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SEC Registration Number

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(Company's Full Name)

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

Constante T. Santos

(Contact Person)

633-7631

(Company Telephone Number)

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Month Day
(Fiscal Year)

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(Form Type)

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Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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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, 2007**
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

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 ₱45,160,342,564.

TABLE OF CONTENTS

	<u>Page No.</u>
PART I - BUSINESS AND GENERAL INFORMATION	
Item 1 Business	4-28
Item 2 Properties	28-31
Item 3 Risks	31-32
Item 4 Legal Proceedings	32
Item 5 Submission of Matters to a Vote of Security Holders	32-33
PART II - OPERATIONAL AND FINANCIAL INFORMATION	
Item 6 Market for Registrant's Common Equity and Related Stockholder Matters	33-34
Item 7 Management's Discussion and Analysis or Plan of Operation	35-58
Item 8 Financial Statements	58
Item 9 Information on Independent Accountant and other Related Matters	58-59
PART III - CONTROL AND COMPENSATION INFORMATION	
Item 10 Directors and Executive Officers of Registrant	59-63
Item 11 Executive Compensation	63-65
Item 12 Security Ownership of Certain Beneficial Owners and Management	65-67
Item 13 Certain Relationships and Related Transactions	67
PART IV – CORPORATE GOVERNANCE	
Item 14 Corporate Governance	68
PART V - EXHIBITS AND SCHEDULES	
Item 15 Exhibits and Reports on SEC Form 17-C	69
SIGNATURES	70
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES	72
INDEX TO EXHIBITS	

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, international capital and financial services, petrochemicals and air transportation. In addition, the Company has business interests in other sectors, including power generation and insurance.

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

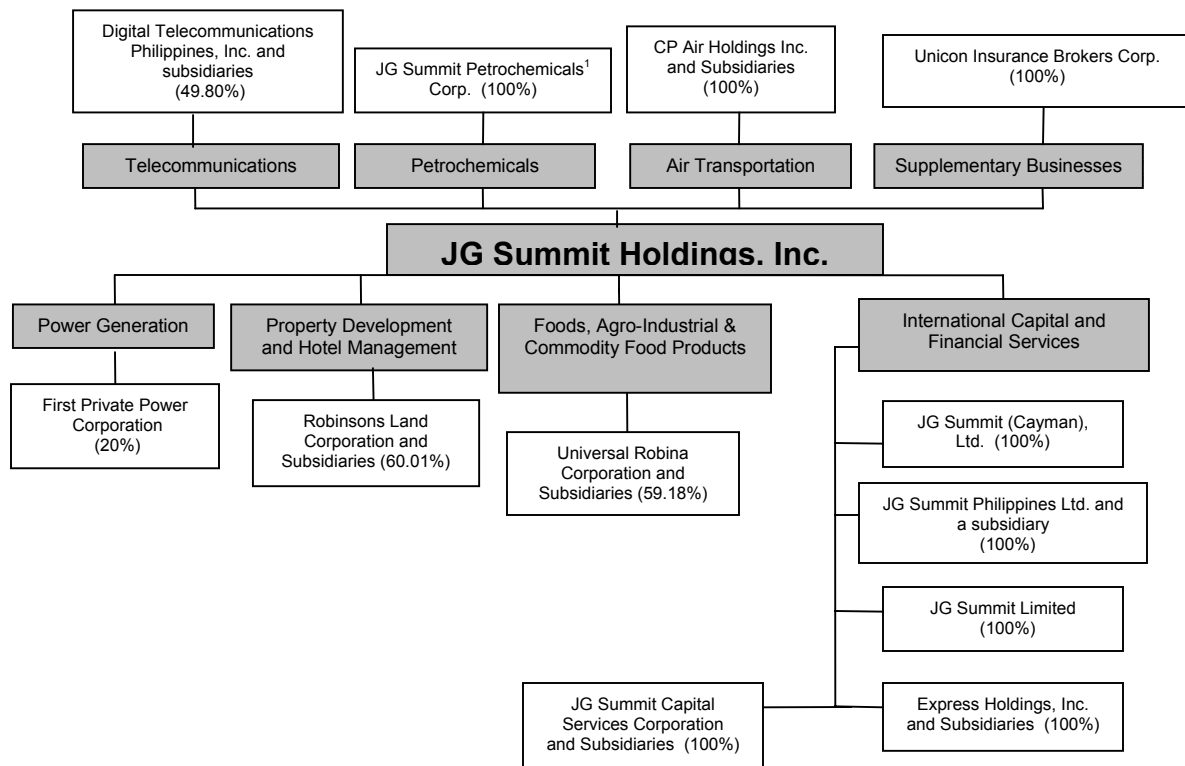
The Group also has branded foods business in the People's Republic of China (PRC) and the ASEAN region and an interest in a property development in Singapore.

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

The Gokongwei Family beneficially owns approximately 26.03% 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 October 11, 2007, the Company consolidated its ownership over all of the outstanding shares of stock of JG Summit Petrochemicals Corp. (JGSPC) from Marubeni of the 17.72% of the shares which it did not own in JGSP C. As a result, JGSPC has become a wholly-owned subsidiary of the Company..

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 PROFITS					
	2005		2006		2007		2005		2006		2007	
	Peso	%	Peso	%	Peso	%	Peso	%	Peso	%	Peso	%
Food, Agro-Industrial and Commodity Food Products	33,789	50	38,344	45	42,471	46	2,176	53	1,786	27	3,288	37
Telecommunications	10,491	15	11,294	13	16,745	18	(793)	(19)	(480)	(7)	583	7
International Capital and Financial Services	5,104	8	13,511	16	1,919	2	1,901	46	6,804	103	573	6
Petrochemicals	5,045	7	5,516	6	5,300	6	(353)	(9)	(2,766)	(42)	(722)	(8)
Air Transportation	7,978	12	10,383	12	17,047	18	82	2	197	3	3,614	41
Property Development and Hotel Management	5,432	8	6,967	8	8,988	10	1,110	27	1,032	16	1,465	17
Other Supplementary Business	32	0	47	0	54	0	17	0	5	0	8	0
Total from continuing operations	67,871	100	86,062	100	92,524	100	4,140	100	6,578	100	8,809	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):

	2005		2006		2007	
	Amount	%	Amount	%	Amount	%
Domestic	48,605	72	66,099	77	70,675	76
Foreign	19,266	28	19,963	23	21,849	24
	67,871	100	86,062	100	92,524	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, a cornstarch manufacturing plant in Pasig. URC is currently 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 the market leader in snack foods, candies, chocolates, day-old chicks, and fish feeds.

Principal Products or Services

URC operates its food business through operating divisions and wholly 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 75.2% of revenues for the fiscal year ended September 30, 2007. Established in the 1960s, URC's BCF division manufactures and distributes a diverse mix of snack, chocolate, candy, biscuit, bakery, beverages, noodles and tomato-based-products. The manufacture, distribution, sales and marketing activities are carried out through URC's BCF division, although URC conduct 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 Food Service and Industrial Division that supply BCF products in bulk to certain institutions like hotels, restaurants and schools. In 2006, URC introduced carbonated and functional drinks (energy drink and fitness water) and operates PET bottle manufacturing plant to supply the packaging requirements of products in PET bottle format. Also in the same year, URC supply 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. which provided additional capacity to the existing beverage lines.

In 2000, URC expanded its BCF business more aggressively into other Asian markets primarily through its subsidiary, URC International and its subsidiaries in China: Tianjin Pacific Foods Manufacturing Co. Ltd., Shanghai Peggy Foods Co. Ltd., Xiamen-Tongan Pacific Foods Co. Ltd., Panyu Peggy Foods Co. Ltd. and URC Hongkong Co. Ltd. (formerly Hongkong Peggy Snack Foods Co. Ltd.); in Malaysia: URC Snack Foods (Malaysia) Sdn. Bhd. (formerly Pacific World Sdn. Bhd.) and Ricellent Sdn. Bhd.; in Thailand: URC (Thailand) Co. Ltd. (formerly Thai Peggy Foods Co. Ltd); in Singapore: URC Foods (Singapore) Pte. Ltd. (formerly Pan Pacific Snacks Pte. Ltd.) and in 2002, in Indonesia: PT URC Indonesia. In 2006, the Company started operations in Vietnam through its subsidiary URC Vietnam Company Ltd. The Asian operations contributed about 19.1% of the URC's revenues for the fiscal year ended September 30, 2007.

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 15.0% of the net sales in fiscal year 2007.

URC's commodity food products segment engages in sugar milling and refining through its Sugar divisions URSUMCO, CARSUMCO and SONEDCO and recently acquired PASSI I and II sugar mills and flour milling and pasta manufacturing through URC Flour division. In

fiscal 2007, the segment contributed approximately 9.8% of aggregate net sales and services.

The percentage contribution to URC's revenues for the three years ended September 30, 2005, 2006 and 2007 by each of URC's principal product categories is as follows:

	For the fiscal years ended September 30		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Branded Consumer Foods	76.2%	75.6%	75.2%
Agro-Industrial Products	13.5	14.4	15.0
Commodity Food Products	<u>10.3</u>	<u>10.0</u>	<u>9.8</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The geographic percentage distribution of the Company's revenues for the period ended September 30, 2005, 2006 and 2007 is as follows:

	For the fiscal years ended September 30		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Philippines	77.6%	77.9%	80.9%
ASEAN	20.9	19.1	17.9
China	<u>1.5</u>	<u>3.0</u>	<u>1.2</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Distribution, Sales and Marketing

In the Philippines, URC has developed an effective nationwide distribution chain and sales network that it believes provides its competitive advantage. URC sells its branded food products primarily to supermarkets, as well as directly to top wholesales, large convenience stores, large scale trading companies and independent business managers which in turn sell its products to other small retailers and down line markets through URC's Grandslam Program, an innovative distribution scheme for downscale accounts, which enabled URC to solidify its presence in sari-sari stores and groceries, effectively locking out competitors in the consumer foods segment in the Philippines. URC's branded consumer food products are distributed to approximately 114,000 outlets in the country through its direct sales force, regional distributors and independent business managers. URC intends to enlarge its distribution network coverage in the Philippines by increasing the number of retail outlets that its regional sales force and distributors directly service. By deploying larger and financially stronger regional distributors over the next two years, URC plans to increase the number of outlets serviced directly from 114,000 accounts as of fiscal year 2007 to 120,000 accounts. URC also plans to increase the product focus of its distribution network by ensuring that relevant products are targeted towards appropriate retail outlets.

The branded consumer food products are generally sold by URC either direct from delivery vans to small retail outlets or by traveling salesman to wholesalers or supermarkets, and regional distributors with delivery subsequently being undertaken by third party road carriers. Direct delivery sales are normally made on cash basis, while 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 and 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, as well as promotions for new product launches by spending on average 6% of its branded consumer food division's net sales per year.

Competition

URC faces competition in all segments of its businesses both in the Philippine market and in international markets where it operates. The Philippine food industry in general is highly competitive. Although the degree of competition and principal competitive factors vary among the different food industry segments in which it participates, in general, 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.

URC's competitors in the Philippines consist primarily of other major domestic corporations and, in certain cases, major international corporations. Major competitors in the market segments in which it competes include, in the Philippines, Liwayway Manufacturing Corp., Columbia Foods International, General Milling Corporation, 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., and internationally, 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 southeast 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, low mortality rates, feed conversion efficiency and growth rates for broiler chicks. For layer chicks, competitive factors are productivity and disease resistance. Principal competitors are STS Corp. and Math Agro for broiler chicks and Bounty Farms, Inc. for 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 70%-80% of the total pork requirement in the country.

The commercial animal feed market is highly fragmented and its products compete primarily with domestic feed producers. As of September 30, 2007, there were 350 registered feed mills in the Philippines, 50% of which sell commercial feeds. URC believes the principal competitive factors are quality and price. URC's principal competitors are B-Meg and Purina Philippines, Inc.

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

Raw Materials/Suppliers

A wide variety of raw materials are required in the manufacture of URC's food products most of which are purchased domestically and others URC imports. URC imports all its wheat supplies and substantially all of its palm oil and flavors and a large portion of its milk. For its international operations, URC primarily imports potatoes and flavors. 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 flexible packaging materials from wholly owned subsidiary CFC Clubhouse Property, Inc. A portion of flexible packaging material requirements are 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 supplier for its raw and packaging materials to ensure a steady supply of quality materials at competitive prices. However, the prices paid for raw materials also generally reflect external factors such as weather conditions, commodity market fluctuations, currency fluctuations and the effects of government agricultural programs. In the past year, URC has experienced higher prices for certain core raw materials including wheat and cooking oils. While the Company has increased the prices of certain products to reflect the increased price of raw materials, it has not been able to pass through the full extent of such increases. In response to these developments, URC realigned its resources to improve its operational efficiencies. This strategy includes manufacturing its products in countries where the raw materials are available at the lowest cost.

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 ISA SAS in France (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 ISA SAS in France. URC purchases 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. and Boehringer Ingelheim GmbH and Ceva.

For its live hog business, URC requires a variety of raw materials, primarily imported breeding stocks or semen. The Company purchases 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 farm 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 China. The Company maintains approximately 90 days of inventory. 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 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 as well as from China and the United States. The Company imports soya bean seeds from suppliers in the United States. URC imports tapioca starch from a number of suppliers, primarily in Vietnam and Thailand. URC maintains approximately two months physical inventory and one month in-transit inventory for its imported raw materials and approximately one month inventory for its local 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 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 with suppliers in the United States and Canada.

URC maintains a number of suppliers for its raw materials to ensure a steady supply of quality materials at competitive prices. The Company's policy is to maintain approximately 30 to 90 days of inventory.

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, tomato-based) segments. This fiscal year alone, URC's Branded Consumer Foods has introduced 100 new products.

URC also plans to selectively enter and expand 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 fiscal year 2006, URC has launched carbonated and functional drinks (energy and fitness water). Moving forward, URC aims to grow further with the expansion of its tea-based line and introduction of RTD juice in PET bottles format. This fiscal year 2007, URC acquired the water manufacturing facilities and trademark (Hidden Spring) from Nestle Water Philippines and entered into a licensing agreement with Societe Des Produits Nestle S.A., to manufacture and sell the products carrying the "Nestle Pure Life" trademark in the Philippines. This boosted the capacity in the beverage line particularly in the water line category.

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 is based upon existing orders that will account for 20.0% or more of the Company's total sales.

Transactions with Related Parties

URC, in its regular conduct of business, has engaged in transactions with the Company and the latter's affiliates. These transactions primarily consist of sales, purchases and interest-bearing advances, at prevailing market rates, to and from these companies. Other related party transactions include a) purchases of polypropylene resin for bi-axially oriented polypropylene film, b) power supply at market rates and c) leases of certain properties.

The Company also provides URC Group certain services including corporate finance, corporate planning, procurement, human resources, legal and corporate communications.

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

URC has invested considerable efforts to protect its portfolio of intellectual property rights, including trademarks registration. It has trademarks registered with the Bureau of Trademarks of the Philippine Intellectual Property Office. The trademarks used in other ASEAN markets are registered or are being registered in each country in which such trademarks are used. It also has licensing agreements under which it receives the right to use certain trademarks. URC intends to enforce the trademark and licensing rights and it takes security measures to protect its patents, licenses and proprietary formulas.

Regulatory Overview

As manufacturer of consumer food and commodity food (flour) 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 feeds 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 test of feeds 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 also 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 the Philippine operations alone, about ₱26 million was spent for research and development activities for fiscal year 2007 and approximately ₱29 million and ₱16 million for fiscal years 2006 and 2005, respectively.

Costs and Effects of Compliance with Environmental Laws

The operations of URC are 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 has not had, 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, 2007, URC has invested about ₱333 million in wastewater treatment in its facilities in the Philippines.

b) PROPERTY DEVELOPMENT AND HOTEL MANAGEMENT

Business Development

The Company, through Robinsons Land Corporation (RLC), which is one of the Philippines' leading real estate developers, 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, middle-cost to upscale 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 share in October 2006 where a total of 932.8 million shares were offered to domestic and international investors generating USD223 million or ₱10.9 billion in proceeds.

Principal Products or Services

RLC has four business divisions: a) Commercial Centers, b) High-Rise Buildings, c) Housing and Land Development, and d) Hotels.

a.) Commercial Centers

RLC's Commercial Center Division develops, leases and manages shopping malls throughout the Philippines. As of fiscal 2007, it operated nineteen (19) shopping malls; comprising six malls in Metro Manila and thirteen malls in other urban areas throughout the Philippines, with a gross floor area of approximately 1.3 million square meters. The Commercial Center Division's main revenue stream is derived from the lease of commercial space and parking fees.

b.) High-Rise Buildings

RLC's High-Rise Buildings Division develops office buildings for lease and middle-cost to upscale residential developments for sale. This business division focuses on the construction of office towers and residential condominium projects. This is in large part a function of socio-economic development in the Philippines and specifically the emergence of strong market demand for projects of this type. Notwithstanding the name of this business division, the high-rise buildings division includes non-high-rise mid-range to high-end residential developments and RLC intends to pursue additional projects of this type, market conditions permitting, through this business division.

b.1) Office Buildings

As of September 30, 2007, the high-rise buildings division had completed five office buildings, one building under construction and has a plan to develop one more building. All of the office building projects are located in Metro Manila. One recent trend affecting RLC's office tower design is the increasing presence of customer call centers and BPOs in the country. RLC has secured a number of major call centers and BPOs as long-term tenants in its office building space and has focused on attracting their business including custom-designing its office space with call center and BPO design requirements in mind. RLC believes, based on its own market research, that it is the leading provider of office space to BPO's in the Philippines.

b.2) Residential Condominium Building

As of September 30, 2007, the high-rise buildings division had a portfolio of twenty residential condominium projects, of which three had been substantially completed and seventeen projects are under various stages of development. RLC has a focus on mixed-use developments in order to enhance the attractiveness of and capitalize upon synergies among its shopping mall, high-rise buildings and hotel developments. As of September 30, 2007, fifteen of RLC's residential condominium projects were classified as mix-use by virtue of their proximity to RLC's six commercial mixed-use developments.

c.) Housing and Land Development

RLC's Housing and Land Development Division develops and sells low and middle-cost residential lots and houses aimed predominantly at the lower to middle-income market sector. As of September 30, 2007, RLC's housing and land development division has twenty six ongoing projects, of which four had been completed, while ten had been substantially sold. Its business plan, subject to market conditions, is to begin development of at least three new projects per year.

d.) Hotels

RLC's hotel division owns and operates hotels within Metro Manila and Cebu City. RLC, also to a lesser extent, plans to develop new, smaller hotels in connection with its other mixed-use development properties. RLC's hotels division currently has a portfolio of three hotels and an "apartelle", a small serviced apartment building which is technically too small to be officially classified as a hotel in the Philippines. On July 24, 2007 the Board of Directors resolved that Robinsons Inn, Inc. shall cease permanently its business operations effective August 31, 2007. As of September 2007, RLC's Hotel Division has an average occupancy rate of 75%.

The percentage contribution to RLC's revenues for the three years ended September 30, 2004, 2005 and 2006 by each of business segment is as follows:

	<u>For the fiscal years ended September 30</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Commercial Centers	57.7%	47.1%	39.3%
High-Rise Buildings	23.6%	32.5%	40.4%
Housing and Land Development	9.5%	7.4%	8.0%
Hotels	<u>9.2%</u>	<u>13.0%</u>	<u>12.3%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Competition

RLC competes with a number of domestic property developers in the real estate industry, as well as with established domestic and foreign hotel operators. RLC believes there is no single property company that has a significant presence in all sectors of the property market. In the commercial centers business, RLC believes that it has two major competitors since other players in the shopping mall business are significantly smaller. With respect to office buildings and residential project segments, RLC has two major competitors. The first competitor is positioned differently from RLC that it has more of a focus on the luxury market segment. The second competitor targets the same general market segment and offers a similar range of products. In the housing and land development business, RLC has more competitors since it does not enjoy the same "early mover" advantage. Because of the availability of joint venture arrangements with landowners and the ability to finance these projects through unit pre-sales, it is relatively easy for smaller players to enter into this

business. With respect to hotel operations, the hotel business in the Philippines has not been particularly robust in the post-Asian financial crisis. RLC has entered into marketing tie-ups such as its affiliated airline Cebu Pacific, to boost its market share and promote domestic tourism.

Raw Materials/Suppliers

Construction and development of malls, high-rise office and condo 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.

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

The real estate industry in the Philippines is subject to significant government regulation over, among other things, land acquisition and title issuance, development planning and design, construction, and mortgage financing, refinancing and pre-selling. 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. 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. RLC has benefited from providing low-income housing or projects of such types which are financially assisted by the government. These policies and programs may be modified or discontinued in the future. The government may also adopt regulations which may have the effect of increasing the cost of doing business for real estate developers. 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 ₱300,000, is exempt from project related income taxes. Under the current Investment Priorities Plan (IPP) issued by the BOI, 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 RLC.

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 2007, the Robinsons Pioneer mixed-use complex is in a PEZA Ecozone, the Robinsons Equitable Tower is a PEZA-registered building and the Robinsons Summit Center has applied for PEZA accreditation.

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 which is one of the largest property developers in Singapore owning various office buildings that are located in prime locations. In December 2007, the Company's indirect interest in the shares of UIC increased to 33.49%. 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 continues to be the second largest provider of wirelines in the country in terms of working lines. Through 694 regional and local exchanges, DIGITEL telephones are now available in 281 towns and cities throughout Luzon. As of December 31, 2007, DIGITEL had a total of 658,228 installed lines and 460,793 working lines.

In 1999, DIGITEL began offering corporate customers and consumers access to international and domestic high-speed data transmission and internet services through its wholly-owned subsidiary, Digitel Information Technology Services, Inc. (DITSI). In March 2002, DIGITEL decided to integrate the operations of DITSI into its own and as a result a new division named DigitelOne was created. In response to future requirements for convergent technologies enabling simultaneous voice and data service transmissions, the ongoing expansion of the highly successful Assymetric Digital Subscriber Line (ADSL) project addresses the growing demand for broadband access in both business and high-end residential markets in Luzon. DIGITEL's current network expansion commitment to build a fiber-optic broadband facility strategically strengthens the company's transmission coverage throughout Luzon, Visayas and Mindanao, ensuring reliable and efficient nationwide connectivity to major metropolitan business and commercial districts.

On August 9, 2001, DIGITEL established Digitel Capital Philippines, Ltd (DCPL), a wholly owned subsidiary, to engage in any activity allowed under any law of the British Virgin Island.

On September 18, 2001, DIGITEL established Digitel Mobile Philippines, Inc. (DMPI), a wholly owned subsidiary, to provide basic and enhanced wire and wireless public and private telecommunications services. Its cellular telephone services under the "Sun Cellular" brand commenced operations in March 29, 2003.

Principal Products or Services

DIGITEL's voice products and services include the provisioning of local call, national and international toll services, enhanced through DIGITEL's suite of value added services, payphones and prepaid phone cards via Digikard & DGMax brands. To capture a significant

market share in the fierce Telecommunications Industry competition, the Company is offering various products and services, few of which are as follows:

DIGITEL CHOICE PLANS are comprehensive business and residential telephone subscription packages. These subscription plans provide unlimited local calls at very affordable fixed basic monthly fee. These CHOICE plans come in metered and non-metered services with national and international calls. All CHOICE plans come with Internet-ready feature.

MANGO or “*Mobility Access Network for the Man on the Go*” is a wireless internet-ready landline service using the latest technology on wireless system called Code Division Multiple Access (CDMA). It is more than a landline because not only does it offer the perks of a landline service but it also offers high speed internet service and the freedom to make calls and access internet while on the move within one to five kilometers from the base station.

DIGIKARD is DIGITEL’s hassle-free pre-paid phone card that gives subscriber convenient access to phone, fax, and internet from any DIGITEL postpaid and prepaid landline phone, including payphones.

DGMAX IDD Prepaid Card is another prepaid service of DIGITEL that allows international call either through DIGITEL’s postpaid lines, prepaid lines or payphones. With as low as P3/minute to top international destinations, callers, especially families of Overseas Filipino Workers, can now make frequent voice calls and engage in longer talk time, breaking all affordability barriers.

IP-VPN or Virtual Private Network is DIGITEL’s most reliable, flexible, scalable, manageable, and cost effective wide-area multi-service network based on Multi-Protocol Label Switching (MPLS) technology. This provides customers with the technology to securely access private information on their corporate network over DIGITEL’S Internet Protocol enabled network or over a shared public infrastructure, such as the Internet. IP-VPN can carry any type of IP Traffic with differentiated classes of service (CoS), thus, it is well-suited for converged voice, data and video applications.

DIA or Dedicated Internet Access is DIGITEL’s service that continues to provide the much-needed Internet bandwidth requirements of large corporations and Business Process Outsourcing (BPO) companies, particularly the Call Center industry.

DIGITEL’s Wireless Communications Services (WCS) represents cellular telecommunications services that allows subscriber to make and receive domestic long distance and international long distance calls to and from any place within the coverage area. Revenues principally consist of one-time registration fees, fixed monthly service fee, revenue from value-added services such as text messaging, proceeds from sale of handsets, SIM cards and other phone accessories, and per minute airtime and toll fees for basic services which vary based primarily on the monthly volume of calls, the network at which the call terminates and the time at which the call is placed.

