₱12,694,797,000** | **₱4,698,283,286** | **₱1,319,212,632** | **₱153,287,990** | **₱66,572,158** | **₱–** | **₱29,385,753,534** |

| | December 31, 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Foods, Agro-Industrial and Commodities | Air Transportation | Tele-communications | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | Consolidated |
| Investments in associates and joint ventures (Note 15) | ₱88,302,733 | ₱366,355,686 | ₱– | ₱26,626,094,598 | ₱– | ₱– | ₱1,011,126,142 | ₱– | ₱28,091,879,159 |
| Segment assets | ₱60,917,950,331 | ₱35,591,204,150 | ₱83,725,608,216 | ₱51,479,307,022 | ₱5,248,099,544 | ₱16,893,565,238 | ₱164,601,785,584 | (₱140,577,520,694) | ₱277,879,999,391 |
| Short-term debt | ₱5,665,218,301 | ₱– | ₱1,212,643,276 | ₱– | ₱2,168,777,981 | ₱– | ₱4,913,434,449 | ₱– | ₱13,960,074,007 |
| Long-term debt | ₱12,246,869,931 | ₱17,110,126,732 | ₱13,359,923,482 | ₱15,115,000,000 | ₱– | ₱– | ₱39,911,277,821 | ₱– | ₱97,743,197,966 |
| Segment liabilities | ₱24,431,619,892 | ₱30,770,012,847 | ₱82,376,561,514 | ₱25,912,830,845 | ₱7,157,097,505 | ₱14,880,400,126 | ₱96,237,964,699 | (₱108,780,982,692) | ₱172,985,504,736 |
| Capital expenditures (Notes 16 and 17) | ₱3,874,730,827 | ₱3,417,786,209 | ₱11,455,872,915 | ₱3,851,120,580 | ₱149,606,829 | ₱60,602,281 | ₱76,093,420 | ₱– | ₱22,885,813,061 |

| | December 31, 2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Foods, Agro-Industrial and Commodities | Air Transportation | Tele-communications | Real Estate and Hotels | Petrochemicals | Banking | Other Supplementary Businesses | Adjustments and Eliminations | Consolidated |
| Investments in associates and joint ventures (Note 15) | ₱93,056,645 | ₱377,459,904 | ₱– | ₱ 23,606,644,454 | ₱– | ₱– | ₱ 1,068,553,200 | ₱– | ₱25,145,714,203 |
| Segment assets | ₱57,930,635,067 | ₱32,833,399,842 | ₱75,233,781,063 | ₱40,310,560,786 | ₱6,336,242,574 | ₱12,707,398,273 | ₱145,529,677,951 | (₱119,995,224,396) | ₱250,886,471,160 |
| Short-term debt | ₱11,070,284,642 | ₱– | ₱1,270,292,359 | ₱677,000,000 | ₱4,035,141,138 | ₱– | ₱8,083,880,233 | ₱– | ₱25,136,598,372 |
| Long-term debt | ₱9,477,802,291 | ₱17,956,530,573 | ₱11,137,961,744 | ₱5,340,000,000 | ₱– | ₱– | ₱33,027,231,483 | ₱– | ₱76,939,526,091 |
| Segment liabilities | ₱25,786,205,311 | ₱31,348,290,611 | ₱74,144,450,313 | ₱17,323,591,262 | ₱7,734,137,239 | ₱10,955,222,107 | ₱75,756,659,863 | (₱84,824,225,940) | ₱158,224,330,766 |
| Capital expenditures (Notes 16 and 17) | ₱5,058,082,407 | ₱6,982,639,323 | ₱12,528,795,000 | ₱3,954,143,743 | ₱132,156,273 | ₱114,938,408 | ₱2,133,149 | ₱– | ₱28,772,888,303 |

Intersegment revenues
Intersegment revenues are eliminated at the consolidation level.

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

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

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

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

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

The following table shows the distribution of the Group's consolidated revenues to external customers by geographical market, regardless of where the goods were produced:

| | **2010** | 2009 |
|---|---|---|
| Domestic | **₱87,630,644,068** | ₱77,752,057,338 |
| Foreign | **34,106,675,566** | 30,203,119,605 |
| | **₱121,737,319,634** | ₱107,955,176,943 |

The Group has no significant customer which contributes 10.0% or more of the consolidated revenues of the Group.

The table below shows the Group's carrying amounts of noncurrent assets per geographic location excluding noncurrent financial assets and pension assets:

| | 2010 | 2009 |
|---|---|---|
| Domestic | **₱178,077,982,308** | ₱158,993,359,999 |
| Foreign | **36,789,883,404** | 34,300,359,451 |
| | **₱214,867,865,712** | ₱193,293,719,450 |

## 7. Cash and Cash Equivalents

This account consists of:

| | 2010 | 2009 |
|---|---|---|
| Cash on hand | **₱783,767,940** | ₱869,249,578 |
| Cash in banks | **12,564,138,386** | 8,386,398,762 |
| Cash equivalents | **28,762,097,196** | 9,218,044,364 |
| | **₱42,110,003,522** | ₱18,473,692,704 |

Cash in bank earns interest at the respective bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group, and earn annual interest ranging from 0.3% to 4.8%, 0.1% to 7.3% and 0.6% to 5.4% in 2010, 2009 and 2008, respectively.

Interest income earned from cash in banks and cash equivalents amounted to ₱0.9 billion, ₱0.4 billion and ₱0.9 billion in 2010, 2009 and 2008, respectively (Note 28).

## 8. Derivative Financial Instruments

The tables below show the fair value of the Group's outstanding derivative financial instruments, reported as assets or liabilities, together with their notional amounts as of December 31, 2010 and 2009. The notional amount is the basis upon which changes in the value of derivatives are measured.

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Notional Amounts | | | | | |
| | US Dollar | Euro | Philippine Peso | Philippine Peso Equivalent | Derivative Assets | Derivative Liabilities |
| **Derivatives Not Designated as Accounting Hedges** | | | | | | |
| Freestanding: | | | | | | |
| Interest rate swaps | **US$200,630,192** | **€–** | **₱2,000,000,000** | **₱10,795,627,617** | **₱111,066,241** | **₱431,768,819** |
| Commodity options* | **–** | **–** | **–** | **–** | **489,917,466** | **–** |
| Foreign currency forwards | **6,885,000** | **19,512,607** | **–** | **1,434,223,278** | **2,419,926** | **595,499** |
| Currency options | **–** | **300,000** | **–** | **17,410,050** | **–** | **12,499,304** |
| Embedded: | | | | | | |
| Currency forwards | **247,395,482** | **–** | **–** | **10,845,817,931** | **480,503,974** | **–** |
| | **454,910,674** | **19,812,607** | **2,000,000,000** | **23,093,078,876** | **1,083,907,607** | **444,863,622** |
| **Derivatives Designated as Accounting Hedges** | | | | | | |
| Freestanding: | | | | | | |
| Interest rate swaps | **200,000,000** | **–** | **–** | **8,768,000,000** | **–** | **364,294,305** |
| Cross currency swaps | **12,723,500** | **–** | **–** | **645,604,563** | **102,271,000** | **–** |
| | **212,723,500** | **–** | **–** | **9,413,604,563** | **102,271,000** | **364,294,305** |
| | **US$667,634,174** | **€19,812,607** | **₱2,000,000,000** | **₱32,506,683,439** | **₱1,186,178,607** | **₱809,157,927** |
| **Presented in the consolidated statements of financial position as:** | | | | | | |
| Current | | | | | **₱1,186,178,607** | **₱262,393,820** |
| Noncurrent | | | | | **–** | **546,764,107** |
| | | | | | **₱1,186,178,607** | **₱809,157,927** |

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

| | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Notional Amounts | | | | | |
| | US Dollar | Euro | Philippine Peso | Philippine Peso Equivalent | Derivative Assets | Derivative Liabilities |
| **Derivatives Not Designated as Accounting Hedges** | | | | | | |
| Freestanding: | | | | | | |
| Interest rate swaps | US$154,089,073 | €– | ₱2,000,000,000 | ₱9,118,915,173 | ₱102,985,391 | ₱309,858,632 |
| Commodity options* | – | – | – | – | 227,794,364 | – |
| Foreign currency forwards | 32,863,695 | – | – | 1,518,302,709 | 890,296 | 3,805,492 |
| Currency options | – | 800,000 | | 53,331,680 | 4,566,710 | 20,085,920 |
| Embedded: | | | | | | |
| Currency forwards | 318,127,535 | – | – | 14,697,492,117 | 303,345,166 | – |
| | 505,080,303 | 800,000 | 2,000,000,000 | 25,388,041,679 | 639,581,927 | 333,750,044 |
| **Derivatives Designated as Accounting Hedges** | | | | | | |
| Freestanding: | | | | | | |
| Interest rate swaps | 200,000,000 | – | – | 9,240,000,000 | – | 416,590,454 |
| Cross currency swaps | 10,723,500 | – | – | 534,156,088 | 23,650,032 | – |
| | 210,723,500 | – | – | 9,774,156,088 | 23,650,032 | 416,590,454 |
| | US$715,803,803 | €800,000 | ₱2,000,000,000 | ₱35,162,197,767 | ₱663,231,959 | ₱750,340,498 |
| **Presented in the consolidated statements of financial position as:** | | | | | | |
| Current | | | | | ₱663,231,959 | ₱124,891,412 |
| Noncurrent | | | | | – | 625,449,086 |
| | | | | | ₱663,231,959 | ₱750,340,498 |

**Nominal quantity amounted to 420,000 US barrels as of December 31, 2009.*

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

- Interest rate swaps
  On May 28, 2008, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of ₱2.0 billion to hedge its interest rate exposures on the Inverse Floating Rate Notes bearing an interest of 15.7% less 3-month (3M) benchmark rate (PDST-F). The interest rate swap has a term of five years and interest exchange is every 5$^{th}$ day of March, June, September and December. Under the agreement, the Group agreed with the counterparty to exchange at quarterly intervals, the Group's floating rate which is based on 3M PSDT-F but not to exceed 15.7% and the counterparty's fixed interest rates. The swap agreement effectively fixes the Group's interest rate exposures on the inverse floating note to 8.8%. As of December 31, 2010 and 2009, the positive fair values of this interest rate swap agreement amounted to ₱111.1 million and ₱103.0 million gain, respectively.

  On October 6, 2008, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of US$100.0 million to hedge its interest rate exposures on the long-term USD floating rate liability. The interest rate swap has a term of eight years and interest exchange is every 29th day of March and 28th day of September.

  On June 27, 2008, the Group entered into an interest rate swap option (swaption) with a notional amount of US$100.0 million. Under the swaption, the Group provided an option to the counterparty to enter into a swap where the Group would pay a fixed rate of 3.7% and receives LIBOR every interest payment date (every June 16 and December 16). The option is exercisable on December 12, 2008. If the option is exercised, the first swap payment would cover the interest period December 16, 2008 to June 16, 2009. The option premium amounted to $0.3 million and was recognized in the consolidated statements of comprehensive income.

  As of December 12, 2008, the option was exercised and the resulting interest rate swap was used to hedge the interest cash flow variability arising from the movements in the benchmark LIBOR of the remaining US$100.0 million of the US$300.0 million loan starting December 16, 2008. The terms of the swaps (i.e., benchmark rate, notional amount, fixing dates and maturity date) coincide with the hedged loan.

  As of December 31, 2010 and 2009, the negative fair values of this interest rate swap amounted to ₱182.5 million and ₱208.8 million, respectively.

  In 2010, the Group entered to an interest rate swap agreement with a bank, with a total notional amount of US$100.6 million to hedge its interest rate exposures on the long-term USD floating rate liability. The interest rate swap has a term of six years and interest exchange is every 28th day of June and 29th day of December. As of December 31, 2010 and 2009, the negative fair value of this interest rate swap amounted to ₱249.3 million and ₱101.0 million, respectively.

- Commodity options
  The Group entered into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a credit to or charge against profit or loss. As of December 31, 2010 and 2009, the Group has outstanding fuel hedging transactions with notional quantity of 845,000 US barrels and 420,000 US barrels, respectively. The options can be exercised at various calculation dates with specified quantities on each calculation date. As of December 31, 2010, the options have various maturity dates through December 31, 2011.

  As of December 31, 2010 and 2009, the positive fair values of the commodity options amounted to ₱489.9 million and ₱227.8 million gain, respectively.

- Foreign currency forwards
  The Group entered into short-term nondeliverable foreign currency forward contracts. The Group's short-term forwards have varying tenors ranging from one to three months and have a total notional amount of US$6.9 million and €19.5 million as of December 31, 2010 and US$32.9 million as of December 31, 2009. The positive and negative fair values of these foreign currency forwards amounted to ₱2.4 million and ₱0.6 million and ₱0.9 million and ₱3.8 million as of December 31, 2010 and 2009, respectively.

- Currency options
  The Group entered into currency options that are all due within one year from respective reporting dates and have a total notional amount of €0.3 million and €0.8 million as of December 31, 2010 and 2009, respectively. The positive and negative fair values of these currency options amounted to nil and ₱12.5 million and ₱4.6 million and ₱20.1 million as of December 31, 2010 and 2009, respectively.

- Embedded forwards
  The Group has derivatives embedded in some of its contracts. Such derivatives pertain to embedded currency forwards noted in purchase, sales and service contracts, denominated in a currency which is not the functional currency of a substantial party to the contract or routine currency of the transaction for the contracts. The total outstanding notional amount of currency forwards embedded in nonfinancial contracts amounted to US$247.4 million and US$318.1 million as of December 31, 2010 and 2009, respectively. The nonfinancial contracts consist mainly of foreign currency-denominated purchase orders with various expected delivery dates. The nonfinancial contracts have various expected delivery dates ranging from 12 to 40 months.

  As of December 31, 2010 and 2009, the positive fair values of the embedded forwards amounted to ₱480.5 million and ₱303.3 million, respectively.

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

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

- Interest rate swaps
  On April 23, 2008 and May 9, 2008, the Group entered into two interest rate swaps with amortizing notional amount of US$100.0 million each. The swaps are intended to hedge the interest rate exposure due to the movements in the benchmark LIBOR on $200.0 million of the $300.0 million Guaranteed Term Loan Facility due 2013 (Note 24). Under the swaps, the Group pays fixed and receives LIBOR every interest payment date (every June 16 and December 16). The effectivity of both swaps is on June 16, 2008 and maturity date is on June 16, 2013. The terms of the swaps (i.e., benchmark rate, notional amount, fixing dates and maturity date) coincide with the hedged loan.

  As of December 31, 2010 and 2009, the negative fair value of the swaps amounted to ₱364.3 million and ₱416.6 million.

- Currency swaps
  On January 27, 2010, July 16, 2009 and June 11, 2008, RSBC entered into a long-term currency swap agreements to hedge the foreign exchange risk on 100.00% of certain AFS investments. Under these agreements, RSBC effectively swaps the principal amount and interest from certain US dollar-denominated AFS investments into Philippine peso-denominated cash inflows of principal and interest to be received up to February 15, 2011 and February 15, 2013, respectively. As of December 31, 2010 and 2009, the positive fair value of the currency swaps amounted to ₱102.3 million and ₱23.7 million, respectively.

  The related AFS investment has a carrying value and fair value amounting to ₱572.5 million and ₱548.6 million as of December 31, 2010 and 2009.

  As of December 31, 2010 and 2009, the net unrealized market losses charged to other comprehensive income amounted to ₱58.9 million and ₱49.2 million, respectively.

<u>Hedge Effectiveness Results</u>
As of December 31, 2010 and 2009, the net effective fair value changes on the Group's cash flow hedges that were deferred in other comprehensive income under 'Net unrealized gain (loss) on cash flow hedge' amounting to ₱133.3 million and ₱468.2 million, respectively.

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

Net Unrealized Loss on Cash Flow Hedge

Movements in the net unrealized loss on cash flow hedge consist of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Beginning balance | **(₱397,499,329)** | (₱865,669,863) | ₱– |
| Net changes shown in other comprehensive income (Note 36): | | | |
| Net changes in fair value of derivatives taken to other comprehensive income | **135,476,018** | 201,547,165 | (899,284,256) |
| Amounts transferred to profit or loss | **(2,185,780)** | 266,623,369 | 33,614,393 |
| | **133,290,238** | 468,170,534 | (865,669,863) |
| | **(₱264,209,091)** | (₱397,499,329) | (₱865,669,863) |

*Fair value changes on derivatives*

The net movements in fair value of the Group's derivative financial instruments follow:

| | **2010** | 2009 |
|---|---|---|
| Balance at beginning of year: | | |
| Derivative assets | **₱663,231,959** | ₱1,138,164,659 |
| Derivative liabilities | **(750,340,498)** | (2,956,680,046) |
| | **(87,108,539)** | (1,818,515,387) |
| Net changes in fair value of derivatives taken to profit or loss | **(2,185,780)** | 266,623,369 |
| Net changes in fair value of derivatives taken to other comprehensive income | **135,476,018** | 201,547,165 |
| Fair value of settled instruments | **330,838,981** | 1,263,236,314 |
| | **464,129,219** | 1,731,406,848 |
| Balance at end of year: | | |
| Derivative assets | **1,186,178,607** | 663,231,959 |
| Derivative liabilities | **(809,157,927)** | (750,340,498) |
| | **₱377,020,680** | (₱87,108,539) |

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

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

These investments that are held for trading consist of:

| | **2010** | 2009 |
|---|---|---|
| Debt securities: | | |
| Private | **₱6,528,895,745** | ₱5,277,566,296 |
| Government | **1,289,922,199** | 1,038,368,701 |
| | **7,818,817,944** | 6,315,934,997 |
| Equity securities: | | |
| Quoted | **2,440,000,567** | 1,898,839,984 |
| Unquoted | **4,516** | 4,768 |
| | **2,440,005,083** | 1,898,844,752 |
| | **₱10,258,823,027** | ₱8,214,779,749 |

The Group has recognized net market valuation gains on financial assets at FVPL amounting to ₱1.2 billion and ₱2.0 billion in 2010 and 2009, respectively, and net market valuation loss on financial assets at FVPL amounting to ₱3.7 billion in 2008.

Interest income on FVPL consists of (Note 28):

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Debt securities: | | | |
| Private | **₱585,286,153** | ₱698,650,939 | ₱712,330,382 |
| Government | **104,017,469** | 64,450,422 | 263,410,574 |
| | **₱689,303,622** | ₱763,101,361 | ₱975,740,956 |

Reclassification of Financial Assets at FVPL

Following the amendments to PAS 39 and PFRS 7, the Group reclassified certain trading assets from the 'Financial assets at FVPL' category to the 'AFS investments' category in the December 31, 2008 consolidated statements of financial position. The 2008 global credit crunch had prompted the amendments to be issued by the IASB, and the adoption of these amendments permitted the Group to revisit the existing classification of their financial assets. The Group identified assets, eligible under the amendments, for which at July 1, 2008, it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. The disclosures below detail the impact of the reclassifications in the Group's consolidated financial statements.

The following table shows the carrying values of the reclassified assets:

| | **September 30, 2010*** | September 30, 2009* | September 30, 2008* |
|---|---|---|---|
| Private bonds | **₱3,238,990,528** | ₱3,851,715,862 | ₱3,296,606,883 |
| Government securities | **2,543,989,688** | 2,559,491,290 | 2,224,382,820 |
| Equity securities | **943,694,250** | 896,441,088 | 783,853,000 |
| | **₱6,726,674,466** | ₱7,307,648,240 | ₱6,304,842,703 |

**URC and Subsidiaries' financial year-end*

As of reclassification date, effective interest rates on reclassified trading assets ranged from 6.06% to 18.94%, with expected recoverable cash flows of ₱12.5 billion. The range of effective interest rates were determined based on weighted average rates by business.

Prior to reclassification, reduction in the fair values of the Group's financial assets at FVPL at July 1, 2008 amounted to ₱1.3 billion, which is included under 'Market valuation gain (loss) on financial assets at FVPL' in the 2008 consolidated statements of comprehensive income.

Had the reclassification not been made, the Group's consolidated statements of comprehensive income for the years ended December 31, 2010 and 2009 would have included an additional market valuation gain on financial assets at FVPL amounting to ₱0.4 billion and ₱1.1 billion, respectively, and a market valuation loss on FVPL amounting to ₱826.2 million for the year ended December 31, 2008.