The percentage contribution to DIGITEL’s service revenues for the three years ended December 31, 2005, 2006 and 2007 by each of Digitel’s principal product categories is as follows:

	<u>For the years ended December 31,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Wireline Voice Communication	73.2%	60.2%	47.1%
Wireline Data Communication	4.9%	4.2%	4.6%
Wireless Voice Communication	<u>21.9%</u>	<u>35.6%</u>	<u>48.3%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Distribution, Sales and Marketing

Under the WVCS, DIGITEL sells its services primarily through its sales team and its over 100 customer centers located throughout Luzon, as well as through third party agents and distributors. The third party agents and distributors sell DIGITEL's services on a commission basis.

Under the WDCS, DigitelOne sells its services directly to corporate customers and indirectly through third party resellers. It currently offers data communications services throughout Luzon, in the national capital region, Visayas and Mindanao. Data transmission is effected through lines leased to customers, frame relays, asynchronous, transfer mode and Internet Protocol networks. DIGITEL will be the preferred reseller for Asia Global Crossing and for DIGITEL Crossing's backhaul services in the Philippines and the primary channel for sales to Philippine customers.

Competition

According to the NTC, the Philippines is one of the countries that has the fastest growing telecommunications network in Asia. Consequently, DIGITEL faces a number of competitors such as Philippine Long Distance Telephone Co., Smart Telecommunications, Bayantel and Globe. The principal bases of competition in both wireline and wireless segment are price, coverage, quality of service support, and speed of network access and availability of calling features.

Currently, DIGITEL dominates the Luzon wireline market in terms of the total number of towns and cities served and lines installed. As of December 2007, DIGITEL had installed lines of 658,228 with 460,793 working lines in 281 served towns and cities throughout Luzon including Quezon City in the National Capital Region.

DMPI, on the other hand, is making inroads as a third player in the wireless market. Today, Sun Cellular has the most economical and unmatched products and services for its subscribers.

Raw Materials/Suppliers

Both domestic and internationally based Suppliers and/or Solutions providers, are selected and awarded contracts through a bid process for projects covering the various stages of construction, installation, integration, servicing and maintenance of DIGITEL's Telecommunications network and IT infrastructures; and for the fulfillment of inventory stock, informational content, and other tangibles and intangibles required in the provisioning of telecommunications services to all subscribers of Wireline, Data, and Wireless services.

Suppliers include the likes of ERICSSON, ALCATEL, ZTE, Fujitsu, Huawei, Logica CMG, Tekelec and Ceragon Network.

The Company has entered into construction contracts with Huawei, Alcatel and Ericsson to undertake the implementation of DIGITEL's GSM 1800 mobile project in the Philippines. The

Company will expand coverage from current 2,200 cell sites to about 4,000 by end of year 2008.

Customers

At the retail level, DIGITEL provides local metered service as well as domestic and international long distance services to individual wireline and wireless subscribers both for outbound and inbound calls. It also provides Data Communications to business subscribers and Internet Services to both business and residential customers.

At the wholesale level, other telephone companies and private enterprises utilize DIGITEL's inter-exchange and IGF facilities, in effect becoming customers of the Company. DIGITEL now counts companies in the manufacturing, trading, banking, utilities, hotel and real estate sectors among its corporate subscribers.

Loss of any one customer would not have a materially adverse effect upon the Company.

Related Party Transactions

DIGITEL, in its ordinary course of business, has transactions with its subsidiaries and affiliated companies consisting mainly of lease of telecommunications facilities.

Regulatory Overview

The Company's franchise which was granted in February 1994 and to expire after 25 years is subject to amendment, termination or repeal by the Philippine Congress. The franchise provides that the Company may offer particular services upon obtaining the permission of the NTC, which permission is granted through the issuance of Certificates of Public Convenience and Necessity ("CPCNs"). Upon receipt of an application for a CPCN, the NTC normally issues a PA, which can be renewed annually that permits operation of the service pending issuance of the CPCN. The PAs may be revoked by the NTC if the Company fails to comply with the conditions thereof. In addition, the Company and its business are subject to extensive regulation by the NTC, particularly with respect to rates.

The Provisional Authority (PA) granted to DIGITEL was originally valid for eighteen months from date of issuance and was subsequently extended by the NTC up to February 7, 2005. In November 2005, DIGITEL's PA was further extended up to but not beyond February 7, 2008, following DIGITEL's application for a Certificate of Public Convenience and Necessity (CPCN) to install, operate and maintain a nationwide CMTS using GSM and/or CDMA technology.

We believe we are in compliance with all government regulations applicable to telecommunication companies.

d) AIR TRANSPORTATION

Business Development

Cebu Air, Inc. (Cebu Air) 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, Cebu Air 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 (CEB)” which is the leading low-cost carrier in the Philippines. CEB entered the market in March 1996 with its first domestic commercial flight from Manila to Cebu. CEB engineered the “low fare, great value” strategy in the local aviation industry by providing scheduled air travel services targeted to air travel passengers who are willing to forego extras for fares that are typically lower than those offered by traditional full-service airlines while placing heavy emphasis on maintaining high levels of service quality, offering reliable services and developing in-flight initiatives to promote fun, positive and memorable travel experience.

CEB commenced scheduled passenger service operations in 1996, initially operating seven routes within the Philippines. International operations began in 2001, offering flights from Manila to Hong Kong. Through the years, CEB was able to expand its network. As of December 31, 2007, CEB now flies to 12 international (Bangkok, Guangzhou, Hong Kong, Incheon, Jakarta, Kuala Lumpur, Macau, Pusan, Shanghai, Singapore, Taipei, and Xiamen) and 20 domestic destinations (Bacolod, Butuan, Cagayan de Oro, Cebu, Clark, Cotabato, Davao, Dipolog, Dumaguete, General Santos, Iloilo, Kalibo, Laoag, Legaspi, Manila, Puerto Princesa, Roxas, Tacloban, Tagbilaran and Zamboanga). CEB operates its domestic flights out of two bases, the Manila Domestic Passenger Terminal located in Pasay City, Metro Manila and the Mactan-Cebu International Airport (MCIA) located in Lapu-lapu City, which forms part of Metropolitan Cebu. International flights are likewise operated out of two bases, the Ninoy Aquino International Airport located in Pasay City, Metro Manila and MCIA. CEB intends to establish additional two bases in Diosdado Macapagal International Airport located in Clark, Pampanga and Davao International Airport in Davao City, Davao del Sur in 2008.

As of December 31, 2007, CEB operates a fleet of 15 aircraft, ten of which are Airbus A319-111 and five of which are Airbus A320-214. The current fleet took shape through a re-fleeting program which was completed in March 2007, replacing the older Boeing B757 and McDonnell Douglas DC-9 aircraft, which CEB sub-leased and retired, respectively. All of these aircrafts are owned except for three A320-214 aircraft which are under long-term operating leases. CEB intends to expand its fleet size over the course of the coming years and as of December 31, 2007, has secured operating lease arrangements for four new Airbus A320-214 aircraft, which CEB will start to take delivery in 2008. In addition, it has also signed a purchase agreement for up to 20 additional new Airbus A320-200 aircraft comprising of ten firm orders and ten purchase options. The ten firm orders are scheduled to be delivered between 2010 and 2012. Furthermore, CEB has also placed firm orders for ten ATR 72-500 turboprop aircraft, with options for additional eight aircraft, to cater to domestic destinations with smaller airports. CEB has one of the youngest fleet in Asia, with an average aircraft age of 20 months as of December 31, 2007. CEB has also established foreign branches in Hong Kong and Singapore. The Hong Kong branch was established in 2002. It has been granted a Business Registration Certificate by the Hong Kong government that is renewed on an annual basis. The Singapore branch was registered with the Accounting and Corporate Regulatory Authority of Singapore in 2006.

Principal Products or Services

CEB is the country's low-fare commercial airline pioneer that engages in domestic and international passenger and cargo operations.

Passenger Services

CEB is recognized as the leading provider of affordable, fun, safe and quality air transportation services in the Philippines. It takes pride on its ability to offer passengers a quality, value-for-money service by providing no frills cabin service and by providing

passengers the option to pay for extras. CEB is a “fun” airline. It stands out from all the other domestic airlines as it is the only one that offers an extremely unique flying experience through Fun Flights. Cebu Pacific has redefined in-flight entertainment with the introduction of activities such as games on board all its flights. The passengers’ positive perception of this different approach to flying has had a noticeable impact on CEB’s brand awareness in the public.

For CEB, value extends beyond efficient transport and warm service. Passengers get more than their money’s worth with innovative value products, most of which are Philippine firsts.

In November 2005, CEB introduced the GO! Fares which currently amount to as low as P98 one-way out of both its Manila and Cebu hubs year-round. CEB launched their new fare structure called ‘Go’ fares in an effort to drive additional demand for air travel as the airline’s re-fleeting project continues to add capacity. The thrust of the Go! Fares is to get people to fly more often. The new fares are not promotional fares but a permanent offer of discounts, as is the practice of low-cost carriers worldwide. The system allows the allocation of seats to be sold in advance at discounted fares. The remainder of the seats would be sold at regular prices.

CEB also offers promotional fares which are introduced in connection with extraordinary events, such as the introduction of services to a new route or an intensive effort to stimulate travel on a particular route. Promotional fares have restricted selling and travel periods.

In 2007, more than two million seats were offered at fares below current levels. CEB’s offering of substantially lower fares follows studies that pre-selling seats at lower prices would generate higher revenues and make CEB financially stronger. Lower fares would also promote local tourism and even closer family ties since travel to the provinces will become very affordable.

Another first in Philippine aviation industry is electronic ticketing (E-ticketing). CEB is the first Philippine carrier to develop the facility for use in its domestic flights. E-Ticketing, with its “ticket anytime, anywhere” concept, has definitely made traveling a lot easier for people. E-ticketing translates into faster sales, more efficient service and increased productivity while making traveling hassle-free since guests’ ticket information are stored electronically.

Constant innovation has always been important to CEB and the airline is continuously looking for opportunities to offer travelers more options. Other innovation includes TxtCEB, a booking engine with the use of mobile phones through short messaging system; and Payment Centers at various banks where tickets can be paid in person, via automated teller machines, phone or internet banking. Other products being offered include:

- Fun Shop - CEB’s on-board shop which offers sale of merchandise items.
- Fun Tours - CEB’s tour package brand that offers roundtrip airfares, hotel accommodation, airport transfers and optional tours to passengers.
- Hotels Plus - CEB’s online hotel product to complement the online booking service. Passengers who would like to book hotel accommodations are redirected to the website of OctopusTravel.com (Hong Kong) Ltd.
- Europcar - CEB’s inland transport service for self-driven and chauffeur-driven vehicles for domestic destinations. This is in partnership with the leading European car rental firm, Europcar.

- TravelSure - CEB's insurance product which offers comprehensive personal accident and emergency medical treatment insurance coverage for guests traveling anywhere in the Philippines or in Asia. This is the first insurance product in the country that is available for booking online. This is in partnership with Malayan Insurance Company.
- Go! Mastercard - CEB's co-branded credit card operated in partnership with Robinsons Retail Group and is issued by Metrobank Card Corporation. The Go! Mastercard is the first 'white label' card in the market offering rewards and incentives for purchases from a conglomerate. The conglomerate card is branded and led by CEB and the Robinsons Retail Group. Our frequent flyer program (the Summit Club) was discontinued and replaced by the Go! Mastercard program.

Cargo Services

CEB provides airport-to-airport cargo services on all of its domestic and international routes. In addition, it also accepts cargo packages from domestic points (via Manila) for shipment to overseas destinations through its airline partners Gulf Air, Continental Airlines, Qatar Airways, Saudi Arabian Airlines and Emirates.

CEB has an internal sales and marketing department. It has also external sales agents that increase CEB's distribution channels in the Philippines and to the regional destinations where it operates.

Competition

The level and intensity of competition that CEB faces varies from route to route based on a number of factors. Principally, CEB 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. CEB's main competitor in the Philippines is Philippine Airlines (PAL), the Philippines' first flag carrier. PAL offers full service air travel and has significantly more international business than CEB has. Most of CEB's domestic destinations are also serviced by PAL. CEB, likewise, competes in the Philippines with Air Philippines, a domestic operator which has positioned itself as a low-price carrier in the market. Certain smaller airlines, including Asian Spirit and Southeast Asian Airlines, also compete with CEB domestically.

CEB also faces competition internationally with several regional full-service airlines and regional low-cost carriers currently operating in the Philippines, which include Tiger Airways, JetStar Asia Airways and AirAsia.

Competition in the Philippine air transportation industry is expected to increase in the future with increased liberalization of the Philippine aviation industry. As of present, the Philippines 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 Government and foreign nations. There are indications, however, that the Government is considering further liberalization of 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.

Aside from other airlines, CEB is also confronted with competition from ground and sea transportation alternatives, including buses, trains, ferries, boats and cars, which are the principal means of transportation in the Philippines. The Government is currently implementing an initiative to improve the national highway system, which may increase the appeal of road travel in the Philippines as an alternative to air travel. Video conferencing and other methods of electronic communication and improvements also add a new dimension

of competition to the industry as they, to a certain extent, provide lower-cost substitutes for air travel.

Despite the competition, CEB managed to be the leading domestic airline in terms of number of routes, destinations, domestic flights and passengers carried in 2007. CEB was also able to capture 46.95% of the market.

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. SIAEC has 51% voting interest while the remaining 49% is owned by CEB. It handles all the maintenance services required by the airline. Other agreements include the outsourcing of baggage handling services and groundhandling services. It has also entered into agreements with global reservations and distribution systems.

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

The aviation industry is regulated by the Department of Transportation and Communication (DOTC). The DOTC oversees several departments, including Air Transportation Office (ATO) Civil Aeronautics Board (CAB), Manila International Airport Authority and Mactan-Cebu International Airport Authority.

The ATO regulates the technical and operational aspects of air transportation in the Philippines. In particular, it establishes the rules and regulations for the inspection and registration of all aircraft and facilities owned and operated in the Philippines and determines the charges and/or rates pertinent to the operation of public air utility facilities and services.

The CAB is authorized to regulate the economic aspects of air transportation, to issue general rules and regulations to carry out the provisions of the Civil Aeronautics Act of the Philippines 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.

e) PETROCHEMICALS

Business Development

The Company established JG Summit Petrochemical Corporation (JGSPC) in February 1994. The Company holds 82% of the outstanding share capital of JGS Petrochemicals and its joint venture partner in the project, Marubeni Corporation of Japan, holds the remaining 18%. JGSPC started commercial operations on September 1, 1998. 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. JGS Petrochemicals 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.

On October 11, 2007, the Company acquired the remaining shares which it did not own in JGSPC equivalent to 18% and which were held by Marubeni. As a result of such acquisition, JGSPC has become a wholly-owned subsidiary of the Company.

Principal Products or Services

JGSPC manufactures polypropylene and polyethylene.

The percentage contribution to JGSPC's revenues for the three years ended September 30, 2004, 2005 and 2006 by each of its principal product categories is as follows:

	<u>For the years ended September 30,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Polypropylene	60.3%	62.9%	62.2%
Polyethylene	<u>39.7%</u>	<u>37.1%</u>	<u>37.8%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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 30% 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. Local competitors include Petrocorp and Bataan Petrochemical Corporation, both of which have previously ceased operations but may start up again within the following year.

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 external parties include Calypso, San Miguel Corporation, Shell Phils. and other customers. 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

Among other things, the Clean Air Act requires that JGSPC enact a continuous emission monitoring system.

f) INTERNATIONAL CAPITAL AND OTHER FINANCIAL SERVICES

The Company's international capital and other financial services consist of its thrift banking operations, foreign exchange and securities dealing operations and offshore financial subsidiaries.

Business Development

Robinsons Savings Bank (RSB), 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.

To complement RSBank's traditional banking activities, the Company put up JG Summit Capital Markets Corp. (JGSCMC) and Summit Forex Brokers Corp. (SFBC) 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. SFBC on the other hand, was incorporated in May 2000.

Principal Products or Services

As of December 31, 2007, RSB has a network of thirty-nine (39) branches; twenty-three (23) of which are strategically located in Metro Manila and sixteen (16) others are situated in Luzon, Visayas, and Mindanao. Moreover, eighteen (18) of its branches are located inside malls, mostly in Robinsons' Malls, that are easily accessible and available six (6) days a week until Saturday. RSB also has sixty-six (66) ATMs, which are part of the Megalink

consortium, all of which are within reach and available 24 hours a day 7 days a week. To date, the Bank has a total of forty-one (41) branches and sixty-eight (68) ATMs.

RSB started its operations as a savings bank on November 27, 1997. It provides a broad range of traditional banking services such as savings, current and time deposits, treasury products, unit investment trust funds and other traditional trust products, foreign-currency denominated deposits, commercial loans, housing, car, personal and jewelry loans, among others.

Strong Investor Base

RSB 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 a wholly owned subsidiary of JG Summit Capital Services Corporation, RSB 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.

g) OTHER BUSINESS INTERESTS

The Company's businesses include power generation, through its 20% interest in First Private Power Corporation, whose 93.25%-owned subsidiary, owns and operates a 215 MW diesel-fired power plant in Bauang, La Union; packaging materials; insurance brokering; and securities investments. The Company discontinued its printing business when Premier Printing Co., Inc., a wholly-owned subsidiary of the Company, ceased operations in May 2006.

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. 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 and Asian Spirit, Sea Air
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, 2007 is shown in the following table:

Company	No. of Employees
Branded Consumer Foods, Agro-industrial, & Commodity Food Products	8,548
Telecommunications	4,029
Property Development and Hotel Management	1,565

Airlines	1,747
Petrochemicals	308
Finance	404
Supplementary Businesses	23
	<hr/> 16,624 <hr/>

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. All substantial facilities are owned by the Company and are in good condition.

In 2000, the Company acquired equity interests in companies which are operating food plant facilities in Thailand, Malaysia, Vietnam, Indonesia and China.

URC operates manufacturing/farm facilities located in the following:

Location (Number of facilities)	Type of Facility	Owned/ Rented	Condition
Pasig City (4)	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
Davao City, Davao (3)	Branded consumer food plant (idle) and flourmill	Owned	Good
San Fernando, Pampanga (2)	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 Pablo, Laguna (1)	Branded consumer food plant	Owned	Good
San Pedro, Laguna (1)	Branded consumer food plant	Rented	Good
Antipolo, Rizal (4)	Poultry and piggery farms	Owned/ Rented	Good
Taytay, Rizal (1)	Poultry farm	Rented	Good
Teresa, Rizal (2)	Poultry and piggery farms	Owned/ Rented	Good

Angono, Rizal (1)	Poultry farm	Owned	Good
San Miguel, Bulacan (3)	Poultry and piggery farms	Owned	Good
Novaliches, Quezon City (1)	Piggery farm	Owned	Good
Rosario, Batangas	Piggery farm	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
Simlong, Batangas (2)	BOPP plant/Flexible packaging	Owned	Good
Calamba, Laguna (1)	Branded consumer food plant	Rented	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
Acersfoods, Shantou, China (1)	Branded consumer food plant	Owned	Good

Sugar mill facilities in Kabankalan, Negros Occidental with net book value of ₱1.36 billion in fiscal 2007 and ₱264 million in fiscal 2006 of which ₱92 million and ₱97 million were used to secure the loan from Philippine Sugar Corporation in fiscals 2007 and 2006, respectively. (See Note 19 Long-Term Debt in the Consolidated Financial Statements for more details)

Annual lease payments for Calamba plant for fiscal year 2007 amounted to ₱42 million. Lease contract is renewable annually. Land in Taytay, Rizal and Antipolo, Rizal where farm 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.

Breakdown of RLC's properties is set forth below:

a) Land

Location	Use	Status
Antipolo Rizal	Housing	No encumbrances
Aurora Boulevard, Quezon City	Land bank	No encumbrances
Ayala Avenue, Makati City	High-rise	No encumbrances
Bacolod City	Mall	No encumbrances
Calasiao, Pangasinan	Land bank	No encumbrances
Cabanatuan, Nueva Ecija	Mall	No encumbrances
Cebu	Mixed-use (mall/hotel)	No encumbrances
Dasmariñas, Cavite	Mall	No encumbrances
Davao City, Davao del Sur	Land bank	No encumbrances
Dumaguete City	Mixed-use (mall/hotel)	No encumbrances
EDSA, Mandaluyong City	Mixed-use (mall/hotel/high-rise)	No encumbrances
EDSA, Ortigas, Quezon City	Mixed-use (mall/hotel/high-rise)	No encumbrances
Ermita, Manila	Mixed-use (mall/high-rise)	No encumbrances

Fort Bonifacio, Taguig	High-rise	No encumbrances
General Santos City, South Cotabato	Land bank	No encumbrances
General Trias, Cavite	Housing	No encumbrances
Horseshoe Village, Cubao, Quezon City	Upscale housing	No encumbrances
Imus, Cavite	Mall	No encumbrances
Iloilo City	Mall	No encumbrances
Lipa City, Batangas	Mall	No encumbrances
Los Baños, Laguna	Mall	No encumbrances
Luisita, Tarlac City	Mall	No encumbrances
Malolos, Bulacan	Land bank	No encumbrances
Naga City, Camarines Sur	Land bank	No encumbrances
Novaliches, Quezon City	Mixed-use (mall/upscale housing)	No encumbrances
Ortigas, Pasig City	Mixed-use (mall/hotel/high-rise)	No encumbrances
Ortigas Center, Pasig City	High-rise	No encumbrances
Paco, Manila	Mixed-use (mall/high-rise)	No encumbrances
Pasig (formerly Uniwide)	Mall	No encumbrances
Parañaque City	High-rise	No encumbrances
Pinamucan, Ibaba, Batangas	Land bank	No encumbrances
San Isidro, Batangas City	Housing	No encumbrances
San Fernando, Pampanga	Mall	No encumbrances
Santa Rosa, Laguna	Mall	No encumbrances
Soro-soro, Tanauan, Batangas	Land bank	No encumbrances
Sucat, Muntinlupa City	Land bank	No encumbrances
Tagaytay City, Cavite	Mixed-use (mall/hotel/high-rise/housing)	No encumbrances
Taytay, Rizal	Land bank	No encumbrances

b) Building and Improvements

Location	Use	Status
Angeles City, Pampanga	Mall	No encumbrances
Bacolod City	Mall	No encumbrances
Cagayan De Oro, Misamis Oriental	Mall	No encumbrances
Cainta, Rizal	Mall	No encumbrances
Cebu	Mixed-use (mall/hotel)	No encumbrances
Dasmariñas, Cavite	Mall	No encumbrances
EDSA, Mandaluyong City	Mixed-use (mall/hotel/high-rise)	No encumbrances
EDSA, Ortigas, Quezon City	Mixed-use (mall/hotel/high-rise)	No encumbrances
Ermita, Manila	Mixed-use (mall/high-rise)	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/upscale housing)	No encumbrances
Ortigas, Pasig City	Mixed-use (mall/hotel/high-rise)	No encumbrances
San Fernando, Pampanga	Mall	No encumbrances
Santa Rosa, Laguna	Mall	No encumbrances

RLC owns all the properties where its existing commercial centers are located except for Robinsons Place – Iloilo, Robinsons - Cagayan De Oro and Robinson Place – Cainta. These three properties are being 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 lease for the Cainta property is for 25 years and commenced in December 2003. The lease for Cagayan De Oro commenced in December 2002 while the lease for Cainta commenced in December 2003. No renewal options are available to the Company. Lease payments for 2007 and 2006 amounted to ₱32,259,416 and ₱30,916,417, respectively.

RLC will be spending about ₱13.9 billion in the next two years for new malls, offices, land acquisitions and housing projects. RLC is earmarking 40% of its ₱14 billion budget for new malls in Dumaguete, Bulacan, Paco (in Manila), Tagaytay, Davao, Tacloban and General Santos as well as renovation of existing malls. About 30% of the budget will be spent for new office spaces catering to BPO firms.

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

Litton Mills, Inc. operates its manufacturing plant in Pasig and Laguna.

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 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. The results of operations can be adversely affected if the Group will be unable to obtain adequate supplies of raw materials in a timely manner or if the costs of raw materials increase significantly.

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. Foreign Exchange Regulations

In the past, the government has instituted restrictions on the ability of Philippine companies to use foreign exchange revenues or to convert Pesos into foreign currencies to satisfy foreign currency denominated obligations, and no assurance can be given that the government will not institute such or other restrictive exchange policies in the future.

Foreign exchange restrictions if imposed by the government could prevent the Group from meeting, or restrict its ability to meet its obligations. This could also effectively limit the Group's ability to convert Pesos to U.S. dollars.

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 34 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

	<u>High</u>	<u>Low</u>
<u>2007</u>		
First Quarter	₱14.00	₱10.50
Second Quarter	12.75	11.00
Third Quarter	12.75	8.90
Fourth Quarter	11.75	9.80
<u>2006</u>		
First Quarter	₱6.10	₱3.50
Second Quarter	7.90	5.40
Third Quarter	6.60	5.60
Fourth Quarter	11.00	6.20
<u>2005</u>		
First Quarter	₱4.20	₱2.80
Second Quarter	4.15	3.00
Third Quarter	3.80	3.00
Fourth Quarter	4.20	3.25

The stock price of the Company's shares as of April 10, 2008 is ₱9.70.

CASH DIVIDENDS PER SHARE

On June 28, 2007, 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 27, 2007 and payable on August 23, 2007.

On June 28, 2006, 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 28, 2006 and payable on August 23, 2006.

On August 18, 2005, 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 September 16, 2005 and payable on October 12, 2005.

STOCK DIVIDENDS DECLARED

No stock dividend was declared in 2007, 2006 and 2005.

Retained earnings of the Company as of December 31, 2007 include undistributed earnings amounting to ₱48.16 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. (See Note 25 of Consolidated Audited Financial Statements as of December 31, 2007).

RECENT SALES OF UNREGISTERED SECURITIES

Not Applicable.

The number of shareholders of record as of December 31, 2007 was 1,390. Total shares outstanding (issued and subscribed) as of December 31, 2007 were 6,797,191,657 shares with a par value of P1.00.

Top 20 stockholders as of December 31, 2007:

	<u>Name</u>	<u>No. of Shares Subscribed</u>	<u>% to Total</u>
1.	Gokongwei Brothers Foundation, Inc.	1,997,076,451	29.38
2.	RSB-TIG No. 030-46-000001-9	1,033,319,225	15.20
3.	John Gokongwei, Jr.	866,509,465	12.75
4.	PCD Nominee Corporation (Filipino)	827,390,289	12.17
5.	PCD Nominee Corporation (Non-Filipino)	309,163,541	4.55
6.	Express Holdings, Inc.	284,676,715	4.19
7.	Lance 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	2.07
10.	Gosotto & Co., Inc.	115,644,494	1.70
11.	Lily Ngochua	74,591,775	1.10
12.	Robina Gokongwei Pe &/or Elizabeth Gokongwei	72,345,278	1.06
13.	Universal Robina Corporation	57,663,430	0.85
14.	Liza Yu Gokongwei &/or Elizabeth Gokongwei	54,200,000	0.80
15.	Nicris Development Corporation	38,073,252	0.56
16.	Catalino S. Ngochua	36,907,869	0.54
17.	Faith Gokongwei Ong &/or Elizabeth Gokongwei	36,100,000	0.53
17.	Marcia Gokongwei Sy &/or Elizabeth Gokongwei	36,100,000	0.53
17.	Hope Gokongwei Tang &/or Elizabeth Gokongwei	36,100,000	0.53
18.	Ignacio Gotao	29,882,114	0.44
19.	Emma G. See	27,552,125	0.41
20.	Pacred Service & Investment Corporation	18,733,226	0.28
		<u>6,544,584,635</u>	<u>96.29</u>

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, 2007, 2006 and 2005, included elsewhere in this Annual Report. Our financial statements, and the financial information discussed below, have been prepared in compliance with accounting principles generally accepted in the Philippines (Philippine GAAP), as set forth in Philippine Financial Reporting Standards (PFRS).

The Company has prepared consolidated financial statements in compliance with PFRS, which resulted into restatement of prior years' financial statements. Thus, amounts reflected in the succeeding discussion are already based on the restated financial statements. For a detailed discussion regarding changes in accounting policies, please refer to Note 2- Summary of Significant Accounting Policies to the accompanying consolidated financial statements.

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

2007 vs. 2006

I. CONSOLIDATED OPERATIONS

Results of Operations

JG Summit experienced another record year as it took advantage of the resilient growth of the Philippine economy in 2007, a stronger peso, low inflation and low interest rates.

Consolidated revenues improved by 7.5% backed by the strong performance of our air transportation, foods and property and telecommunications businesses:

- Revenues from our foods subsidiary, Universal Robina Corporation (URC) grew 7.2%, from ₱35.18 billion to ₱37.72 billion mainly because of our impressive growth in sales of our beverage, snackfoods and animal feeds businesses. URC continues to be the biggest contributor to Group revenues accounting for 40.8 % of the total.
- Revenues of Cebu Pacific Air reached a record P15.02 billion, a 54.5% increase over last year's ₱9.72 billion. It has successfully carried almost 5.5 million passengers in 2007, an increase of 58% from last year's almost 3.5 million passengers carried. This makes Cebu Pacific the single largest domestic carrier in the country today.
- Robinsons Land Corporation generated gross revenues of ₱8.28 billion in 2007, an increase of 24.8% from last year's ₱6.4 billion. Its High-rise division continues lead growth because of the continuing strong demand for condominiums and BPO office space.
- Digitel posted an increase of about 8.9% in its service revenues. Its mobile phone business, Suncellular has seen a big jump in its revenues as it reached a wider

subscriber base due to the aggressive roll-out of its network, which started in 2006. This compensated for the decline in its fixed-line service revenues caused by the continuing shift towards mobile telephony.

- Equity income of the International Capital and Financial Services Group increased by 50%, from ₱1.08 billion in 2006 to ₱1.62 billion in 2007 because of higher income posted by UIC, a Singapore-based listed company where we have a 33.5% stake. Our equity income in First Private Power Corp, where we have a 20% stake, amounted to ₱234 million.
- Other Income went up 83.6% this year from ₱6.54 billion to ₱12.01 billion. Foreign exchange gains recorded during the year amounted to ₱7.21 billion, as the peso grew stronger against the US Dollar from ₱49.03:US\$1 in 2006 to only ₱41.28:US\$1 at 2007 year-end.

Consolidated net income increased by as much as 30.7% from last year's ₱8.70 billion to this year's ₱11.37 billion. Net income attributable to equity holders of JG Summit rose 33.4% from last year's ₱6.46 billion to ₱8.61 billion in 2007. Excluding the one-time gains and losses in 2006, net income attributable to equity holders amounted to only ₱3.83 billion in 2006, making the increase in recurring net income to amount to 124.8%

- The most significant growth in earnings was posted by Cebu Pacific from a net income of ₱196.79 million in 2006 to ₱3.61 billion in 2007. This was brought about by a substantial increase in passenger load due to expansion in both domestic and international routes. And because Cebu Pacific boast of a young fleet, this has help them improve aircraft utilization and become more cost efficient. It must be noted though that P1.9 billion of this net income was due to foreign exchange gains arising out of the translation of the value of its dollar denominated debt into Philippine pesos.
- URC's earnings increased significantly from ₱3.02 to ₱5.56 billion mainly due to recognition of gain on sale of their investment in RLC amounting to ₱2.86 billion. However, this gain was already recorded by the Group in 2006, thus, such gain is no longer reflected in the Group's consolidated net income.
- RLC's net earnings improved from ₱1.72 to ₱2.44 billion, as completion of its high rise projects and expansion and renovation of malls delivered better margins and higher rental income.
- Digitel saw a reversal in its net earnings for the year, from a net loss of ₱962.91 million in 2006 to a net income of ₱1.17 billion mainly because of foreign exchange gains recognized on the translation of its dollar-denominated obligations, which amounted to ₱5.15 billion this year from ₱2.68 billion last year.
- Petrochemicals' net loss this year decreased by as much as ₱2.64 billion this year, from a net loss of ₱3.36 billion in 2006 to only ₱722.44 million. In 2006, JG Petrochem recognized impairment loss of its assets amounting to ₱3.86 billion.

EBITDA (earnings before interest, taxes, depreciation and amortization) excluding non-recurring items increased by 34.8% from ₱22.48 billion to ₱30.29 billion with major improvements in food, property, and airlines, boosted by growth in revenues, foreign exchange gains and better cost management.

Our cost of sales and services grew 11.3% to ₱47.61 billion as a result of an increase in the cost of raw materials in our foods business, the higher cost of services in our mobile phone

business, and the increase in flight operations costs in the airline business.

Operating expenses increased by 24.4% as a result of the higher operating expenses of our expanding mobile network, our growing airline operations, and the expansion of our international branded food operations.

Impairment losses for the year dropped from ₱5.93 billion last year to only ₱349.94 million this year, which is related mostly to Digitel's receivables. Last year's impairment loss includes ₱2.86 billion impairment loss on certain assets of JG Petrochem.

Our interest and other financing charges declined from ₱7.51 billion in 2006 to ₱7.01 billion in 2007 due largely to the effects of a strong peso and low interest rates.

Provision for income tax increased by 17.8%, because of the booking of deferred taxes on unrealized foreign exchange gains and unrealized gross profits on sales of real property. However, our effective tax rate (income tax expense as a percentage of net income before tax) dropped to 22.3% in 2007, from 24.2% in 2006 mainly due to Cebu Air's higher operating income covered by an income tax holiday.

II. Segment Operations

A. Results from Continuing Operations

Foods posted a consolidated net sales and services of ₱37.7 billion for the fiscal year ended September 30, 2007, a 7.2% increase over last year. The principal reasons for this increase were as follows: (1) ₱1.8 billion, or 6.7% increase in net sales of URC's branded consumer foods segment, including the packaging division. This increase was primarily due to a 12.6% increase in net sales from URC's domestic operations coming mostly from the impressive growth in sales of beverage and snack foods. Revenue was also pushed up by new products like Natures Harvest and new water business (Hidden Spring and Nestle Purelife). (2) ₱565.0 million or 11.2% increase in net sales of agro-industrial segment primarily due to the animal feeds business, which reported an increase in net sales of 19.3% as a result of higher sales volume. The major driver for the favorable result is the continuous success of its Uno and Stargain hog feeds in terms of market coverage and positive feedback on marketing undertakings in establishing brand equity. (3) ₱198.0 million or 5.6% increase in net sales of commodity foods segment primarily due to sugar business, which registered a 33.8% increase driven by higher volume this year.

URC's gross profit improved by 14.5% to ₱10.1 billion in the fiscal 2007 from ₱8.8 billion recorded in fiscal 2006. URC's gross profit as a percentage of net sales grew by 2 percentage points to 27% in fiscal 2007 from 25% in fiscal 2006. Selling and distribution costs and general and administrative expenses increased by 13.1% from ₱6.1 billion to ₱6.9 billion primarily due to the following factors: (1) increase in freight and other selling expenses by ₱164.0 million due to higher volume of exports and increased freight rate charges associated with higher fuel prices and increase in trucking and shipping costs; and (2) increase in non-manufacturing personnel expenses by 27.0% due to annual salary adjustment given in May 2007 and accrual of retirement benefits.

URC recognized a gain on sale of its equity investments in RLC shares during the year, which amounted to ₱2.86 billion. *(This gain was already taken in the Group's 2006 financial statements, thus, it will no longer reflect in the 2007 consolidated income statement).*

Net income attributable to equity holders of the parent increased by 84.1% to ₱5.56 billion in fiscal 2007 from ₱3.02 billion in fiscal 2006 resulting in earnings per share of ₱2.50 better than last year's ₱1.42.

Real estate and hotels generated total gross revenues of ₱9.0. billion for fiscal year 2007, an increase of 29.0% from ₱6.98 billion of total gross revenues for fiscal year 2006. RLC's Commercial Centers Division contributed 40.4% to the Company's gross revenues. Income Before Income Tax for the year was ₱3.42 billion, an increase of 40.9% from ₱2.42 billion the previous year. Its EBITDA recorded a positive variance of 30.6% from ₱3.69 billion last year to ₱4.82 billion mainly due to higher revenues. RLC's net income increased by 41.8% to ₱2.45 billion compared to ₱1.72 billion last year.

The Commercial Centers Division accounted for ₱3.54 billion of the real estate revenues for the year, versus ₱3.28 billion last year. The 7.8% 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 Pioneer and Robinsons Metro Bacolod, among others.

The Company's High Rise Buildings Division realized gross revenues of ₱3.64 billion, up by 60.3% from ₱2.27 billion last year due to initial take up of realized revenues from three of its ongoing residential condominium properties, Adriatico Places Two and Three, and McKinley Park Residences. Likewise, the Division continues to enjoy stable recurring lease income from five of its office buildings, which have become the choice corporate addresses of reputable multinational companies as well as BPO companies, Galleria Corporate Center, Robinsons Equitable Tower, Robinsons Summit Center and Robinsons Cybergate Center Towers 1 and 2. Rental income from these five office buildings amounted to ₱570.63 million compared to ₱322.9 million over the same period last year. This 77% increase in lease income was largely attributable to the opening of new Cybergate Center Tower 2 in October 2006 as well as increased occupancy rates and generally higher rental rates at its office buildings.

The Hotels Division, a major contributor of RLC's recurring revenues registered gross revenues of ₱1.11 billion, as against last year's ₱907.3 million. The 22.2% 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.

The Housing and Land Development Division reported realized gross revenues of ₱715.8 million as against ₱514.9 million for the same period last year or an increase of 39%. The increase in realized revenues can be attributed to higher units sold, higher project completion and higher financing income.

Telecommunications posted a consolidated revenues of ₱16,745.7 million for the year ended December 31, 2007, up by 48.3% from last year's ₱11,294.1 million largely due to market valuation gain on derivative instruments and foreign exchange gain and other income reported during the year amounting to ₱8,419.3 million, an increased by ₱4,779.5 million or 131.3% from last year

Consolidated service revenues amounted to ₱8,267.8 million for the year 2007, ₱665.6 million or 8.8% increase from last year, owing to higher service revenues generated by the wireless business.

The wireless business reported ₱3,991.3 million service revenues in 2007 against ₱2,840.2

million in 2006. The increase was attributable to the continued growth in subscriber base resulting to higher revenues in unlimited fees, voice, SMS, roaming and value added services.

Wireline voice communication services however, decreased to ₱3,895.5 million in 2007 from ₱4,459.5 million in 2006. This segment, being the traditional voice services, is being challenged with the advent of new technology thus, affecting revenues from international and domestic tolls. The international traffic is further dampened by the decreasing rates and the continued appreciation of peso against the dollar. Notwithstanding the challenges, the wireline voice communication services managed to curb the decline in revenues with the continued growth of ADSL and wireless telephone with broadband services, known as MANGO which showed an increase of 67.2% over last year's revenues.

Wireline data communication services generated revenues of ₱381.0 million in 2007, higher than last year's by ₱78.5 million or 25.9%. The increase was driven by the demand of call centers and BPOs for high bandwidth data services and for high bandwidth transport services in the case of foreign and local carriers. This was also driven by the offering of IP VPN in the last quarter of 2006.

Consolidated costs and expenses amounted to ₱14,053.5 million for the year ended December 31, 2007, 29.5% higher than previous year's figure of ₱10,845.0 million largely due to higher depreciation charges.

Network-related expenses increased by 16.9% or ₱381.6 million which is largely attributable to the aggressive roll out activities undertaken in the wireless business during the year. General and administrative expenses on the other hand slightly decreased due to lower marketing and selling expenses offset by higher compensation and benefits, utilities, rental and travel & transportation expenses.

DIGITEL registered a consolidated EBITDA of ₱2,010.7 million 2007, higher by 8.8% against ₱1,847.9 million in 2006.

As a result of the foregoing, DIGITEL realized a consolidated income before income tax of ₱2,692.1 million in 2007, about 5 times more than last year's consolidated income before income tax of ₱449.1 million.

DIGITEL expects to improve results of operation in the future as we continue to expand the wireless network and through introduction of new and innovative products and continued implementation of cost-containment measures to further reduce its costs and expenses.

Air transportation revenues grew 54.5% to ₱15.02 billion for the year ended December 31, 2007 from last year's ₱9.72 billion, a result of increased passenger load factor due to expansion of routes for the year. This was brought about by the opening of seven international routes and additional flight frequencies in several domestic and international destinations. Cost of services and operating expenses also went up relative to higher revenue. Finance costs recognized during the year amounted to ₱887.46 million compared to ₱544.76 million in 2006. Foreign exchange gain recognized by Cebu Air in 2007 amounted to ₱1.97 billion compared to ₱631.21 million in 2006. As a result, net income increased significantly from ₱196.79 million last year, to ₱3.61 billion this year.

Petrochemicals revenues slightly dropped to ₱5.15 billion for the fiscal year ended September 30, 2007, from last year's ₱5.31 billion, mainly due to 5.7% decrease in sales volume. Gross loss of Petrochem increased from 4.2% last year to 6.0% this year. However,

since no impairment loss on assets was recognized by the Company during the year, net loss dropped to ₱722.44 million compared to last year's ₱3.36 billion.

International Capital and other Financial services, Robinsons Savings Bank generated net earnings of ₱283.25 million for the year ended December 31, 2007, increased by 10.6% from last year's net income of ₱255.99 million. As of December 31, 2007, total resources dropped to ₱12.42 billion from last year's ₱15.47 billion. Loans increased to ₱5.43 billion from last year's ₱4.89 billion, deposit liabilities decreased to ₱10.30 billion this year compared to ₱13.62 billion last year. **JG Summit Capital Markets Corporation** revenues increased during the year, from ₱105.73 million to ₱312.73 million for the year ended December 31, 2007 mainly due to recognition of higher foreign exchange gain. Net profit registered a significant increase from last year's ₱28.78 million to ₱163.06 million this year.

Equity earnings from associated companies and joint ventures were reported at ₱1.62 billion for the year ended December 31, 2007, a 50.4% growth from last year's ₱1.08 billion. Increase in equity income is mainly due to UIC, which recorded a higher net income. **United Industrial Corporation, Limited** recorded a significant increase in net income from S\$492.1 million in 2006 to S\$1.17 billion in 2007. This includes net fair value gain on investment properties amounting to S\$1.05 billion in 2007 compared to S\$416.32 million in 2006. Excluding the fair value gain on investment properties, the attributable profit from operations in 2007 is S\$123.59 million a 63.1% growth from last year's S\$75.79 million. Increase is mainly due to higher sales of residential properties, revenue recognition on a percentage of completion basis and consolidation of the results of Pan Pacific hotel. Marina Centre Holdings, a wholly-owned subsidiary of UIC, acquired the remaining 50% interest in Pan Pacific hotel in end of March 2007. 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\$25.38 million, up 9.5% from last year's US\$ 23.18 million. This was brought about by increased revenues of Bauang Private Power Corp. (BPPC), where FPPC owns 93.25% of BPPC's equity.

2006 vs 2005

I. Consolidated Operations

The Group's consolidated financial performance reached record levels despite the challenges that we faced in 2006. Consumer demand continued to be tepid as the purchasing power of OFW families were affected by a stronger peso, and lagged behind the increase in inflation caused by additional VAT and fuel price increases. However, we believe that the effects of the rapidly expanding BPO labor force, coupled with the decline in interest rates brought about by the improved fiscal position of the national government, contributed greatly to the expansion of our property, airline and telecoms businesses.

Consolidated group revenues increased by 27% from ₱67.9 billion in 2005, to ₱86.1 billion in 2006 due to the strong performance of our food, property and airline subsidiaries.

- Revenues of Universal Robina Corporation grew by 13% from ₱31.2 billion in 2005, to ₱35.2 billion in 2006, mainly because of the rapid growth of our beverage business, and our continuing dominance in snackfoods. URC continues to be the largest contributor to Group revenues accounting for 41% of the total.

- Revenues from Robinsons Land grew the fastest with a 30% growth from ₱5.1 billion, to ₱6.6 billion in 2006. The high-rise division emerged as our fastest growing business buoyed by the strong demand for condominiums and BPO office space. RLC is now the country's largest landlord to the BPO industry to date with around 125,000 square meters leased out.
- Cebu Pacific is now our second largest business in terms of revenue contribution posting a 24% growth from ₱7.8 billion in 2005 to ₱9.7 billion in 2006. This was caused by our successful shift into a true low cost carrier model which enabled us to stimulate passenger traffic growth with our increasingly popular "Go" fares and internet booking engine.
- Service Revenues from Digitel posted a modest 8% decline, from ₱8.3 to ₱7.6 billion, as fixed line revenues suffered from lower international receipts due to the strengthening of the peso and the over-all decline of inbound traffic. Mobile revenues also declined modestly as the company deliberately focused more on the improvement of network coverage and quality. Consolidated revenues however, inclusive of foreign exchange gains and the increase in the market valuation of financial instruments, increased 8% from ₱10.5 billion in 2005, to ₱11.3 billion in 2006.

Consolidated net income amounted to ₱8.7 billion in 2006, an increase of 137% from ₱3.7 billion in 2005. Net income attributable to equity holders of JG Summit (including non-recurring items) rose by 55% from ₱4.2 billion in 2005 to ₱6.5 billion in 2006.

- The most significant improvement in earnings was posted by Cebu Pacific from a net income of ₱3.7 million in 2005 to ₱133.9 million in 2006. This was brought about by a more fuel efficient aircraft fleet, better aircraft utilization, a dramatic increase in the number and profitability of our international routes, and a revenue management system that helps us maintain high passenger loads throughout the year.
- RLC's net earnings improved from ₱1.2 to 1.7 billion, as it increased the completion of its high rise projects which also delivered better margins and rental income. JG's share of this declined modestly from ₱1.1 to ₱1.0 billion as a result of our reduced effective equity interest in RLC.
- URC's earnings also improved from ₱2.5 to ₱3.0 billion despite increasing raw material, packaging and freight costs. JG's share of this declined from ₱2.2 to ₱1.8 billion as a result of our reduced equity stake in URC.
- The net loss of Digitel improved from ₱1.5 billion to ₱963 million, despite higher financing costs, because of the tight management of operating and network related expenses. JG's share of Digitel's net loss declined from ₱748 million last year, to ₱480 million in 2006.
- Petrochemicals saw a deterioration of earnings mainly because of the lower prices of our main products, coupled with the higher cost of feedstock. Net losses increased from ₱431 million in 2005 to ₱3.4 billion in 2006 (already inclusive of almost ₱3 billion in asset impairment charges). JG's share of this loss was ₱355 million in 2005, and ₱2.8 billion in 2006.

Without the non-recurring items and with the lower equity ownership in URC and RLC, net income attributable to equity holders of JG Summit, declined by 15% from ₱4.5 billion in 2005, to ₱3.8 billion in 2006.

- Gains realized from the URC and RLC follow-on offerings amounted to ₱9.1 billion.
- Impairment losses recognized, mostly from JG Petrochemicals and Cebu Air totaled ₱5.9 billion.
- Losses on discontinued operations of the textile and printing subsidiaries amounted to ₱119.7 million.
- The peso strengthened against the US dollar by 8% from ₱53.09 : US\$ 1 at year-end 2005, to ₱49.03 : US\$ 1 by year-end 2006. Foreign exchange gains were recognized on the translation of our dollar-denominated net borrowings and this amounted to ₱3.4 billion.
- Gains on the market value of our financial instruments amounted to ₱2.4 billion.
- Equity income from our associates, United Industrial Corporation and First Private Power, increased to ₱1.1 billion in 2006.
- Interest income grew 12.5% from ₱4.4 billion to ₱4.9 billion as cash proceeds from the follow-on offerings were placed in high-yielding instruments.

EBITDA (earnings before interest, taxes, depreciation and amortization) excluding non-recurring items increased by 4.6% from ₱21.5 billion to ₱22.5 billion with major improvements in food, property, and airlines, boosted by growth in revenues, foreign exchange gains and better cost management.

Our cost of sales and services grew 14% to ₱42.8 billion as a result of an increase in the cost of raw materials in our foods business, the higher cost of services in our mobile phone business, and the increase of flight operations costs in the airline business.

Operating expenses increased by 6.8% as a result of the higher operating expenses of our expanding mobile network, our growing airline operations, and the expansion of our international branded food operations.

The issuance of a \$300 Million 8% bond, due 2013, in January 2006 increased our interest and other financing charges from ₱7.2 billion in 2005 to ₱7.5 billion in 2006.

Provision for income tax increased by 52%, because of the booking of deferred taxes on unrealized foreign exchange gains and unrealized gross profits on sales of real property. However, our effective tax rate (income tax expense as a percentage of net income before tax) was reduced to 24% in 2006, from 34% in 2005 as a result of the lower stock transaction tax on the secondary sale of shares related to the URC and the RLC follow-on offerings.

II. Segment Reporting

Foods posted a consolidated net sales and services of ₱35.2 billion for the fiscal year ended September 30, 2006, a 12.8% increase over the same period last year. The principal reasons for this increase were as follows: (1) ₱2.8 billion, or 11.8% increase in net sales of URC's branded consumer foods segment, including the packaging division. This increase was primarily due to an 11.4% increase in net sales from URC's international operations and 12.0% increase in net sales from URC's domestic operations. The increase in URC's domestic branded consumer foods substantially came from the tremendous growth in sales of beverage products like coffee and tea. (2) ₱867.9 million or 20.6% increase in net sales of agro-industrial segment was primarily driven animal feeds business, which reported an

increase in net sales of 40.9% as a result of higher sales volume. (3) ₱303.5 million or 9.5% increase in net sales of commodity foods segment primarily due to sugar business, which registered a 24.9% increase due mainly to higher selling prices this year.