After reclassification, the reclassified financial assets contributed the following amounts to income before income taxes for the years ended December 31, 2010, 2009 and 2008, respectively:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Increase (reduction) in: | | | |
| Interest income | **₱16,478,340** | ₱15,402,694 | (₱4,472,252) |
| Foreign exchange gains (losses) | **(42,496,452)** | 7,907,802 | (74,970,771) |
| Provision for impairment losses | – | (185,454,636) | (11,674,554) |

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

## 10. Available-for-Sale Investments

This account consists of investments in:

| | **2010** | 2009 |
|---|---|---|
| Debt securities: | | |
| Government | **₱4,775,865,587** | ₱4,780,573,833 |
| Private | **3,695,869,519** | 3,989,253,211 |
| | **8,471,735,106** | 8,769,827,044 |
| Equity securities: | | |
| Quoted | **1,168,562,938** | 1,367,142,809 |
| Unquoted | **210,597,671** | 72,937,171 |
| | **1,379,160,609** | 1,440,079,980 |
| | **₱9,850,895,715** | ₱10,209,907,024 |

The fair value of hedged items under AFS investment amounted to ₱532.7 million net of accumulated discount of ₱7.2 million as of December 31, 2010 and ₱535.9 million, net of accumulated premium of ₱38.6 million as of December 31, 2009.

As of December 31, 2010, AFS investments include the investments reclassified from HTM investments (Note 14).

In 2010, 2009 and 2008, the Group recognized permanent decline on its AFS investments under private debt securities amounting to nil, ₱185.5 million and ₱11.7 million, respectively , and on its AFS investments under quoted equity securities amounting to nil, ₱62.3 million and nil, respectively, (included under 'Impairment losses and others' in the statements of comprehensive income) (Note 34).

Interest income recognized on AFS debt investments are as follows (Note 28):

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Debt securities: | | | |
| Government | **₱353,189,546** | ₱125,210,572 | ₱37,670,409 |
| Private | **323,429,132** | 292,158,000 | 103,472,456 |
| | **₱676,618,678** | ₱417,368,572 | ₱141,142,865 |

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

| | **2010** | | |
|---|---|---|---|
| | **Parent Company** | **Non-controlling interests** | **Total** |
| Balance at beginning of period | **₱178,341,156** | **₱50,132,492** | **₱228,473,648** |
| Net changes shown in other comprehensive income: | | | |
| Fair value changes during the period on AFS investments of Parent Company and subsidiaries (Note 36) | **106,666,366** | **157,090,810** | **263,757,176** |
| Realized gain on sale of AFS investments (Note 29) | **(68,821,240)** | **(4,133,156)** | **(72,954,396)** |
| | **37,845,126** | **152,957,654** | **190,802,780** |
| Net unrealized gain on AFS investments of an associate (Note 15) | **175,748** | **–** | **175,748** |
| | **38,020,874** | **152,957,654** | **190,978,528** |
| Balance at end of period | **₱216,362,030** | **₱203,090,146** | **₱419,452,176** |

| | 2009 | | |
|---|---|---|---|
| | Parent Company | Non-controlling interests | Total |
| Balance at beginning of period | (₱1,338,927,963) | (₱717,804,732) | (₱2,056,732,695) |
| Net changes shown in other comprehensive income (Note 36): | | | |
| Fair value changes during the period on AFS investments of Parent Company and subsidiaries | 1,363,231,837 | 699,500,070 | 2,062,731,907 |
| Realized loss (gain) on sale of AFS investments (Note 29) | (29,534,936) | 1,437,984 | (28,096,952) |
| Reclassification adjustments for losses determined to be permanent decline included in profit or loss (Note 34) | 180,813,627 | 66,999,170 | 247,812,797 |
| | 1,514,510,528 | 767,937,224 | 2,282,447,752 |
| Net unrealized gain on AFS investments of an associate (Note 15) | 2,758,591 | – | 2,758,591 |
| | 1,517,269,119 | 767,937,224 | 2,285,206,343 |
| Balance at end of period | ₱178,341,156 | ₱50,132,492 | ₱228,473,648 |

| | 2008 | | |
|---|---|---|---|
| | Parent Company | Non-controlling interests | Total |
| Balance at beginning of period | ₱710,537,158 | ₱– | ₱710,537,158 |
| Net changes shown in other comprehensive income (Note 36): | | | |
| Fair value changes during the period on AFS investments of Parent Company and subsidiaries | (1,955,459,601) | (722,316,815) | (2,677,776,416) |
| Realized gain on sale of AFS investments (Note 29) | (99,769,988) | – | (99,769,988) |
| Reclassification adjustments for losses determined to be permanent decline included in profit or loss (Note 34) | 7,162,471 | 4,512,083 | 11,674,554 |
| | (2,048,067,118) | (717,804,732) | (2,765,871,850) |
| Net unrealized gain on AFS investments of an associate (Note 15) | (1,398,003) | – | (1,398,003) |
| | (2,049,465,121) | (717,804,732) | (2,767,269,853) |
| Balance at end of period | (₱1,338,927,963) | (₱717,804,732) | (₱2,056,732,695) |

## 11. **Receivables**

This account consists of:

| | **2010** | 2009 |
|---|---|---|
| Trade receivables | **₱12,035,940,022** | ₱13,482,471,736 |
| Finance receivables | **10,198,213,416** | 8,153,953,185 |
| Due from related parties (Note 40) | **2,226,813,907** | 1,920,475,472 |
| Interest receivable | **711,403,659** | 438,916,592 |
| Other receivables | **2,465,740,847** | 1,783,924,679 |
| | **27,638,111,851** | 25,779,741,664 |
| Less allowance for impairment losses | **3,011,613,678** | 2,921,684,307 |
| | **₱24,626,498,173** | ₱22,858,057,357 |

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

| | **2010** | 2009 |
|---|---|---|
| Current portion | **₱14,609,814,424** | ₱18,149,006,089 |
| Noncurrent portion | **10,016,683,749** | 4,709,051,268 |
| | **₱24,626,498,173** | ₱22,858,057,357 |

Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group amounting to ₱2.5 billion and ₱3.2 billion as of December 31, 2010 and 2009. These are collectible in monthly installments over a period of between one year to five years and earn annual interest ranging from 8.2% to 9.8% based on the remaining principal balance.

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

Finance Receivables

Breakdown of finance receivables, which represent receivables from customers of RSBC, follows:

| | **2010** | 2009 |
|---|---|---|
| Receivables from customers: | | |
| Commercial | **₱5,707,520,977** | ₱4,229,474,348 |
| Real estate | **2,180,067,491** | 1,667,221,072 |
| Consumption | **1,985,635,932** | 2,018,275,394 |
| Domestic bills purchased | **325,494,068** | 239,763,411 |
| | **10,198,718,468** | 8,154,734,225 |
| Less unearned interest and discounts | **505,052** | 781,040 |
| | **₱10,198,213,416** | ₱8,153,953,185 |

Interest income on finance receivables, included under 'Banking revenue' in the consolidated statements of comprehensive income, consists of (Notes 27 and 28):

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Receivables from customers: | | | |
| Commercial | **₱433,849,503** | ₱336,696,334 | ₱329,806,001 |
| Consumption | **312,436,100** | 292,560,298 | 178,967,035 |
| Real estate | **190,097,977** | 152,171,504 | 121,086,591 |
| Domestic bills purchased | **1,127,396** | 1,099,216 | 685,477 |
| Unquoted debt securities | **9,075,686** | 141,025 | 2,288,776 |
| | **₱946,586,662** | ₱782,668,377 | ₱632,833,880 |

Interest income on impaired loans in 2010, 2009 and 2008 amounted to ₱10.3 million, ₱27.8 million and ₱31.7 million, respectively.

Others

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

Allowance for Impairment Losses on Receivables

Changes in the allowance for impairment losses on receivables follow:

| | **December 31, 2010** | | | | | |
|---|---|---|---|---|---|---|
| | **Individual Assessment** | | | **Collective Assessment** | | |
| | **Trade Receivables** | **Finance Receivables** | **Other Receivables** | **Trade Receivables** | **Finance Receivables** | **Total** |
| Balance at beginning of year | **₱438,608,398** | **₱98,554,451** | **₱347,829,895** | **₱1,947,243,604** | **₱89,447,959** | **₱2,921,684,307** |
| Beginning balance of the acquired subsidiary (Note 45) | **–** | **180,413,407** | **1,571,213** | **–** | **–** | **181,984,620** |
| Provision for impairment losses (Note 34) | **42,651,210** | **117,602,538** | **136,947,217** | **357,402,880** | **33,682,760** | **688,286,605** |
| Accounts written-off | **(187,354,562)** | **–** | **(25,340,714)** | **(545,227,793)** | **(9,486,116)** | **(767,409,185)** |
| Effect of changes in foreign currency rates | **–** | **–** | **(12,932,669)** | **–** | **–** | **(12,932,669)** |
| Balance at end of year | **₱293,905,046** | **₱396,570,396** | **₱448,074,942** | **₱1,759,418,691** | **₱113,644,603** | **₱3,011,613,678** |

| | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | | Individual Assessment | | Collective Assessment | | |
| | Trade Receivables | Finance Receivables | Other Receivables | Trade Receivables | Finance Receivables | Total |
| Balance at beginning of year | ₱346,325,472 | ₱102,092,205 | ₱44,506,180 | ₱2,500,180,509 | ₱50,927,129 | ₱3,044,031,495 |
| Provision for impairment losses (Note 34) | 138,046,408 | 18,589,197 | 303,323,715 | 286,658,343 | 18,976,354 | 765,594,017 |
| Accounts written-off | (45,598,733) | (22,126,951) | – | (839,595,248) | – | (907,320,932) |
| Recoveries | (164,749) | – | – | – | 19,544,476 | 19,379,727 |
| Balance at end of year | ₱438,608,398 | ₱98,554,451 | ₱347,829,895 | ₱1,947,243,604 | ₱89,447,959 | ₱2,921,684,307 |

## 12. **Inventories**

This account consists of inventories held as follows:

| | **2010** | 2009 |
|---|---|---|
| At cost: | | |
| Raw materials | **₱2,968,663,884** | ₱2,737,340,914 |
| Finished goods | **2,594,612,996** | 1,609,746,783 |
| | **5,563,276,880** | 4,347,087,697 |
| At NRV: | | |
| Subdivision land, condominium and residential units for sale | **6,197,307,815** | 5,084,164,042 |
| Spare parts, packaging materials and other supplies | **3,166,755,860** | 2,857,316,781 |
| Work-in-process | **123,324,844** | 123,322,642 |
| By-products | **34,418,138** | 13,788,689 |
| | **9,521,806,657** | 8,078,592,154 |
| Materials in-transit | **1,227,970,661** | 650,122,976 |
| | **₱16,313,054,198** | ₱13,075,802,827 |

Under the terms of agreements covering liabilities under trust receipts amounting to ₱2.1 billion and ₱2.3 billion as of December 31, 2010 and 2009, respectively, certain inventories have been released to the Group in trust for the creditor banks (Note 24). The Group is accountable to the banks for the value of the trusteed inventories or their sales proceeds.

Inventory written-down as expense (included under 'Cost of sales and services' account in the consolidated statements of comprehensive income) amounted to ₱459.7 million, ₱438.4 million and ₱332.8 million in 2010, 2009 and 2008, respectively.

Inventory obsolescence and market decline (included under 'Impairment losses and others' account in the consolidated statements of comprehensive income) amounted to ₱17.6 million, ₱60.2 million and ₱419.2 million in 2010, 2009 and 2008, respectively (Note 34).

## 13. **Other Current Assets**

This account consists of:

| | **2010** | 2009 |
|---|---|---|
| Input VAT - net | **₱4,734,148,479** | ₱4,824,908,172 |
| Prepaid expenses | **870,463,452** | 771,094,651 |
| Advances to suppliers | **622,669,290** | 537,576,894 |
| Restricted cash in bank | **21,966,461** | 33,698,718 |
| Others | **14,192,962** | 100,753,949 |
| | **₱6,263,440,644** | ₱6,268,032,384 |

As of December 31, 2010 and 2009, the gross amount of output VAT deducted from input VAT amounted to ₱5.6 billion and ₱5.1 billion, respectively.

Prepaid expenses include:

| | **2010** | 2009 |
|---|---|---|
| Prepaid rent | **₱307,122,061** | ₱267,468,251 |
| Prepaid taxes | **284,975,016** | 195,950,274 |
| Prepaid insurance | **119,503,439** | 142,616,585 |
| Prepaid advertising | **31,174,783** | 8,959,148 |
| Prepaid office supplies | **4,120,510** | 3,510,047 |
| Prepaid commission | **–** | 6,454,765 |
| Other prepaid expenses | **123,567,643** | 146,135,581 |
| | **₱870,463,452** | ₱771,094,651 |

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

## 14. **Held-to-Maturity Investments**

As of December 31, 2009, this account consists of:

| | |
|---|---|
| Private bonds | ₱478,111,408 |
| Government securities | 377,350,805 |
| Treasury notes | 114,632,521 |
| | ₱970,094,734 |

As of December 31, 2009, the Group's HTM investments are carried net of accumulated unearned premium amounting to ₱70.4 million. The aggregate market value of HTM investments amounted to ₱980.5 million as of December 31, 2009.

The Group has recognized interest income on HTM investments included in 'Other interest income' account of amounting to ₱88.9 million in 2010, ₱48.6 million in 2009 and ₱22.0 million in 2008 (Note 28).

*Reclassification from HTM investments to AFS investments*
RSBC participated in the Global Bond Exchange offered by the Republic of the Philippines on September 20, 2010 and swapped its HTM investments amounting to ₱280.90 million. Such transaction was exempted from the tainting rule as approved by the Philippine SEC and BSP thru its Memorandum No. 2010-27 exempting all Banks and non-Bank BSP-supervised financial institutions who will exempt the debt exchange offerings from the "tainting rule". Under SEC rules, the securities received should be recognized as HTM, and any gain or loss on exchange is amortized over the life of the new securities using the effective interest method. However, under PFRS, RSBC breached the tainting rule provisions of PAS 39. To conform with PFRS, RSBC reclassified all of its HTM investments to AFS investments.

## 15. Investments in Associates and Joint Ventures

This account consists of:

| | **2010** | 2009 |
|---|---|---|
| Acquisition cost: | | |
| Balance at beginning of year | **₱19,312,878,180** | ₱19,135,310,256 |
| Additional investments | **594,409,921** | 275,708,252 |
| Disposal of investments | **–** | (98,140,328) |
| Return of investment from an associate | **(179,812,500)** | – |
| Balance at end of year | **19,727,475,601** | 19,312,878,180 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **8,928,612,045** | 6,505,746,920 |
| Equity in net earnings | **2,768,724,722** | 3,089,302,759 |
| Share in unrealized gain on AFS investments of an associate (Note 10) | **175,748** | 2,758,591 |
| Accumulated equity in net losses of disposed investment | **–** | 97,777,706 |
| Cash dividends received | **(697,648,858)** | (766,973,931) |
| Balance at end of year | **10,999,863,657** | 8,928,612,045 |
| Cumulative translation adjustment | **75,711,565** | 99,843,440 |
| | **30,803,050,823** | 28,341,333,665 |
| Less allowance for impairment losses | **377,288,575** | 249,454,506 |
| | **₱30,425,762,248** | ₱28,091,879,159 |

The Group's equity in the net assets of its associates and joint ventures and the related percentages of ownership are shown below:

| | Percentage of Ownership | | Equity in Net Assets | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | | | (In Million Pesos) | |
| **Associates** | | | | |
| Foreign: | | | | |
| United Industrial Corp., Limited (UICL) | **35.99** | 35.37 | **₱29,361.3** | ₱26,626.1 |
| Domestic: | | | | |
| Jobstreet.com Philippines, Inc. (JPI) | **40.00** | 40.00 | **25.4** | 30.9 |
| Sterling Holdings and Security Corporation (SHSC) | **49.00** | 49.00 | – | 127.8 |
| Bauang Private Power Corporation (BPPC)/First Private Power Corporation (FPPC) | **20.00** | 20.00 | **190.1** | 469.0 |
| Cebu Light Industrial Park, Inc. (CLIPI) | **20.00** | 20.00 | **55.4** | 53.6 |
| Oriental Petroleum and Minerals Corporation (OPMC) | **19.40** | 19.40 | **334.5** | 329.8 |
| | | | **29,966.7** | 27,637.2 |
| **Joint Ventures** | | | | |
| Domestic: | | | | |
| Aviation Partnership (Philippines) Corp. (APPC) | **32.11** | 49.00 | **117.1** | 108.6 |
| Digitel Crossing (DC) | **19.83** | 19.93 | – | – |
| SIA Engineering (Philippines) Corp. (SIAEP) | **22.94** | 35.00 | **252.5** | 257.8 |
| Hunt-Universal Robina Corporation (HURC) | **32.07** | 31.94 | **89.5** | 88.3 |
| | | | **459.1** | 454.7 |
| | | | **₱30,425.8** | ₱28,091.9 |

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

As of December 31, 2010 and 2009, the Group's investments in the following listed investee companies have a fair value of:

| | **2010** | 2009 |
|---|---|---|
| UICL | **₱41,704,635,852** | ₱33,542,568,759 |
| OPMC | **504,506,623** | 543,314,824 |

Investment in UICL

Financial information of UICL follows:

| | **2010** | 2009 |
|---|---|---|
| Current assets | **₱27,678,586,135** | ₱36,516,850,862 |
| Noncurrent assets | **208,758,782,594** | 176,874,702,963 |
| Current liabilities | **33,194,307,055** | 29,908,677,216 |
| Noncurrent liabilities | **25,187,533,925** | 33,200,588,707 |
| Non-controlling interest | **52,258,990,698** | 48,923,066,501 |
| Revenue | **33,673,880,390** | 33,446,091,249 |
| Cost of sales | **19,128,414,463** | 20,056,869,943 |
| Net income | **7,510,333,330** | 16,151,586,914 |

UICL follows the revaluation method of measuring investment properties while the Group follows the cost method of measuring its investment properties. The financial information of UICL above represents the adjusted amounts after reversal of the effect of revaluation and depreciation on the said assets.

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

| | **2010** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Statement of Financial Position** | | | | **Statement of Comprehensive Income** | | |
| **Associate** | **Current Assets** | **Noncurrent Assets** | **Current Liabilities** | **Noncurrent Liabilities** | **Revenue** | **Costs and Expenses** | **Net Income** |
| BPPC | **₱251,028,366** | **₱423,801** | **₱13,639,150** | **₱–** | **₱455,088,194** | **₱388,586,375** | **(₱7,252,272)** |
| CLIPI | **526,682,111** | **339,241,517** | **586,755,828** | **2,301,973** | **94,342,162** | **84,397,904** | **9,102,149** |
| OPMC | **996,088,684** | **1,481,703,049** | **24,844,435** | **132,875,182** | **773,041,782** | **255,859,337** | **149,491,920** |
| SHSC | **263,669,519** | **–** | **2,783,663** | **–** | **–** | **–** | **–** |
| JPI | **233,638,685** | **11,678,023** | **202,057,745** | **3,299,855** | **227,025,603** | **111,681,941** | **69,004,713** |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Statement of Financial Position | | | | Statement of Comprehensive Income | | |
| **Associate** | Current Assets | Noncurrent Assets | Current Liabilities | Noncurrent Liabilities | Revenue | Costs and Expenses | Net Income |
| FPPC | ₱2,730,082,463 | ₱2,271,434,920 | ₱274,982,261 | ₱2,204,266,495 | ₱952,241,693 | ₱525,074,733 | ₱588,454,812 |
| CLIPI | 611,750,647 | 261,322,962 | 604,029,824 | 1,280,107 | 69,677,021 | 67,065,459 | 2,290,470 |
| OPMC | 584,691,492 | 2,220,434,786 | 247,534,102 | 220,191,926 | 312,375,560 | 145,006,838 | 139,354,387 |
| SHSC | 263,669,519 | – | 2,783,663 | – | – | – | – |
| JPI | 215,080,620 | 12,417,030 | 146,790,961 | 3,452,934 | 174,344,773 | 81,677,810 | 61,767,942 |

Investment in FPPC/BPPC

On October 14, 2010, the BOD and stockholders of Bauang Private Power Corporation (BPPC) and FPPC approved a Plan of Merger where FPPC shall be merged into and be part of BPPC, and its separate corporate existence shall cease by operation of law. Subsequently, on December 13, 2010, the Philippine SEC approved the Certificate of Filing of the Articles and Plan of Merger. On December 15, 2010, the effective date of the Merger, FPPC transferred its assets and liabilities at their carrying values to BPPC.

Pursuant to the Articles of Merger, BPPC issued common stock to holders of FPPC common stock upon the surrender and cancellation of the common stock of FPPC. The merger was accounted for in accordance with the pooling of interest method where the identifiable assets acquired and liabilities assumed from FPPC are recognized at their carrying values and is accounted for prospectively.

Investment in Joint Ventures

*SIAEP*

SIAEP is a jointly controlled entity which was incorporated on July 27, 2008 and was established for the purpose of providing line and light maintenance services to foreign and local airlines, utilizing the facilities and services at airports in the Philippines, as well as aircraft maintenance and repair organizations. SIAEP has started commercial operations on August 17, 2009.