URC's gross profit improved by 11.8% to ₱8.8 billion compared to the same period last year of ₱7.9 billion. URC's gross profit as a percentage of net sales remains flat at 25%. Income after selling and distribution costs and general and administrative expenses, slightly went up by 1.5% to ₱2.7 billion in fiscal 2006 despite improvement in gross profit due to increase in operating expenses. Selling and distribution costs and general and administrative expenses increased by 17.1% from ₱5.2 billion to ₱6.1 billion primarily due to the following factors: (1) increase in freight and other selling expenses by ₱420.9 million due to increased sales and freight rate charges associated with higher fuel prices; and (2) increase in advertising and promotion costs by 27.7% both from domestic and international operations due to new products launched this year and support for Jack and Jill Mega branding.

Net income attributable to equity holders of the parent increased by 19.5% to ₱3.0 billion in fiscal 2006 from ₱2.5 billion in fiscal 2005 resulting in earnings per share of ₱1.42 better than last year's ₱1.30.

Real estate and hotels generated total gross revenues of ₱6.6 billion for fiscal year 2006, an increase of 29.8% from ₱5.1 billion of total gross revenues for fiscal year 2005. RLC's Commercial Centers Division contributed 48.5% to the Company's gross revenues. Income Before Income Tax for the year was ₱2.4 billion, an increase of 51% from ₱1.6 billion the previous year. RLC's net income increased by 40% to ₱1.7 billion compared to ₱1.2 million last year.

The Commercial Centers Division accounted for ₱3.2 billion of the real estate revenues for the year, as against ₱3.1 billion last year. The 3.8% increase in revenues of the Commercial Centers Division was principally due to rental escalations in part offset by the temporary closure of certain mall space for renovation and expansion work.

The Company's High Rise Buildings Division realized gross revenues of ₱2.0 billion, a significant 90% increase from ₱1.1 billion last year due to recognition of increased revenues from its projects, particularly One Adriatico Place and One Gateway Place, neither of which contributed any revenue in year ended September 30, 2005. Likewise, the Division continues to enjoy stable recurring lease income from four of its office buildings, which have become the choice corporate addresses of reputable multinational and domestic companies, Galleria Corporate Center, Robinsons Equitable Tower, Robinsons Summit Center and Robinsons Cybergate Center Tower 1. Rental income from these four buildings amounted to ₱322.9 million compared to ₱220.7 million over the same period last year. This 46% increase in lease income was largely attributable to the opening of new Cybergate Center Tower1 in June 2006 as well as increased occupancy rates and generally higher rental rates at its office buildings.

The Hotels Division registered gross revenues of ₱903.5 million, as against last year's ₱499.8 million. The 81% increase in hotel revenues was principally due to revenue attributable to Crowne Plaza Galleria Regency Hotel, which opened in July 2005.

The Housing and Land Development Division reported gross revenues of ₱488.2 million as against ₱448.2 million for the same period last year or an increase of 9%. The increase in revenue can be attributed to higher units sold and to higher project completion.

Telecommunications combined service revenues declined by 8% from ₱8.3 billion to ₱7.6

billion from 2005 to 2006, as a result of lower service revenues generated by both the wireline and wireless businesses. Consolidated revenues, however amounted to ₱11.3 billion for the year, an 8% increase from ₱10.5 billion last year. This was primarily due to foreign exchange gains and an increase in the market valuation of its financial instruments, which amounted to ₱3.4 billion or an increase of ₱1.4 billion.

Wireline communication services recorded ₱4.9 billion in service revenues compared to ₱5.5 billion in 2005. This decrease resulted mainly from the appreciation of peso which led to downward adjustments in monthly recurring charges, as well as a decline in international inbound revenues. Also, the increasing preference for mobile phones continued to cause a decline in wireline network usage, and this contributed further to the decline in revenues in 2006. This decline, however, was partly mitigated by the growth in the broadband business with ADSL registering a 74% increase in revenues to ₱313.64 million, and by the introduction of "MANGO", an innovative wireless fixed line telephone service with bundled broadband capability, which registered additional revenues of ₱47.74 million.

The wireless business also reported a 2.7% decline in service revenues from ₱2.9 billion in 2005 to ₱2.8 billion in 2006, that was largely expected because of the Division's increased focus on the completion of the network roll-out and the improvement of both network coverage and quality. During the year, we noted stronger subscriber interest in unlimited services resulting in the growth unlimited service revenues by 27% or by ₱325 million. This growth was not enough, however, to immediately cover the decline in SMS revenues and in unused monthly recurring postpaid fees, indicative of more efficient subscriber usage.

Consolidated costs and expenses is reported at ₱10.8 billion for the year ended December 31, 2006, slightly better than previous year's figure of ₱11.3 million for the year ended December 31, 2005. The decline is largely due to lower cost of sales incurred also in the wireless business owing to the significant drop by almost 100% in Subscriber Identification Module (SIM) pack cost as a result of better price deals on SIM purchases.

Network-related expenses increased by 22% or ₱419.6 million which is largely attributable to the aggressive roll out activities undertaken in the wireless business during the year. General and administrative expenses likewise increased by 22% owing to increased marketing and staff-related expenses.

As a result of the foregoing, DIGITEL incurred a lower consolidated loss after income tax of ₱962.9 million in 2006 compared to ₱1,498.8 million in 2005, an improvement of 35.7%.

DIGITEL expects to improve results of operation in the future as we continue to expand the wireless network and through introduction of new and innovative products and continued implementation of cost-containment measures to further reduce its costs and expenses.

Air transportation revenues rose 24.4% to ₱9.72 billion for the year ended December 31, 2006 from last year's ₱7.81 billion. The competitive position of the airline continues to strengthen as Cebu Pacific acquired a major chunk of the market share in domestic routes during the year. Cost of services and operating expenses also went up relative to higher revenue. Aside from this, the airline recorded expenses related to retirement of its Boeing 757 amounting to ₱502.8 million, part of which is loss on aircraft lease and write-down of aircraft parts and equipment amounting to ₱309.8 million during the year. Finance costs recognized during the year amounted to ₱538.8 million offset by a higher foreign exchange gain amounting to ₱631.2 million in relation to its foreign-denominated obligations. As a result, net income increased significantly from ₱82.0 million last year, to ₱196.8 million this year.

Petrochemicals recorded revenues of ₱5.30 billion for the fiscal year ended September 30, 2006, a slight improvement from last year's ₱5.05 billion, which is mainly due to higher sales volume. However, cost of sales also increased significantly due to higher cost of raw materials, resulting to a gross loss of ₱223 million during the current year. The Company also recognized an impairment loss on its assets of ₱2.78 billion during the year. This resulted to a higher net loss this year, which amounted to ₱3.36 billion compared to last year's ₱431 million.

International Capital and other Financial services, Robinsons Savings Bank generated net earnings of ₱253.1 million for the year ended December 31, 2006, increased by 48.7% from last year's net income of ₱170.2 million. As of December 31, 2006, total resources increased to ₱15.47 billion from last year's ₱8.66 billion. Loans increased to ₱4.89 billion from last year's ₱4.02 billion, deposit liabilities also went up substantially to ₱13.2 billion this year compared to ₱5.2 billion last year. **JG Summit Capital Markets Corporation** revenues declined during the year, from ₱172.8 million to ₱105.7 million for the year ended December 31, 2006. However, net profit registered a 33.7% increase from last year's ₱21.5 million to ₱28.8 million this year, mainly due to recognition of lower interest expense this year from its interest-bearing loans from affiliates.

Equity earnings from associated companies and joint ventures were reported at ₱1.1 billion for the year ended December 31, 2006. Our company has equity investments in, among others, First Private Power Corporation (FPPC) and United Industrial Corporation Limited (UIC, Ltd.) **United Industrial Corporation, Limited** recorded a significant increase in net income from S\$201.1 million in 2005 to S\$492.1 million in 2006. This includes income on revaluation of investment properties amounting to S\$416.3 million in 2006 compared to S\$117.4 million in 2005. Excluding the asset revaluation surplus, the attributable profit from operations in 2006 is S\$75.8 million lower by 9.4% from last year's S\$83.7 million. The decrease was mainly due to recognition of gain on sale of its investment properties, Atrium Court and Eau Claire Place II in June 2005. 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.

2005 vs 2004

I. Consolidated Performance

JG Summit Holdings, Inc. posted net income of ₱4.18 billion for the year ended December 31, 2005, down 31.6% compared to last year's net income of ₱6.11 billion, which included a ₱4.75 billion extraordinary gain on early debt extinguishment. Based on recurring items, profits increased by 41.2% from last year's ₱3.19 billion to ₱4.51 billion this year.

Consolidated revenues increased by 6.5% from last year's ₱63.74 billion to ₱67.87 billion for the year ended December 31, 2005. This was brought about by higher revenues generated by our food, real estate development and air transportation businesses. Interest income also registered an 11.9% growth over last year. Revenues from our petrochemicals business slid 20.7% from last year as production slowed down due to declining market prices. Equity income from our associated companies and joint ventures slightly increased by 3.3% to ₱1.05 billion.

Other income account includes gains of ₱1.54 billion from mark to market of certain of our financial instruments in compliance with the new accounting standard, Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, which the Company adopted this year. This account also includes unrealized foreign exchange gains from the restatement of our dollar-denominated assets and borrowings. Due to the appreciation of the Philippine peso against the US Dollar and the substantial dollar-denominated borrowings, the group has recognized a net gain of ₱2.42 billion in 2005. In 2004, other income account, includes gain from the early debt extinguishment, which amounted to ₱4.7 billion.

Cost of sales and services went up 6.8% due particularly to the rising costs of services in our air transportation and mobile phone businesses and the decline in gross profit in our petrochemical business. As a result, our gross profit grew only by 10.2%, backed by the significant growth in the gross profits of our foods business as well the realized gross profit in our real estate operations.

Operating expenses went up by 16.3%, from ₱14.69 billion in 2004 to ₱17.08 billion in 2005, attributable mainly to higher operating expenses incurred by our telecommunication, air transportation and foods businesses.

Impairment loss dropped by 71.8%, from ₱2.4 billion last year to ₱687.0 million which was brought about by recognition of impairment on assets by petrochemical business amounting to ₱1.4 billion last year.

Financing costs, which include interest expense, bank and other financing charges, increased 22.6% relative to the increase in our borrowings during the year. In addition, dividends from preferred shares amounting to ₱252 million are now treated as financing costs relative to the reclassification of our cumulative preferred shares from equity in 2004 to liability in 2005, in compliance with PAS 32, *Disclosure and Presentation of Financial Instruments*, which requires financial instruments to be classified as either liabilities or equity in accordance with its substance and not its legal form.

Provision for income tax increased 155.6% relative to the increase in deferred tax liabilities, particularly on the unrealized foreign exchange gain.

Income from discontinued operations, which comprises the textile and printing businesses of the Company, dropped significantly from last year's ₱208.05 million to ₱37.12 million this year. This is due to lower gross margin and higher expenses incurred by textile business during the year.

EBITDA (earnings before interest, taxes depreciation and amortization) increased from ₱20.2 billion in 2004 to ₱21.0 billion in 2005. Excluding the non-recurring items, EBITDA increased by 21.2% from ₱17.72 billion in 2004 to ₱21.48 billion in 2005.

II. Segment Operations

2005 vs 2004

Foods posted a consolidated net sales and services of ₱31.2 billion for the fiscal year ended September 30, 2005 a 14% increase over the same period last year. The principal reasons for this increase were as follows: (1) ₱3.2 billion or 15.7% increase in net sales of URC's

branded consumer foods segment, including the packaging division. This increase was primarily due to a 22.5% increase in net sales from URC's international operations, principally Thailand, Indonesia, Malaysia and China and a 15.9% increase in net sales of domestic operations. (2) ₱439.0 million or 11.6% increase in net sales of agro-industrial segment primarily due to the animal feeds business, which reported an increase 16.7% as a result of higher sales volume and selling prices. (3) ₱167.8 million or 5.5% increase in net sales of commodity foods segment primarily due to flour business.

URC's gross profit improved by ₱1.0 billion or 14.7% to ₱7.9 billion compared to the same period last year of ₱6.9 billion. Income after selling and distribution costs and general and administrative expenses increased by 26.6% to ₱2.7 billion from ₱2.1 billion last year due to increase in gross profit, which covered the slight increase in operating expenses. Operating expenses increased by 9.5% from ₱4.8 billion to ₱5.2 billion primarily due to the following factors: (1) increase in freight and other selling expenses by ₱218.5 million due to higher volume of exports and increased freight rate charges associated with higher fuel prices; (2) increase in salaries and wages and other staff costs by ₱225.4 million due to hiring of new employees in connection with expansion of URC's international operations; and (3) increase in advertising and promotion costs both from domestic and international operations.

Net income for fiscal year 2005 increased by ₱528.8 million or 28.2% to ₱2.4 billion in 2005 from ₱1.9 billion in 2004 resulting in earnings per share of ₱1.30 compared to last year's ₱1.09.

Real estate and hotels generated total gross revenues of ₱5.1 billion for fiscal year 2005, an increase of 9% from ₱4.7 billion of total gross revenues for fiscal year 2004. RLC's Commercial Centers Division contributed 61% to the Company's gross revenues. Income Before Income Tax for the year was ₱1.6 billion, an increase of 20% from ₱1.3 billion the previous year. RLC's net income increased by 34% to ₱1.2 billion compared to ₱917.1 million last year.

The Commercial Centers Division accounted for ₱3.1 billion of the real estate revenues for the year, as against ₱2.8 billion last year. The 12% increase in revenues of the Commercial Centers Division is due to the improved rental of space in existing malls in Galleria, Manila, Bacolod, Metro East, Lipa and Dasmariñas and the excellent take-up of new malls and the redeveloped Pioneer - Mandaluyong.

The Company's High Rise Buildings Division realized gross revenues of ₱1.1 billion, up by 6% from ₱1.0 billion last year due to the recognition of realized revenues from Bloomfields, a residential subdivision development in Novaliches, Quezon City. Likewise, the Division continues to enjoy stable recurring lease income from three of its office buildings, Galleria Corporate Center, Robinsons Equitable Tower and Robinsons Summit Center. Rental income from these three buildings amounted to ₱220.7 million compared to ₱207.8 million over the same period last year or an increase of 6% on account of improved occupancy at Robinsons Summit Center. RLC recently launched four (4) additional residential condominium projects, namely Gateway Garden Heights, McKinley Park Residences, Three Adriatico Place and East of Galleria.

The Hotels Division registered gross revenues of ₱499.8 million, as against last year's ₱521.6 million. RLC's two hotels and apartelle continue to register satisfactory occupancy rates. A new 260-room hotel called the Crowne Plaza Galleria Regency soft – opened in July 2005 to cater for mid to high-end leisure travelers and is expected to boost revenue further.

The Housing and Land Development Division reported gross revenues of ₱448.1 million as against ₱395.1 million for the same period last year or an increase of 13%. The increase in revenue can be attributed to higher units sold and to higher project completion.

Telecommunications generated a consolidated revenue of ₱10,491.1 million for the year ended December 31, 2005 or a 44.2% increase from the ₱7,273.8 million consolidated revenue generated for the year ended December 31, 2004.

The increase in consolidated revenue was brought about by strong top line growth in the wireless business driven by the attractive 24/7 unlimited product variants. As a result, revenue from this segment increased by ₱1,556.5 million or 96.1% from ₱1,620.1 million in 2004 to ₱3,176.6 million in 2005. On the other hand, the 2005 service revenues of the local exchange carrier (LEC) declined by ₱351.5 million due to a drop in both international and domestic tolls and the impact of a stronger Philippine peso against the U.S. dollar on international toll and billed foreign currency adjustments. The decline in LEC's service revenue however was mitigated by a gain in foreign exchange of ₱1,844.2 million and a gain on an early extinguishment of debt of ₱177.2 million.

Data and internet services exhibited a modest growth of 7.0% from ₱364.5 million in 2004 to ₱390.2 million in 2005.

Consolidated costs and expenses registered at ₱11,511.8 million for the year ended December 31, 2005 or a 27.0% increase from ₱9,064.6 million for the year ended December 31, 2004. The increase was largely due to increased financing costs by ₱1,456.0 million or 108.1% from ₱1,347.5 million in 2004 to ₱2,803.4 million in 2005 wherein a full year's interest was charged in 2005 while only a quarter year's interest charged in 2004 on a US\$190 million bond issued by a foreign subsidiary.

The higher consolidated costs and expenses was further caused by higher network costs incurred by the wireless segment business, which increased by 65.4% from ₱884.0 million in 2004 to ₱1,462.4 million in 2005. Other increases in cost and expenses emanated from increases in marketing, selling and cost of sales, depreciation and staff related expenses. Provision for losses in 2005 was lower by ₱156.6 million or 27.4% from ₱572.0 million in 2004 to ₱415.4 million in 2005.

DIGITEL registered a consolidated EBITDA of ₱2,674.8 million in 2005 against ₱2,297.5 million in 2004 on account of improved performance of the wireless business segment and the successive healthy performance of the wireline data communication business segment.

As a result of the foregoing, DIGITEL incurred a lower consolidated loss before income tax of ₱784.5 million in 2005 compared to ₱1,855.9 million in 2004, an improvement of 57.7%.

DIGITEL expects to improve results of operation in the future as we continue to expand the wireless network and through introduction of new and innovative products and continued implementation of cost-containment measures to further reduce its costs and expenses.

Air transportation revenues grew 5.5% to ₱7.81 billion for the year ended December 31, 2005 from last year's ₱7.40 billion due mainly to improved domestic operations. Cost of services and operating expenses increased by 8% mainly due to high fuel prices. Thus, net income dropped significantly from ₱96.78 million last year to ₱3.75 million this year.

Petrochemicals recorded revenues of ₱5.05 billion for the fiscal year ended September 30, 2005 down by 21% over last year's ₱6.37 billion. This was largely due to decrease in production due to declining market prices. Costs and expenses declined by 17% from ₱6.30

billion last year to ₱5.23 billion this year which can be attributed to decrease in sales. Net loss this year amounted to ₱431 million, significantly lower compared with last years ₱1.61 billion mainly due to the ₱1.45 billion impairment loss provided for last year.

Textiles presented as part of discontinued operations, recorded higher revenues by 6% from ₱2.78 billion last year to ₱2.97 billion this year. However, gross profit decreased by 36% due to lower gross margin from 13% last year to 8% this year. Net income dropped significantly by 77% from ₱201.8 million in 2004 to ₱46.2 million in 2005 due to lower gross profit and higher operating expenses.

International Capital and other Financial services, Robinsons Savings Bank registered net income of ₱170.2 million for the year ended December 31, 2005, increased by 24.0% from last year's net income of ₱137.3 million. As of December 31, 2005, total resources increased to ₱8.68 billion from last year's ₱6.73 billion. Loans increased to ₱4.02 billion from last year's ₱2.46 billion while deposit liabilities remained flat ₱5.2 billion. **JG Summit Capital Markets Corporation** generated revenues of ₱172.8 million for the year ended December 31, 2005, with a 43.5% decrease from last year's revenues of ₱305.9 million. Net profit declined by 49.3% to ₱21.5 million for the year ended December 31, 2005 from last year's net profit of ₱42.4 million, mainly attributable to recognition of net foreign exchange loss this year amounting to ₱10.6 million compared to a net foreign exchange gain last year of ₱167.1 million.

Other Business Interests, Printing, which formed part of discontinued operations, posted revenues at ₱118.2 million for the year ended December 31, 2005, down by 18.4% from last year's ₱144.8 million. As a result, there was a turn-around on the results of operations, from a net income of ₱0.6 million last year to a net loss of ₱5.8 million this year.

Equity earnings from associated companies and joint ventures were reported at ₱1.0 billion for the year ended December 31, 2005. Our company has equity investments in, among others, First Private Power Corporation (FPPC) and United Industrial Corporation Limited (UIC, Ltd.)

FPPC reported a net income of ₱961.8 million, a 7% decrease from last year's ₱1.03 billion, mainly due to the gain on sale of investment amounting to ₱127.31 million recognized last year.

UIC, Ltd. recorded a significant increase in net income from S\$31.8 million in 2004 to S\$201.1 million in 2005. This includes exceptional income of S\$117.4 million in 2005 compared to a loss of S\$61.7 million in 2004, due to the revaluation of its investment properties. Excluding the asset revaluation surplus(deficit), the attributable profit from operations in 2005 is S\$83.7 million lower by 10.5% from last year's S\$93.5 million. The decrease was mainly due lower revenues and gross margin this year.

UIC, Ltd. follows the revaluation method of valuing property, plant and equipment. Since the Group's policy for the valuation of property, plant and equipment is the cost basis, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect of revaluation of the said assets.

RESULTS FROM DISCONTINUED OPERATIONS

On October 13, 2006, the Group's BOD approved the cessation of operations of Litton Mills, Inc. (LMI) effective at close of business hours on November 30, 2006. LMI is a manufacturer,

buyer and seller of textiles and fabrics. In relation to the cessation of operations, LMI will sell the remaining property and equipment except for land, land improvements, and buildings and improvements, which will be leased out to certain related parties.

Also in 2006, the Group announced management's decision to dispose of Premiere Printing Company, Inc. (PPCI). PPCI is a proprietor and publisher of journals, magazines, books and other literary works and undertakings.

The results of LMI and PPCI are presented below:

2007

	LMI	PPCI	Total
Revenues:			
Sales and services	₱391,957,032		₱391,957,032
Others	96,810,777	171,044	96,981,821
Total Revenues	488,767,809	171,044	488,938,853
Expenses:			
Cost of sales and services	656,531,730	–	656,531,730
Operating expenses	59,035,230	824,743	59,859,973
Financing costs and other charges	1,795,023	–	1,795,023
Provision for income tax	(34,063,621)	–	(34,063,621)
Total Expenses	683,298,362	824,743	684,123,105
Loss for the year from discontinued operations	(₱194,530,553)	(₱653,699)	(₱195,184,252)

2006

	LMI	PPCI	Total
Revenues:			
Sales and services	₱2,254,296,485	26,728,809	₱2,281,025,294
Others	207,231,552	1,750,712	208,982,264
Total Revenues	2,461,528,037	28,479,521	2,490,007,558
Expenses:			
Cost of sales and services	2,136,915,189	33,259,154	2,170,174,343
Operating expenses	334,118,036	97,653,176	431,771,212
Financing costs and other charges	34,701,655	–	34,701,655
Provision for income tax	(26,892,354)	–	(26,892,354)
Total Expenses	2,478,842,526	130,912,330	2,609,754,856
Loss for the year from discontinued operations	(₱17,314,489)	(₱102,432,809)	(₱119,747,298)

2005

	LMI	PPCI	Total
Revenues:			
Sales and services	₱2,965,673,046	₱118,150,183	₱3,083,823,229
Others	65,286,212	413,809	65,700,021
Total Revenues	3,030,959,258	118,563,992	3,149,523,250
Expenses:			
Cost of sales and services	₱2,728,300,532	₱112,086,929	₱2,840,387,461
Operating and other expenses	244,804,129	12,783,512	257,587,641
Financing costs and other charges	33,143,381	7,372	33,150,753
Provision for income tax	(18,226,877)	(498,064)	(18,724,941)
Total Expenses	2,988,021,166	124,379,749	3,112,400,914
Income (loss) for the year from discontinued operations	42,938,093	(5,815,757)	37,122,336

FINANCIAL RESOURCES AND LIQUIDITY

2007 vs 2006

Cash & cash equivalents dropped significantly from ₱24.83 billion as of December 31, 2006, to ₱13.32 billion as of December 31, 2007 as proceeds from last year's follow-on offerings were used for capex avilment and debt settlements. Investments in bonds and other securities, classified as financial assets at fair value through profit and loss, available for sale investments and held-to-maturity investments with the adoption in 2005 of PAS 39, dropped by 10.7% with the sale of certain debt securities and the lower translated level of our dollar-denominated investments due to the peso's appreciation.

Cash from operating activities amounted to ₱7.49 billion and cash from financing activities amounted to ₱6.57 billion. Cash was principally used for the capital expenditure program of the Company's operating subsidiaries and to service debt maturity. The Group spent ₱9.89 billion on Digitel's capital expenditures as Digitel continues its network rollout on its mobile phone business; RLC spent about ₱8.9 billion in its landbanking and high-rise projects; Cebu Pacific's aircraft acquisitions cost around ₱4.53 billion, while URC's ₱4.12 billion capex was used in the expansion of its snackfoods production facilities, sugar mills and refinery and the acquisition of the production facilities for its bottled water business.

Receivables increased to ₱17.51 billion as of December 31, 2007 from last year's ₱14.53 billion due to higher trade receivables of real estate and petrochemicals businesses.

Inventories increased by 15.1% from ₱8.95 billion as of December 31, 2007 to ₱10.30 billion as of December 31, 2007 mainly due to higher level of finished goods and packaging materials of the food business.

Derivative assets grew 117.2% from ₱1.52 billion to ₱3.30 billion this year mainly due to Capital Market's good trading position in the currency market as they took advantage of continuing peso appreciation.

Other current assets increased by 55.7% from last year's ₱3.22 billion to ₱5.02 billion due to higher level of input tax of the telecommunication business.

Assets of disposal group classified as held for sale pertains to total assets of the textile and printing businesses, which ceased operation during the year. This account dropped significantly during the year due to disposal and write down of textile assets during the year.

Investment properties rose by 28.7% from ₱18.69 billion as of December 31, 2006 to ₱24.04 billion as of December 31, 2007 due to acquisition of land for future development and renovations of existing malls of the real estate business of the Company.

Property, plant and equipment increased 11.6% from ₱94.58 billion to ₱105.61 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.

Biological assets increased 28.6% to ₱1.05 billion this year, from ₱817.0 million last year due to higher population of live stocks and increase in market value of hogs.

Other noncurrent assets grew by 31.1% from ₱3.60 billion in 2006 to ₱4.72 billion in 2007 due to higher level of miscellaneous deposits of airline business, related to commitment fees and pre-delivery payments made for the 10 ATR72-500 and 10 Airbus A320 during the year.

Consolidated total assets reached at ₱229.93 billion due to all these factors.

Accounts payable and accrued expenses declined by 14.8% from ₱32.29 billion as of December 31, 2006 to ₱27.51 billion as of December 31, 2007, which can be attributed to drop in deposit liabilities of RSB from ₱13.62 billion in 2006 to ₱10.30 billion in 2007 and settlement of obligations under finance lease of the telecommunication business amounting to ₱2.48 billion.

Short-term debt increased by 17.8% from ₱14.64 billion as of December 31, 2006 to ₱17.26 billion as of December 31, 2007 mainly due to Parent Company's new loan amounting to ₱3.43 billion during the year.

Income tax payable increased 25.3% from ₱246.25 million to ₱308.46 million this year mainly due to real estate business.

Derivative liabilities increased significantly from ₱276.56 in 2006 to ₱978.16 billion in 2007 resulting from Capital Market's long trading position in the currency market where the peso continuously appreciated against the US Dollar.

Other current liabilities went up by 64.1% from last year's ₱3.17 billion to ₱5.21 billion this year due to recognition of higher unearned revenues by the airline business and higher customers deposits of real estate business.

Long-term debt, including current portion, declined 10.0% from ₱69.74 billion as of December 31, 2006 to ₱62.75 billion as of December 31, 2007 mainly due to drop in exchange rate during the period.

Deferred income tax liabilities rose to ₱6.62 billion, up by 57.0% from last year's ₱4.22 billion which is due to deferred tax effects of unrealized foreign exchange gain and mark-to-market gain of our financial instruments.

Other noncurrent liabilities increased significantly from ₱2.61 billion last year to ₱7.79 billion mainly due to higher level of accrued project cost of the telecoms business.

Stockholders' equity, excluding minority interest, stood at ₱76.77 billion as of December 31, 2007 from ₱69.55 billion.

2006 vs 2005

Consolidated total assets grew by 11% to ₱220.4 billion. Capital Expenditures grew by 13% to almost ₱28 billion in 2006, from ₱24.4 billion in 2005, because of the re-fleeting exercise of the airline, the continued roll-out of the mobile network of Digitel, the expansion of the beverage manufacturing assets of URC, and the continuing build-out of the high rise and commercial center projects of RLC. Cash and cash equivalents increased to ₱24.8 billion, from the proceeds of the follow-on offerings of URC and RLC. Current assets amounted to ₱82.3 billion while current liabilities reached ₱57.7 billion, for a current ratio of 1.43:1. Total financial debt amounted to ₱86.5 billion in 2006, slightly lower from ₱87.9 billion in 2005. Additional borrowing was offset by the lower translated level of our dollar-denominated debt as the peso strengthened. Net debt stood at ₱44.8 billion, bringing our net debt to equity ratio to 0.49:1 from 0.74:1 at the beginning of the year. Our gearing ratio for the year is 0.96:1, well within our financial covenant of 1.5:1.

Cash & cash equivalents increased significantly to ₱24.83 billion as of December 31, 2006, from last year's ₱5.46 billion. Such increase was a result of proceeds from follow-on offerings of certain subsidiaries. Investments in bonds and other securities, classified as financial assets at fair value through profit and loss, available for sale investments and held-to-maturity investments with the adoption in 2005 of PAS 39, dropped by 18.9% with the sale of debt securities.

Cash from operating activities amounted to ₱15.68 billion and cash from financing activities amounted to ₱3.4 billion. Cash was principally used for the capital expenditure program of the Company's operating subsidiaries and to service debt maturity. The Company does not expect any liquidity problems that may arise in the near future.

Receivables dropped to ₱14.53 billion as of December 31, 2006 from last year's ₱19.60 billion due to lower receivables from related parties.

Inventories decreased by 13.4% from ₱10.34 billion as of December 31, 2005 to ₱8.95 billion as of December 31, 2006 mainly due to cessation of operation of textile business. Inventories of textile business last year amounted to ₱1.43 billion, this year, its net realizable value amounted to ₱1.1 billion, which is being presented under assets for disposal group classified as held for sale.

Other current assets decreased by 15.2% from last year's ₱3.80 billion to ₱3.22 billion due to drop in advances to suppliers of the airline business.

Assets of disposal group classified as held for sale pertains to total assets of the textile and printing businesses which ceased operation during the year.

Investments in associates and joint ventures increased by 10.6% from ₱17.11 billion to ₱18.91 billion following the acquisition of additional shares in UIC, Ltd., which increased our stake from 30% to 32% in 2006.

Investment properties rose by 9% from ₱18.63 billion as of December 31, 2005 to ₱20.30 billion as of December 31, 2006 due to acquisition of land for future development of the real estate business of the Company.

Property, plant and equipment increased 14% from ₱81.42 billion to ₱92.81 billion attributed mainly to the re-fleeting program of air transportation business, on-going expansion of the facilities of our cellular telecommunications business, and the expansion of our branded consumer foods business.

Goodwill and intangibles dropped significantly to ₱959.73 million this year, from ₱2.05 billion last year due to recognition of impairment losses of goodwill in URC-China amounting to ₱240 million and JGSPC's technology license amounting to ₱278.4 million.

Other noncurrent assets decreased by 31.6% from ₱5.54 billion in 2005 to ₱3.79 billion in 2006 due to reclassification of certain security deposits to property and equipment account.

Accounts payable and accrued expenses grew by 26.2% from ₱25.45 billion as of December 31, 2005 to ₱32.10 billion as of December 31, 2006 mainly due to increase in deposit liabilities of RSB which totaled ₱13.6 billion in 2006 versus ₱7.0 billion in 2005.

Short-term debt declined by 23.3% from ₱19.09 billion as of December 31, 2005 to ₱14.64 billion as of December 31, 2006 due to settlement of short-term borrowings of certain offshore subsidiaries.

Other current liabilities dropped 43% from last year's ₱7.05 billion to ₱4.01 billion this year as the Company settled some of its obligations.

Long-term debt, including current portion, went up by 4.5% from ₱66.72 billion as of December 31, 2005 to ₱69.74 billion as of December 31, 2006 because of additional borrowings under an Export Credit Agency guaranteed aircraft facility of Cebu Air related with their refueling program, and the issuance of a US\$ 300 million 8% bond in January 2006, through one of our offshore finance subsidiaries. This was offset by settlement of some long-term debt by some of our subsidiaries.

Deferred income tax liabilities rose to ₱4.22 billion, up by 98% from last year's ₱2.13 billion which is due to deferred tax effects of unrealized foreign exchange gain and mark-to-market gain of our financial instruments.

Other noncurrent liabilities dropped significantly by 52% from ₱4.04 billion last year to ₱1.96 billion due to decrease in accrued project cost of the telecoms.

Minority interest in consolidated subsidiaries increased significantly from ₱7.79 billion as of December 31, 2005 to ₱20.94 billion as of December 31, 2006 due to the Company's reduction in equity interest in URC from 86% to 59% and RLC from 90% to 60%.

Stockholders' equity, excluding minority interest, stood at ₱69.55 billion as of December 31, 2006 from ₱63.85 billion.

2005 vs 2004

As of December 31, 2005, the Company's balance sheet remains healthy, with consolidated assets of ₱198.52 billion, an increase of 17.5% from last year's ₱168.95 billion. Current ratio stood at 1.15:1. The Company's indebtedness remained manageable with a gearing ratio of 1:23:1 and net debt to equity of 0.74:1 as of December 31, 2005.

Cash & cash equivalents totaled ₱5.46 billion as of December 31, 2005, down by 31.9% from last year's ₱8.02 billion. Investments in bonds and other securities, previously shown under temporary investments, are now classified as financial assets at fair value through profit and loss, available for sale investments and held-to-maturity investments with the adoption in 2005 of PAS 39. This account increased by 52.2% with the proceeds from URC's USD 200 million notes issue invested in high-yielding fixed income securities.

The principal sources of cash were from operating activities amounting to ₱10.65 billion and from financing activities, particularly from additional borrowings. Cash was principally used for the capital expenditure program of the Company's operating subsidiaries and to service debt maturity. The Company does not expect any liquidity problems that may arise in the near future.

Receivables grew to ₱19.60 billion as of December 31, 2005 from last year's ₱18.96 billion mainly due to higher trade receivables and finance receivables from the Company's bank subsidiary.

Inventories increased by 8.9% from ₱9.49 billion as of December 31, 2004 to ₱10.34 billion as of December 31, 2005 mainly due to increase in finished goods, raw materials relative to higher production capacity and higher costs of imported raw materials.

Other current assets increased by 18.3% from last year's ₱3.21 billion to ₱3.80 billion due to higher advances to suppliers and increase in prepaid expenses.

Investments in associates and joint ventures increased by 13.6% from ₱15.06 billion to ₱17.11 billion following the acquisition of additional shares in UIC, Ltd., which increased our stake from 26% to 30% in 2005.

Investment properties rose by 17.1% from ₱15.91 billion as of December 31, 2004 to ₱18.63 billion as of December 31, 2005 due to aggressive construction of various mall projects of the real estate business of the Company.

Property, plant and equipment increased 18.3% from ₱68.85 billion to ₱81.42 billion attributed mainly to the on-going expansion of the facilities of our cellular telecommunications business, the re-fleeting program of air transportation business and the expansion of our branded consumer foods business.

Accounts payable and accrued expenses grew by 17% from ₱21.79 billion as of December 31, 2004 to ₱25.45 billion as of December 31, 2005 due to higher accrued expenses on interest and retirement costs and increase in deposit liabilities of RSB.

Short-term debt increased significantly by 63.2% from ₱11.70 billion as of December 31, 2004 to ₱19.09 billion as of December 31, 2005 due to additional short-term foreign currency borrowings in certain subsidiaries.

Long-term debt, including current portion, went up by 20.3% from ₱55.44 billion as of December 31, 2004 to ₱66.72 billion as of December 31, 2005. In 2005, URC issued a US\$200 Million notes due 2011. Digitel incurred additional borrowings in line with the continuing expansion of its mobile phone business and Cebu Air, obtained an ECA facility for its refueling program.

Minority interest in consolidated subsidiaries went down by 9.7% from ₱8.62 billion as of December 31, 2004 to ₱7.79 billion as of December 31, 2005 due to increase in share of minority in the losses of DIGITEL and JGSPC.

Stockholders' equity, excluding minority interest, stood at ₱63.85 billion as of December 31, 2005 from ₱62.70 billion. Despite an income of ₱4.18 billion, which increased our stockholders' equity, adjustments to prior years retained earnings due to adoption of the new accounting standards, significantly reduced our retained earnings balance. Foreign exchange losses amounting to about ₱5.4 billion which were previously capitalized are no longer allowed under PAS 16, Property Plant and Equipment. Such capitalized losses are reversed and charged against retained earnings. Further, our preferred stock, which was previously classified under equity account is now treated as a liability following the adoption of PAS 32, *Presentation of Financial Instruments: Disclosures & Presentation*.

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, 2006, 2005 and 2004.

Key Financial Indicators	2007	2006	2005
Revenues	P92.52 Billion	P86.06 Billion	P67.87 Billion
EBIT	P18.94 Billion	P14.07 Billion	P13.67 Billion
EBITDA	P30.29 Billion	P22.48 Billion	P21.48 Billion
Current ratio	1.02	1.43	1.15
Gearing ratio	0.83	0.96	1.23
Net debt to equity ratio	0.51	0.49	0.74
Book value per share	11.30	10.23	9.39

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

Key Financial Indicators		
Revenues	=	Total of sales and services, interest and investment income, equity in net earnings and other income
EBIT	=	Earnings before interest expense and taxes computed as net income before nonrecurring items add provision for income tax and financing costs.
EBITDA	=	Earnings before interest, taxes and depreciation and

		amortization computed as net income before nonrecurring items add (deduct) provision for income tax, financing costs and depreciation and amortization.
Current ratio	=	Total current assets over current liabilities
Gearing ratio	=	Total Financial Debt over Stockholders' Equity and Minority Interest.
Net debt to equity ratio	=	Total Financial Debt less Cash including Financial Assets at FVPL and AFS investments (excluding RSB Cash and AFS investments) over Stockholders' Equity and Minority Interest.
Book value per share	=	Stockholders' Equity over outstanding no. of common shares as of year-end

Current assets amounted to ₱74.38 billion while current liabilities reached ₱72.72 billion, for a current ratio of 1.02:1. The drop in current ratio is due to the classification of certain bond payables maturing in 2008 as current obligations. One of these bonds, the US\$125M URC Notes already matured and paid for in February 2008, the other, the US\$300M JG Notes, will mature on June 2008. 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 ₱82.12 billion in 2007, lower than last year's ₱86.5 billion. Additional borrowing was offset by the lower translated level of our dollar-denominated debt due to peso appreciation. This brought our gearing ratio down to a more comfortable level of 0.83:1, well within the financial covenant of 1.5:1. Net debt stood at ₱50.91 billion, bringing our net debt to equity ratio to 0.51:1 from 0.49:1 at the beginning of the year.

As of December 31, 2007, the Company is not aware of any events and uncertainties that would have a material impact on the Company's revenues and net income and future operations.

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

PROSPECTS FOR NEXT YEAR

The year 2008 poses to be a greater challenge for the Company and the Group as a whole, with a looming US recession having its effect on Philippine economy, rising commodity prices and steep oil prices. However, the Company is taking on these challenges with a positive outlook and possibly come up with an even more substantial revenue and earnings growth by pursuing the following principal strategies: a) strengthen the Group's strategic positions in the foods, agro-industrial and commodity food products, air transportation, property development and hotel management, and telecommunications businesses by capitalizing on the Group's culture, financial resources, successful track record in introducing innovative products services that create value for our customers, and the strong brands maintained through effective advertising and marketing initiatives; b) maintain a diversified portfolio of businesses with large and growing markets where the Group has sustainable competitive advantage, while looking for opportunities for new businesses, and: c) retain a focus on the Philippines

as its core market while looking for opportunities to develop the Group's foods, agro-industrial and commodity food products, air transportation, property development and hotel management businesses in the ASEAN region and PRC.

DISCLOSURE OF EFFECTS OF PESO DEPRECIATION AND OTHER CURRENT EVENTS

Refer to Management Discussion and Analysis on pages 35-58 of this report and Note 4 of the Consolidated Financial Statements.

Item 8. Financial Statements

The Consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (pages 76-203) are filed as part this Form 17-A.

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.,

	2007	2006	2005
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	₱1,309,125	₱1,168,861	₱1,043,625
Professional Fees for due diligence review for bond offering	4,250,000	-	4,250,000
Tax Fees	None	None	None
All Other Fees	None	None	None
Total	₱5,559,125	₱1,168,861	₱5,293,625

No other service was provided by external auditors to the Company for the calendar years 2007, 2006 and 2005.

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

Director, Chairman Emeritus	John Gokongwei, Jr.	81	Filipino
Director, Chairman and Chief Executive Officer	James L. Go	68	Filipino
Director, President and Chief Operating Officer	Lance Y. Gokongwei	41	Filipino
Director, Senior Vice President	Ignacio Gotao	79	Filipino
Director	Johnson Robert G. Go Jr.	42	Filipino
Director	Lily G. Ngochua	76	Filipino
Director	Patrick Henry C. Go	37	Filipino
Director	Gabriel C. Singson	78	Filipino
Director	Ricardo J. Romulo	74	Filipino
Director (Independent)	Cornelio T. Peralta	74	Filipino
Director (Independent)	Jose T. Pardo	68	Filipino

2. MEMBERS OF ADVISORY BOARD

Member of Advisory Board	Aloysius B. Colayco	57	Filipino
Member of Advisory Board	Washington Z. SyCip	86	Filipino

3. EXECUTIVE OFFICERS

Senior Vice President/Chief Financial Officer- Treasurer	Eugenie ML. Villena	59	Filipino
Senior Vice President - Corporate Controller	Constante T. Santos	59	Filipino
Senior Vice President - Corporate Planning	Bach Johann M. Sebastian	46	Filipino
Corporate Secretary	Rosalinda F. Rivera	37	Filipino

All of the above directors and officers have served their respective offices since the Company's formation in 1990 except for the following: Mr. John Gokongwei, Jr., Mr. James L. Go and Mr. Lance Y. Gokongwei who were appointed Chairman Emeritus, Chairman and Chief Executive Officer, and President and Chief Operating Officer, respectively, effective January 1, 2002; Mr. Patrick Henry C. Go who was appointed in January 2000; Mr. Gabriel C. Singson who was elected in August 1999; Messrs. Ricardo J. Romulo and Cornelio T. Peralta who were elected in July 2000; and Jose T. Pardo who was elected in August 2003; and Mr. Johnson Robert G. Go Jr. who was elected in August 18, 2005. Mr. Aloysius B. Colayco and Washington Z. Sycip were appointed members of the Advisory Board in August 2001. Mr. Bach Johann M. Sebastian was appointed Senior Vice President for Corporate Planning on June 28, 2007. Atty. Rosalinda F. Rivera was appointed Corporate Secretary in August 6, 2003.

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.

Directors

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 Gokongwei, Jr., 81, 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, Ltd. (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 and Bauang Private Power Corporation. He is also a non-executive director of A. Soriano Corporation and Philex Mining 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, 68, 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 GBFI and the Vice Chairman, President and Chief Executive Officer of DIGITEL effective May 28, 2007. He is also a director of First Private Power Corporation, Bauang Private Power Corporation, Cebu Air, Inc., Panay Electric Co., UIC, Singland, Marina Center Holdings, Inc., JGSCMC and Hotel Marina City Private Limited. He received a Bachelor of Science and a Master of Science in Chemical Engineering from Massachusetts Institute of Technology. He is the brother of Mr. John Gokongwei, Jr.

3. Lance Gokongwei, 41, 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 GBFI. He received a Bachelor of Science in Economics and a Bachelor of Science in Applied Science from the University of Pennsylvania. He is the son of Mr. John Gokongwei, Jr.

4. Ignacio Gotao, 79, is a director and Senior Vice President of JGSHI. He is also a director of RLC and CFC Corporation. He has been a director of JGSHI since its incorporation in 1990 and was elected Senior Vice President in 1991. He served as Treasurer of CFC Corporation in the 1960s. Mr. Gotao attended a collegiate course at the Colegio de San Jose in Cebu City.

5. Johnson Robert G. Go, Jr., 42, was elected director of JGSHI on August 18, 2005. He is currently a director of URC, RLC, RSB and CFC Corporation. He is also the President of Robinsons Convenience Stores, Inc. and General Manager of Robinsons Cinemas. He is a trustee of the GBFI. He received a Bachelor of Arts in Interdisciplinary Studies (Liberal Arts) from the Ateneo de Manila University. He is the nephew of Mr. John Gokongwei, Jr.

6. Lily G. Ngochua, 76, 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.

7. Patrick Henry C. Go, 37, is a director of JGSHI. He is currently a director and Vice President of URC and the Business Unit General Manager of URC Packaging Division. In addition, he is a director of RLC, CFC, JG Cement Corporation, RSB and the First Vice President for Sales and Marketing of JGSPC. He is also a trustee of 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 the nephew of Mr. John Gokongwei, Jr.

8. Gabriel C. Singson, 78, has been a director and Senior Adviser of JGSHI since 1999. He is the Chairman of the Board of Directors and President of JG Summit Capital Markets Corporation, director of United Industrial Corporation, Ltd. of Singapore, Multinational Finance Group Ltd., Summit Forex Brokers Corporation, Summit Point Corporation, and a trustee of the Gokongwei Brothers Foundation, Inc. and of the Tan Yan Kee Foundation. He is also Chairman of Great Pacific Life Insurance. He was former Governor of the Bangko Sentral ng Pilipinas (1993-1999) and President of the Philippine National Bank (1992-1993). He obtained his LL.B 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, 75, was elected director of JGSHI on July 26, 2000. He is a Senior Partner in Romulo, Mabanta, Buenaventura, Sayoc & De Los Angeles Law Office. Mr. Romulo is also Chairman of Cebu Air, Inc., Federal Phoenix Assurance Company, Inc., Digital Telecommunications Phils., Inc. and InterPhil Laboratories, Inc. He is a director of SM Development Corporation, Philippine American Life and General Insurance Company, Planters Development Bank and Zuellig Pharma Corporation. He received his Bachelor of Laws degree from Georgetown University and Doctor of Laws from Harvard Law School.

10. Cornelio T. Peralta, 74, was elected 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, and of CEOs Inc. and Grow Holdings Phils. Inc., where he is one of the incorporators. He is also appointed Chairman of the Management Committee of Pacific East Asia Cargo Airlines, Inc. and Zipp Cargo Corporation. 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). 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, 68, was elected director of JGSHI on August 6, 2003. He is presently the Chairman of Philippine Savings Bank, Associated Broadcast Corporation (ABC 5), Asian Holdings Corporation, and Electronic Commerce Payment Networks, Inc. (ECPay). He is also a director of Bank of Commerce, San Miguel Pure Foods Co., Inc., Mabuhay Philippine Satellite Corporation and Bank of Commerce Investment Corporation. In addition, he is a director of Radio Veritas Global Broadcasting System, Inc. 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, 57, was appointed to the advisory board of JG Summit Holdings Inc. 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, director of Aboitiz Transport System (ATS) and Genesis Emerging Markets Fund, a London listed investment fund. Previously, Mr. Colayco was the 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, 86, was appointed to the advisory board of JG Summit Holdings, Inc. in August 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, Councilors of the Conference Board and Chairman of the Asia Pacific Advisory Committee of the New York Stock Exchange (1997-2004). Among his awards are the Management Man of the Year given by the Management Association of the Philippines, Ramon Magsaysay Award for International Understanding and the Office's Cross of the Order of Merit given by the Federal Republic of Germany.

Executive Officers

1. Eugenie ML Villena, is Senior Vice President and Chief Financial Officer-Treasurer of JGSHI. where she is responsible for finance and treasury operations. 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 from the University of the Philippines.

2. Constante T. Santos, 59, is Senior Vice President - Corporate Controller of JGSHI. He is also Senior Vice President and 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 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, 46, was appointed Senior Vice President for Corporate Planning of JGSHI on June 28, 2007. He is also Senior Vice President for Corporate Planning of URC and RLC. Prior to joining the Company 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 in Economics from the University of the Philippines and his Master in Business Management degree from the Asian Institute of Management.

4. Rosalinda F. Rivera, 37, was appointed 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. She was admitted to the Philippine Bar in 1995.

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 Gokongwei, Jr.
2. Ms. Lily G. Ngochua is the sister of John Gokongwei, Jr.
3. Mr. Lance Y. Gokongwei is the son of John Gokongwei, Jr.
4. Mr. Patrick Henry C. Go is the nephew of John Gokongwei, Jr.
5. Mr. Johnson Robert G. Go, Jr. is the nephew of John 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 (2008) are as follows:

ACTUAL					
	Salary	Bonus	Others	2007 Total	2006
A. CEO and Five (5) most highly compensated Executive officer	₱47,921,191	₱500,000	₱110,000	₱48,531,191	₱47,004,917
All directors and executive officers as a group unnamed	₱117,350,693	₱1,700,000	₱310,000	₱119,360,693	₱96,433,409

PROJECTED 2008				
	Salary	Bonus	Others	Total
A. CEO and Five (5) most highly compensated Executive officer	₱52,389,771	₱500,000	₱110,000	₱52,999,771
All directors and executive officers as a group unnamed	₱129,407,246	₱1,700,000	₱310,000	₱131,417,246

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. Executive Officer – Ignacio Gotao.

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, 2007, 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	Robinsons Savings Bank – Trust & Investment Group No. 030-46-000001-9 17/F Galleria Corporate Center Edsa Cor. Ortigas Ortigas Ave., Quezon City (stockholder)	Trustee's designated officers (see note 2)	Filipino	1,033,319,225	15.20%
Common	John Gokongwei, Jr. 43/F Robinsons-	Same as record	Filipino	1,007,539,915 (see note 4)	14.83%

	Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder and Chairman Emeritus)	owner			
Common	PCD Nominee Corporation (Filipino) GF MKSE Building 6767 Ayala Ave, Makati City (stockholder)	PCD Participant s and their clients (see note 3)	Filipino	827,390,289	12.17%

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 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.