The summary of information below is adjusted to the proportionate share of the Group in the assets and liabilities as at December 31, 2010 and 2009 and income and expenses of the jointly controlled entities for the years ended December 31, 2010 and 2009.

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

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Statement of Financial Position | | | | Statement of Comprehensive Income | | |
| **Joint Venture** | Current Assets | Noncurrent Assets | Current Liabilities | Noncurrent Liabilities | Revenue | Costs and Expenses | Net Income (Loss) |
| APPC | ₱156,952,518 | ₱36,911,423 | ₱80,166,575 | ₱4,152,578 | ₱183,232,885 | ₱115,374,053 | ₱16,876,347 |
| HURC | 93,187,381 | 3,779,330 | 70,828,827 | 2,555,264 | 245,327,808 | 153,781,220 | 16,355,315 |
| SIAEP | 63,200,032 | 225,245,858 | 27,877,999 | – | 15,991,373 | 30,492,022 | (42,350,470) |
| DC | 26,209,331 | 101,370,101 | 31,881,734 | 401,082 | 22,990,677 | 20,457,987 | 2,132,300 |

## 16. **Investment Properties**

Movements in this account follow:

| | 2010 | | | | |
|---|---|---|---|---|---|
| | **Land and Land Improvements** | **Buildings and Improvements** | **Theater Furniture and Equipment** | **Construction In-Progress** | **Total** |
| **Cost** | | | | | |
| Balance at beginning of period | **₱10,111,824,149** | **₱26,213,113,183** | **₱260,137,142** | **₱2,651,257,533** | **₱39,236,332,007** |
| Additions | **1,723,694,832** | **917,470,013** | **42,243,750** | **1,814,322,856** | **4,497,731,451** |
| Retirement/disposals | **(24,000,472)** | **–** | **–** | **–** | **(24,000,472)** |
| Transfers/other adjustments | **5,340,906** | **2,742,466,842** | **21,479,813** | **(2,970,778,193)** | **(201,490,632)** |
| Balance at end of period | **11,816,859,415** | **29,873,050,038** | **323,860,705** | **1,494,802,196** | **43,508,572,354** |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balances at beginning of period | **46,387,003** | **9,444,919,234** | **213,334,787** | **–** | **9,704,641,024** |
| Depreciation and amortization | **4,799,085** | **1,599,297,113** | **21,653,014** | **–** | **1,625,749,212** |
| Retirements/disposals | **(803,923)** | **–** | **–** | **–** | **(803,923)** |
| Balance at end of period | **50,382,165** | **11,044,216,347** | **234,987,801** | **–** | **11,329,586,313** |
| **Net Book Value at End of Period** | **₱11,766,477,250** | **₱18,828,833,691** | **₱88,872,904** | **₱1,494,802,196** | **₱32,178,986,041** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Land and Land Improvements | Buildings and Improvements | Theater Furniture and Equipment | Construction In-Progress | Total |
| **Cost** | | | | | |
| Balance at beginning of period | ₱10,011,836,566 | ₱23,294,700,371 | ₱254,274,144 | ₱2,454,179,853 | ₱36,014,990,934 |
| Additions | 188,074,749 | 765,269,563 | 5,862,998 | 2,350,220,929 | 3,309,428,239 |
| Retirements/disposals | (95,786,429) | – | – | – | (95,786,429) |
| Transfers/other adjustments | 7,699,263 | 2,153,143,249 | – | (2,153,143,249) | 7,699,263 |
| Balance at end of period | 10,111,824,149 | 26,213,113,183 | 260,137,142 | 2,651,257,533 | 39,236,332,007 |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balances at beginning of period | 41,092,269 | 8,043,554,759 | 194,034,512 | – | 8,278,681,540 |
| Depreciation and amortization | 5,294,734 | 1,401,364,475 | 19,300,275 | – | 1,425,959,484 |
| Balance at end of period | 46,387,003 | 9,444,919,234 | 213,334,787 | – | 9,704,641,024 |
| **Net Book Value at End of Period** | ₱10,065,437,146 | ₱16,768,193,949 | ₱46,802,355 | ₱2,651,257,533 | ₱29,531,690,983 |

Investment properties consist mainly of land held for appreciation, shopping malls and commercial centers and office buildings that are held to earn rentals. Most of the Group's properties are in prime locations across the Philippines.

Borrowing Costs

Borrowing costs capitalized to subdivision land, condominium and residential units for sale and investment properties under construction amounted to ₱985.0 million, ₱631.0 million and ₱331.0 million in 2010, 2009 and 2008, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2010, 2009 and 2008 ranges from 7.5% to 12.0%.

Fair Value of Investment Properties

The fair value of investment properties, which has been determined based on valuations performed by an independent and professionally property appraiser as of September 30, 2009, exceeds its carrying cost. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The fair value as of the date of appraisal amounted to ₱50.0 billion.

The value of the investment properties was arrived at using the *Market Data Approach*. In this approach, the value of the investment properties is based on sales and listings of comparable property registered in the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as a basis for comparison are situated within the immediate vicinity of the subject property.

Rent Income from Investment Properties
Consolidated rent income from investment properties included under 'Real estate and hotels revenue' in the consolidated statements of comprehensive income amounted to ₱5.6 billion, ₱5.1 billion and ₱4.2 billion in 2010, 2009 and 2008, respectively.

Direct Operating Expenses
Direct operating expenses pertaining to rental operations (included under 'Cost of sales and services' and 'General and administrative expenses' accounts in the consolidated statements of comprehensive income) amounted to ₱1.8 billion, ₱1.6 billion and ₱1.5 billion in 2010, 2009 and 2008, respectively.

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Depreciation and amortization expense included under: | | | |
| Cost of services (Note 30) | **₱1,618,429,509** | ₱1,420,605,645 | ₱1,326,991,166 |
| General and administrative expenses (Note 31) | **7,319,703** | 5,353,839 | 4,347,539 |
| | **₱1,625,749,212** | ₱1,425,959,484 | ₱1,331,338,705 |

Collaterals
As of December 31, 2010, 2009 and 2008, the Group has no investment properties that are pledged as collateral.

17. **Property, Plant and Equipment**

The composition of and movements in this account follow:

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Land and Improvements** | **Buildings and Improvements** | **Machinery and Equipment** | **Tele-communications Equipment** | **Investment in Cable Systems** | **Sub-total** |
| **Cost** | | | | | | |
| Balance at beginning of year | ₱3,732,515,791 | ₱18,137,067,379 | ₱43,120,859,847 | ₱49,897,066,990 | ₱758,846,202 | ₱115,646,356,209 |
| Additions | 396,225,368 | 635,182,416 | 1,605,317,626 | 321,534,312 | – | 2,958,259,722 |
| Transfers, disposals and other adjustments | (106,077,114) | 598,885,740 | 353,098,550 | 26,443,376,406 | 31,880,653 | 27,321,164,235 |
| Balance at end of year | 4,022,664,045 | 19,371,135,535 | 45,079,276,023 | 76,661,977,708 | 790,726,855 | 145,925,780,166 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at beginning of year | 399,166,287 | 7,420,637,719 | 25,887,769,257 | 27,382,972,193 | 192,698,516 | 61,283,243,972 |
| Depreciation and amortization | 59,266,548 | 828,018,941 | 2,767,259,768 | 3,508,427,387 | 45,499,857 | 7,208,472,501 |
| Disposals and other adjustments | 132,613,275 | 46,375,885 | (393,201,691) | 16,366,953 | – | (197,845,578) |
| Balance at end of year | 591,046,110 | 8,295,032,545 | 28,261,827,334 | 30,907,766,533 | 238,198,373 | 68,293,870,895 |
| **Net Book Value at End of Year** | ₱3,431,617,935 | ₱11,076,102,990 | ₱16,817,448,689 | ₱45,754,211,175 | ₱552,528,482 | ₱77,631,909,271 |

| | December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | **Transportation, Furnishing and Other Equipment** | **Passenger Aircraft and Other Flight Equipment** | **Construction In-progress** | **Equipment In-transit** | **Total** |
| **Cost** | | | | | |
| Balance at beginning of year | ₱7,858,924,278 | ₱32,613,670,640 | ₱49,636,832,786 | ₱432,441,740 | ₱206,188,225,653 |
| Additions | 737,365,852 | 5,017,924,206 | 16,827,344,744 | 589,722,381 | 26,130,616,905 |
| Transfers, disposals and other adjustments | 652,409,680 | 169,528,523 | (29,882,392,721) | (635,646,334) | (2,374,936,617) |
| Balance at end of year | 9,248,699,810 | 37,801,123,369 | 36,581,784,809 | 386,517,787 | 229,943,905,941 |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | 5,781,010,176 | 6,865,298,784 | – | – | 73,929,552,932 |
| Depreciation and amortization | 1,000,837,121 | 2,059,928,151 | – | – | 10,269,237,773 |
| Disposals and other adjustments | (102,704,678) | (290,998,717) | – | – | (591,548,973) |
| Balance at end of year | 6,679,142,619 | 8,634,228,218 | – | – | 83,607,241,732 |
| **Net Book Value at End of Year** | ₱2,569,557,191 | ₱29,166,895,151 | ₱36,581,784,809 | ₱386,517,787 | ₱146,336,664,209 |

| | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Improvements | Buildings and Improvements | Machinery and Equipment | Tele-communications Equipment | Investment in Cable Systems | Sub-total |
| **Cost** | | | | | | |
| Balance at beginning of year | ₱4,293,690,981 | ₱16,851,097,517 | ₱39,966,043,425 | ₱43,157,960,583 | ₱758,846,103 | ₱105,027,638,609 |
| Additions | 244,714,216 | 861,596,375 | 3,023,913,830 | 85,424,313 | – | 4,215,648,734 |
| Transfers, disposals and other adjustments | (805,889,406) | 424,373,487 | 130,902,592 | 6,653,682,094 | 99 | 6,403,068,866 |
| Balance at end of year | 3,732,515,791 | 18,137,067,379 | 43,120,859,847 | 49,897,066,990 | 758,846,202 | 115,646,356,209 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at beginning of year | 825,955,398 | 7,454,038,091 | 22,948,354,459 | 24,526,391,288 | 149,766,575 | 55,904,505,811 |
| Depreciation and amortization | 43,134,944 | 676,932,434 | 2,737,079,386 | 2,836,160,998 | 42,931,921 | 6,336,239,683 |
| Disposals and other adjustments | (469,924,055) | (710,332,806) | 202,335,412 | 20,419,907 | 20 | (957,501,522) |
| Balance at end of year | 399,166,287 | 7,420,637,719 | 25,887,769,257 | 27,382,972,193 | 192,698,516 | 61,283,243,972 |
| **Net Book Value at End of Year** | ₱3,333,349,504 | ₱10,716,429,660 | ₱17,233,090,590 | ₱22,514,094,797 | ₱566,147,686 | ₱54,363,112,237 |

| | December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | Transportation, Furnishing and Other Equipment | Passenger Aircraft and Other Flight Equipment | Construction In-progress | Equipment In-transit | Total |
| **Cost** | | | | | |
| Balance at beginning of year | ₱7,607,066,619 | ₱29,837,257,909 | ₱45,518,503,156 | ₱283,315,592 | ₱188,273,781,885 |
| Additions | 736,607,677 | 2,795,572,546 | 11,447,787,870 | 380,767,995 | 19,576,384,822 |
| Transfers, disposals and other adjustments | (484,750,018) | (19,159,815) | (7,329,458,240) | (231,641,847) | (1,661,941,054) |
| Balance at end of year | 7,858,924,278 | 32,613,670,640 | 49,636,832,786 | 432,441,740 | 206,188,225,653 |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | 5,811,192,614 | 4,948,558,353 | – | – | 66,664,256,778 |
| Depreciation and amortization | 770,392,761 | 1,917,683,713 | – | – | 9,024,316,157 |
| Disposals and other adjustments | (800,575,199) | (943,282) | – | – | (1,759,020,003) |
| Balance at end of year | 5,781,010,176 | 6,865,298,784 | – | – | 73,929,552,932 |
| **Net Book Value at End of Year** | ₱2,077,914,102 | ₱25,748,371,856 | ₱49,636,832,786 | ₱432,441,740 | ₱132,258,672,721 |

Construction in-Progress

*DTPI*

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

*CAI*

Construction in-progress represents the cost of aircraft and engine modifications in progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of December 31, 2010 and 2009, the Group capitalized pre-delivery payments as construction-in-progress amounting to ₱1.4 billion and ₱3.4 billion, respectively.

Depreciation and Amortization

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Depreciation and amortization expense (included under): | | | |
| General and administrative expenses (Note 31) | **₱6,872,424,168** | ₱5,914,634,936 | ₱4,841,081,717 |
| Cost of sales (Note 30) | **3,168,777,966** | 2,932,577,881 | 2,529,157,077 |
| Cost of services (Note 30) | **228,035,639** | 177,103,340 | 144,555,849 |
| | **₱10,269,237,773** | ₱9,024,316,157 | ₱7,514,794,643 |

In 2009, the Group recognized losses on property, plant and equipment which were destroyed by a typhoon amounting to ₱63.3 million (included under 'Other operating income (loss)' account in the consolidated statements of comprehensive income) (Note 29).

Investment in Cable Systems

Investment in cable systems represents Digitel's indefeasible rights of use (IRU) of circuits in certain cable systems.

Property, Plant and Equipment Pledged as Collateral

*Passenger aircraft held as securing assets under various loans*

The Group entered into Export Credit Agency (ECA)-backed loan facilities (the ECA loan) to partially finance the purchase of ten Airbus A319 aircraft (Note 24). The Group also entered into a commercial loan facility to partially finance the purchase of two Airbus A320 aircraft, one CFM 565B4/P engine, two CFM 565B5/P engines and one Quick Engine Change (QEC) Kit. Additionally, the Group entered into both ECA loans and commercial loan facilities to partially finance the purchase of six Avion de Transport Regional (ATR) 72-500 Turbo Propeller Aircraft (Note 24).

Under the terms of the ECA loan and the commercial loan facilities, upon the event of default, the outstanding amount of loan (including interest accrued) will be payable by CALL or ILL or BLL, or by the guarantors which are CPAHI and the Parent Company, or failing that, the respective lenders will foreclose the securing assets.

As of December 31, 2010 and 2009, the carrying amount of the securing assets (included under the 'Property, plant and equipment' in the consolidated statements of financial position) amounted to ₱26.6 billion and ₱23.6 billion, respectively.

On July 18, 2010, one ATR 72-500 turboprop aircraft was damaged due to hard landing at Ninoy Aquino International Airport (NAIA). On November 30, 2010, the Group disposed the aircraft and settled the corresponding loan since it is already considered as constructive loss, wherein reparation cost is higher than the book value of the aircraft.

*Others*

Certain property, plant and equipment of URC with an aggregate net book value of ₱46.6 million and ₱58.9 million have been pledged as security for certain long-term debt as of December 31, 2010 and 2009 (Note 24).

Operating Fleet

As of December 31, 2010 and 2009, the Group's operating fleet follows:

| | **2010** | 2009 |
|---|---|---|
| Owned (Note 24): | | |
| Airbus A319 | **10** | 10 |
| Airbus A320 | **5** | 2 |
| ATR 72-500 | **7** | 8 |
| Under operating lease (Note 43): | | |
| Airbus A320 | **9** | 9 |
| | **31** | 29 |

The additions in 'Passenger aircraft' account includes capitalized asset retirement obligation related to new operating lease agreements amounting to ₱211.0 million for the year ended December 31, 2009 (Note 25). Moreover, change in accounting estimates increase ARO asset by ₱705.7 million in 2010 with recognition of ARO liability.

## 18. Biological Assets

The composition and movements in this account follow:

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

| | December 31, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Swine (At Fair Value Less Estimated Costs to Sell) | | | Poultry (At Cost) | | | |
| | Breeder | Commercial | Sub-total | Breeder | Commercial | Sub-total | Total |
| **Cost** | | | | | | | |
| Balance at beginning of year | ₱317,016,518 | ₱944,238,600 | ₱1,261,255,118 | ₱181,209,465 | ₱84,176,110 | ₱265,385,575 | ₱1,526,640,693 |
| Additions | 360,681,089 | 2,359,234,546 | 2,719,915,635 | 431,020,108 | 236,814,283 | 667,834,391 | 3,387,750,026 |
| Disposal | (270,024,530) | (2,376,974,226) | (2,646,998,756) | (427,958,411) | (268,130,956) | (696,089,367) | (3,343,088,123) |
| Balance at end of year | 407,673,077 | 926,498,920 | 1,334,171,997 | 184,271,162 | 52,859,437 | 237,130,599 | 1,571,302,596 |
| **Accumulated Depreciation** | | | | | | | |
| Balance at beginning of year | 33,068,331 | – | 33,068,331 | 50,312,620 | – | 50,312,620 | 83,380,951 |
| Depreciation | 42,357,558 | – | 42,357,558 | 115,667,044 | – | 115,667,044 | 158,024,602 |
| Disposal | (34,496,331) | – | (34,496,331) | (104,683,614) | – | (104,683,614) | (139,179,945) |
| Balance at end of year | 40,929,558 | – | 40,929,558 | 61,296,050 | – | 61,296,050 | 102,225,608 |
| Gains arising from changes in fair value less estimated costs to sell | 15,532,609 | 81,269,788 | 96,802,397 | – | – | – | 96,802,397 |
| **Net Book Value at End of Year** | ₱382,276,128 | ₱1,007,768,708 | ₱1,390,044,836 | ₱122,975,112 | ₱52,859,437 | ₱175,834,549 | ₱1,565,879,385 |

The Group has about 170,624 and 207,522 heads of swine as of December 31, 2010 and 2009, respectively, and about 478,236 and 576,155 heads of poultry as of December 31, 2010 and 2009, respectively.

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

| | **2010** | 2009 |
|---|---|---|
| Current portion | **₱846,876,801** | ₱1,060,628,145 |
| Noncurrent portion | **448,700,235** | 505,251,240 |
| | **₱1,295,577,036** | ₱1,565,879,385 |

## 19. **Intangible Assets**

The composition and movements in this account follow:

| | December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Technology Licenses** | **Licenses** | **Software Costs** | **Trademarks** | **Product Formulation** | **Total** |
| **Cost** | | | | | | |
| Balance at beginning of year | **₱552,331,752** | **₱99,616,679** | **₱72,161,135** | **₱335,539,346** | **₱425,000,000** | **₱1,484,648,912** |
| Additions | **–** | **135,076,200** | **–** | **–** | **–** | **135,076,200** |
| Balance at end of year | **552,331,752** | **234,692,879** | **72,161,135** | **335,539,346** | **425,000,000** | **1,619,725,112** |
| **Accumulated Amortization and Impairment Loss** | | | | | | |
| Balance at beginning of year | **552,331,752** | **–** | **59,607,145** | **6,919,090** | **–** | **618,857,987** |
| Amortization (Note 31) | **–** | **–** | **4,268,033** | **2,767,636** | **–** | **7,035,669** |
| Balance at end of year | **552,331,752** | **–** | **63,875,178** | **9,686,726** | **–** | **625,893,656** |
| **Net Book Value at End of Year** | **₱–** | **₱234,692,879** | **₱8,285,957** | **₱325,852,620** | **₱425,000,000** | **₱993,831,456** |

| | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Technology Licenses | Licenses | Software Costs | Trademarks | Product Formulation | Total |
| **Cost** | | | | | | |
| Balance at beginning of year | ₱552,331,752 | ₱99,616,679 | ₱69,967,495 | ₱335,539,346 | ₱425,000,000 | ₱1,482,455,272 |
| Additions | – | – | 2,193,640 | – | – | 2,193,640 |
| Balance at end of year | 552,331,752 | 99,616,679 | 72,161,135 | 335,539,346 | 425,000,000 | 1,484,648,912 |
| **Accumulated Amortization and Impairment Loss** | | | | | | |
| Balance at beginning of year | 552,331,752 | – | 54,881,844 | 4,151,454 | – | 611,365,050 |
| Amortization (Note 31) | – | – | 4,725,301 | 2,767,636 | – | 7,492,937 |
| Balance at end of year | 552,331,752 | – | 59,607,145 | 6,919,090 | – | 618,857,987 |
| **Net Book Value at End of Year** | ₱– | ₱99,616,679 | ₱12,553,990 | ₱328,620,256 | ₱425,000,000 | ₱865,790,925 |

Technology Licenses
Technology licenses represent the cost of JGSPC's technology and licensing agreements which cover the construction, manufacture, use and sale of polyethylene (PE) and polypropylene (PP) lines. JGSPC's technology licenses were fully impaired in 2006.

Licenses
Included in this account are Bank and Branch licenses.

Bank license is the value assigned to commercial license acquired by the Group through the acquisition of RBC (formerly Royal Bank of Scotland (Philippines), Inc. (RBS)) from Royal Bank of Scotland Plc and Royal Bank of Scotland N.V. (Note 45).

RSBC identified no impairment in its bank and branch licenses in 2010, 2009 and 2008.

Trademarks and Product Formulation
Trademarks were acquired by URC from Nestlé Waters Philippines, Inc. (NWPI) and Acesfood in 2008 and 2007, respectively. Product Formulation was acquired from General Milling Corporation (GMC) in 2008.

## 20. Goodwill

Movements in the Group's Goodwill account follow:

| | **2010** | 2009 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of year | **₱1,075,014,724** | ₱1,131,063,835 |
| Disposal of investment | – | (56,049,111) |
| Balance at end of year | **1,075,014,724** | 1,075,014,724 |
| **Accumulated Impairment Losses** | | |
| Balance at beginning and end of year | **184,639,704** | 240,688,815 |
| Disposal of investment | – | (56,049,111) |
| Balance at end of year | **184,639,704** | 184,639,704 |
| **Net Book Value at End of Year** | **₱890,375,020** | ₱890,375,020 |

The Group's goodwill pertains to: (a) the acquisition of Advanson International Pte. Ltd. (Advanson) in December 2007, (b) the acquisition of Acesfood Network Pte. Ltd. (Acesfood) in May 2007, (c) the excess of the acquisition cost over the fair values of the net assets acquired by Hong Kong China Foods Co. Ltd. (HCFCL) and URC Asean Brands Co. Ltd. (UABCL) in 2000, and (d) the acquisition of Southern Negros Development Corporation (SONEDCO) in 1998. The goodwill arising from the acquisitions of HCFCL, UABCL, Acesfood and Advanson was translated at the applicable year-end exchange rate.

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

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

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

## 21. Other Noncurrent Assets

This account consists of:

| | **2010** | 2009 |
|---|---|---|
| Deferred subscriber acquisition and retention costs | **₱1,454,924,519** | ₱1,510,120,411 |
| Security and miscellaneous deposits | **581,938,092** | 476,519,718 |
| Deferred tax assets (Note 38) | **231,357,830** | 356,260,002 |
| Pension assets (Note 37) | **77,904,820** | 141,018,200 |
| Others | **1,247,421,242** | 1,458,194,129 |
| | **₱3,593,546,503** | ₱3,942,112,460 |

Security Deposits
As of December 31, 2010 and 2009, security deposits include deposits amounting to ₱273.5 million and ₱239.1 million, respectively, which relate to the Group's leased buildings, cellsite lots and commercial spaces. These will be collected in full or offset against rent payable at the end of the lease terms subject to adjustments by the lessor to cover damages incurred on the properties.

Deferred Subscriber Acquisition and Retention Costs
Changes in deferred subscriber acquisition and retention costs follow:

| | **2010** | 2009 |
|---|---|---|
| Balance at beginning of year | **₱1,510,120,411** | ₱1,137,425,100 |
| Deferral of subscriber acquisition and retention costs during the year | **1,449,920,497** | 1,575,562,888 |
| Amortization during the year | **(1,505,116,389)** | (1,202,867,577) |
| Balance at end of year | **₱1,454,924,519** | ₱1,510,120,411 |

Others
Others include repossessed chattels and utility deposits.

## 22. Accounts Payable and Accrued Expenses

This account consists of:

| | **2010** | 2009 |
|---|---|---|
| Accrued expenses | **₱10,296,587,601** | ₱9,226,709,693 |
| Trade payables | **8,451,724,454** | 8,462,255,018 |
| Deposit liabilities | **8,561,959,697** | 12,355,824,049 |
| Due to related parties (Note 40) | **532,241,305** | 1,546,377,524 |
| Withholding taxes payable | **358,995,687** | 250,778,740 |
| Output value added tax | **265,529,734** | 64,906,585 |
| Dividends payable | **7,568,707** | 7,002,600 |
| Other payables | **1,782,918,887** | 2,185,132,766 |
| | **₱30,257,526,072** | ₱34,098,986,975 |

Accrued Expenses
Accrued expenses consists of accruals for:

| | 2010 | 2009 |
|---|---|---|
| Advertising and promotions | **₱2,207,835,484** | ₱1,530,352,233 |
| Rental expense | **1,496,942,099** | 1,217,620,169 |
| Landing and take-off, navigational charges, and other aircraft-related expenses | **1,478,647,591** | 1,608,526,921 |
| Accrued interest payable | **1,387,850,779** | 1,370,586,239 |
| Compensation and benefits | **1,055,626,303** | 463,366,317 |
| Taxes and licenses | **611,245,728** | 952,205,195 |
| Contracted services | **567,831,599** | 458,242,852 |
| Utilities | **514,151,938** | 434,999,035 |
| Royalties | **301,330,370** | 218,512,183 |
| Import bills payable | **223,552,924** | 580,742,702 |
| Freight and handling costs | **167,692,606** | 140,295,962 |
| Insurance | **92,181,719** | 99,294,842 |
| Other accrued expenses | **191,698,461** | 151,965,043 |
| | **₱10,296,587,601** | ₱9,226,709,693 |

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

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

Deposit Liabilities
Deposit liabilities represent the savings, demand and time deposit liabilities of RSBC and RBC. Of the total deposit liabilities of RSBC as of December 31, 2010 and 2009, 66.5% and 63.6%, respectively, are subject to periodic interest repricing while RBC has no deposit liabilities subject to repricing. Remaining deposit liabilities of RSBC incur an annual fixed interest rates of up to 2.8% for both years. RBC deposit liabilities incurred fixed interest rates ranging from 0.1% to 0.3% in 2010.

As of December 31, 2010 and 2009, under existing BSP regulations for thrift banks, non-FCDU deposit liabilities are subject to statutory reserve of 4.0% and liquidity reserve of 2.0% for both years. As of December 31, 2010 and 2009, the RSBC is in compliance with such regulation.

In 2010, under existing BSP regulations applicable for commercial banks, non-FCDU deposit liabilities of RBC are subject to liquidity reserves equivalent to 11.00% and statutory reserves equivalent to 8.00%. RBC is in compliance with such regulations as of December 31, 2010.

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

| | **2010** | 2009 |
|---|---|---|
| Cash and other cash items | **₱516,719,879** | ₱500,488,184 |
| Due from BSP | **194,661,111** | 139,353,611 |
| | **₱711,380,990** | ₱639,841,795 |

The details of 'Interest expense' on 'Deposit liabilities', which is included in the 'Cost of services - Banking' in the profit or loss are as follows (Note 31):

| | **2010** | 2009 |
|---|---|---|
| Savings | **₱11,467,073** | ₱177,368,405 |
| Time | **277,310,307** | 76,093,705 |
| Demand | **102,875,442** | 11,992,871 |
| | **₱391,652,822** | ₱265,454,981 |

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

## 23. Other Current Liabilities

This account consists of:

| | **2010** | 2009 |
|---|---|---|
| Unearned revenue | **₱5,295,750,754** | ₱4,055,257,956 |
| Deposits from real estate buyers and lessees (Note 25) | **1,515,192,936** | 1,422,447,263 |
| Others | **–** | 70,362,539 |
| | **₱6,810,943,690** | ₱5,548,067,758 |

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

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

As of December 31, 2010 and 2009, the Group's unearned air transportation revenue amounted to ₱4.6 billion and ₱3.5 billion, respectively.

*Unearned telecommunications revenue*
Unearned telecommunications revenue represents the unused/unexpired airtime value of prepaid cards and over-the-air reload services sold. Proceeds from sale of prepaid cards and airtime values through the over-the-air reloading services are initially recognized as unearned revenue by the Group. Revenue is recognized upon the actual usage of the airtime value of the card, net of free service allocation. The unused value of prepaid card is likewise recognized as revenue upon expiration. As of December 31, 2010 and 2009, the Group's unearned telecommunications revenue amounted to ₱689.4 million and ₱586.1 million, respectively.

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

Short-term Debt
Short-term debt consists of:

| | **2010** | 2009 |
|---|---|---|
| Parent Company: | | |
| Philippine Peso - with interest rate of 3.0% in 2010 and nil in 2009 | **₱679,400,000** | ₱– |
| Subsidiaries: | | |
| Foreign currencies - with interest rates ranging from 0.3% to 2.5% in 2010 and 0.5% to 5.9% in 2009 | **14,535,146,410** | 13,613,574,007 |
| Philippine Peso - with interest rates ranging from 4.5% to 5.6% in 2010 and 6.8% to 9.0% in 2009 | **137,500,000** | 346,500,000 |
| | **14,672,646,410** | 13,960,074,007 |
| | **₱15,352,046,410** | ₱13,960,074,007 |

In 2010, 2009 and 2008, the Group has incurred interest expense on short-term notes amounting to ₱253.8 million, ₱949.6 million and ₱1.7 billion, respectively (Note 35).

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

| | Maturities | Interest Rates | **2010** | 2009 |
|---|---|---|---|---|
| Parent Company: | | | | |
| Bayerische HypoVereinsbank AG (HypoVereinsbank) loan | 2011 | 3.72% | **₱375,431,950** | ₱– |
| | 2010 | USD LIBOR + 0.625% | **–** | 1,186,149,342 |
| Fixed Rate Corporate Notes | 2013 | 8.00% | **4,286,316,088** | 4,278,791,337 |
| Fixed Rate Retail Bonds | 2014 | 8.25% | **8,913,511,988** | 8,895,450,936 |
| | | | **13,575,260,026** | 14,360,391,615 |
| Subsidiaries: | | | | |
| Foreign currencies: | | | | |
| JGSPL | | | | |
| US$300.0 million guaranteed term loan facility | 2013 | USD LIBOR + 2.45% | **13,079,544,763** | 13,734,947,420 |
| US$300.0 million guaranteed notes | 2013 | 8.00% | **11,078,059,256** | 11,815,938,795 |
| URCPL | | | | |
| US$200.0 million guaranteed notes | 2012 | 8.25% | **8,215,279,157** | 9,211,803,925 |
| URC | | | | |
| HypoVereinsbank term loan facilities | Various dates through 2009 | EURIBOR/ USD LIBOR + 0.75% | – | 20,963,975 |

(Forward)

| | Maturities | Interest Rates | **2010** | 2009 |
|---|---|---|---|---|
| Digitel | | | | |
| Zero-coupon convertible bonds | 2013 | 12.00% | **₱2,312,197** | ₱2,285,096 |
| Term loan facilities | Various dates through 2015 | USD LIBOR + 0.30% to 2.70% | **15,261,864,425** | 13,357,638,386 |
| CAI | | | | |
| Commercial loan from foreign banks | Various dates through 2017 | 4.11% to 5.67% in 2009, 3.95% to 6.66% in 2008 and 4.89% to 5.83% in 2007 | **2,652,018,641** | 3,246,136,787 |
| ECA loans (Note 17) | Various dates through 2018 | 3.37% to 5.83% in 2009, 3.78% to 5.83% in 2008 and 4.89% to 5.83% in 2007 | **15,780,690,063** | 13,863,989,944 |
| | | | **66,069,768,502** | 65,253,704,328 |
| Philippine Peso: | | | | |
| URC | | | | |
| ₱3.0 billion loan facility | 2014 | 8.75% | **2,977,963,795** | 2,974,111,195 |
| Philippine Sugar Corporation restructured loan | 2013 | 7.50% | **33,105,818** | 39,990,828 |
| RLC | | | | |
| ₱1.0 billion loan facility | 2009 | 10.70% | **–** | 115,000,000 |
| ₱3.0 billion loan facility | 2012 | 6.38% | **3,000,000,000** | 3,000,000,000 |
| ₱2.0 billion bonds | 2013 | 15.70% - PDST-F rate | **2,000,000,000** | 2,000,000,000 |
| ₱5.0 billion loan facility | 2014 | 8.50% | **5,000,000,000** | 5,000,000,000 |
| ₱5.0 billion loan facility | 2014 | 8.25% | **5,000,000,000** | 5,000,000,000 |
| | | | **18,011,069,613** | 18,129,102,023 |
| | | | **84,080,838,115** | 83,382,806,351 |
| | | | **97,656,098,141** | 97,743,197,966 |
| Less current portion | | | **10,602,053,608** | 5,206,601,663 |
| | | | **₱87,054,044,533** | ₱92,536,596,303 |

Except for the balances of subsidiaries reporting at September 30 fiscal year end, the foreign exchanges rates used to revalue the foreign currency borrowings were ₱43.84 to US$1.00 and ₱46.2 to US$1.00 in December 31, 2010 and 2009, respectively. The foreign exchange rates used by the subsidiaries reporting at fiscal year end were ₱43.88 to US$1.00 and ₱47.39 to US$1.00 in September 30, 2010 and 2009, respectively.

Long-term debt to foreign banks is shown net of unamortized debt issuance costs totaling ₱0.9 billion (US$18.9 million) and ₱1.0 billion (US$22.1 million) as of December 31, 2010 and 2009, respectively. Unamortized debt issuance cost related to peso-denominated long-term debt amounted to ₱132.2 million and ₱161.6 million as of December 31, 2010 and 2009, respectively.

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

| | **2010** | 2009 |
|---|---|---|
| Due in: | | |
| 2010 | **₱–** | ₱5,471,178,878 |
| 2011 | **10,870,674,413** | 10,486,998,344 |
| 2012 | **21,346,566,015** | 21,931,420,555 |
| 2013 | **24,851,953,936** | 25,027,942,573 |
| 2014 | **26,403,294,121** | 25,655,829,517 |
| Thereafter | **15,264,049,638** | 10,354,718,187 |
| | **₱98,736,538,123** | ₱98,928,088,054 |

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

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

Parent Company ₱9.0 Billion Fixed Retail Bonds
On November 19, 2009, the Parent Company issued ₱9.0 Billion retail bonds constituting direct, unconditional, unsubordinated, and unsecured obligations of the Parent Company ranking *pari passu* at all time times without preference with all outstanding unsubordinated debt and unsecured obligations of the Parent Company, except for any statutory preference or priority established under Philippine law. The Bonds bears fixed interest rate of 8.25% calculated based on 30/360 day count and payable semiannually every 20th of May and November until November 20, 2014.

The Bonds were used to finance the operations of the Air transportation and Telecommunications segment of the Group.

The capitalized transaction costs related to the issuance of the retail bonds amounted to ₱106.5 million.

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

*JGSPL 8.00% Guaranteed Notes Due 2013*
In January 2006, JGSPL issued US$300.0 million 8.00% guaranteed notes due 2013 which are unconditionally and irrevocably guaranteed by the Parent Company. Unless previously purchased and cancelled, the 8.00% guaranteed notes will be redeemed at their principal amount on January 18, 2013.

*URCPL 8.25% Guaranteed Notes Due 2012*
On January 14, 2005, URCPL issued US$200.0 million 8.25% notes due 2012 guaranteed by URC. Unless previously redeemed or purchased and cancelled, the notes will be redeemed at their principal amount, plus accrued and unpaid interest on January 20, 2012.

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

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

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

*Digitel Zero Coupon Convertible Bonds*
On December 8, 2003, Digitel issued zero coupon convertible bonds due 2013 (Digitel Bonds) with face value of US$31.1 million and issue price of US$10.0 million. Unless previously converted, cancelled or redeemed, the bonds are convertible into Digitel's common shares at ₱1 par value at the end of the tenth year after the issue date and are redeemable at the option of Digitel, in whole or in part, at the end of each year starting one year after the issue date and every year thereafter at the following redemption dates and values:

| Redemption Date | Redemption Value[a] |
|---|---:|
| End of 1st year from issue date | US$35.29 |
| End of 2nd year from issue date | 38.75 |
| End of 3rd year from issue date | 42.63 |
| End of 4th year from issue date | 46.97 |
| End of 5th year from issue date | 51.83 |
| End of 6th year from issue date | 57.28 |
| End of 7th year from issue date | 63.38 |
| End of 8th year from issue date | 70.21 |
| End of 9th year from issue date | 77.87 |
| End of 10th year from issue date | 86.44 |

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

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

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

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

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

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

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

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

- Digitel US$14.0 million HypoVereinsbank loan

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

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

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

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

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

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

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

- DMPI US$19.0 million Calyon and SG loan

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

- DMPI US$18.7 million Nordea loan

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

- DMPI US$12.7 million SG and Calyon loan

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

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

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

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

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

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

- DMPI US$27.9 million ING Amsterdam Loans

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

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

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

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

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

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

- DMPI USD$40.6 Million Hongkong and Shanghai Banking Corporation Limited (HSBC)
  In 2009, DMPI entered into a loan facility wherein HSBC will finance the payments to be made by DMPI for the supply of equipment and services availed by DMPI with Huawei Technologies for the Phase 7 South Luzon Base Station Expansion Project.

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

- DMPI US$49.9 million China CITIC loan
  In 2009, DMPI entered into a loan facility with China CITIC for the supply of the equipment, software, and related materials for the Phase 2 3G Expansion, transmission for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects. The loaned amount will be paid in fourteen (14) equal semi-annual installments with an interest rate of 1.8% per annum plus LIBOR. The loan is guaranteed by the Parent Company.

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

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

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

The terms of the commercial loan from foreign banks follow:

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

*CAI's ECA Loans*
In 2005 and 2006, CAI entered into ECA-backed loan facilities to partially finance the purchase of ten Airbus A319 aircraft. The security trustee of the ECA loans established CALL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to 12-year finance lease agreements. The quarterly rental payments made by CAI to CALL correspond to the principal and interest payments made by CALL to the ECA-backed lenders. The quarterly lease rentals to CALL are guaranteed by CPAHI and the Parent Company. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2008, CAI entered into ECA loans to partially finance the purchase of six ATR 72-500 turboprop aircraft. The security trustee of the ECA loans established BLL, a special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to ten-year finance lease agreements. The semi-annual rental payments made by CAI to BLL corresponds to the principal and interest payments made by BLL to the ECA-backed lenders. The semi-annual lease rentals to BLL are guaranteed by the Parent Company. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

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

The terms of the ECA-backed facilities, which are the same for each of the 10 Airbus A319 aircraft and eight ATR 72-500 turboprop aircraft, follow:

- Term of 12 years starting and 10 years from the delivery date of each Airbus 319 aircraft and ATR 72-500 turboprop aircraft, respectively.
- Annuity style principal repayments for the first four aircraft, and equal principal repayments for the last six aircraft. Principal repayments shall be made on a quarterly basis.
- Interest shall be fixed at the option of the borrower on the first interest payment date, based on relevant swap rate plus an agreed-upon margin. Fixed interest rates range from 3.78% to 5.83% and from 4.89% to 5.83% in 2010 and 2009, respectively.
- As provided under the ECA-backed facility, CALL cannot create or allow to exist any security interest, other than what is permitted by the transaction documents or the ECA administrative parties. CALL must not allow impairment of first priority nature of the lenders' security interests.
- The ECA-backed facility also provides for the following events of default: (a) nonpayment of the loan principal or interest or any other amount payable on the due date; (b) breach of negative pledge, covenant on preservation of transaction documents; (c) misrepresentation; (d) commencement of insolvency proceedings against CALL or CALL becomes insolvent; (e) failure to discharge any attachment or sequestration order against CALL's assets; (f) entering into an undervalued transaction, obtaining preference or giving preference to any person, contrary to the laws of the Cayman Islands; (g) sale of any aircraft under ECA financing prior to discharge date; (h) cessation of business; (i) revocation or repudiation by CALL, CAI, the Parent Company or CPAHI of any transaction document or security interest; and (j) occurrence of an event of default under the lease agreement with CAI.

- Upon default, the outstanding amount of the loan will be payable, including interest accrued. The ECA lenders will foreclose on the secured assets, namely the aircraft.
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

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

On November 30, 2010, the Company pre-terminated the lease agreement with BLL related to the disposal of one ATR 72-500 turboprop aircraft. The outstanding balance of the related loans and accrued interests amounting to ₱638.1 million (US$14.5 million) and ₱13.0 million (US$0.3 million), respectively, were also pre-terminated. The proceeds from the insurance claim on the related aircraft were used to settle the loan and accrued interest. The Parent Company was released as guarantor on the related loans.

Philippine Peso Loans

*URC Philippine Sugar Corporation Restructured Loan*

Republic Act (RA) No. 7202 dated February 24, 1992 provided for, among others, the condonation of all penalties and surcharges on loans granted to sugar producers from crop year 1974-1975 up to and including 1984-1985. The guidelines for the implementation of RA No. 7202 was issued under Executive Order No. 31 dated October 29, 1992, directing all government lending financial institutions to write-off from their respective books the interest in excess of 12.00% yearly and all penalties and surcharges due.