3 PCD Nominee Corporation, a wholly-owned subsidiary of Philippine Central Depository, Inc. ("PCD"), is the registered owner of the shares in the books of the Corporation's transfer agent in the Philippines. The beneficial owners of such shares are PCD Participants, who hold the shares on their behalf, and their clients. PCD is a private Corporation organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines. Out of this account, the Hongkong Shanghai Banking Corporation Limited holds for various trust accounts 641,535,672 shares representing 9.44% of the Company's outstanding capital stock as of December 28, 2007. 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, 2007:

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 Gokongwei, Jr.	Chairman Emeritus	1,007,539,915 ² (D)	Filipino	14.83%
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. Ignacio Gotao	Director, SVP	29,882,114(D)	Filipino	0.44%
	<i>Sub-Total</i>		<u>1,489,615,540</u>		<u>21.92%</u>

B. Other Directors and Executive Officers and Nominees

Common	5. Lily Ngochua	Director	74,591,775(D)	Filipino	1.10%
Common	6. Patrick Henry C. Go	Director	93,500(D)	Filipino	*
Common	7. Johnson Robert G. Go, Jr.	Director	1(D)	Filipino	*
Common	8. Gabriel C. Singson	Director	1(D)	Filipino	*
Common	9. Ricardo J. Romulo	Director	1(D)	Filipino	*
Common	10. Jose T. Pardo	Director (Independent)	1(D)	Filipino	*
Common	11. Cornelio T. Peralta	Director (Independent)	11,000(D)	Filipino	*
	<i>Sub-Total</i>		<u>74,696,279</u>		<u>1.10%</u>
C. All directors, executive officers & nominees as a group unnamed			<u>1,564,311,819</u>		<u>23.01%</u>

Notes:

D - Direct

1 Chief Executive Officer and four (4) most highly compensated executive officers as of December 31, 2007.

2 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.

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.

* 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, 2007, 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. Rosalinda F. Rivera - Corporate Secretary

(3) VOTING TRUST HOLDERS OF 5% OR MORE

As of December 31, 2007, 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 35 (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**

Adherence to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual, has been reinforced by continuous improvement by the Company in order to implement 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 International Accounting 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)

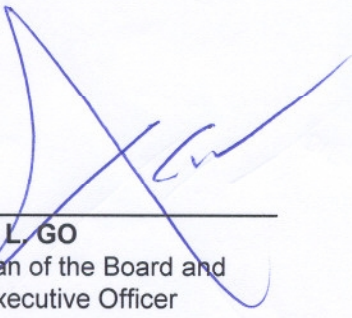
Following is a list of disclosures filed by JGSHI under SEC Form 17-C for the six month period from July 3, 2007 to December 31, 2007:

<u>Date of Disclosure</u>	<u>Subject Matter</u>
July 3, 2007	Clarification on the news article entitled "JG Summit allots P25B for projects this year"
July 18, 2007	Clarification on the news article entitled "JG Summit to build power plant in Negros"
October 15, 2007	Clarification on the news article entitled "JG Summit goes into milk production"
October 16, 2007	Consolidation of ownership of JGSHI over all of the outstanding shares of stock of JG Summit Petrochemical Corporation
December 21, 2007	Press release entitled "Robinsons Bank, Open on Sunday"
December 26, 2007	Press release entitled "38 th Robinsons Bank Branch opens at Angeles City"

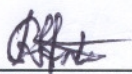
SIGNATURES

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 14, 2008.

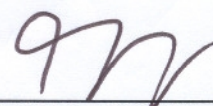
By:



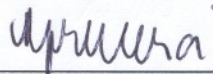
JAMES L. GO
Chairman of the Board and
Chief Executive Officer
(acts as Principal Financial Officer)



CONSTANTE T. SANTOS
Senior Vice President and
Corporate Controller



LANCE Y. GOKONGWEI
President and
Chief Operating Officer



ROSALINDA F. RIVERA
Corporate Secretary



SUBSCRIBED AND SWORN to before me this 14 day of April 2008 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	CTC NO.	DATE OF ISSUE	PLACE OF ISSUE
James L. Go	10201478	January 17, 2008	Pasig City
Lance Gokongwei	10201477	January 17, 2008	Pasig City
Constante T. Santos	23710408	January 31, 2008	Pasig City
Rosalinda F. Rivera	16422180	January 29, 2008	Quezon City

Notary Public

Doc. No. _____
Book No. _____
Page No. _____
Series of _____

JOEL G GORDOLA
NOTARY PUBLIC
COMMISSION EXPIRES DEC 31, 2009
ATTY ROLL NO. 25703
IBP NO. 845154
PTR NO. 9763519; 1/2/08; S.C.

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

FORM 17-A, Item 7

	<u>Page No.</u>
 Consolidated Financial Statements	
Statement of Management's Responsibility	73
Report of Independent Public Accountants	74-75
Consolidated Balance Sheets as of December 31, 2007 and 2006	76-77
Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005	78
Consolidated Statements of Changes in Stockholders' Equity	79-81
Consolidated Statements of Cash Flows	82-84
Notes to Consolidated Financial Statements	85-197
 Supplementary Schedules	
Report of Independent Public Accountants on Supplementary Schedules	198
A. Marketable Securities - (Current Marketable Equity Securities and Other Short Term Cash Investments)	*
B. Amounts Receivable from Directors, Officers Employees, Related Parties and Principal Stockholders (Other than Affiliates)	*
C. Non-Current Marketable Equity Securities, Other Long-Term Investments, and Other Investments	199
D. Indebtedness to Unconsolidated Subsidiaries and Affiliates	*
E. Property, Plant and Equipment	200
F. Accumulated Depreciation	201
G. Intangible Assets - Other Assets	*
H. Long-Term Debt	202
I. Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)	*
J. Guarantees of Securities of Other Issuers	*
K. Capital Stock	203

* These schedules which are required by part IV (e) of RSC Rule 68, have been omitted because they are either not required, not applicable or 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

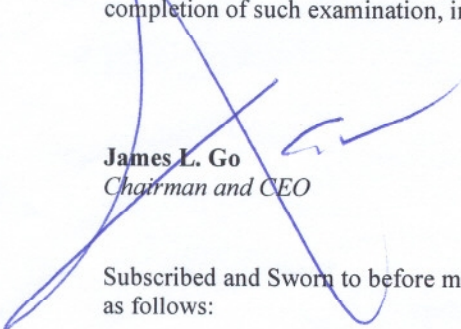
Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

The management of JG Summit Holdings, Inc. and Subsidiaries is responsible for all information and representations contained in the consolidated financial statements as of December 31, 2007 and 2006. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, the management maintains a system of accounting and reporting which provides for the necessary internal control 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: (i) all significant deficiencies in the design or operation of internal controls that could adversely affects its ability to record, process, and record 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 reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

Sycip, Gorres, Velayo and Co., the independent auditors appointed by the stockholders, have examined the consolidated financial statements of the Company and its subsidiaries in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.


James L. Go
Chairman and CEO


Lance Y. Gokongwei
President and COO


Constante T. Santos
SVP – Corporate Controller

APR 14 2008

Subscribed and Sworn to before me this April 14, 2008 affiant(s) exhibiting to me his/her Residence Certificates, as follows:

NAMES	CTC NO.	DATE OF ISSUE	PLACE OF ISSUE
James L. Go	10201478	January 17, 2008	Pasig City
Lance Y. Gokongwei	10201477	January 17, 2008	Pasig City
Constante T. Santos	23710408	January 31, 2008	Pasig City

Doc. No. 460
Book No. 98
Page No. 15
Series of MS

JOEL G. GORDOLA
NOTARY PUBLIC
COMMISSION EXPIRES ON **DEC 31, 2010**
ROLL No. 25103, IBP No. 845154
PTR No. 9763519, 1/2/08 Q.C.T.

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 Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2007, and the summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 Subsidiaries as of December 31, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Renato J. Galve

Partner

CPA Certificate No. 37759

SEC Accreditation No. 0081-AR-1

Tax Identification No. 102-087-055

PTR No. 0017596, January 3, 2008, Makati City

April 14, 2008



JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 5 and 7)	₱13,317,839,151	₱24,834,015,322
Financial assets at fair value through profit or loss (Notes 4, 5 and 8)	19,240,698,816	22,012,174,167
Available-for-sale investments (Notes 3, 4, 5 and 9)	4,734,603,262	4,680,336,858
Receivables - net (Notes 3, 4, 5, 10, 30 and 35)	17,514,737,545	14,527,366,686
Inventories (Notes 3, 11, 22 and 30)	10,301,591,163	8,951,292,767
Derivative assets (Notes 3, 4 and 5)	3,303,006,306	1,520,700,009
Other current assets (Notes 4, 5 and 12)	5,018,261,685	3,223,800,188
	73,430,737,928	79,749,685,997
Assets of disposal group classified as held for sale (Note 38)	791,630,235	2,403,944,628
Total Current Assets	74,222,368,163	82,153,630,625
Noncurrent Assets		
Held-to-maturity investments (Notes 3, 4, 5 and 13)	261,139,262	448,513,078
Investments in associates and joint ventures - net (Notes 3, 14 and 30)	18,875,832,016	18,926,005,251
Investment properties - net (Notes 3 and 15)	24,045,776,100	18,688,260,827
Property, plant and equipment - net (Notes 3, 16, 22 and 30)	105,608,376,528	94,585,456,905
Goodwill - net (Notes 3 and 30)	844,548,190	844,548,190
Biological assets (Notes 3 and 17)	1,050,568,773	817,003,453
Intangibles - net (Notes 3, 18 and 30)	308,379,123	305,402,692
Other noncurrent assets (Notes 4, 5, 19 and 32)	4,716,957,320	3,598,114,577
Total Noncurrent Assets	155,711,577,312	138,213,304,973
	₱229,933,945,475	₱220,366,935,598
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 4, 5, 20, 35 and 37)	₱27,506,044,692	₱32,287,920,192
Short-term debt (Notes 4, 5, 22 and 25)	17,256,285,954	14,643,707,884
Current portion of long-term debt (Notes 4, 5, 16, 22 and 25)	21,443,502,972	5,835,972,474
Income tax payable (Note 33)	308,458,844	246,250,995
Derivative liabilities (Notes 3, 4 and 5)	978,161,144	276,564,489
Other current liabilities (Notes 4 and 21)	5,205,621,225	3,172,527,790
	72,698,074,831	56,462,943,824
Liabilities directly associated with assets classified as held for sale (Note 38)	23,432,307	569,348,444
Total Current Liabilities	72,721,507,138	57,032,292,268

(Forward)



	December 31	
	2007	2006
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 4, 5, 16, 22 and 25)	₱41,309,216,318	₱63,908,887,157
Cumulative redeemable preferred shares (Notes 5, 23 and 25)	2,107,818,750	2,107,818,750
Deferred income tax liabilities - net (Notes 3 and 33)	6,619,972,799	4,216,201,022
Other noncurrent liabilities (Notes 3, 24 and 32)	7,792,682,413	2,610,517,992
Total Noncurrent Liabilities	57,829,690,280	72,843,424,921
Total Liabilities	130,551,197,418	129,875,717,189
Equity		
Equity attributable to equity holders of the parent:		
Paid-up capital (Note 25)	12,856,988,094	12,856,988,094
Retained earnings (Note 25)	65,546,119,210	57,136,032,821
Other reserves	(906,816,824)	280,383,302
Treasury shares (Note 25)	(721,848,289)	(721,848,289)
	76,774,442,191	69,551,555,928
Minority interest	22,608,305,866	20,939,662,481
Total Equity	99,382,748,057	90,491,218,409
	₱229,933,945,475	₱220,366,935,598

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2007	2006	2005
CONTINUING OPERATIONS			
Revenue			
Sale of goods and services:			
Food	₱37,720,260,615	₱35,183,814,854	₱31,199,275,746
Air transportation	15,015,781,716	9,716,893,805	7,810,796,488
Telecommunications	8,313,292,759	7,633,563,382	8,295,824,443
Real estate and hotels (Note 15)	8,278,182,991	6,635,596,145	5,112,267,374
Petrochemicals	5,151,157,476	5,303,742,986	5,046,903,912
Interest income	4,406,316,864	4,914,220,132	4,366,460,924
Equity in net income of associates and joint ventures (Note 14)	1,624,158,170	1,080,041,888	1,048,510,788
Gain on sale of investments (Note 26)	—	6,284,208,812	—
Gain on dilution of equity interest (Note 26)	—	2,765,911,144	—
Other revenue (Note 27)	12,014,464,574	6,544,473,633	4,990,806,161
	92,523,615,165	86,062,466,781	67,870,845,836
Expenses			
Cost of sales and services (Notes 15, 16 and 28)	47,609,692,659	42,762,711,784	37,445,853,321
General and administrative expenses (Notes 15, 16, 29 and 32)	22,677,069,950	18,235,361,878	17,081,600,440
Financing costs and other charges (Note 31)	7,009,853,815	7,507,179,745	7,177,989,220
Impairment losses and others (Note 30)	349,936,901	5,928,135,524	687,021,726
	77,646,553,325	74,433,388,931	62,392,464,707
Income Before Income Tax	14,877,061,840	11,629,077,850	5,478,381,129
Provision for Income Tax (Note 33)	3,312,037,822	2,812,494,523	1,846,697,923
INCOME AFTER INCOME TAX FROM CONTINUING OPERATIONS	11,565,024,018	8,816,583,327	3,631,683,206
INCOME (LOSS) AFTER INCOME TAX FROM DISCONTINUED OPERATIONS (Note 38)	(195,184,252)	(119,747,298)	37,122,336
NET INCOME	₱11,369,839,766	₱8,696,836,029	₱3,668,805,542
ATTRIBUTABLE TO			
Equity holders of the parent	₱8,614,002,139	₱6,458,739,129	₱4,177,464,077
Minority interest	2,755,837,627	2,238,096,900	(508,658,535)
	₱11,369,839,766	₱8,696,836,029	₱3,668,805,542
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic/diluted earnings per share (Note 34)	₱1.27	₱0.95	₱0.61
Basic/diluted earnings per share from continuing operations (Notes 34 and 38)	₱1.30	₱0.97	₱0.61

See accompanying Notes to Consolidated Financial Statements.



JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	For the Year Ended December 31, 2007												
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT												
	Paid-up Capital (Note 25)			Retained Earnings (Note 25)			Other Reserves						
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Cumulative Translation Adjustments	Net Unrealized Gain on Available-for-Sale Investments	Total Other Reserves	Treasury Shares (Note 25)	Total	ATTRIBUT- ABLE TO MINORITY INTEREST	TOTAL EQUITY
Balances as of December 31, 2006	₱6,895,273,657	₱5,961,714,437	₱12,856,988,094	₱49,136,032,821	₱8,000,000,000	₱57,136,032,821	₱19,673,584	₱260,709,718	₱280,383,302	(₱721,848,289)	₱69,551,555,928	₱20,939,662,481	₱90,491,218,409
Adjustments to foreign currency translation	—	—	—	—	—	—	(1,637,027,566)	—	(1,637,027,566)	—	(1,637,027,566)	—	(1,637,027,566)
Changes in fair value of available-for-sale investments	—	—	—	—	—	—	—	449,827,440	449,827,440	—	449,827,440	—	449,827,440
Income (loss) recognized directly in equity	—	—	—	—	—	—	(1,637,027,566)	449,827,440	(1,187,200,126)	—	(1,187,200,126)	—	(1,187,200,126)
Net income for the year	—	—	—	8,614,002,139	—	8,614,002,139	—	—	—	—	8,614,002,139	2,755,837,627	11,369,839,766
Total income (loss) for the year	—	—	—	8,614,002,139	—	8,614,002,139	(1,637,027,566)	449,827,440	(1,187,200,126)	—	7,426,802,013	2,755,837,627	10,182,639,640
Cash dividends (Note 25)	—	—	—	(203,915,750)	—	(203,915,750)	—	—	—	—	(203,915,750)	—	(203,915,750)
Decrease in minority interest (Note 26)	—	—	—	—	—	—	—	—	—	—	—	(1,087,194,242)	(1,087,194,242)
Balances as of December 31, 2007	₱6,895,273,657	₱5,961,714,437	₱12,856,988,094	₱57,546,119,210	₱8,000,000,000	₱65,546,119,210	(₱1,617,353,982)	₱710,537,158	(₱906,816,824)	(₱721,848,289)	₱76,774,442,191	₱22,608,305,866	₱99,382,748,057



For the Year Ended December 31, 2006													
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT													
Paid-up Capital (Note 25)				Retained Earnings (Note 25)			Other Reserves						
							Net Unrealized Gain on Available-for-Sale Investments				Total	ATTRIBUT-ABLE TO MINORITY INTEREST	TOTAL EQUITY
Capital Stock	Additional Paid-in Capital	Total Paid-up Capital		Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Cumulative Translation Adjustments		Total Other Reserves	Treasury Shares (Note 25)			
Balances as of December 31, 2005	₱6,895,273,657	₱5,961,714,437	₱12,856,988,094	₱42,881,209,448	₱8,000,000,000	₱50,881,209,448	₱781,355,122	₱51,626,906	₱832,982,028	(₱721,848,289)	₱63,849,331,281	₱7,787,208,225	₱71,636,539,506
Adjustments to foreign currency translation	—	—	—	—	—	—	(761,681,538)	—	(761,681,538)	—	(761,681,538)	—	(761,681,538)
Changes in fair value of available-for-sale investments	—	—	—	—	—	—	—	209,082,812	209,082,812	—	209,082,812	—	209,082,812
Income (loss) recognized directly in equity	—	—	—	—	—	—	(761,681,538)	209,082,812	(552,598,726)	—	(552,598,726)	—	(552,598,726)
Net income for the year	—	—	—	6,458,739,129	—	6,458,739,129	—	—	—	—	6,458,739,129	2,238,096,900	8,696,836,029
Total income (loss) for the year	—	—	—	6,458,739,129	—	6,458,739,129	(761,681,538)	209,082,812	(552,598,726)	—	5,906,140,403	2,238,096,900	8,144,237,303
Cash dividends (Note 25)	—	—	—	(203,915,756)	—	(203,915,756)	—	—	—	—	(203,915,756)	—	(203,915,756)
Increase in minority interest (Note 26)	—	—	—	—	—	—	—	—	—	—	—	10,914,357,356	10,914,357,356
Balances as of December 31, 2006	₱6,895,273,657	₱5,961,714,437	₱12,856,988,094	₱49,136,032,821	₱8,000,000,000	₱57,136,032,821	₱19,673,584	₱260,709,718	₱280,383,302	(₱721,848,289)	₱69,551,555,928	₱20,939,662,481	₱90,491,218,409



For the Year Ended December 31, 2005													
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT													
Paid-up Capital (Note 25)				Retained Earnings (Note 25)				Other Reserves					
Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Cumulative Translation Adjustments	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Total Other Reserves	Treasury Shares (Note 25)	Total	ATTRIBUT- ABLE TO MINORITY INTEREST	TOTAL EQUITY	
Balances as of January 1, 2005	₱6,895,273,657	₱5,961,714,437	₱12,856,988,094	₱38,907,661,121	₱8,000,000,000	₱46,907,661,121	₱1,298,097,116	(₱10,773,462)	₱1,287,323,654	(₱721,848,289)	₱60,330,124,580	₱8,295,866,760	₱68,625,991,340
Adjustments to foreign currency translation	—	—	—	—	—	—	(516,741,994)	—	(516,741,994)	—	(516,741,994)	—	(516,741,994)
Changes in fair value of available-for-sale investments	—	—	—	—	—	—	—	62,400,368	62,400,368	—	62,400,368	—	62,400,368
Income (loss) recognized directly in equity	—	—	—	—	—	—	(516,741,994)	62,400,368	(454,341,626)	—	(454,341,626)	—	(454,341,626)
Net income for the year	—	—	—	4,177,464,077	—	4,177,464,077	—	—	—	—	4,177,464,077	(508,658,535)	3,668,805,542
Total income (loss) for the year	—	—	—	4,177,464,077	—	4,177,464,077	(516,741,994)	62,400,368	(454,341,626)	—	3,723,122,451	(508,658,535)	3,214,463,916
Cash dividends (Note 25)	—	—	—	(203,915,750)	—	(203,915,750)	—	—	—	—	(203,915,750)	—	(203,915,750)
Balances as of December 31, 2005	₱6,895,273,657	₱5,961,714,437	₱12,856,988,094	₱42,881,209,448	₱8,000,000,000	₱50,881,209,448	₱781,355,122	₱51,626,906	₱832,982,028	(₱721,848,289)	₱63,849,331,281	₱7,787,208,225	₱71,636,539,506

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	₱14,877,061,840	₱11,629,077,850	₱5,478,381,129
Income (loss) before income tax from discontinued operations (Note 38)	(229,247,873)	(146,639,652)	18,397,395
Adjustments for:			
Depreciation and amortization of property, plant and equipment (Note 16)	9,272,836,651	6,745,831,923	5,995,920,662
Foreign exchange gain - net (Note 27)	(7,213,001,815)	(3,381,895,231)	(2,423,376,916)
Interest expense (Note 31)	6,690,277,208	7,205,499,012	6,869,803,640
Interest income	(4,406,316,864)	(4,914,220,132)	(4,366,460,924)
Market valuation gain on derivative instruments (Notes 4 and 27)	(1,712,759,453)	(1,134,762,076)	(258,335,686)
Equity in net income of associates and joint ventures (Note 14)	(1,624,158,170)	(1,080,041,888)	(1,048,510,788)
Depreciation and amortization of investment properties (Note 15)	1,216,501,237	1,096,100,165	1,109,773,050
Amortization of deferred subscriber acquisition and retention costs (Note 19)	639,376,777	431,447,743	551,274,464
Gain on sale of financial assets at fair value through profit or loss (Note 27)	(321,227,238)	(35,686,213)	(309,691,509)
Provision for impairment loss on trade and other receivables (Notes 10 and 30)	287,395,954	1,671,921,590	474,038,617
Gain arising from changes in fair value less estimated point-of-sale costs of swine stocks (Note 17)	(276,815,236)	(244,709,188)	(340,923,379)
Market valuation gain on financial assets at fair value through profit or loss (Notes 8 and 27)	(247,396,519)	(1,226,373,047)	(1,279,254,492)
Amortization of debt issuance costs	83,556,702	83,696,293	111,797,433
Inventory obsolescence and market decline (Note 30)	62,540,947	106,987,095	64,028,603
Disposal of investment properties (Note 15)	58,561,423	42,994,137	25,544,512
Amortization of intangibles (Note 18)	10,836,750	46,102,054	36,656,749
Gain on sale of property, plant and equipment	(5,129,493)	(44,617,952)	(66,441,653)
Gain on sale of investment (Note 26)	—	(6,284,208,812)	—
Provision for impairment loss on property, plant and equipment (Notes 16 and 30)	—	3,516,538,157	—
Gain on dilution of equity interest (Note 26)	—	(2,765,911,144)	—
Provisions for impairment losses on:			
Intangibles (Note 30)	—	278,394,939	—
Goodwill (Note 30)	—	240,688,815	—

(Forward)



	Years Ended December 31		
	2007	2006	2005
Provisions for impairment losses on:			
Other noncurrent assets (Note 30)	₱—	₱113,604,928	₱—
Investment in a joint venture (Notes 14 and 30)	—	—	148,954,506
Income from early debt extinguishment (Note 27)	—	—	(177,195,885)
Operating income before changes in operating accounts	17,162,892,828	11,949,819,366	10,614,379,528
Decrease (increase) in:			
Receivables	(2,902,356,036)	2,207,349,472	(1,062,115,018)
Inventories	906,643,838	1,472,108,564	(1,668,733,683)
Other current assets	(2,542,818,231)	363,095,140	(431,843,997)
Increase (decrease) in:			
Accounts payable and accrued expenses	(4,671,201,016)	5,886,974,256	2,875,187,860
Other current liabilities	2,764,506,330	(3,622,609,899)	338,902,287
Net cash generated from operations	10,717,667,713	18,256,736,899	10,665,776,977
Interest paid	(6,929,455,875)	(7,135,712,345)	(5,782,838,124)
Interest received	4,508,857,938	5,529,963,850	4,310,021,248
Income taxes paid	(810,152,151)	(788,804,941)	(548,793,409)
Net cash provided by operating activities	7,486,917,625	15,862,183,463	8,644,166,692
CASH FLOWS FROM INVESTING ACTIVITIES			
Net acquisitions of:			
Property, plant and equipment (Note 16)	(22,975,844,533)	(24,905,949,009)	(22,226,408,766)
Investment properties (Note 15)	(4,644,493,954)	(2,721,182,557)	(1,267,550,890)
Decrease (increase) in:			
Financial assets at fair value through profit or loss	3,340,099,108	8,372,516,702	(6,814,320,133)
Other noncurrent assets	(1,806,224,748)	1,649,054,824	778,094,996
Investments in associates and joint ventures	283,215,529	(1,483,891,014)	(2,398,230,357)
Held-to-maturity investments	187,373,816	(29,269,711)	(419,243,367)
Available-for-sale investments	(50,350,895)	(793,007,512)	(2,046,196,701)
Biological assets	43,249,916	180,609,264	(210,165,177)
Proceeds from sale of property, plant and equipment	45,527,762	329,068,897	386,401,162
Net proceeds from sale of investment (Note 26)	—	18,643,682,983	—
Net cash used in investing activities	(25,577,447,999)	(758,367,133)	(34,217,619,233)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Long-term debt (Note 22)	8,823,054,455	19,705,950,853	18,433,684,299
Short-term debt (Note 22)	13,255,651,303	9,517,898,515	10,864,151,030
Repayments of:			
Long-term debt (Note 22)	(8,685,749,683)	(10,903,680,244)	(5,038,659,682)
Short-term debt (Note 22)	(10,643,073,233)	(13,964,533,524)	(3,390,555,795)

(Forward)



	Years Ended December 31		
	2007	2006	2005
Increase (decrease) in:			
Other noncurrent liabilities	₱5,115,581,353	(₱1,201,361,886)	₱2,679,011,841
Minority interests	(1,087,194,242)	1,320,794,329	(327,040,107)
Dividends paid (Note 25)	(203,915,750)	(203,915,756)	(203,915,750)
Net cash provided by financing activities	6,574,354,203	4,271,152,287	23,016,675,836
NET INCREASE (DECREASE) IN			
CASH AND CASH EQUIVALENTS	(11,516,176,171)	19,374,968,617	(2,556,776,705)
CASH AND CASH EQUIVALENTS AT			
BEGINNING OF YEAR	24,834,015,322	5,459,046,705	8,015,823,410
CASH AND CASH EQUIVALENTS AT			
END OF YEAR	₱13,317,839,151	₱24,834,015,322	₱5,459,046,705

See accompanying Notes to Consolidated Financial Statements.



JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

JG Summit Holdings, Inc. (the Parent Company) is incorporated in the Republic of the Philippines. 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), with 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 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 have been measured at fair value, and biological assets and agricultural produce that have been measured at fair value less estimated point-of-sale costs.

The consolidated financial statements of the Group are presented in Philippine Peso. The functional and presentation currency of the Parent Company and its Philippine subsidiaries (except certain consolidated foreign subsidiaries) is the Philippine Peso (see further discussion under Foreign Currency Translation/Transactions section).

Statement of Compliance

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



Basis of Consolidation

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

Subsidiaries	Country of Incorporation	Effective Percentage of Ownership		
		2007	2006	2005
Food				
Universal Robina Corporation (URC) and Subsidiaries	Philippines*	59.18	59.18	86.12
Air Transportation				
Cebu Air, Inc. (CAI)	-do-	100.00	100.00	100.00
CP Air Holdings, Inc. (CPAHI)	-do-	100.00	100.00	100.00
Telecommunications				
Digital Telecommunications Phils., Inc. (Digitel) and Subsidiaries**	-do-	49.80	49.80	49.90
Real Estate and Hotels				
Robinsons Land Corporation and Subsidiaries (RLC)	-do-	60.01	60.01	90.11
Adia Development and Management Corporation	-do-	100.00	100.00	100.00
Petrochemicals				
JG Summit Petrochemical Corporation (JGSPC)	-do-	100.00	82.28	82.28
International Capital and Financial Services				
Express Holdings, Inc. (EHI) and a Subsidiary	-do-	100.00	100.00	100.00
JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries	-do-	100.00	100.00	100.00
JG Summit (Cayman), Ltd. (JGSCL)	Cayman Island	100.00	100.00	100.00
JG Summit Philippines Ltd. (JGSPL) and Subsidiaries	British Virgin Islands	100.00	100.00	100.00
JG Summit Limited (JGSL)	-do-	100.00	100.00	100.00
Textiles				
Westpoint Industrial Mills Corporation	Philippines	100.00	100.00	100.00
Litton Mills, Inc. (LMI)	-do-	100.00	100.00	100.00
Supplementary Businesses				
Cebu Pacific Manufacturing Corporation	-do-	100.00	100.00	100.00
Hello Snack Foods Corporation	-do-	100.00	100.00	100.00
JG Cement Corporation	-do-	100.00	100.00	100.00
Savannah Industrial Corporation	-do-	100.00	100.00	100.00
Terai Industrial Corporation	-do-	100.00	100.00	100.00
Unicon Insurance Brokers Corporation	-do-	100.00	100.00	100.00
Premiere Printing Company, Inc.	-do-	100.00	100.00	100.00

* Certain URC 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 49.8% owned company as of December 31, 2007 and 2006.



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 Cebu Aircraft Leasing Limited (CALL) and IBON Leasing Limited (ILL). CALL and ILL are SPEs in which the Group does not have equity interest. CALL and ILL acquired the passenger aircraft for lease to CAI under a finance lease arrangement (see Note 16) and funded the acquisitions through long-term debt (see Note 22).

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Under PFRS, it is acceptable to use, for consolidation purposes, the financial statements of subsidiaries for fiscal periods differing from that of the Parent Company if the difference is not more than three (3) months. Subsidiaries in the following businesses have a financial year-end of September 30: food, textiles, real estate and hotels, petrochemicals and substantially all subsidiaries in supplementary businesses.

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

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

Minority interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.



Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years, except for the adoption of a new accounting standard, amendments to accounting standards and certain Philippine Interpretations that are discussed below. The adoption of the new and amended standards, as well as the Philippine Interpretations, did not have any effect on the consolidated financial statements of the Group. They did, however, give rise to additional disclosures.

- PFRS 7, *Financial Instruments: Disclosures*

The Group adopted PFRS 7 which introduces new disclosures to improve the information about financial instruments. PFRS 7 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. PFRS 7 replaces Philippine Accounting Standard (PAS) 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. The adoption of this standard resulted in the inclusion of additional disclosures such as market risk sensitivity analysis (see Note 4), contractual maturity analysis of financial liabilities for liquidity risk (see Note 4) and aging analysis on financial assets that are either past due or impaired (see Note 4). The required new disclosures are reflected throughout the consolidated financial statements, where applicable.

The Group adopted the amendment to the transitional provisions of PFRS 7 as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief, with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group did not present comparative information for the disclosures required by paragraphs 31 to 42 of PFRS 7, unless the disclosure was previously required under PAS 30 and 32.

- Amendment to PAS 1, *Presentation of Financial Statements: Capital Disclosures*

This amendment requires the Group to make new disclosures to enable users of the consolidated financial statements to evaluate the Group's objectives, policies and processes for managing capital (see Note 25).

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*

This Philippine Interpretation requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. This Philippine Interpretation did not have any effect on the consolidated financial statements of the Group.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*

This Philippine Interpretation prohibits the reversal of impairment loss on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The adoption of this Philippine Interpretation did not have any effect on the consolidated financial statements of the Group.



Significant Accounting Policies

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 duty. 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 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 are 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 charged against preloaded airtime value (for prepaid subscribers), and excludes valued-added tax (VAT) and overseas communication tax.

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

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

Proceeds from sale of prepaid cards are initially recognized as unearned revenue (recorded under Other Current Liabilities account in the consolidated balance sheet). 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.



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 settlements 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 are shown under Receivables - net account in the consolidated balance sheet, while unpaid outbound charges are shown under Accounts Payable and Accrued Expenses account in the consolidated balance sheet.

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 account in the consolidated statement of income.

Rendering of air transportation services

Passenger ticket and cargo waybill sales are initially recorded as unearned revenue (included under Other Current Liabilities account in the consolidated balance sheet) until recognized as Revenue in the consolidated statement of income, when the transportation service is rendered.

The related commission is recognized as expense in the same period when the transportation service is provided. The amount of commission not yet recognized as expense is recorded as a prepayment under Other Current Assets account in the consolidated balance sheet.

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

Sale of real estate

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

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are recorded as customers' deposits which are included under Other Current Liabilities account in the consolidated balance sheet.

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



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 others 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.

Interest income

Interest is recognized as it accrues (using the effective interest rate method under which interest income is recognized at the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Other fees

Loan fees that are directly related to the acquisition and origination of loans are amortized using the effective interest rate method over the term of the receivable. Fees related to the administration and servicing of loans are recognized as revenue as the services are rendered. Service charges and penalties are recognized only upon collection or are accrued when there is reasonable degree of certainty as to its collectibility.

Cash and Cash Equivalents

Cash includes 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 (3) months or less from dates of placement, and that are subject to an insignificant risk of changes in value.

Recognition of Financial Instruments

Date of recognition

Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are recognized in the consolidated balance sheet, 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 using the settlement date accounting.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value. Except for financial instruments designated 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, and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the category 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 balance sheet 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 profit or loss

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 observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of income. 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 consolidated statement of 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 profit or loss 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 instruments or those designated upon initial recognition 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; or
- 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 balance sheet at fair value. Changes in fair value are reflected in the consolidated statement of income. 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 of the payment has been established.



The Group's financial assets at FVPL consist of private bonds, government securities, equity securities (see Note 8) and derivative instruments (see Note 4).

Derivatives recorded at FVPL

The Parent Company and certain subsidiaries are counterparties to derivative contracts, such as currency forwards, cross currency swaps, credit default swaps, equity options, currency options and commodity options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into 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 to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2007 and 2006, the Group did not apply hedge accounting treatment for its derivative transactions.

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

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 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 are recognized directly to the consolidated statement of income.

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 rate 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.



Gains and losses are recognized in the consolidated statement of 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 consolidated statement of income.

The Group's HTM investments consist of government securities, treasury notes and private bonds (see Note 13).

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. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. The amortization is included under Interest Income account in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy applies primarily to the Group's trade and other receivables (see Note 10), and certain refundable security deposits (see Note 19).

AFS investments

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported under Other Reserves account in the Equity section of the consolidated balance sheet.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Where the Group holds more than one (1) investment in the same security these are deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the consolidated statement of 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 account in the consolidated statement of income.

The Group's AFS investments consist of government securities, private bonds and equity securities (see Note 9).



Other financial liabilities

Issued financial instruments or their components, which are not designated 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 rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

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

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 balance sheet 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 (1) 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 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

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (i.e. receivables) 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 effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in the consolidated statement of income. The asset, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income to the extent that the carrying value 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 (see Note 4).

HTM investments

The Group assesses whether there is objective evidence of impairment. If there is objective evidence that an impairment loss 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 (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future



recovery and all collaterals have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write off is later recovered, any amounts formerly charged will be credited to the Impairment Losses and Others account in the consolidated statement of income.

AFS investments

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. 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 consolidated statement of income is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

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. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded under Interest Income account in the consolidated statement of income. If, in 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 consolidated statement of income, the impairment loss is reversed through the consolidated statement of 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 where:

- 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 risk 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 consolidated statement of income.

Offsetting Financial Instruments

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

Inventories

Inventories, including goods-in-process, are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs.

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

Subdivision land and condominium and residential units for sale

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

Materials in-transit

Cost is determined using the specific identification basis.

Spare parts and other supplies

Cost is determined using the first-in, first-out method.



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 (1) year from the date of classification.

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

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 less impairment loss, if any. Land is carried at cost less impairment loss, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the cost of day-to-day servicing of an investment property.

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

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 consolidated statement of 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, commencement of an operating lease to another party or by the end of construction or development. 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 to inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property, Plant and Equipment account up to the date of change in use. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

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 (2) 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 balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates and joint ventures. The consolidated statement of income reflects the share of the results of operations of the associates and joint ventures. Where there has been a change recognized directly in the investees' equity, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses arising from transactions between the Group and the associate are eliminated to the extent of the interest in the associates and joint ventures.

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

The investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and amortization and impairment loss, if any. Cost of an item of property, plant and equipment comprises of its purchase price and any cost attributable in bringing the asset to its intended location and working condition. 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.

Land is stated at cost, less any impairment in value.



Subsequent costs are capitalized as part of the Property, Plant and Equipment account, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

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

Construction in-progress 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 service.

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

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

Land improvements	10 to 40 years
Building and improvements	10 to 50 years
Machinery and equipment	4 to 50 years
Telecommunications equipment:	
Tower	15 years
Switch	10 to 15 years
Outside plant facilities	10 to 20 years
Distribution dropwires	5 years
Cellular facilities and others	3 to 10 years
Investments in cable facilities	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 fifteen (15) years*

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

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 consolidated statement of income, in the year the item is derecognized.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed and adjusted, if appropriate, at each financial year-end.



ARO

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

Goodwill

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with PAS 14, *Segment Reporting*.

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 further discussion under Impairment of Nonfinancial Assets).

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the costs of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

Biological Assets

The biological assets of the Group are divided into two (2) major categories with sub-categories as follows:

- | | |
|-------------------|--|
| Swine livestock | <ul style="list-style-type: none">- 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 | <ul style="list-style-type: none">- Breeders (livestock bearer)- Chicks (breeders' offspring intended to be sold as breeders) |



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

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

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

Biological assets at cost

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

Depreciation is computed using the straight-line method over the EUL of the biological assets, regardless of utilization. The EUL of biological assets is reviewed annually based on expected utilization as anchored on business plans and strategies that considers market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of biological assets. The EUL of biological assets ranges from two (2) to three (3) years.

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

Biological assets carried at fair values less estimated point-of-sale costs

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

A gain or loss on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset is included in the consolidated statement of income in the period in which it arises.



Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment loss, if any. The useful lives of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their useful lives. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

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

Intangible assets with finite lives are amortized over the EUL and assessed for impairment, whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for 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 treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

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 useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

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

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

	Technology Licenses	Branch Licenses	Software Costs	Trademarks	
				Nestlé Water Philippines, Inc. (Note 39)	Acesfood Network Pte. Ltd. (Note 39)
EUL	Finite (12 to 13.75 years)	Indefinite	Finite (5 years)	Finite (4 years)	Indefinite
Amortization method used	Amortized on a straight-line basis over the period of the license	No amortization	Amortized on a straight-line basis over the period of the license	Amortized on a straight-line basis	No amortization
Internally generated or 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 SIM cards (included under Cost of Sales account in the consolidated statement of income), and the price offered to the subscribers (included under Sale of Telecommunications Services account in the consolidated statement of income). Retention costs for existing postpaid subscribers are in the form of free handsets.

Subscriber acquisition and retention costs pertaining to postpaid subscription are deferred and amortized over the base contract period, which ranges from eighteen (18) to twenty-four (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 balance sheet. The related amortizations of subscriber acquisition costs are charged against current operations.

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 property and equipment (see Note 16), investment properties (see Note 15), investments in associates and joint ventures (see Note 14), and intangible assets with finite lives (see Note 18).

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 of continuing operations are recognized under Impairment Losses and Others account in the consolidated statement of income.

For assets excluding goodwill, 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 consolidated statement of 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 life.

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

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.

Biological assets at cost

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

Intangible assets

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

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 of the Group's investments in its associates and joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of income.

Short-term and Long-term Debt

All loans and borrowings are initially recognized at the fair value of the consideration received, less directly attributable debt issuance costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.



Debt Issuance Costs

Debt issuance costs were amortized using the effective interest method and unamortized debt issuance costs are offset against the related carrying value of the loan in the balance sheet. When a loan is paid, the related unamortized debt issuance costs at the date of repayment are charged against current operations (see accounting policy on Financial Instruments).

Cumulative Redeemable Preferred Shares

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

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 consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 balance sheet 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 assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense under Financing Costs and Other Charges account in the consolidated statement of income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

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 balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation as of the balance sheet 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 the any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. 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.

Share-Based Payment Transactions

Digitel has a stock option plan for the granting of nontransferable options to management and employees of Digitel, whereby they are granted the option to purchase a fixed number of shares of stock at a stated price during a specified period. Options will be recorded at fair value at grant date (see Note 32).

In 2007, the BOD of CAI approved the Executive Stock Option Plan (ESOP) and Employee Share Purchase Plan (ESPP), in order to provide a mechanism for eligible employees of CAI to acquire shares (see Note 32).

No options have been awarded pending approval of the Philippine Securities and Exchange Commission (SEC) of the above-indicated plans. Once approved, options granted will be accounted for under PFRS 2, *Share-based Payment*, and related Philippine Interpretations.

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 balance sheet date.

Deferred income tax

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

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



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

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

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

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

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one (1) 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 any of the scenarios above, and at the date of renewal or extension period for the second scenario.



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 included 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 recorded directly to the consolidated statement of 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 in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risk 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.

Borrowing Costs

Borrowing costs are generally expensed as incurred. 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.

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

Foreign Currency Translation/Transactions

The functional and presentation currency of the Parent Company and its Philippine subsidiaries is the Philippine Peso.

Except for certain consolidated foreign subsidiaries within the URC group, the functional currency of the other consolidated foreign subsidiaries is the US Dollar. The functional currencies of the other consolidated foreign subsidiaries of URC include the Hong Kong Dollar, Chinese Yuan, Singapore Dollar, Thai Baht, Malaysian Ringgit, Indonesian Rupiah and Vietnam Dong.



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 in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. 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.

As of reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date, and their respective statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the consolidated statement of income.

Earnings Per Share (EPS)

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

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (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.

Segment Reporting

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. Financial information on business segments is presented in Note 6 to the consolidated financial statements.

Contingent Liabilities and Contingent Assets

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



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 balance sheet 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 has not applied the following PFRS, amendments to PAS and Philippine Interpretations which are not yet effective as of December 31, 2007:

- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009)

PFRS 8 adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income, and companies will need to provide explanations and reconciliations of the differences. PFRS 8 will replace PAS 14, *Segment Reporting*. The Group will assess the impact of the standard on its current manner of reporting segment information.

- Amendment to PAS 1, *Amendment on Statement of Comprehensive Income* (effective for annual periods beginning on or after January 1, 2009)

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

In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on AFS assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one (1) statement, or to present two (2) linked statements, a separate statement of income and a statement of comprehensive income. The Group will assess and evaluate the options available under the amendment to PAS 1 and will comply with such changes once effective.

- Amendment to PAS 23, *Borrowing Costs* (effective for annual periods beginning on or after January 1, 2009)

Amendment to PAS 23 requires the capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.



- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after January 1, 2008)

This Philippine Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if: (a) the entity chooses or is required to buy those equity instruments (i.e. treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group currently does not have any active stock option plan, pending approval of the SEC (see Note 32), and therefore does not expect this Philippine Interpretation to have any significant impact on its consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008)

This Philippine Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This Philippine Interpretation is not relevant to the Group.

- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after January 1, 2008)

This Philippine Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Group will assess the impact of adoption when it applies Philippine Interpretation IFRIC 14 in 2008.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after July 1, 2008)

This Philippine Interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group will assess the impact of the standard on its current manner of accounting for customer loyalty programs.

3. Significant Accounting Estimates and Judgments

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make estimates and assumptions 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.



Estimates and judgments 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:

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 balance sheet.

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.

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 changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated balance sheet 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.

Classification of HTM investments

The Group classifies nonderivative financial assets with fixed or determinable payments and fixed maturity 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.



Classification of leases

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

The Group has certain lease agreements covering certain telecommunications equipment and passenger aircraft (see Note 16) where the lease terms approximate the EUL of the assets, and provide for an option to purchase or transfer of ownership at the end of the lease. These leases are classified by the Group as finance leases.

The Group has also entered into commercial property leases on its investment property portfolio (see Note 15). The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as 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 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 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.

Impairment of 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 twenty (20) percent or more and 'prolonged' as greater than six (6) months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one (1) of the following: (a) recent arm's length market transactions; (b) current fair value of another instrument that is substantially the same; (c) the expected cash flows discounted at current rates applicable for terms with similar terms and risk characteristics; or (d) other valuation models. The determination of cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates the valuation techniques and tests them for validity, by using prices from observable current market transactions in the same instrument or from other available observable market data.



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 financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 37).

Estimates

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

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

The Group's postpaid telecommunications service arrangements include fixed monthly charges which are recognized over the subscription period on a pro-rata basis. The Group bills the postpaid subscribers throughout the month according to the bill cycles of subscribers. As a result of the bill-cycle cut-off, service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on actual usage less estimated free usage using historical ratio of free over billable usage. Accrued but unbilled services to subscribers amounted to ₱90.5 million and ₱70.1 million as of December 31, 2007 and 2006, respectively. There is no assurance that the Group's use of estimates may not result in material adjustments in future periods.

- Sale of real estate

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgment based on, among others: (a) buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment; and (b) stage of completion of the project.

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

The Group's revenue from sale of real estate amounted to ₱7.2 billion, ₱5.7 billion and ₱4.6 billion in 2007, 2006 and 2005, respectively. Costs and expenses relating to the sale of real estate amounted to ₱3.3 billion, ₱2.4 billion and ₱2.2 billion in 2007, 2006 and 2005, respectively.



Estimation of allowance for impairment loss on trade and other receivables

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

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

Provisions for impairment loss on trade and other receivables amounted to ₱287.4 million, ₱1.7 billion and ₱474.0 million in 2007, 2006 and 2005, respectively (see Notes 10 and 30). As of December 31, 2007 and 2006, total receivables, net of allowance for impairment loss, amounted to ₱17.5 billion and ₱14.5 billion, respectively (see Note 10).

Determination of NRV of inventories

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided 100% for nonmoving items for more than one (1) year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect 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 consolidated statements of income) amounted to ₱62.5 million, ₱107.0 million and ₱64.0 million in 2007, 2006 and 2005, respectively (see Note 30). The Group's inventories, net of inventory obsolescence and market decline, amounted to ₱10.3 billion and ₱9.0 billion as of December 31, 2007 and 2006, respectively (see Note 11).

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 amount of asset retirement costs, third party margins and interest rates. The Group recognizes present value of these costs as part of the balance of the related Property and Equipment accounts, and depreciates such on a straight-line basis over the EUL of the related asset. The present value of dismantling or restoration costs is computed based on an average credit adjusted risk free rate of 10%. Assumptions used to compute ARO are to be 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.

As of December 31, 2007 and 2006, the carrying values of the Group's ARO (included under Other Noncurrent Liabilities account in the consolidated balance sheets) amounted to ₱1.1 billion and ₱856.4 million, respectively (see Note 24).

Estimation of useful lives of property, plant and equipment and investment properties

The Group estimated the useful lives of its property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The EUL of property, plant and equipment and investment properties 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 factors mentioned above. A reduction in the EUL of property, plant and equipment and investment properties would increase depreciation and amortization expense and decrease noncurrent assets.

As of December 31, 2007 and 2006, the balances of the Group's property, plant and equipment and investment properties follow:

	2007	2006
Property, plant and equipment - net (Note 16)	₱105,608,376,528	₱94,585,456,905
Investment properties - net (Note 15)	24,045,776,100	18,688,260,827

Estimation of fair values less estimated point-of-sale costs of biological assets

The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Point-of-sale costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get the biological assets to the market. 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.

As of December 31, 2007 and 2006, the Group's biological assets carried at fair values less estimated point-of-sale costs amounted to ₱966.2 million and ₱765.4 million as of December 31, 2007 and 2006, respectively (see Note 17).

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 (see Note 32). 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.

As of December 31, 2007 and 2006, the balances of the Group's pension liabilities, actuarial loss and other employee benefits follow:

	2007	2006
Pension liabilities (Notes 24 and 32)	₱367,050,400	₱266,917,970
Actuarial gain (loss) - net (Note 32)	167,837,882	(211,521,809)
Other employee benefits	171,572,149	230,797,967

Assessment of impairment of nonfinancial assets

The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

As of December 31, 2007 and 2006, the balances of the Group's nonfinancial assets, net of accumulated depreciation, amortization and impairment loss follow:

	2007	2006
Property, plant and equipment - net (Notes 16 and 30)	₱105,608,376,528	₱94,585,456,905
Investment properties - net (Note 15)	24,045,776,100	18,688,260,827
Investments in associates and joint ventures - net (Note 14)	18,875,832,016	18,926,005,251
Goodwill - net	844,548,190	844,548,190
Intangibles - net (Note 18)	308,379,123	305,402,692



Recognition of deferred income tax assets

The Group reviews the carrying amounts of deferred income taxes at each balance sheet date and reduces deferred income 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 income 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 income tax assets to be utilized.

The Group's net deferred income tax liabilities amounted to ₱6.6 billion and ₱4.2 billion as of December 31, 2007 and 2006, respectively (see Note 33).

As of December 31, 2007 and 2006, the Group has certain subsidiaries which enjoy the benefits of an income tax holiday (ITH). As such, no deferred income tax assets were set up on certain gross deductible temporary differences that are expected to reverse or expire within the ITH period (see Notes 33 and 36).

4. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents and interest-bearing loans and borrowings. 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. The Parent Company and certain subsidiaries are counterparties to derivative contracts, such as currency forwards, cross currency swaps, credit default swaps, equity options, currency options and commodity options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes.

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

Risk Management Structure

The Group's risk management structure is closely aligned with that of the Parent Company. 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 both the internal and external audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

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

Enterprise Risk Management Group (ERMG)

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

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

Support groups have likewise been created to explicitly manage on a day-to-day basis specific types of risks like trade receivables, supplier management, etc.

Compliance with the principles of good corporate governance is also one (1) of the objectives of the BOD. To assist the BOD in achieving this purpose, the BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance with the provisions and requirements of the Corporate Governance Manual and other requirements on good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties on such infringements for further review and approval of the BOD, among others.