Certain assets of URC with a net book value of ₱46.6 million and ₱58.9 million as December 31, 2010 and 2009, respectively were used to secure the loan (Note 17). The loan is payable in 25 equal annual amortizations of ₱9.9 million. Unpaid interest on the loan amounted to ₱1.9 million and ₱2.3 million and as of December 31, 2010 and 2009, respectively.

*URC ₱3.0 Billion 8.75% Fixed Corporate Notes Due 2014*

On March 24, 2009, URC issued fixed corporate notes amounting to ₱3.0 billion to various financial institutions for capital expenditures and general corporate purposes. The notes bear a fixed interest rate of 8.75%, payable semi-annually in arrears, and have a term of five years, maturing on March 27, 2014.

The notes contain negative covenants that, among others, prohibit merger or consolidation with other entities if it is not the surviving entity, nor shall it create or form another corporation or subsidiary when a material adverse effect will result. The notes also contain affirmative covenants which include among others maintenance of a debt to equity ratio of not greater than 2.0 to 1.0 and interest coverage ratio of not lesser than 2.0 to 1.0.

*RLC ₱1.0 Billion Loan due in October 2009*

On October 6, 2004, RLC obtained a five-year loan from ING, Manila Branch and Security Bank Corporation under the DBP-JBIC loan facility payable in nine semi-annual installments. The loan which bears a fixed interest rate of 9.20% per annum plus a margin of 1.50% per annum was used to partially finance capital expenditures of RLC.

Borrowing costs capitalized to subdivision land, condominium and residential units for sale and investment properties and other investments amounted to ₱16.0 million and ₱36.0 million in 2010, 2009 and 2008, respectively.

*RLC ₱3.0 Billion Bonds due in May 2012*
On May 24, 2007, RLC issued a ₱3.0 billion Fixed Rate Corporate Note Facility constituting direct, unconditional, unsubordinated, general and unsecured obligations of RLC ranking at least *pari passu* in all respects and ratably without preference or priority (except for any statutory preference or priority applicable in the winding-up of RLC) with all other outstanding unsecured and unsubordinated obligations of the Group. The term of the bonds is five years and one-day from Issue Date to be issued in one tranche.
The interest rate shall be 6.38% per annum and shall be payable semi-annually, computed based on the outstanding balance with payments commencing on the Issue Date and ending on the Maturity Date.

*RLC ₱2.0 Billion Loan Facility due in June 2013*
On June 4, 2008, the RLC issued a ₱2.0 billion Inverse Floating Rate Note Facility constituting direct, unconditional, unsubordinated, general and unsecured obligations of RLC ranking at least *pari passu* in all respects and ratably without preference or priority (except for any statutory preference or priority applicable in the winding-up of RLC) with all other outstanding unsecured and unsubordinated obligations of RLC. The term of the bonds is five years and one day from issue date.

The interest rate is at 15.70% less the 3-month Benchmark Rate on an interest determination date rounded off to the nearest 1/100 or 1.00% per annum and shall be payable quarterly, computed based on the outstanding balance, with payments commencing on the issue date and ending on the maturity date.

*RLC ₱5.0 Billion Retail Bonds due July 2014*
On July 13, 2009, RLC issued ₱5.0 billion bonds constituting direct, unconditional, unsubordinated and unsecured obligations of RLC ranking *pari-passu* in all respects and ratably without any preference or priority with all other outstanding unsecured and unsubordinated obligations of RLC. The bond is payable with a lump-sum payment on July 14, 2014 or shall be redeemable at par upon maturity or on a date which is five years and one day from issue date.

The interest rate is 8.50% per annum and shall be payable semi-annually, computed based on the outstanding balance, with payments commencing on the issue date and ending on the maturity date. The payment of the interest shall begin on January 14, 2010.

*RLC ₱5.0 Billion Retail Bonds due August 2014*
On August 26, 2009, RLC issued ₱5.0 billion bonds constituting direct, unconditional, unsubordinated and unsecured obligations of RLC ranking *pari-passu* in all respects and ratably without any preference or priority with all other outstanding unsecured and unsubordinated obligations of RLC. The bonds are payable with a lump-sum payment on August 27, 2014 or shall be redeemable at par upon maturity or on a date which is five years and one day from issue date.

The interest rate is 8.25% per annum and shall be payable semi-annually, computed based on the outstanding balance with payments commencing on the issue date and ending on the maturity date. The payment of the interest shall begin on February 27, 2010.

Total interest expense and other related charges on long-term debts amounted to ₱5.2 billion, ₱4.5 billion and ₱3.5 billion in 2010, 2009 and 2008, respectively (Note 35).

## 25. Other Noncurrent Liabilities

This account consists of:

| | 2010 | 2009 |
|---|---|---|
| Accrued project costs | **₱10,708,408,526** | ₱6,712,327,392 |
| Deposits from real estate buyers and lessees | **2,857,766,003** | 2,383,301,870 |
| ARO (Notes 17 and 35) | **2,572,134,065** | 1,585,192,428 |
| Deposit liabilities | **1,187,554,939** | 1,180,477,581 |
| Accrued maintenance cost | **923,451,428** | 910,665,374 |
| Due to related parties (Note 40) | **920,294,635** | 1,517,894,311 |
| Derivative liabilities (Note 8) | **546,764,107** | 625,449,086 |
| Pension liabilities (Note 37) | **543,271,577** | 465,556,610 |
| Others | **745,817,598** | 1,082,463,037 |
| | **₱21,005,462,878** | ₱16,463,327,689 |

Accrued Project Costs

Accrued project costs represent costs of unbilled materials, equipment and labor relating to telecommunications projects which are already eligible for capitalization as of December 31, 2010 and 2009. The determination of costs to be capitalized is based on the contract price multiplied by the percentage of shipped materials and/or delivered services.

Deposits from Real Estate Buyers and Lessees

Deposits from lessees represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of lease term. The Group recognized discount on deposits from lessees amounting to ₱97.0 million and ₱101.0 million as of December 31, 2010 and 2009, respectively. The related interest expense on the discount amounted to ₱71.3 million, ₱68.6 million and ₱60.6 million in 2010, 2009 and 2008, respectively (Note 35). The deposits from lessees were discounted using PDST-F rate plus 2.0% spread.

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

Included in 'Deposits from real estate buyers and lessees' account are cash collections in excess of the receivables recognized under the percentage-of-completion method which amounted to ₱1.7 billion and ₱1.0 billion as of December 31, 2010 and 2009, respectively.

ARO

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

Movements in the Group's ARO follow:

| | **2010** | 2009 |
|---|---|---|
| Balance at beginning of year | **₱1,585,192,428** | ₱1,610,891,948 |
| Additional provision for the year* | **705,651,245** | – |
| Accretion expense (Note 35) | **212,684,898** | 145,303,741 |
| Capitalized to property, plant and equipment (Note 17) | **68,605,494** | 211,006,826 |
| Payments of restorations during the year | – | (382,010,087) |
| Asset retirement obligation | **₱2,572,134,065** | ₱1,585,192,428 |

**Related to the change in accounting estimates for the recognized ARO liability.*

Deposit Liabilities
Deposit liabilities represent time deposit liabilities of RSBC with maturities of beyond 12 months from reporting date. Of the total noncurrent deposit liabilities of RSBC as of December 31, 2010 and 2009, 6.4% and 8.2%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities bear annual fixed interest rates of up to 2.8% for both years.

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

## 26. Equity

Details of the Group common stock follow:

| | **2010** | 2009 |
|---|---|---|
| Authorized shares | **12,850,800,000** | 12,850,800,000 |
| Par value per share | **₱1.00** | ₱1.00 |
| Issued shares | **6,895,273,657** | 6,895,273,657 |
| Outstanding shares | **6,739,528,227** | 6,797,191,657 |
| Treasury shares | **155,745,430** | 98,082,000 |

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

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

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

| | | 2010 | 2009 |
|---|---|---|---|
| (a) | Gross debt | | |
| | Short-term debt (Note 24) | **₱15,352,046,410** | ₱13,960,074,007 |
| | Long-term debt (Note 24) | **97,656,098,141** | 97,743,197,966 |
| | Derivative liabilities (Note 8) | **809,157,927** | 750,340,498 |
| | | **₱113,817,302,478** | ₱112,453,612,471 |
| (b) | Capital | **₱149,460,397,353** | ₱104,894,494,655 |
| (c) | Debt-to-capital ratio (a/b) | **0.76:1** | 1.07:1 |

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

Restricted Retained Earnings

*Parent Company*

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

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

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

*URC*

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

*RLC*

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

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

*CAI*

On March 4, 2008, the Group's BOD approved the additional appropriation of ₱1.0 billion from its unrestricted retained earnings as of December 31, 2007 for the same purpose.

Subsequently on September 22, 2008, the Group's BOD and stockholders approved the reversal of the total appropriated retained earnings of ₱4.0 billion and such amount was made part of the unrestricted retained earnings.

*EHI*

On August 31, 2002, EHI's BOD approved the appropriation of retained earnings amounting to ₱35.0 million to be used for investment purposes.

Cash Dividends

*Parent Company*

Details of the Parent Company's dividend declarations follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Date of declaration | **June 28, 2010** | June 26, 2009 | July 30, 2008 |
| Dividend per share | **₱0.05** | ₱0.03 | ₱0.03 |
| Total dividends | **₱339.9 million** | ₱203.9 million | ₱203.9 million |
| Date of record | **July 16, 2010** | July 24, 2009 | August 29, 2008 |
| Date of payment | **August 6, 2010** | August 19, 2009 | September 24, 2008 |

The following tables summarize the dividends declared by significant investee companies:

*URC*

Details of URC's dividend declarations follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Date of declaration | **April 15, 2010** | April 16, 2009 | April 17, 2008 |
| Dividend per share | **₱0.94** | ₱0.25 | ₱0.68 |
| Total dividends | **₱1.9 billion** | ₱0.5 billion | ₱1.5 billion |
| Date of record | **May 5, 2010** | May 15, 2009 | May 16, 2008 |
| Date of payment | **May 20, 2010** | June 10, 2009 | June 12, 2008 |

*RLC*

Details of RLC's dividend declarations follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Date of declaration | **April 15, 2010** | April 16, 2009 | April 17, 2008 |
| Dividend per share | **₱0.48** | ₱0.25 | ₱0.53 |
| Total dividends | **₱1.3 billion** | ₱0.7 billion | ₱1.5 billion |
| Date of record | **May 5, 2010** | May 15, 2009 | May 16, 2008 |
| Date of payment | **May 20, 2010** | June 10, 2009 | June 12, 2008 |

Stock Dividends

*CAI*

In 2004, CAI's BOD approved the declaration of stock dividends amounting to ₱310.0 million. Pending the filing of the application for an increase in authorized capital stock, such transaction was recorded under Stock Dividends to be Issued account in the equity section of the consolidated statement of financial position of CAI. With the approval of the increase in authorized capital stock by the Philippine Civil Aeronautics Board (CAB) and SEC in 2007, Stock Dividends to be issued amounting to ₱310.0 million was transferred to common stock. The SEC approved the issuance of the stock dividend on November 19, 2008.

On September 22, 2008, CAI's BOD and stockholders approved further the issuance of ₱2.2 billion stock dividends to all stockholders as of August 31, 2008 to be issued and paid for out of the unrestricted retained earnings as of December 31, 2007 and reversed restricted retained earnings. Stock dividend of ₱20.0 per share was declared, of which ₱19.0 per share or ₱2.1 billion was recorded under Capital Paid-in Excess of Par Value account in the equity section of the consolidated statement of financial position of CAI.

Treasury Shares
The Group has outstanding 155.7 million treasury shares amounting to ₱974.7 million as of December 31, 2010 and 98.1 million treasury shares amounting to ₱721.8 million as of December 31, 2009 and 2008.

Equity Reserve
On October 26, 2010, CAI had an initial public offering (IPO) which include issuance of Primary shares and Secondary shares. The Secondary shares that were sold were owned by CPAir Holdings, Inc., a wholly owned subsidiary of the Parent Company.

As a result of the IPO, the Group's remaining ownership over CAI is 65.4%. The Group recognized net gain from CAI's IPO amounting ₱18.6 billion included in 'Equity reserve' account in the consolidated statements of changes in equity.

Non-controlling interests
Below is the rollfoward of non-controlling interests:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Beginning balance | **₱21,736,756,026** | ₱19,750,489,997 | ₱22,611,043,424 |
| Total comprehensive income: | | | |
| Net income attributable to non-controlling interests | **4,592,963,531** | 3,222,164,474 | 108,136,860 |
| Other comprehensive income attributable to non-controlling interests: | | | |
| Net gain (loss) on AFS investments | **152,957,654** | 767,937,224 | (717,804,732) |
| Cumulative translation adjustments | **(39,286,413)** | (14,273,905) | 11,956,763 |
| | **113,671,241** | 753,663,319 | (705,847,969) |
| | **4,706,634,772** | 3,975,827,793 | (597,711,109) |
| Cash dividends paid to non-controlling interests | **(1,217,749,826)** | (468,346,673) | (1,154,401,939) |
| Non-controlling interests arising from IPO of CAI and acquisition of subsidiaries | **7,383,795,370** | – | – |
| Increase in subsidiaries' treasury shares | **(718,184,546)** | (1,256,286,392) | (1,107,382,344) |
| Adjustment on subscription receivables | **–** | (264,928,699) | – |
| Others | – | – | (1,058,035) |
| | **₱31,891,251,796** | ₱21,736,756,026 | ₱19,750,489,997 |

On October 22, 2009, RLC's BOD approved the creation and implementation of a share buyback program allotting up to ₱1.0 billion to reacquire a portion of RLC's issued and outstanding common shares, representing approximately 3.1% of current market capitalization. As of December 31, 2009, the Parent Company bought 5,592,600 shares at a cost of ₱69.0 million.

On December 8, 2009, the URC's BOD also approved the purchase of 81.5 million of its common shares through the share buy-back program at ₱14.0 per share or a total consideration of ₱1.1 billion. The purchase increased the outstanding treasury shares to 156.6 million shares, equivalent to 7.0% of its outstanding shares.

In November and December 2010, URC repurchased a total of 8.0 million shares for a total consideration of ₱290.0 million, pursuant to its share buy-back program.

## 27. Banking Revenue

This account consists of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Interest income (Note 28) | **₱1,352,786,871** | ₱1,015,457,670 | ₱893,811,640 |
| Trading and securities gains | **254,858,437** | 32,077,313 | 64,141,499 |
| Service fees and commission income | **120,910,372** | 87,313,733 | 80,989,653 |
| | **₱1,728,555,680** | ₱1,134,848,716 | ₱1,038,942,792 |

## 28. Finance Income

This account consists of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Interest income from finance receivables (Note 11) | **₱946,586,662** | ₱782,668,377 | ₱632,833,880 |
| Interest income from cash in banks and cash equivalents (Note 7) | **853,317,711** | 355,886,207 | 929,522,995 |
| Interest income from investments in financial assets at FVPL (Note 9) | **689,303,622** | 763,101,361 | 975,740,956 |
| Interest income from AFS investments (Note 10) | **676,618,678** | 417,368,572 | 141,142,865 |
| Interest income from installment contract receivables (Note 11) | **234,195,441** | 111,115,924 | 358,094,035 |
| Others | **168,847,466** | 149,176,726 | 370,758,717 |
| | **₱3,568,869,580** | ₱2,579,317,167 | ₱3,408,093,448 |

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Finance income | **₱2,216,082,709** | ₱1,563,859,497 | ₱2,514,281,808 |
| Banking revenue (Note 27) | **1,352,786,871** | 1,015,457,670 | 893,811,640 |
| | **₱3,568,869,580** | ₱2,579,317,167 | ₱3,408,093,448 |

## 29. Other Operating Income

This account consists of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Dividend income | **₱192,886,520** | ₱152,951,456 | ₱140,824,885 |
| Gain (loss) on sale of financial assets at FVPL (Note 9) | **100,414,480** | 9,488,003 | (119,422,094) |
| Realized gain (loss) on sale of AFS investments (Note 10) | **72,954,396** | 28,096,952 | 99,769,988 |
| Others - net | **472,382,768** | 12,660,799 | 1,255,949,321 |
| | **₱838,638,164** | ₱203,197,210 | ₱1,377,122,100 |

30. **Cost of Sales and Services**

This account consists of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Raw materials used | **₱33,909,798,842** | ₱31,322,026,530 | ₱34,274,389,846 |
| Direct labor | **1,978,803,934** | 1,900,284,484 | 1,431,188,529 |
| Overhead cost | **9,392,906,165** | 8,342,982,808 | 7,608,973,979 |
| Total manufacturing cost | **45,281,508,941** | 41,565,293,822 | 43,314,552,354 |
| Work-in-process | **(2,202)** | 42,205,137 | 10,437,162 |
| Cost of goods manufactured | **45,281,506,739** | 41,607,498,959 | 43,324,989,516 |
| Finished goods | **(988,723,595)** | 1,397,900,529 | (489,736,141) |
| Cost of sales | **44,292,783,144** | 43,005,399,488 | 42,835,253,375 |
| Cost of services | **24,455,691,361** | 21,397,612,878 | 21,393,495,712 |
| Cost of sales and services | **₱68,748,474,505** | ₱64,403,012,366 | ₱64,228,749,087 |

Overhead costs are broken down as follows:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Depreciation and amortization | **₱3,171,545,602** | ₱2,935,345,517 | ₱2,531,924,713 |
| Utilities and rental | **3,128,070,940** | 2,627,422,993 | 2,661,428,438 |
| Repairs and maintenance | **1,255,770,951** | 1,108,490,964 | 934,802,885 |
| Personnel | **1,237,064,340** | 1,071,950,477 | 982,110,545 |
| Rental | **130,391,613** | 140,328,813 | 62,051,431 |
| Handling and delivery charges | **97,648,773** | 92,264,695 | 79,681,007 |
| Royalties | **73,810,601** | 106,148,087 | 180,813,016 |
| Research and development | **58,033,639** | 50,164,915 | 41,140,269 |
| Others | **240,569,706** | 210,866,347 | 135,021,675 |
| | **₱9,392,906,165** | ₱8,342,982,808 | ₱7,608,973,979 |

Cost of services is broken down as follows:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Air transportation | **₱16,792,906,706** | ₱14,420,146,122 | ₱13,937,810,300 |
| Real estate | **4,134,814,048** | 4,130,396,012 | 5,095,048,762 |
| Telecommunications | **2,074,712,276** | 1,656,424,753 | 1,101,731,262 |
| Hotel operations | **996,906,392** | 905,875,298 | 947,524,345 |
| Banking | **456,351,939** | 284,770,693 | 311,381,043 |
| | **₱24,455,691,361** | ₱21,397,612,878 | ₱21,393,495,712 |

## 31. General and Administrative Expenses

This account consists of:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Depreciation and amortization (Notes 16, 17 and 33) | **₱6,879,743,871** | ₱5,919,988,775 | ₱4,845,429,256 |
| Advertising and promotions | **5,499,957,808** | 4,684,653,656 | 3,845,844,046 |
| Personnel (Notes 32 and 37) | **4,483,065,912** | 3,847,491,311 | 3,339,772,517 |
| Outside services | **3,252,627,024** | 2,958,754,744 | 2,683,641,957 |
| Rental | **2,061,828,053** | 1,845,901,252 | 1,515,600,729 |
| Utilities and supplies | **1,743,911,629** | 1,575,470,942 | 1,235,932,054 |
| Aircraft and engine lease | **1,604,855,579** | 1,723,886,536 | 1,062,847,730 |
| Repairs and maintenance | **1,191,396,887** | 1,045,304,107 | 942,488,156 |
| Taxes, licenses and fees | **1,071,956,481** | 742,357,852 | 645,769,724 |
| Travel and transportation | **751,973,496** | 742,775,714 | 713,165,914 |
| Sales commission | **379,092,639** | 381,451,055 | 431,056,608 |
| Insurance | **340,551,553** | 292,655,630 | 250,628,704 |
| Communication | **173,276,418** | 215,751,517 | 203,098,602 |
| Entertainment, amusement and recreation (Note 38) | **177,565,285** | 167,827,423 | 172,143,735 |
| Others | **931,255,961** | 1,114,411,178 | 820,980,102 |
| | **₱30,543,058,596** | ₱27,258,681,692 | ₱22,708,399,834 |

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

## 32. Personnel Expenses

Personnel expenses consist of:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Salaries and wages | **₱6,122,193,991** | ₱5,221,280,381 | ₱4,732,749,441 |
| Other employee benefits | **1,500,065,252** | 1,236,815,812 | 958,269,251 |
| Pension expense (Note 37) | **185,982,970** | 176,123,665 | 41,835,144 |
| | **₱7,808,242,213** | ₱6,634,219,858 | ₱5,732,853,836 |

The breakdown of personnel expenses follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| General and administrative expenses (Note 31) | **₱4,483,065,912** | ₱3,847,491,311 | ₱3,339,772,517 |
| Cost of sales and services | **3,325,176,301** | 2,786,728,547 | 2,393,081,319 |
| | **₱7,808,242,213** | ₱6,634,219,858 | ₱5,732,853,836 |

## 33. **Depreciation and Amortization**

The breakdown of depreciation and amortization on property, plant and equipment, investment properties, deferred subscriber acquisition and retention costs, biological assets and intangible assets follows:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| General and administrative expenses (Note 31) | **₱6,879,743,871** | ₱5,919,988,775 | ₱4,845,429,256 |
| Cost of sales and services | **6,666,500,366** | 5,898,671,982 | 5,015,258,286 |
| | **₱13,546,244,237** | ₱11,818,660,757 | ₱9,860,687,542 |

## 34. **Impairment Losses and Others**

This account consists of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Provision for impairment losses on receivables (Note 11) | **₱688,286,605** | ₱765,594,017 | ₱396,279,058 |
| Inventory obsolescence and market decline (Note 12) | **17,580,211** | 60,223,436 | 419,171,122 |
| Permanent decline in value of AFS investments (Notes 10 and 36) | **–** | 247,812,797 | 11,674,554 |
| | **₱705,866,816** | ₱1,073,630,250 | ₱827,124,734 |

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

This account consists of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Interest expense | **₱5,932,066,425** | ₱6,029,448,280 | ₱5,714,212,456 |
| Dividends on cumulative redeemable preferred shares | **–** | 174,417,813 | 253,991,250 |
| Bank charges and others | **155,407,743** | 106,058,862 | 65,033,698 |
| | **₱6,087,474,168** | ₱6,309,924,955 | ₱6,033,237,404 |

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Long-term debt (Note 24) | **₱5,245,675,113** | ₱4,514,944,346 | ₱3,533,787,411 |
| Short-term debt (Note 24) | **253,777,149** | 949,601,373 | 1,690,028,395 |
| Accretion of ARO (Note 25) | **212,684,898** | 145,303,741 | 102,852,875 |
| Advances from affiliates | **142,704,437** | 244,974,361 | 183,924,472 |
| Others | **77,224,828** | 174,624,459 | 203,619,303 |
| | **₱5,932,066,425** | ₱6,029,448,280 | ₱5,714,212,456 |

Dividends on cumulative redeemable preferred shares represent 12.00% and 11.75% dividend for Tranche 1 Series A and Tranche 2 Series A, respectively of the Group's nonconvertible, nonvoting, nonparticipating, cumulative and redeemable preferred shares. On July 29, 2009 and August 5, 2009, the Parent Company redeemed its issued cumulative preferred shares designated as Tranche 1 Series A and Tranche 2 Series A, respectively with a price amounting to ₱2.11 billion.

Others include interest expense on amortization of discount on deposits from lessees amounting to ₱71.3 million in 2010, ₱68.6 million in 2009 and ₱60.6 million in 2008 (Note 25).

## 36. Components of Other Comprehensive Income

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Cumulative translation adjustments | **(₱91,091,377)** | (₱95,351,176) | (₱36,438,689) |
| Net gain (loss) on AFS investments (Note 10): | | | |
| Net changes in fair value during the period | **263,757,176** | 2,062,731,907 | (2,677,776,416) |
| Reclassification adjustment included in the profit or loss arising from: | | | |
| Disposal of AFS investments | **(72,954,396)** | (28,096,952) | (99,769,988) |
| Permanent decline in fair value | – | 247,812,797 | 11,674,554 |
| | **190,802,780** | 2,282,447,752 | (2,765,871,850) |
| Net gain (loss) from cash flow hedge (Note 8): | | | |
| Net changes in fair value of derivatives taken to other comprehensive income | **135,476,018** | 201,547,165 | (899,284,256) |
| Amounts transferred to profit or loss | **(2,185,780)** | 266,623,369 | 33,614,393 |
| | **133,290,238** | 468,170,534 | (865,669,863) |
| Net unrealized gain (loss) on AFS investments of associates and joint ventures (Note 10) | **175,748** | 2,758,591 | (1,398,003) |
| | **₱233,177,389** | ₱2,658,025,701 | (₱3,669,378,405) |

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

| | **2010** | | |
|---|---|---|---|
| | **Before tax** | **Tax Benefit** | **Net of tax** |
| AFS investments of Parent Company and subsidiaries | **₱188,299,570** | **₱2,503,210** | **₱190,802,780** |
| Net movement on cash flow hedge | **133,290,238** | **–** | **133,290,238** |
| Cumulative translation adjustments | **(91,091,377)** | **–** | **(91,091,377)** |
| Net unrealized gain on AFS investments on associates and joint ventures | **175,748** | **–** | **175,748** |
| | **₱230,674,179** | **₱2,503,210** | **₱233,177,389** |

| | 2009 | | |
|---|---|---|---|
| | Before tax | Tax Benefit | Net of tax |
| AFS investments of Parent Company and subsidiaries | ₱2,280,276,552 | ₱2,171,200 | ₱2,282,447,752 |
| Net movement on cash flow hedge | 468,170,534 | – | 468,170,534 |
| Cumulative translation adjustments | (95,351,176) | – | (95,351,176) |
| Net unrealized gain on AFS investments on associates and joint ventures | 2,758,591 | – | 2,758,591 |
| | ₱2,655,854,501 | ₱2,171,200 | ₱2,658,025,701 |

| | 2008 | | |
|---|---|---|---|
| | Before tax | Tax Benefit | Net of tax |
| AFS investments of Parent Company and subsidiaries | (₱2,768,086,928) | ₱2,215,078 | (₱2,765,871,850) |
| Net movement on cash flow hedge | (865,669,863) | – | (865,669,863) |
| Cumulative translation adjustments | (36,438,689) | – | (36,438,689) |
| Net unrealized loss on AFS investments on associates and joint ventures | (1,398,003) | – | (1,398,003) |
| | (₱3,671,593,483) | ₱2,215,078 | (₱3,669,378,405) |

## 37. Employee Benefits

Pension Plans

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

URC and RLC have funded, noncontributory defined benefit pension plans covering all their regular employees. The pension fund are being administered and managed by certain stockholders as trustees. URC and RLC, however, reserve the right to discontinue, suspend or change the rates and amounts of their contributions at any time on account of business necessity or adverse economic conditions.

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

| | **2010** | 2009 |
|---|---|---|
| Pension assets (Note 21) | **₱77,904,820** | ₱141,018,200 |
| Pension liabilities (Note 25) | **543,271,577** | 465,556,610 |

The amounts recognized as pension liabilities follow:

| | 2010 | 2009 |
|---|---|---|
| Present value of defined benefit obligation | **₱770,190,122** | ₱526,194,596 |
| Fair value of plan assets | **(56,813,768)** | (60,559,560) |
| Unfunded status | **713,376,354** | 465,635,036 |
| Unrecognized actuarial gains | **(170,104,777)** | (78,426) |
| Pension liabilities at end of year | **₱543,271,577** | ₱465,556,610 |

URC's pension assets on its pension plan follow:

| | 2010 | 2009 |
|---|---|---|
| Present value of funded obligation | **₱1,220,977,777** | ₱1,038,335,900 |
| Fair value of plan assets | **1,247,197,112** | 1,354,691,200 |
| Funded status | **26,219,335** | 316,355,300 |
| Unrecognized actuarial losses (gains) | **72,951,908** | (122,990,200) |
| Asset to be recognized in the consolidated statements of financial position | **99,171,243** | 193,365,100 |
| Less asset not recognized due to limit | **21,266,423** | 52,346,900 |
| Net plan assets | **₱77,904,820** | ₱141,018,200 |
| Asset limit to be recognized in the consolidated statements of financial position | **₱77,904,820** | ₱141,018,200 |
| Net plan assets in excess of the asset ceiling limit (not recognized in the consolidated statements of financial position) | **₱21,266,423** | ₱52,346,900 |

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

| | 2010 | 2009 |
|---|---|---|
| (a) Retirement asset | **₱77,904,820** | ₱141,018,200 |
| (b) Asset ceiling limit | | |
| i. Unrecognized actuarial losses (gains) | **72,951,908** | (122,990,200) |
| ii. Present value of available reduction in future contributions | **26,219,335** | 316,355,300 |
| Limit | **99,171,243** | 193,365,100 |
| Lower of (a) and (b) | **₱77,904,820** | ₱141,018,200 |

Movements in the fair value of plan assets follow:

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

| | 2009 | | |
|---|---|---|---|
| | URC | RLC | Total |
| Balance at beginning of year | ₱1,341,210,300 | ₱57,568,490 | ₱1,398,778,790 |
| Expected return on plan assets | 73,766,600 | 3,166,100 | 76,932,700 |
| Actual contributions | – | 6,652,020 | 6,652,020 |
| Benefits paid | (66,676,400) | (6,839,120) | (73,515,520) |
| Actuarial gains | 6,390,700 | 12,070 | 6,402,770 |
| Balance at end of year | ₱1,354,691,200 | ₱60,559,560 | ₱1,415,250,760 |
| Actual return on plan assets | ₱67,616,000 | ₱– | ₱67,616,000 |

There are no reimbursement rights recognized as a separate asset as of December 31, 2010 and 2009.

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

Net plan assets consist of the following:

| | **2010** | | | |
|---|---|---|---|---|
| | **URC** | | **RLC** | |
| | **Amount** | **%** | **Amount** | **%** |
| Cash | **₱544,419** | **–** | **₱225,331** | **0.40** |
| Receivables (Note 40) | **1,553,392,757** | **124.55** | **65,034,281** | **114.47** |
| Liabilities (Note 40) | **(306,740,064)** | **(24.55)** | **(8,445,844)** | **(14.87)** |
| | **₱1,247,197,112** | **100.00** | **₱56,813,768** | **100.00** |

| | 2009 | | | |
|---|---|---|---|---|
| | URC | | RLC | |
| | Amount | % | Amount | % |
| Cash | ₱32,634 | – | ₱179,754 | 0.30 |
| Receivables (Note 40) | 1,512,183,064 | 111.63 | 66,922,515 | 110.50 |
| Liabilities (Note 40) | (157,524,498) | (11.63) | (6,542,709) | (10.80) |
| | ₱1,354,691,200 | 100.00 | ₱60,559,560 | 100.00 |

URC expects to contribute about ₱115.5 million into the pension fund for the year ending 2011.

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

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

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

| | 2009 | | |
|---|---|---|---|
| | URC | Others* | Total |
| Balance at beginning of year | ₱1,113,492,800 | ₱379,041,001 | ₱1,492,533,801 |
| Current service cost | 32,126,200 | 48,871,988 | 80,998,188 |
| Interest cost | 92,085,900 | 42,127,835 | 134,213,735 |
| Benefits paid | (66,676,400) | (30,056,232) | (96,732,632) |
| Actuarial losses (gains) - net | (132,692,600) | 94,460,200 | (38,232,400) |
| Effect of curtailment | – | (8,250,196) | (8,250,196) |
| Balance at end of year | ₱1,038,335,900 | ₱526,194,596 | ₱1,564,530,496 |

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

Components of pension expense (included under 'Personnel expenses' in the 'General and administrative expenses' account in the consolidated statements of comprehensive income) follow (Note 32):

| | **2010** | | |
|---|---|---|---|
| | **URC** | **Others*** | **Total** |
| Current service cost | **₱59,860,000** | **₱61,046,677** | **₱120,906,677** |
| Interest cost | **102,068,419** | **56,832,979** | **158,901,398** |
| Expected return on plan assets | **(67,734,560)** | **3,039,272** | **(64,695,288)** |
| Net actuarial losses (gains) recognized during the year | **(31,080,477)** | **357,473** | **(30,723,004)** |
| Loss (gain) recognized under Paragraph 58A | **–** | **134,117** | **134,117** |
| Total pension expense | **₱63,113,382** | **₱121,410,518** | **₱184,523,900** |

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

| | 2009 | | |
|---|---|---|---|
| | URC | Others* | Total |
| Current service cost | ₱32,126,200 | ₱48,871,988 | ₱80,998,188 |
| Interest cost | 92,085,900 | 42,127,835 | 134,213,735 |
| Expected return on plan assets | (73,766,600) | (3,166,100) | (76,932,700) |
| Net actuarial losses (gains) recognized during the year | 53,900,180 | (9,899,868) | 44,000,312 |
| Effect of curtailment | – | (6,155,870) | (6,155,870) |
| Total pension expense | ₱104,345,680 | ₱71,777,985 | ₱176,123,665 |

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

| | 2008 | | |
|---|---|---|---|
| | URC | Others* | Total |
| Current service cost | ₱55,595,900 | ₱48,114,200 | ₱103,710,100 |
| Interest cost | 88,771,600 | 33,176,267 | 121,947,867 |
| Expected return on plan assets | (67,019,700) | (188,000) | (67,207,700) |
| Past service costs | 132,355,700 | 57,287,960 | 189,643,660 |
| Net actuarial gain recognized during the year | (284,102,700) | (3,883,683) | (287,986,383) |
| Effect of curtailment | – | (18,272,400) | (18,272,400) |
| Total pension expense (income) | (₱74,399,200) | ₱116,234,344 | ₱41,835,144 |

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

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

| | **2010** | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | **URC** | **Others*** | URC | Others* | URC | Others* |
| Retirement age | **60** | **60** | 60 | 60 | 60 | 60 |
| Average remaining working life (in years) | **9** | | 11 | 5 to 19 | 12 | 7 to 20 |
| Discount rate | **7.7%** | **8.2%** | 9.8% | 11.2% | 8.3% | 8.0% to 17.6% |
| Salary rate increase | **5.5%** | **5.0%** | 5.5% | 5.5% to 7.5% | 5.5% | 4.0% to 7.5% |
| Expected rate of return on plan assets | **3.9%** | **5.5%** | 5.0% | 5.0% | 8.3% | 5.5% |

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

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

| | URC | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| Defined benefit obligation | **₱1,220,977,777** | ₱1,038,335,854 | ₱1,113,492,800 | ₱934,438,200 | ₱753,987,300 |
| Plan assets | **1,247,197,112** | 1,354,691,166 | 1,341,210,300 | 1,218,540,900 | 1,162,943,500 |
| Deficit (surplus) | **₱26,219,335** | (₱316,355,312) | (₱227,717,500) | (₱284,102,700) | (₱408,956,200) |
| Experience adjustments on: | | | | | |
| Plan assets | **(₱32,995,817)** | ₱6,390,700 | (₱5,111,600) | (₱18,194,700) | ₱7,867,500 |
| Plan liabilities | **(3,797,073)** | (7,144,800) | (176,556,600) | 78,783,300 | (181,622,700) |

| | Others* | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| Defined benefit obligation | **₱770,190,122** | ₱526,194,596 | ₱379,041,001 | ₱336,173,450 | ₱492,793,951 |
| Plan assets | **56,813,768** | 60,559,560 | 57,568,490 | 104,000 | – |
| Deficit (surplus) | **₱713,376,354** | ₱465,635,036 | ₱321,472,511 | ₱336,069,450 | ₱492,793,951 |
| Experience adjustments on: | | | | | |
| Plan assets | **(₱2,428,730)** | ₱12,070 | ₱7,876,242 | ₱251,500 | ₱– |
| Plan liabilities | **(35,088,216)** | (81,239,100) | (3,194,328) | 81,519,200 | 10,494,100 |

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

## 38. Income Taxes

Provision for (benefit from) income tax consists of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Current | **₱1,614,256,871** | ₱1,060,271,191 | ₱812,001,097 |
| Deferred | **651,581,786** | 156,958,705 | (1,133,829,817) |
| | **₱2,265,838,657** | ₱1,217,229,896 | (₱321,828,720) |

Republic Act (RA) No. 9337

RA No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT tax rate shall be 35.0% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 42.0% of interest income subjected to final tax until December 31, 2008. Starting January 1, 2009, interest expense allowed as a deductible expense shall be reduced to 33.0% of interest income subjected to final tax.

Entertainment, Amusement and Recreation (EAR) Expenses
Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1.0% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. The Group recognized EAR expenses (included under 'General and administrative expenses' account in the consolidated statements of comprehensive income) amounting to ₱177.6 million, ₱167.8 million and ₱172.1 million in 2010, 2009 and 2008, respectively (Note 31).

Components of the Group's net deferred tax assets (included in the 'Other noncurrent assets' account in the statement of financial position) follow (Note 21):

| | **2010** | 2009 |
|---|---|---|
| Deferred tax assets on: | | |
| Unrealized foreign exchange loss | **₱121,633,292** | ₱136,969,338 |
| Unfunded profit sharing | **39,296,193** | 28,052,997 |
| Unfunded pension benefits | **10,812,937** | 7,934,803 |
| Allowance for impairment losses on receivables and property, plant and equipment | **2,470,321** | 209,277,605 |
| MCIT carryforward | – | 83,925,491 |
| NOLCO | – | 19,781,840 |
| Difference between cost and net realizable value of inventories | – | – |
| Others | **82,445,187** | 85,888,320 |
| | **256,657,930** | 571,830,394 |
| Deferred tax liabilities on: | | |
| Unrealized foreign exchange gain | **(11,649,234)** | (52,573,674) |
| Unrealized profit on excess of market value over cost of biological assets | – | (113,140,800) |
| Pension assets | – | (42,305,460) |
| Unamortized capitalized interest | – | (5,405,230) |
| Mark-to-market gain | – | – |
| Others | **(13,650,866)** | (2,145,228) |
| | **(25,300,100)** | (215,570,392) |
| Net deferred tax asset | **₱231,357,830** | ₱356,260,002 |

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

| | 2010 | 2009 |
|---|---|---|
| Deferred tax assets on: | | |
| NOLCO | **₱656,840,056** | ₱608,173,270 |
| Allowance for impairment losses on receivables and property, plant and equipment | **704,723,126** | 580,408,976 |
| Unfunded pension benefits | **122,376,264** | 100,622,293 |
| Unrealized foreign exchange loss | **65,442,455** | – |
| MCIT carryforward | **33,112,332** | 30,713,763 |
| Foreign subsidiaries | **5,120,386** | 15,302,886 |
| Allowance for impairment on investment on joint venture | – | 74,836,000 |
| Others | **1,128,861,134** | 734,473,884 |
| | **2,716,475,753** | 2,144,531,072 |
| Deferred tax liabilities on: | | |
| Unrealized foreign exchange gain | **(2,553,673,703)** | (2,039,341,479) |
| Unamortized capitalized interest | **(1,948,977,116)** | (1,782,962,422) |
| Excess of financial gross profit over taxable gross profit | **(632,412,563)** | (585,132,399) |
| Deferred subscriber acquisition costs | **(440,894,000)** | (401,640,000) |
| Borrowing Cost | **(341,702,566)** | (196,693,129) |
| Double depreciation | **(194,506,665)** | (194,506,665) |
| Mark-to-market gain | **(364,791,144)** | (222,573,617) |
| Unrealized profit on excess of market value over cost of hog markets | **(99,717,131)** | – |
| Others | **(1,196,359,668)** | (1,246,938,757) |
| | **(7,773,034,556)** | (6,669,788,468) |
| Net deferred tax liabilities | **(₱5,056,558,803)** | (₱4,525,257,396) |

Certain subsidiaries did not recognize any deferred tax assets on the following temporary differences on account of the subsidiaries' respective ITH. In addition, management of these subsidiaries believes that they may not be able to generate sufficient taxable income that will be available to allow all or part of the deferred tax assets to be realized.

Details of unrecognized deferred tax assets follow:

| | **2010** | 2009 |
|---|---|---|
| Allowance for impairment losses on receivables | **₱1,075,232,575** | ₱3,314,992,604 |
| NOLCO | **716,192,496** | 1,664,787,447 |
| Accrued expenses | **89,294,058** | 50,069,017 |
| Difference between cost and NRV of inventories | **21,903,446** | – |
| Accrued pension costs | **18,850,002** | 117,428,797 |
| MCIT | **12,256,392** | 23,283,968 |
| Unrealized foreign exchange losses | **5,020,418** | 105,048,810 |
| Allowance for credit losses | **19,739** | – |
| Accretion of ARO | – | 390,887,699 |
| Unearned revenue | – | 120,074,015 |
| Allowance for inventory obsolescence | – | 63,998,836 |
| Depreciation of ARO | – | 15,872,348 |
| Prepaid rent | – | 1,448,078 |
| | **₱1,938,769,126** | ₱5,867,891,619 |

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% | 35.00% |
| Tax effects of: | | | |
| Equity in net earnings of affiliates | **(3.58)** | (8.33) | 92.18 |
| Nontaxable income | **(0.25)** | (0.41) | (84.25) |
| Effect of unrecognized deferred tax assets | **(0.72)** | (1.82) | (49.95) |
| Income subjected to lower tax rates | **(1.13)** | (3.38) | 48.73 |
| Board of Investments (BOI) tax credits and others | **(10.84)** | (10.99) | 17.25 |
| Nondeductible interest expense | **0.43** | 1.89 | (18.18) |
| Others | **(4.14)** | 2.41 | (5.31) |
| Effective income tax rate | **9.77%** | 9.37% | 35.47% |

## 39. **Earnings (Loss) Per Share**

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Net income (loss) applicable to equity holders of the Parent Company | **₱16,321,599,801** | ₱8,545,641,600 | (₱693,666,085) |
| Weighted average number of common shares | **6,739,528,227** | 6,797,191,657 | 6,797,191,657 |
| Basic/dilutive earnings (loss) per share | **₱2.42** | ₱1.26 | (₱0.10) |

There were no potential dilutive common shares in 2010, 2009 and 2008.

## 40. Related Party Transactions

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

| Related Party | Relationship | Financial Statement Account | Nature* | 2010 | 2009 |
|---|---|---|---|---|---|
| DMPI | Subsidiary | Due from related parties | Various | **₱13,344,189,935** | ₱12,813,624,653 |
| JGSCL | -do- | Due from related parties | Various | **9,703,751,100** | 10,881,184,266 |
| DIGITEL | -do- | Due from related parties | Various | **9,333,704,850** | 10,632,605,703 |
| | | Unquoted debt security | Various | **1,127,073,530** | 1,113,863,484 |
| JGSPC | -do- | Due from related parties | Various | **8,107,121,151** | 4,647,329,016 |
| JGSCS | -do- | Due to related parties | Various | **2,465,771,172** | 3,880,093,978 |
| URC Retirement Plan | Affiliate | Due to related parties | Various | **1,536,795,008** | 1,517,894,311 |
| CPAir Holdings | Subsidiary | Due from related parties | Various | **1,495,307,396** | 2,705,496,083 |
| LMI | -do- | Due to related parties | Various | **1,140,619,132** | 1,027,539,166 |
| URC | -do- | Due from related parties | Various | **836,779,941** | 1,164,861,854 |
| EHI | -do- | Due from related parties | Various | **650,578,113** | 644,732,113 |
| RLC | -do- | Due from related parties | Various | **342,954,804** | – |
| | | Due to related parties | Various | **–** | 2,521,885,000 |
| Robinsons Inc. | Affiliate | Due from related parties | Various | **223,924,790** | – |
| | | Due to related parties | Various | **–** | 393,598,397 |
| WIMC | Subsidiary | Due from related parties | Various | **138,227,946** | 138,201,146 |
| JGSCMC | -do- | Due to related parties | Various | **81,183,700** | 80,855,490 |
| TIC | -do- | Due from related parties | Various | **47,326,404** | 47,326,404 |
| HSFC | -do- | Due from related parties | Various | **13,640,346** | 13,640,346 |
| CAI | -do- | Due to related parties | | **623,922** | – |
| | | Due from related parties | Various | **–** | 44,795,390 |
| OPMC | Associate | Due from related parties | Various | **602,666** | – |
| | | Due to related parties | Various | **–** | 306,774,396 |
| JGSPL | Subsidiary | Due from related parties | Various | **–** | 1,492,768,406 |
| Robinsons Supermarket Corporation | Affiliate | Due to related parties | Various | **–** | 391,521,280 |
| Others | Various | Due from related parties | Various | **278,440,926** | 57,635,924 |
| | Various | Due to related parties | Various | **577,815,012** | 1,133,455,728 |

**See discussion below.*

The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries as discussed in Note 24 to the consolidated financial statements. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries. Certain advances are treated as loans and are charged with interest. The Group has entered into transactions with associates and other related parties principally consisting of sales, purchases, advances and reimbursement of expenses, regular banking transactions and management and administrative service agreements.

Interest earned by the Parent Company on transactions with related parties amounted to ₱929.8 million, ₱648.3 million in and ₱733.1 million in 2010, 2009 and 2008, respectively, while interest income earned by the Parent Company from the bonds issued by Digitel amounted to ₱72.0 million, ₱71.7 million and ₱63.1 million in 2010, 2009 and 2008, respectively. Interest expense incurred amounted to ₱214.9 million in 2010, ₱299.0 million in 2009 and ₱183.9 million in 2008.

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

Related party transactions which are not eliminated follow:

| | **2010** | 2009 |
|---|---|---|
| Due from related parties (Note 11) | **₱2,226,813,907** | ₱1,920,475,472 |
| Due to related parties (Notes 22 and 25) | **1,452,535,940** | 3,064,271,835 |

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

(a) Sales to related parties (which include affiliates Robinson's Supermarket, Robinsons Convenient Store, HURC and Robinsons Handyman) amounted to ₱1.4 billion, ₱0.8 billion and ₱0.7 billion in 2010, 2009 and 2008, respectively.

(b) As of December 31, 2010 and 2009, URC's plan assets include amounts due to URC totaling ₱306.7 million and ₱157.5 million, respectively (Note 37). As of December 31, 2010 and 2009, the Group's plan assets also include amounts due from JGSHI totaling ₱1.5 billion (Note 37). Due from JGSHI included in URC's plan assets are short-term in nature and incurs interest ranging from 2.0% to 4.5% in 2010, 3.5% to 7.3% in 2009 and 4.4% and 8.3% in 2008. Said receivable has an average term of 28 days

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

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

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Short-term employee benefits | **₱1,681,572,390** | ₱1,358,733,794 | ₱1,211,562,136 |
| Post-employment benefits | **42,596,161** | 48,692,974 | 71,912,721 |
| | **₱1,724,168,551** | ₱1,407,426,768 | ₱1,283,474,857 |

## 41. 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.

## 42. **Leases**

<u>URC</u>

*Operating Lease Commitments - Group as a Lessee*

The URC Group leases land where certain of its facilities are located. The operating lease agreements are for periods ranging from one to five years from dates of the contracts and are renewable under certain terms and conditions. The URC Group's rentals incurred on these leases (included under 'General and administrative expenses' account in the consolidated statements of comprehensive income) amounted to ₱55.0 million, ₱54.3 million and₱76.9 million in 2010, 2009 and 2008, respectively.

Future minimum lease payments under noncancellable operating leases follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **₱16,953,651** | ₱17,207,956 | ₱16,953,651 |
| After one year but not more than five years | **67,814,604** | 68,831,823 | 67,814,604 |
| | **₱84,768,255** | ₱86,039,779 | ₱84,768,255 |

*Operating Lease Commitments - Group as a Lessor*

The URC Group has entered into a one-year renewable, noncancellable lease with various related parties covering certain land and buildings where office spaces are located.

Total rental income earned from investment properties (included under 'Others' in the consolidated statements of comprehensive income) amounted to ₱56.6 million, ₱56.8 million and ₱55.4 million in 2010, 2009 and 2008, respectively. Direct operating expenses (included under 'General and administrative expenses ' in the consolidated statements of comprehensive income) arising from investment properties amounted to ₱0.2 million in 2010, 2009 and 2008.

Future minimum lease receivables under noncancellable operating leases that are due within one year amounted to ₱57.1 million, ₱57.4 million and ₱55.9 million in 2010, 2009 and 2008 respectively.

<u>RLC</u>

*Operating Lease Commitments - Group as a Lessee*

The RLC Group entered into long-term operating leases of land with lease terms ranging from 25 to 50 years. These leases include clauses to enable escalation of rental charges on the agreed dates. Total rent expense (included under 'General and administrative expenses' account in the consolidated statements of comprehensive income) amounted to ₱131.0 million, ₱156.0 million and ₱159.0 million in 2010, 2009 and 2008, respectively.

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **₱47,147,298** | ₱48,004,527 | ₱43,074,198 |
| After one year but not more than five years | **213,176,325** | 202,539,847 | 193,571,713 |
| Over five years | **6,253,520,299** | 6,306,558,981 | 6,363,531,642 |
| | **₱6,513,843,922** | ₱6,557,103,355 | ₱6,600,177,553 |

*Operating Lease Commitments - Group as a Lessor*
The RLC Group has entered into commercial property leases on its investment property portfolio. These noncancellable leases have remaining lease terms of between one and ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The lease contracts also provide for the percentage rent, which is a certain percentage of actual monthly sales or minimum monthly gross sales, whichever is higher. Total rent income (included under 'Real estate and hotels revenue' account in the consolidated statements of comprehensive income) amounted to ₱5.6 billion, ₱5.1 billion and ₱4.4 billion in 2010, 2009 and 2008, respectively. Total percentage rent recognized as income amounted to ₱1.6 billion, ₱1.4 billion and ₱1.2 billion in 2010, 2009 and 2008, respectively.

Future minimum lease receivables under noncancellable operating leases follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **₱1,128,494,867** | ₱943,532,729 | ₱984,022,565 |
| After one year but not more than five years | **2,728,725,119** | 1,354,524,223 | 1,931,090,773 |
| Over five years | **587,588,901** | 71,111,376 | 40,517,868 |
| | **₱4,444,808,887** | ₱2,369,168,328 | ₱2,955,631,206 |

JGSPC

*Operating lease commitments - Group as a Lessee*
JGSPC has entered into contracts of lease for its Cybergate office and the shuttle bus that transports its employees from Balagtas to Batangas plant. Rental expense (included under 'Cost of sales and services' and 'General and administrative expenses' accounts in the consolidated statements of comprehensive income) charged to operations amounted to ₱13.4 million, ₱10.5 million and ₱11.6 million in 2010, 2009 and 2008, respectively.

Rental expense is distributed as follows:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Cost of sales and services | **₱4,437,250** | ₱4,406,529 | ₱5,492,277 |
| General and administrative expenses (Note 31) | **8,937,421** | 6,064,736 | 6,129,420 |
| | **₱13,374,671** | ₱10,471,265 | ₱11,621,697 |

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **₱5,735,207** | ₱4,739,843 | ₱5,462,089 |
| After one year but not more than five years | **24,745,585** | – | 4,739,843 |
| | **₱30,480,792** | ₱4,739,843 | ₱10,201,932 |

CAI

*Operating Aircraft Lease Commitments - Group as a Lessee*
CAI entered into operating lease agreements with certain leasing companies which cover the following aircraft:

*A320 aircraft*
The following table summarizes the specific lease agreements on seven Airbus A320 aircraft:

| Date of Lease | Lessor | No. of Units | Lease Term |
|---|---|---|---|
| December 23, 2004 | CIT Leasing Corporation | 2 | May 2005 - May 2012<br>June 2005 - June 2012 |
| April 23, 2007 | Celestial Aviation Trading Limited (Celestial Aviation) | 1 | October 2007 - October 2015 |
| May 29, 2007 | CIT Aerospace International | 4 | March 2008 - March 2014<br>April 2008 - April 2014<br>May 2008 - May 2014<br>October 2008 - October 2014 |

On March 14, 2008, CAI entered into operating lease agreement with Celestial Aviation Trading (CAT) 19 for the lease of two Airbus A320 aircraft, which were delivered in 2009. On the same date, CAI also entered into another lease agreement with Celestial Aviation Trading 23 Limited (CAT 23) for the lease of additional Airbus 320 aircraft to be received in 2012. In November 2010, CAI signed an amendment to the operating lease agreements with CAT 23, advancing the delivery of the two Airbus A320 aircraft from 2012 to 2011.

Lease agreements with CITAI, CAT 17 and CAT 19 were amended to effect the novation of lease rights by the original lessors to new lessors as allowed under the existing lease agreements.

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

| | **2010** | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | **US Dollar** | **Philippine Peso Equivalent** | US Dollar | Philippine Peso Equivalent | US Dollar | Philippine Peso Equivalent |
| Within one year | **US$37,805,531** | **₱1,657,394,479** | US$33,749,946 | ₱1,559,247,505 | US$27,900,136 | ₱1,325,814,463 |
| After one year but not more than five years | **113,948,252** | **4,995,491,368** | 118,485,725 | 5,474,040,495 | 97,286,394 | 4,623,049,443 |
| Over five years | **8,408,351** | **368,622,108** | 25,541,363 | 1,180,010,971 | 35,857,829 | 1,703,964,034 |
| | **US$160,162,134** | **₱7,021,507,955** | US$177,777,034 | ₱8,213,298,971 | US$161,044,359 | ₱7,652,827,940 |

Lease expense relating to aircraft leases (included in 'General and Administrative Expenses' account in the consolidated statements of comprehensive income) amounted to ₱1.6 billion, ₱1.7 billion and ₱1.1 billion in 2010, 2009 and 2008, respectively.

*Operating Non-Aircraft Lease Commitments*
CAI has entered into various lease agreements for its hangar, office spaces, ticketing stations and certain equipment. These leases have remaining lease terms ranging from one to ten years. Certain leases include a clause to enable upward revision of the annual rental charge ranging from 5.0% to 10.0%.

Future minimum lease payments under these noncancellable operating leases follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **₱101,622,518** | ₱92,283,350 | ₱76,145,138 |
| After one year but not more than five years | **443,485,392** | 406,896,291 | 432,109,782 |
| Over five years | **124,367,033** | 230,752,642 | 280,466,642 |
| | **₱669,474,943** | ₱729,932,283 | ₱788,721,562 |

Lease expenses relating to non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱231.2 million, ₱239.7 million and ₱149.2 million in 2010, 2009 and 2008, respectively.

Digitel

*Operating Lease Commitments - Group as a Lessee*

Digitel leases certain premises for some of its telecommunications facilities and equipment and for most of its business centers and cell sites. The operating lease agreements are for periods ranging from 1 to 30 years from the date of the contracts and are renewable under certain terms and conditions. The agreements generally require certain amounts of deposit and advance rentals, which are shown as part of 'Other current' and 'Other noncurrent assets' accounts in the consolidated statements of financial position. Digitel's rentals incurred on these leases, included under 'General and administrative expenses' account in the consolidated statements of comprehensive income, amounted to ₱1.5 billion, ₱1.3 billion and ₱1.2 billion in 2010, 2009 and 2008, respectively.

Future minimum lease payments under these noncancellable operating leases follow (amounts in thousands):

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **₱1,043,756,189** | ₱893,270,149 | ₱707,477,351 |
| After one year but not more than five years | **5,464,040,282** | 4,857,427,267 | 3,942,456,694 |
| Over five years | **2,574,333,405** | 3,157,624,336 | 3,545,095,921 |
| | **₱9,082,129,876** | ₱8,908,321,752 | ₱8,195,029,966 |

RSBC

*Operating Lease Commitments - Group as a Lessee*

RSBC leases its head office and branch premises for periods ranging from one to five years, renewable upon mutual agreement of both parties. Various lease contracts include escalation clauses, most of which bear annual rent increase ranging from 5.0% to 10.0%. Rent expense recognized by RSBC (included under 'General and administrative expenses' in the consolidated statements of comprehensive income, amounted to ₱71.0 million, ₱61.0 million and ₱54.3 million in 2010, 2009 and 2008, respectively.

Future minimum lease payments under these noncancellable operating leases follow:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **₱58,282,212** | ₱42,040,155 | ₱51,026,632 |
| After one year but not more than five years | **106,832,167** | 53,848,469 | 75,756,522 |
| Over five years | **26,977,792** | 4,731,106 | 8,114,306 |
| | **₱192,092,171** | ₱100,619,730 | ₱134,897,460 |

## 43. Other Commitments and Contingent Liabilities

RLC

*Capital Commitments*

RLC has contractual commitments and obligations for the construction and development of investment properties and property and equipment items aggregating ₱3.3 billion, ₱2.9 billion and ₱6.1 billion as of September 30, 2010, 2009 and 2008, respectively. Moreover, RLC has contractual obligations amounting to ₱1.6 billion, ₱1.5 billion and ₱2.3 billion as of September 30, 2010, 2009 and 2008, respectively, for the completion and delivery of real estate units that have been presold.

CAI

CAI's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱31.5 billion as of December 31, 2010 which are payable over the following periods:

| | December 31, 2010 | |
|---|---|---|
| | **US dollar** | **Philippine peso equivalent** |
| Within one year | **US$153,097,113** | **₱6,711,777,434** |
| After one year but not more than five years | **565,169,279** | **24,777,021,191** |
| | **US$718,266,392** | **₱31,488,798,625** |

JGSPC

JGSPC has an existing technology and licensing agreement with a foreign company covering the construction, manufacture, use and sale of the PP and PE lines. In further consideration for the rights granted to JGSPC, pursuant to the licensing agreement, JGSPC shall pay the foreign company a running royalty fee equivalent to a certain sum for each metric ton of resin sold up to the end of the royalty term.

Royalty expense recognized as part of 'Cost of sales and services' in the consolidated statements of comprehensive income amounted to ₱73.8 million, ₱106.1 million and ₱180.8 million in 2010, 2009 and 2008, respectively (Note 30).

Digitel

Digitel has existing agreements with various telecommunication carriers and operators, local exchange carriers, international exchange carriers, CMTS operators, paging and trunk radio operators, provincial operators and with the Philippine Government to cover the following services:

a. International telecommunications operation services between servicing points in another country where the other party is domiciled and Digitel's terminals servicing points in the Philippines.
b. National and international private leased circuit services on a reciprocal basis between the other party and Digitel in the timely support of services to their respective customers.
c. Internet transport and access services and other telecommunication services that may be introduced from time to time.
d. Interconnection of Digitel's CMTS network with the CMTS, local exchange, inter-exchange and international gateway facilities with the telecommunications network of other domestic telecommunication carriers.

Digitel has a commitment to construct, install, operate and maintain a nationwide CMTS using GSM technology. Prior to the assignment of the PA to DMPI, Digitel entered into a supply agreement with foreign suppliers including their local affiliates for Phases 1 to 4 of the said project. Digitel and DMPI have incurred costs for said project totaling to ₱19.6 billion in 2010 and 2009.

Off-Balance Sheet Items

In the normal course of RSBC's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying consolidated financial statements. The subsidiary bank does not anticipate material unreserved losses as a result of these transactions.

Following is a summary of RSBC's commitments and contingent liabilities at their equivalent peso contractual amounts:

| | **2010** | 2009 |
|---|---|---|
| Trust and Investment Group accounts | **₱12,325,143,897** | ₱1,184,689,555 |
| Commitments - foreign currency swap | **557,741,200** | 464,341,200 |
| Late deposit/payment received | **10,178,403** | 14,468,354 |
| Outward bills for collection | **548,037** | 548,036 |
| Items held for safekeeping | **52,282** | 31,629 |
| Domestic standby letters of credit | **–** | 5,908,000 |
| Other contingent accounts | **82,570** | 46,119 |

Contingencies

*DMPI*

On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that all cellular mobile voice service shall be billed on a six (6) seconds per pulse scheme.

DMPI, Globe Telecom and Smart Communications Inc. all filed petitions before the Court of Appeals seeking the nullification of Orders of the NTC, which sought to implement MC. DMPI maintains that the Orders of the NTC are void as being without basis in fact and law and in violation of DMPI's rights to due process. On February 19, 2010, the Court of Appeals (CA) issued an order restraining the NTC from implementing the per-pulse billing scheme.

DMPI believes that its legal position is strong. If however, a final judgment is made against DMPI, DMPI may be contingently liable to refund to any complaining subscriber any excess charges. Refund, if any, would however only apply to those charged on a per minute basis and not to almost all of its subscribers who have been availing of its unlimited voice services.

As of December 31, 2010, the management believes that it will not impact the contingency on services provided which comprise substantially of unlimited connection.

*Others*

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 outcome of which are not presently determinable. In the opinion of management and its legal counsel, 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.

## 44. **Disposal Group Held for Sale**

In September 2010, URC decided to sell its wholly owned subsidiaries Shantou SEZ Toyo Food Industrial Co. Ltd. (Shantou SEZ Toyo) and Guangdong Acesfood Co. Ltd. (Guangdong Acesfood), both of which are registered in the People's Republic of China. As of September 30, 2010, the combined total assets and liabilities of the two subsidiaries amounted to ₱334.0 million and ₱984.2 million, respectively.

## 45. **Business Combination**

On February 24, 2010, RSBC, the banking arm of the Group, signed a Share Purchase Agreement with the Royal Bank of Scotland Group plc and The Royal Bank of Scotland N.V. for the sale of the latter's share in RBS.

On March 29, 2010, a Deed of Amendment on the Share Purchase Agreement was signed among JGSCSC, RHI, Royal Bank of Scotland Group plc and The Royal Bank of Scotland N.V. Inc. changing the acquirer from RSBC to JGSCSC and RHI.

On May 6, 2010, the Group acquired 60.0% of the voting interest and 52.7% of the non-voting preferred shares of RBS for a purchase price of ₱187.4 million and ₱1.2 billion, respectively.

The fair values of identifiable assets and liabilities of RBS as of acquisition date follows:

| | |
|---|---:|
| Cash and other investments | ₱3,015,021,701 |
| Loans and receivables | 360,024,228 |
| Other assets | 26,529,970 |
| Total assets | 3,401,575,899 |
| Deposit liabilities | 46,149,245 |
| Bills payable | 715,540,540 |
| Other liabilities | 329,891,770 |
| Total liabilities | 1,091,581,555 |
| Net assets | 2,309,994,344 |
| Less share in net identifiable assets of non voting preferred shares | 2,221,394,357 |
| Share in net identifiable assets of common stock | 88,599,987 |
| Less non-controlling interest (40.0%) | 35,442,664 |
| Total net assets acquired pertaining to 60.0% voting interest | 53,157,323 |
| Value of license acquired | 134,276,211 |
| Total assets acquired for cash | ₱187,433,534 |
| **Net cash inflow arising from acquisition of a subsidiary** | |
| Cash and cash equivalent acquired | ₱3,015,021,701 |
| Cash consideration | 1,357,513,818 |
| | ₱1,657,507,883 |

On May 20, 2010, the BOD and the stockholders of RBS approved the change of name from Royal Bank of Scotland (Philippines) Inc. to Robinsons Bank Corporation.

## 46. **Merger**

LMI (Surviving Entity) and ADMC,WIMC, CPMC, HSFC, SIC and TIC (Absorbed Corporations)
On April 22, 2010, the SEC approved the Plan and Articles of Merger executed on July 2009 and December 22, 2009, respectively, by and among LMI, the surviving corporation, and ADMC,WIMC, CPMC, HSFC, SIC and TIC, the absorbed corporations. The Plan Articles of Merger was approved by the BOD on July 22, 2009.

Plan Merger of Parent Company and Certain Subsidiaries
On May 7, 2010, the BOD of the Parent Company, approved the merger of LMI, JGCC and PPCI (Absorbed Corporations) with and into the Parent Company. On June 28, 2010, the shareholders of the Parent Company approved the Plan of Merger. As of December 31, 2010, the Parent Company is in the process of obtaining the SEC approval.

The Plan of Merger indicates that no Parent Company shares will be issued in exchange for the net assets of the Absorbed Corporations considering that all of them are wholly owned subsidiaries of the Parent Company and any Parent Company shares will just be issued to the Parent Company itself and said shares will be considered as treasury shares.

Plan Merger of RSBC and RBC
On May 25, 2010, the BOD and the stockholders of RSBC approved the following:

a. Merger of RSBC and RBC under the following salient terms:
   - The shares of the capital stock of RSBC outstanding on the effective date of merger shall be cancelled;
   - All shareholders of RSBC shall become the stockholders of RBC in which all outstanding shares of RSBC shall be cancelled in exchange for Series B Preferred Stock of RBC from the latter's increase in authorized capital stock at the exchange ratio of 4.192 RBC shares for every one share of RSBC;
   - The share of capital stock of RBC issued and outstanding at the effective date of merger shall, together with the Series B Preferred shares to be issued pursuant to above, continue to be the issued and outstanding shares of RBC;
   - The Series B Preferred Stock to be issued by RBC pursuant to the merger shall have a par value of ₱10.00 per share and shall be redeemable at the option of RBC, non-voting, convertible, non-cumulative and preferred as to dividends; and
   - RBC, having the commercial banking license, will be the surviving entity.
b. Plan of Merger of RSBC and RBC
c. Articles of Merger of RSBC and RBC
d. Amendments of RBC's Articles of Incorporation as of the effective date of merger
e. Amendments to the By-Laws of RBC as of the effective date of merger

On December 9, 2010, the BSP approved the merger of RSBC and RBC. On January 25, 2011, RSBC received the Certificate of Authority issued by the Centralized Application and Licensing Group of the BSP to be filed together with the Plan of Merger and the Articles of Merger of the two banks with the Philippine SEC

The effectivity of the Plan of Merger will be subject to the approval of BSP, Philippine SEC and Philippine Deposit Insurance Corporation, and will be further conditioned on the issuance of BIR of a ruling that the Plan of Merger qualifies as a tax-free merger under section 40(c ) 2 of the NIRC of 1997.

## 47. Subsequent Events

The following events happened subsequent to the reporting date:

a. On January 12, 2011, URC's BOD approved the extension of URC's share buy-back program, allotting up to another ₱2.5 billion to reacquire a portion of the Parent Company's issued and outstanding common shares. The extension of the share buyback program shall have the same terms and conditions as the share buyback program approved by the BOD on November 13, 2007.

b. On January 27, 2011, the stockholders' of the Parent Company approved the amendment of its articles of incorporation to implement the following: (a) increase in authorized capital stock from Fourteen Billion Eight Hundred Fifty Million Eight Hundred Thousand Pesos (₱14,850,800,000) to Fourteen Billion Eight Hundred Ninety Million Eight Hundred Thousand Pesos (₱14,890,800,000); and (b) to create Four Billion (4,000,000,000) voting and non-redeemable preferred shares with a par value of One Centavo (₱0.01) per share, for a total par value of Forty Million Pesos (₱40,000,000).

c. On February 16, 2011, the BOD of RLC ratified and confirmed the stock rights offering of the common shares of the RLC with a par value of ₱1.00 per share, under the following indicative terms and conditions and subject to the approval by the Philippine SEC of the application of the RLC for the increase in its authorized capital stock:

    i. the offer of up to 1,364,610,228 common shares of the RLC (Offer Shares) to be taken from the increase in the authorized capital stock of the RLC;
    ii. subject to the applicable rules of the Philippine Stock Exchange (PSE), only shareholders as of record date to be determined by the RLC will be entitled to subscribe to one Offer Share for every two common shares held as of such record date;
    iii. the offer price shall be ₱10.00 per Offer Share;
    iv. such other terms and conditions as may be determined by the RLC.

d. On February 23, 2011, the stockholders of RLC held a special meeting to approve the following:

    i. increase in the authorized capital stock of RLC from Three Billion Pesos (₱3,000,000,000.00) divided into Three Billion (3,000,000,000) common shares with a par value of One Peso (₱1.00) per share to Eight Billion Two Hundred Million Pesos (₱8,200,000,000.00) divided into Eight Billion Two Hundred Million (8,200,000,000) common shares with a par value of One Peso (₱1.00) per share; and
    ii. amendment of the first paragraph of Article Seventh of the Amended Articles of Incorporation of RLC to reflect the increase in the authorized capital stock of RLC.

e. On February 28, 2011, the BOD of CAI approved the creation and implementation of a share buyback program. The share buyback program will cover up to ₱2.0 billion worth of CAI's common share. The share buyback program shall commence upon approval and shall end upon utilization of the said amount, or as may be otherwise determined by CAI's BOD.

f. On March 17, 2011, the BOD of CAI approved the declaration of a regular cash dividend in the amount of ₱2.00 per share and a special cash dividend in the amount of ₱1.00 per share from the unrestricted retained earnings of CAI to all stockholders of record as of April 14, 2011 and payable on May 12, 2011.

g. On March 29, 2011, the Parent Company and certain related parties executed a sale and purchase agreement with Philippine Long Distance Telephone Company (PLDT) under which PLDT has agreed to purchase all the rights, title and interest in the assets of DTPI as follows:

    i. 3,277,135,882 common shares of DTPI, representing approximately 51.55% equity share in DTPI;
    ii. zero coupon convertible bonds due 2013 and 2014 by issued DTPI and its subsidiary to the Parent Company which are convertible into approximately 18.6 billion shares of DTPI and certain related party by June 30, 2011; and
    iii. intercompany advances of ₱34.1 billion made by the the Parent Company and a certain subsidiary to DTPI and Subsidiaries.

    The total consideration for the assets amounted to ₱69.2 billion. The transaction is intended to be completed on June 30, 2011.

## 48. Supplemental Disclosures to Cash Flow Statements

The principal noncash activities of the Group were as follows:

a. Movements in the cumulative translation adjustment amounting to ₱91.1 million, ₱95.4 million and ₱36.4 million in 2010, 2009 and 2008, respectively.

b. In 2010, 2009 and 2008, the Group capitalized as part of the cost of new born biological assets (suckling) amounting to ₱80.5 million, ₱1.1 million and ₱30.9 million.

c. In 2010, 2009 and 2008, the Group foreclosed some assets, which are recorded under 'Investment properties' account in the consolidated financial position, amounting to ₱16.0 million, ₱7.7 million and ₱42.7 million, respectively.

d. The Group's significant non-cash investing activities pertain to additions to accrued project cost of ₱4.0 billion, ₱15.9 million and ₱1.6 billion as of December 31, 2010, 2009 and 2008, respectively (Note 15), and capitalized borrowing costs of ₱0.8 billion, ₱1.4 billion and ₱1.1 billion (Note 10) as of December 31, 2010, 2009 and 2008, respectively.

e. On February 28, 2010, the Group sold an engine for ₱89.5 million with a book value of ₱72.2 million to a third party maintenance service provider (buyer). The transaction was settled through direct offset against the Group's US-dollar denominated liability to the buyer amounting to ₱88.3 million.

f. On December 31, 2010, the Group recognized a liability based on the schedule of pre-delivery payments amounting to ₱286.0 million with a corresponding debit to 'Construction-in progress' account. The liability was paid on January 3, 2011.

g. In 2010, the additions in 'Passenger aircraft' account include increase in ARO asset amounting to ₱705.7 million due to change in accounting estimates. In 2009, the additions in 'Passenger aircraft' account include capitalized ARO asset related to new operating lease agreements amounting to ₱211.0 million (Note 17). The above capitalized ARO asset has corresponding recognition of ARO liability with the same amount.

h. In 2010, the Group acquired three passenger aircraft by assuming direct liabilities. This transaction is considered as a non-cash financing activity.

i. In 2010, the Group participated in the Global Bond Exchange offered by the Republic of the Philippines on September 20, 2010 and swapped its HTM investments amounting to ₱280.9 million.

j. In 2008, the Group reclassified certain trading assets from the financial assets at FVPL category to the AFS investments category and from AFS investments category to HTM investments category in the consolidated statements of financial position (Notes 9, 10 and 14).

k. In 2008, the Group reclassified an investment in shares of stock amounting to ₱257.7 million recorded as AFS investment to Investment in associate after determining that the Group has significant influence over the investee company (Note 15).

l. In 2008, the following accounts were transferred to assets of disposal group classified as held for sale after meeting the requirements of PFRS 5:

| | |
|---|---|
| Assets: | |
| Cash and cash equivalents | ₱57,900 |
| Property, plant and equipment | 192,063,742 |
| Other assets | 5,295,219 |
| Liabilities: | |
| Accounts payable | 31,536 |
| Due to related parties | 8,695,853 |

## 49. Approval for the Release of the Consolidated Financial Statements

The accompanying consolidated financial statements of the Group were approved and authorized for issue by the BOD on March 29, 2011.

SGV & Co
ERNST & YOUNG

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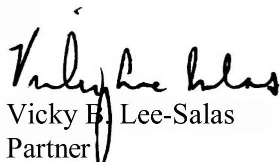
BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

**INDEPENDENT AUDITORS' REPORT**
**ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
JG Summit Holdings, Inc.
43rd Floor, Robinsons-Equitable Tower
ADB Avenue corner Poveda Road, Pasig City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of JG Summit Holdings, Inc. and Subsidiaries (the Group) as of and for the years ended December 31, 2010 and 2009 included in this Form 17-A and have issued our report thereon dated March 29, 2011. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management and are presented for purposes of complying with Securities and Exchange Commission (SEC) Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Vicky B. Lee-Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-2
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641532, January 3, 2011, Makati City

March 29, 2011

## JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

### SCHEDULE C - LONG-TERM INVESTMENTS IN SECURITIES
### (NONCURRENT MARKETABLE EQUITY SECURITIES,
### OTHER LONG-TERM INVESTMENTS IN STOCK,
### INVESTMENTS IN BONDS AND OTHER DEBT SECURITIES)
### DECEMBER 31, 2010

| Name of Issuing Entity and Description of Investment | BEGINNING BALANCE | | ADDITIONS | | DEDUCTIONS | | ENDING BALANCE | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares of Principal Amount of Bonds and Notes | Amount in Pesos | Equity in net Earnings (Losses) of Investees for the Period | Others | Distribution of Earnings by Investees | Others | Number of Shares of Principal Amount of Bonds and Notes | Amount in Pesos |
| First Private Power Corporation | 1,200,000 | 469,009,894 | 10,367,761 | - | (109,426,787) | (179,812,500) | 1,200,000 | 190,138,368 |
| Sterling Holdings & Security Corporation | 1,278,798 | 127,834,069 | - | - | - | (127,834,069) | 1,278,798 | - |
| Hunt-Universal Robina Corporation | 1,400,000 | 88,302,733 | 26,194,500 | - | (24,999,993) | - | 1,400,000 | 89,497,240 |
| Cebu Light Industrial Park | 600,000 | 53,552,736 | 1,799,400 | - | - | - | 600,000 | 55,352,136 |
| United Industrial Corp. Limited | 487,180,000 | 26,626,094,598 | 2,648,908,487 | 594,409,921 | (507,727,744) | (441,622) | 495,801,000 | 29,361,243,640 |
| Digitel Crossing | - | - | - | - | - | - | - | - |
| Jobstreet.com Philippines, Inc. | 5,645,598 | 30,901,523 | 28,026,229 | - | (33,534,852) | - | 5,645,598 | 25,392,900 |
| Aviation Partnership (Philippines) Corp. | 870,125 | 108,603,234 | 30,485,667 | - | (21,959,482) | - | 870,125 | 117,129,419 |
| SIA Engineering (Philippines) Corp. | 2,709,504 | 257,752,452 | (5,237,133) | - | - | - | 2,709,504 | 252,515,319 |
| Oriental Petroleum and Minerals Corp. | 38,808,201,737 | 329,827,920 | 28,179,811 | - | - | (23,514,505) | 38,808,201,737 | 334,493,226 |
| | | 28,091,879,159 | 2,768,724,722 | 594,409,921 | (697,648,858) | (331,602,696) | | 30,425,762,248 |

## JG SUMMIT HOLDINGS INC. AND SUBSIDIARIES

**SCHEDULE E - PROPERTY, PLANT AND EQUIPMENT**
**December 31, 2010**

| Classification | Beginning Balance | Additions | Disposals and Other adjustments | Ending Balance |
|---|---|---|---|---|
| Land and improvements | P 3,732,515,791 | P 396,225,368 | P (106,077,114) | P 4,022,664,045 |
| Buildings and improvements | 18,137,067,379 | 635,182,416 | 598,885,740 | 19,371,135,535 |
| Machinery and equipment | 43,120,859,847 | 1,605,317,626 | 353,098,550 | 45,079,276,023 |
| Telecommunications equipment | 49,897,066,990 | 321,534,312 | 26,443,376,406 | 76,661,977,708 |
| Investment in cable systems | 758,846,202 | - | 31,880,653 | 790,726,855 |
| Transportation, furnishing and other equipment | 7,858,924,278 | 737,365,852 | 652,409,680 | 9,248,699,810 |
| Passenger aircraft, flight equipment and others | 32,613,670,640 | 5,017,924,206 | 169,528,523 | 37,801,123,369 |
| Construction in-progress | 49,636,832,786 | 16,827,344,744 | (29,882,392,721) | 36,581,784,809 |
| Equipment in-transit | 432,441,740 | 589,722,381 | (635,646,334) | 386,517,787 |
| | P 206,188,225,653 | P 26,130,616,905 | P (2,374,936,617) | P 229,943,905,941 |

## JG SUMMIT HOLDINGS INC. AND SUBSIDIARIES

**SCHEDULE F - ACCUMULATED DEPRECIATION**
**December 31, 2010**

| Classification | | Beginning Balance | | Depreciation, Amortization and Impairment losses | | Disposals and Other adjustments | | Ending Balance |
|---|---|---|---|---|---|---|---|---|
| Land and improvements | P | 399,166,287 | P | 59,266,548 | P | 132,613,275 | P | 591,046,110 |
| Buildings and improvements | | 7,420,637,719 | | 828,018,941 | | 46,375,885 | | 8,295,032,545 |
| Machinery and equipment | | 25,887,769,257 | | 2,767,259,768 | | (393,201,691) | | 28,261,827,334 |
| Telecommunications equipment | | 27,382,972,193 | | 3,508,427,387 | | 16,366,953 | | 30,907,766,533 |
| Investment in cable systems | | 192,698,516 | | 45,499,857 | | - | | 238,198,373 |
| Transportation, furnishing and other equipment | | 5,781,010,176 | | 1,000,837,121 | | (102,704,678) | | 6,679,142,619 |
| Passenger aircraft, flight equipment and others | | 6,865,298,784 | | 2,059,928,151 | | (290,998,717) | | 8,634,228,218 |
| | P | 73,929,552,932 | P | 10,269,237,773 | P | (591,548,973) | P | 83,607,241,732 |

## JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

### SCHEDULE H - LONG-TERM DEBT (NET OF DEBT ISSUANCE COST)
### DECEMBER 31, 2010

| Name of Issuer and Type of Obligation | Amount Authorized by Indenture | Amount Shown as Current | Amount Shown as Long-term | Remarks |
|---|---|---|---|---|
| Guaranteed Notes Due 2012 | $ 200,000,000 | (P12,529,058) | P8,227,808,215 | |
| Guaranteed Notes Due 2013 | $ 300,000,000 | (14,085,792) | 11,092,145,048 | |
| Guaranteed Term Loan Facility Due 2013 | $ 300,000,000 | 5,217,570,954 | 7,861,973,808 | |
| CAI - Export Credit Agency (ECA) Loan | | 1,682,916,381 | 14,097,773,682 | |
| CAI - Commercial Loan from Foreign Banks | | 373,127,457 | 2,278,891,184 | |
| Hypovereinsbank | | 375,431,949 | - | |
| Zero coupon 12% Convertible Bonds Due 2013 | | - | 2,312,197 | |
| Nordic Investment Bank | | 145,719,182 | - | **SEE NOTE BELOW** |
| Nordea Bank | | 775,777,072 | 3,109,690,188 | |
| Societe Generale (SG) and Calyon | | 212,980,054 | 511,417,544 | |
| Calyon and SG | | 109,461,441 | 168,620,323 | |
| China CITIC loan | | 264,778,801 | 1,646,085,618 | |
| ING Bank N.V. | | 1,265,027,848 | 5,394,512,637 | |
| HSBC and Credit Suisse | | 230,461,171 | 1,427,332,547 | |
| Fixed Retail Bonds | | (19,637,480) | 8,933,149,468 | |
| Fixed Rate Corporate Notes | | (8,156,832) | 4,294,472,920 | |
| Fixed Corporate Notes Due 2014 | | (4,190,926) | 2,982,154,721 | |
| Philippine Sugar Corporation | | 7,401,386 | 25,704,433 | |
| DBP - JBIC Term Loan | | - | - | |
| Hongkong and Shanghai Banking Corp. Ltd. | | - | 2,000,000,000 | |
| Hongkong and Shanghai Banking Corp. Ltd. | | - | 3,000,000,000 | |
| Retail Bonds | | - | 5,000,000,000 | |
| Retail Bonds | | - | 5,000,000,000 | |
| | | P10,602,053,608 | P87,054,044,533 | |

*Notes:*
1) *The terms, interest rate, collaterals and other relevant information are shown in the Notes to Consolidated Financial Statements.*
2) *The negative amounts represent debt issuance costs to be amortized the following year.*

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

**SCHEDULE K - CAPITAL STOCK**
**DECEMBER 31, 2010**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding | Number of Shares Reserved for Option Warrants, Conversion and Other Rights | Number of Shares Held by | | |
|---|---|---|---|---|---|---|
| | | | | Related Parties | Directors, Officers and Employees | Others |
| Common Stock at P1 par value | 14,850,800,000 | 6,797,191,657 | - | 342,340,145 | 1,768,501,904 | 4,686,349,608 |

# JG SUMMIT HOLDINGS, INC.

**43rd Floor, Robinsons-Equitable Tower**
**ADB Avenue corner Poveda Road, Pasig City**

## SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION DECEMBER 31, 2010

| | |
|---|---|
| Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning | ₱8,770,795,860 |
| Add: Net income actually incurred during the year | |
| Net income during the year | 21,278,712,153 |
| Non-actual/unrealized income net of tax | |
| Benefit from deferred income tax | (36,414,579) |
| Net income actually incurred during the year | 21,242,297,574 |
| Less: | |
| Appropriation during the year | 19,000,000,000 |
| Dividend declarations during the year | 339,859,583 |
| Retained earnings, end available for dividends | ₱10,673,233,851 |