Risk Management Policies

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

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 has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. As of December 31, 2007, 2006 and 2005, approximately 23.5%, 22.5% and 24.7% of the Group's total sales are denominated in currencies other than the functional currency. In addition, 79.30% and 88.33% of debt were denominated in US Dollar as of December 31, 2007 and 2006, respectively. The Group's capital expenditures are likewise substantially denominated in US Dollar.

The Group does not have any foreign currency hedging arrangements.

The table below summarizes the Group's exposure to foreign currency risk as of December 31, 2007 and 2006.

2007

	US Dollar	Other Currencies*	Total
Assets			
Cash and cash equivalents	₱3,912,719,503	₱2,210,054,117	₱6,122,773,620
Financial assets at FVPL	17,868,331,740	–	17,868,331,740
AFS investments	674,612,621	–	674,612,621
Receivables	1,791,756,760	479,829,942	2,271,586,702
Derivative assets	685,861,297	–	685,861,297
Other current assets	240,594,991	–	240,594,991
HTM investments	107,750,377	–	107,750,377
Other noncurrent assets	2,231,928,180	–	2,231,928,180
	27,513,555,469	2,689,884,059	30,203,439,528
Liabilities			
Accounts payable and accrued expenses	7,593,775,415	390,774,385	7,984,549,800
Short-term debt	7,088,998,979	6,312,386,975	13,401,385,954
Derivative liabilities	254,215,945	–	254,215,945
Other current liabilities	162,099,006	–	162,099,006
Long-term debt (including current portion)	58,025,903,655	114,462,319	58,140,365,974
	73,124,993,000	6,817,623,679	79,942,616,679
Net Foreign Currency-Denominated Liabilities	(₱45,611,437,531)	(₱4,127,739,620)	(₱49,739,177,151)

* 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



2006

	US Dollar	Other Currencies*	Total
Assets			
Cash and cash equivalents	₱6,347,206,068	₱4,590,190,572	₱10,937,396,640
Financial assets at FVPL	21,404,805,393	—	21,404,805,393
AFS investments	847,897,363	—	847,897,363
Receivables	2,136,174,481	517,285,230	2,653,459,711
Derivative assets	339,887,751	—	339,887,751
Other current assets	27,765,878	—	27,765,878
HTM investments	328,957,273	—	328,957,273
Other noncurrent assets	1,602,513,864	3,200,097	1,605,713,961
	33,035,208,071	5,110,675,899	38,145,883,970
Liabilities			
Accounts payable and accrued expenses	6,811,981,141	448,567,902	7,260,549,043
Short-term debt	9,110,492,677	4,982,215,207	14,092,707,884
Derivative liabilities	89,807,172	—	89,807,172
Other current liabilities	187,736,169	—	187,736,169
Long-term debt (including current portion)	67,292,593,348	229,849,990	67,522,443,338
	83,492,610,507	5,660,633,099	89,153,243,606
Net Foreign Currency-Denominated Liabilities	(₱50,457,402,436)	(₱549,957,200)	(₱51,007,359,636)

* 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 restate the Group's US Dollar-denominated assets and liabilities as of December 31, 2007 and 2006 follow:

	2007	2006
US Dollar - Philippine Peso exchange rate	₱41.28 to US\$1.00	₱49.03 to US\$1.00

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 for the year ended December 31, 2007.

Reasonably Possible Changes in US Dollar-Philippine Peso Exchange Rates	Change in Income Before Income Tax	Change in Equity
20.00%	(₱10,647,422,231)	₱1,199,597,116
(20.00)	10,647,422,231	(1,199,597,116)

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

Credit risk

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.



With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, receivables, due to related parties, refundable security deposits and certain derivative instruments, 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.

a. Credit risk exposure

The table below shows the gross maximum exposure to credit risk (including derivatives) of the Group as of December 31, 2007 and 2006, without considering the effects of collaterals and other credit risk mitigation techniques.

	2007	2006
Cash and cash equivalents (excluding cash on hand amounting to ₱498,252,196 and ₱391,838,606 as of December 31, 2007 and 2006, respectively) (Notes 5 and 7)	₱12,819,586,955	₱24,442,176,716
Financial assets at FVPL (Notes 5 and 8)	19,240,698,816	22,012,174,168
AFS investments (Notes 5 and 9)	4,734,603,262	4,680,336,858
Receivables - net:		
Trade receivables (Notes 5 and 10)	8,844,289,606	6,022,796,643
Finance receivables (Notes 5 and 10)	5,206,496,384	4,679,718,362
Due from related parties (Notes 5 and 10)	1,490,274,017	1,222,276,315
Interest receivable (Notes 5 and 10)	702,667,101	805,208,175
Other receivables (Notes 5 and 10)	1,223,195,779	1,774,701,626
HTM investments (Notes 5 and 13)	261,139,262	448,513,078
Refundable security deposits (included under Other Noncurrent Assets account in the consolidated balance sheets) (Notes 5 and 19)	564,696,243	294,405,593
Derivative assets (Note 5)	3,303,006,306	1,520,700,009
Others financial assets (included under Other Noncurrent Assets account in the consolidated balance sheets) (Note 19)	292,771,152	28,726,457
	₱58,683,424,883	₱67,931,734,000

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 risk, 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, 2007 and 2006, before taking into account any collateral held or other credit enhancements, is categorized by geographic location as follows:

2007

	Philippines	Asia (excluding Philippines)	United States	Europe	Others*	Total
Cash and cash equivalents (excluding cash on hand amounting to ₱498,252,196 as of December 31, 2007) (Notes 5 and 7)	₱7,472,355,784	₱5,002,852,930	₱3,340,796	₱341,037,445	₱—	₱12,819,586,955
Financial assets at FVPL (Notes 5 and 8)	3,601,777,520	8,001,824,032	6,570,276,617	976,780,876	90,039,771	19,240,698,816
AFS investments (Notes 5 and 9)	4,451,356,001	80,702,400	202,544,861	—	—	4,734,603,262
Receivables - net:						
Trade receivables (Notes 5 and 10)	7,161,374,064	1,408,396,567	131,620,069	142,898,906	—	8,844,289,606
Finance receivables (Notes 5 and 10)	5,206,496,384	—	—	—	—	5,206,496,384
Due from related parties (Notes 5 and 10)	203,583,543	786,051,947	500,638,527	—	—	1,490,274,017
Interest receivable (Notes 5 and 10)	252,665,471	438,129,089	10,166,645	1,705,896	—	702,667,101
Other receivables (Notes 5 and 10)	992,033,352	227,505,946	3,656,481	—	—	1,223,195,779
HTM investments (Notes 5 and 13)	261,139,262	—	—	—	—	261,139,262
Refundable security deposits (included under Other Noncurrent Assets account in the consolidated balance sheets) (Notes 5 and 19)	410,356,893	—	—	154,339,350	—	564,696,243
Derivative assets (Note 5)	1,501,576,226	1,319,105,475	120,442	482,204,163	—	3,303,006,306
Other financial assets (included under Other Noncurrent Assets account in the consolidated balance sheets) (Note 19)	292,771,152	—	—	—	—	292,771,152
	₱31,807,485,652	₱17,264,568,386	₱7,422,364,438	₱2,098,966,636	₱90,039,771	₱58,683,424,883

* Others include South American countries (i.e. Argentina and Mexico)



2006

	Philippines	Asia (Excluding Philippines)	United States	Europe	Others*	Total
Cash and cash equivalents (excluding cash on hand amounting to ₱391,838,606 as of December 31, 2006) (Notes 5 and 7)	₱14,305,421,713	₱4,398,992,642	₱5,609,962,226	₱127,800,135	₱—	₱24,442,176,716
Financial assets at FVPL (Notes 5 and 8)	3,518,690,567	1,070,025,618	16,759,000,824	541,259,576	123,197,583	22,012,174,168
AFS investments (Notes 5 and 9)	4,326,539,129	99,423,225	254,374,504	—	—	4,680,336,858
Receivables - net:						
Trade receivables (Notes 5 and 10)	4,436,262,431	1,392,632,480	156,681,758	37,219,974	—	6,022,796,643
Finance receivables (Notes 5 and 10)	4,679,718,362	—	—	—	—	4,679,718,362
Due from related parties (Notes 5 and 10)	374,297,776	402,331,588	445,646,951	—	—	1,222,276,315
Interest receivable (Notes 5 and 10)	263,603,468	32,210,968	477,756,544	31,637,195	—	805,208,175
Other receivables (Notes 5 and 10)	1,683,998,410	83,320,080	2,076,757	5,306,379	—	1,774,701,626
HTM investments (Notes 5 and 13)	448,513,078	—	—	—	—	448,513,078
Refundable security deposits (included under Other Noncurrent Assets account in the consolidated balance sheets) (Notes 5 and 19)	253,609,887	—	—	40,795,706	—	294,405,593
Derivative assets (Note 5)	642,569,178	595,116,179	4,660,427	278,354,225	—	1,520,700,009
Other financial assets (included under Other Noncurrent Assets account in the consolidated balance sheets) (Note 19)	28,726,457	—	—	—	—	28,726,457
	₱34,961,950,456	₱8,074,052,780	₱23,710,159,991	₱1,062,373,190	₱123,197,583	₱67,931,734,000

* Others include South American countries (i.e. Argentina and Mexico)



ii. Concentration by industry

The table below shows the industry sector analysis of the Group's financial assets as of December 31, 2007 and 2006, before taking into account any collateral held or other credit enhancements.

2007

	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 amounting to ₱498,252,196 as of December 31, 2007) (Notes 5 and 7)	₱913,126,031	₱1,545,921,640	₱—	₱—	₱10,130,188,047	₱212,133,634	₱—	₱18,217,603	₱—	₱—	₱—	₱12,819,586,955
Financial assets at FVPL (Notes 5 and 8)	42,089,501	—	—	—	18,986,449,548	95,718,613	—	—	8,198,876	—	108,242,278	19,240,698,816
AFS investments (Notes 5 and 9)	—	—	—	—	3,796,148,853	—	—	—	—	—	938,454,409	4,734,603,262
Receivables - net:												
Trade receivables (Notes 5 and 10)	3,944,717,878	2,829,665,530	103,068,158	202,292,817	21,070,084	1,071,277,406	3,909,688	81,873,268	4,330,065	128,553,445	453,531,267	8,844,289,606
Finance receivables (Notes 5 and 10)	671,171,275	603,516,088	710,858,998	—	—	374,003,448	456,094,824	145,377,798	150,000,000	—	2,095,473,953	5,206,496,384
Due from related parties (Notes 5 and 10)	122,189	107,611,526	31,740,345	—	699,092,334	46,880,472	—	—	—	—	604,827,151	1,490,274,017
Interest receivable (Notes 5 and 10)	13,364,000	37,537,081	1,392,431	—	622,930,360	1,303,519	—	—	—	—	26,139,710	702,667,101
Other receivables (Notes 5 and 10)	674,988,462	254,957,564	19,043,516	—	—	16,395,221	—	2,402,756	107,782,080	1,095,803	146,530,377	1,223,195,779
HTM investments (Notes 5 and 13)	—	—	—	—	261,139,262	—	—	—	—	—	—	261,139,262
Refundable security deposits (included under Other Noncurrent Assets account in the consolidated balance sheets) (Notes 5 and 19)	—	410,356,893	—	—	—	154,339,350	—	—	—	—	—	564,696,243
Derivative assets (Note 5)	135,458,907	—	314,218,130	—	1,805,200,275	123,076,655	912,086,004	—	—	—	12,966,335	3,303,006,306
Other financial assets (included under Other Noncurrent Assets account in the consolidated balance sheets) (Note 19)	—	—	—	—	292,771,152	—	—	—	—	—	—	292,771,152
	₱6,395,038,243	₱5,789,566,322	₱1,180,321,578	₱202,292,817	₱36,614,989,915	₱2,095,128,318	₱1,372,090,516	₱247,871,425	₱270,311,021	₱129,649,248	₱4,386,165,480	₱58,683,424,883

* Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors



2006

	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 amounting to ₱391,838,606 as of December 31, 2006) (Note 7)	₱1,194,283,464	₱562,195,334	₱—	₱—	₱22,407,058,851	₱258,797,646	₱—	₱19,841,421	₱—	₱—	₱—	₱24,442,176,716
Financial assets at FVPL (Notes 5 and 8)	—	—	—	—	21,592,559,999	32,805,683	—	—	—	—	386,808,486	22,012,174,168
AFS investments (Notes 5 and 9)	—	—	—	—	4,187,243,176	—	—	—	—	—	493,093,682	4,680,336,858
Receivables - net:												
Trade receivables (Notes 5 and 10)	3,599,885,348	687,478,960	66,024,123	199,951,759	19,090,310	914,777,128	6,830,752	87,081,597	3,333,333	162,026,381	276,316,952	6,022,796,643
Finance receivables (Notes 5 and 10)	705,694,590	711,032,790	416,768,735	711,844,418	—	584,415,709	807,319,479	126,888,557	50,000,000	—	565,754,084	4,679,718,362
Due from related parties (Notes 5, 10 and 35)	—	158,056,747	800	—	699,470,233	32,897,467	—	460,471	—	—	331,390,597	1,222,276,315
Interest receivable (Notes 5 and 10)	11,660,178	25,153,391	6,518,424	—	620,150,426	9,140,487	—	—	782,019	—	131,803,250	805,208,175
Other receivables (Notes 5 and 10)	557,681,882	683,935,759	21,748,603	—	—	8,040,996	7,401,471	18,521,940	94,900,715	1,095,803	381,374,457	1,774,701,626
HTM investments (Notes 5 and 13)	—	—	—	—	448,513,078	—	—	—	—	—	—	448,513,078
Refundable security deposits (included under Other Noncurrent Assets account in the consolidated balance sheets) (Notes 5 and 19)	—	253,609,887	—	—	—	40,795,706	—	—	—	—	—	294,405,593
Derivative assets (Note 5)	54,600,454	—	68,486,530	—	520,860,664	56,856,062	568,491,537	—	—	—	251,404,762	1,520,700,009
Other financial assets (included under Other Noncurrent Assets account in the consolidated balance sheets) (Note 19)	—	—	—	—	—	—	—	—	—	—	28,726,457	28,726,457
	₱6,123,805,916	₱3,081,462,868	₱579,547,215	₱911,796,177	₱50,494,946,737	₱1,938,526,884	₱1,390,043,239	₱252,793,986	₱149,016,067	₱163,122,184	₱2,846,672,727	₱67,931,734,000

* 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 as of December 31, 2007.

	Neither Past Due Nor Impaired			Past Due or Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Cash and cash equivalents (Note 7)	₱13,317,839,151	₱—	₱—	₱—	₱13,317,839,151
Financial assets at FVPL (Notes 5 and 8)	19,240,698,816	—	—	—	19,240,698,816
AFS investments (Notes 5 and 9)	4,734,603,262	—	—	—	4,734,603,262
Receivables:					
Trade receivables (Notes 5 and 10)	4,149,630,915	217,712,039	124,972,842	7,397,277,373	11,889,593,169
Finance receivables (Notes 5 and 10)	4,416,113,428	767,386,369	1,100,000	182,383,870	5,366,983,667
Due from related parties (Notes 5 and 10)	774,979,238	327,810,455	—	1,558,544,331	2,661,334,024
Interest receivable (Notes 5 and 10)	272,436,010	19,762,736	—	410,468,355	702,667,101
Other receivables (Notes 5 and 10)	636,548,207	35,697,074	4,990,698	559,111,473	1,236,347,452
HTM investments (Notes 5 and 13)	261,139,262	—	—	—	261,139,262
Refundable security deposits (included under Other Noncurrent Assets account in the consolidated balance sheets) (Note 19)	564,696,243	—	—	—	564,696,243
Derivative assets (Note 5)	3,303,006,306	—	—	—	3,303,006,306
Other financial assets (included under Other Noncurrent Assets account in the consolidated balance sheets) (Note 19)	292,771,152	—	—	—	292,771,152
	₱51,964,461,990	₱1,368,368,673	₱131,063,540	₱10,107,785,402	₱63,571,679,605

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 ten (10) banks in the Philippines in terms of resources and profitability.

High grade accounts are accounts considered to be high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. 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.



d. 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: (1) specific/individual assessment; and (2) collective 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 crises; (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.

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 evidence or not yet objective 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.

Liquidity risk

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance 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 bank loans and capital market issues both onshore and offshore.



The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2007, based on undiscounted contractual payments.

	On Demand	1 to 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 years	Total
Accounts payable and accrued expenses (excluding Due to Related Parties account) (Note 20)	₱5,214,275,252	₱8,373,980,582	₱8,825,212,847	₱866,377,818	₱786,165,816	₱24,066,012,315
Due to related parties (included under Accounts Payable and Accrued Expenses account in the consolidated balance sheets) (Note 35)	1,367,415,938	930,120,433	137,006,070	—	—	2,434,542,441
Short-term debt (Note 22)	129,333,373	13,235,956,154	3,890,996,427	—	—	17,256,285,954
Derivative liabilities (Note 5)	9,440,000	16,706,667	952,014,477	—	—	978,161,144
Deposits from real estate buyers and lessees (including current portion) (Notes 21 and 24)	—	—	2,229,900,889	1,030,761,354	—	3,260,662,243
Long-term debt (including current portion) (Note 22)	7,995,487	1,459,938,640	24,265,595,707	26,109,477,181	27,299,698,424	79,142,705,439
Cumulative preferred shares (Note 23)	—	—	—	2,107,818,750	—	2,107,818,750
	₱6,728,460,050	₱24,016,702,476	₱40,300,726,417	₱30,114,435,103	₱28,085,864,240	₱129,246,188,286

Price risk on biological assets

The Group is exposed to risks arising from changes in prices of livestock and meat products. The Group does not anticipate that livestock and meat products will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in market prices. The Group reviews its outlook for market prices regularly in considering the need for active financial risk management.

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 hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel.

The Group manages its commodity price risk through fuel surcharges which are approved by the Philippine Civil Aeronautics Board (CAB), a fuel hedge that protects about 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.

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. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.



The following tables show information about the Group’s financial instruments that are exposed to interest rate risk and presented by maturity profile:

2007

	<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
Liabilities:											
Long-term debt											
Foreign currencies:											
Floating rate											
US Dollar loans	US\$42,918,479	US\$34,062,719	US\$26,490,419	US\$16,939,582	US\$16,321,516	US\$59,165,038	US\$195,897,753	₱8,104,531,286	₱456,935,956	₱7,647,595,330	₱8,099,343,949
Interest rate	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR					
Fixed rate											
US Dollar loans	US\$433,700,271	US\$29,452,672	US\$29,764,653	US\$30,079,311	US\$221,843,036	US\$452,029,857	1,196,869,800	50,569,403,182	138,552,534	50,430,850,648	53,729,567,737
Interest rate	3.72% to 12.0%	3.72% to 12.0%	3.72% to 12.0%	3.72% to 12.0%	3.72% to 12.0%	3.72% to 12.0%					
Local currencies:											
Floating rate											
Philippine Peso loans	₱1,000,000,000	₱—	₱—	₱—	₱—	₱—	—	1,000,000,000	—	1,000,000,000	1,000,000,000
Interest rate											
Fixed rate											
Philippine Peso loans	₱225,957,823	₱2,333,776,573	₱126,404,000	₱6,885,008	₱3,007,401,000	₱19,747,658	—	5,720,172,062	—	5,720,172,062	5,465,813,648
Interest rate	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt					
							US\$1,392,767,553	₱65,394,106,530	₱595,488,490	₱64,798,618,040	₱68,294,725,334



2006

	<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
Liabilities:											
Long-term debt											
Foreign currencies:											
Floating rate											
US Dollar loans	US\$38,085,559	US\$35,909,234	US\$32,847,147	US\$25,980,160	US\$16,321,516	US\$14,933,661	US\$164,077,277	₱8,053,764,690	₱311,852,423	₱7,741,912,267	₱8,535,359,593
Interest rate	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR	0.03% to 2.0% over LIBOR					
Fixed rate											
US Dollar loans	US\$66,413,751	US\$445,452,672	US\$29,764,653	US\$30,079,311	US\$30,406,721	US\$609,041,479	1,211,158,587	59,810,550,795	250,654,720	59,559,896,075	61,630,292,421
Interest rate	3.72% to 12.0%	3.72% to 12.0%	3.72% to 12.0%	3.72% to 12.0%	3.72% to 12.0%	3.72% to 12.0%					
Local currencies:											
Floating rate											
Philippine Peso loans	₱500,000,000	₱1,000,000,000	₱—	₱—	₱—	₱—	—	1,500,000,000	—	1,500,000,000	1,500,000,000
Interest rate	3M+MART 1+ 1.0%-2.0%	3M+MART 1+ 1.0%-2.0%	—	—	—	—					
Fixed rate											
Philippine Peso loans	₱185,542,161	₱225,957,823	₱226,404,000	₱2,164,703,758	₱7,401,000	₱20,226,301	—	2,830,235,043	—	2,830,235,043	2,914,453,017
Interest rate	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt	7.5%-12.0%+ 1.5%+5%grt					
							US\$1,375,235,864	₱72,194,550,528	₱562,507,143	₱71,632,043,385	₱74,580,105,031



The following table sets forth the impact of the range of reasonably possible changes in the interest rates on the Group's income before income tax and equity in 2007:

Reasonably Possible Changes in Interest Rates	Change in Income Before Income Tax
1.5%	(P404,950,983)
(1.5%)	404,950,983

Other than the potential impact on income before income tax, there is no other effect on equity.

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. The effect on equity (as a result of a change in fair value of equity instruments held as AFS investments as of December 31, 2007) due to a reasonably possible change in equity indices, with all other variables held constant, will increase equity by P250.0 million, if equity indices will increase by 9.3%. An equal change in the opposite direction would have decreased equity by the same amount.

Derivative Financial Instruments

The Group's freestanding and embedded derivative financial instruments are accounted for as financial instruments at FVPL. Gains or losses arising from fair value changes on these derivative instruments are reported immediately in the consolidated statements of income.

2007

	Notional Amounts/Quantity				
	US Dollar	Japanese Yen	Philippine Peso Equivalent	Derivative Assets	Derivative Liabilities
	(Amounts in Millions)				
Freestanding:					
Foreign currency forwards	USD482.7	JPY98.7	₱19,960.8	₱1,042.1	₱962.9
Cross currency swaps	—	—	—	806.2	—
Credit default swap	7.0	—	289.0	13.7	9.9
Currency options	0.2	—	—	0.2	5.4
Commodity options (a)	—	—	—	66.2	—
Embedded		—	—	—	—
Embedded forwards	559.5	—	—	1,374.6	—
				₱3,303.0	₱978.2

(a) Nominal quantity amounts to 1,350,000 US barrels as of December 31, 2007

2006

	Notional Amounts/Quantity					
	US Dollar	Singapore Dollars	Japanese Yen	Philippine Peso Equivalent	Derivative Assets	Derivative Liabilities
	(Amounts in Millions)					
Freestanding:						
Foreign currency forwards	USD581.6	SGD1.2	JPY367.8	₱6,869.7	₱249.0	₱247.4
Cross currency swaps	—	—	—	—	566.0	—
Credit default swap	7.0	—	—	343.2	10.8	—
Currency options	41.0	—	—	—	3.1	12.3
Sold equity put options	—	—	55.0	22.9	0.2	—
Commodity options (b)	—	—	—	—	—	16.9
Embedded						
Embedded forwards	256.7	—	—	—	691.6	—
					₱1,520.7	₱276.6

(b) Nominal quantity amounts to 510,000 US barrels as of December 31, 2006



The Group's freestanding and embedded derivatives follow:

- Foreign currency forwards

The Group entered into short-term and long-term nondeliverable currency forwards. The Group's short-term forwards have varying tenors ranging from one (1) to three (3) months and have a total notional amount of US\$584.6 million. As of December 31, 2006, the Group has a long-term forward that has a tenor of two (2) years. The positive and negative fair values amounted to ₱1.0 billion and ₱962.9 million, and ₱249.0 million and ₱247.4 million, as of December 31, 2007 and 2006 respectively.

- Cross currency swaps

As of December 31, 2007 and 2006, the Group has four (4) outstanding cross currency swap transactions with a total notional amount of US\$38.1 million. Under the cross currency swap agreement, the Group will pay the counterparty floating rates it has effectively exchanged, while the counterparty pays the Group interest equivalent to 11.75% and 12.00% per annum. The cross currency swaps have a term of five (5) years and will be maturing at various dates through August 2009. The positive fair value of the cross currency swaps amounted to ₱806.2 million and ₱566.0 million as of December 31, 2007 and 2006, respectively.

- Credit default swap

The Group has an outstanding credit default swap agreement, under which it is obliged to take delivery of certain corporate bonds equivalent to US\$7,000,000, in case of a credit event affecting the issuer. A credit event may pertain to a failure to pay, repudiation/moratorium or restructuring on the bonds. Under the credit default swap agreement, the Group receives a fixed interest quarterly at rates ranging from 5.40% to 6.00% per annum, until the occurrence of the credit event or the maturity of the agreements on various dates up to December 2011, whichever comes first. The positive fair value of the outstanding credit default swap amounted to ₱13.7 million and ₱10.8 million as of December 31, 2007 and 2006, respectively. The negative fair value of the outstanding credit default swap amounted to ₱9.9 million as of December 31, 2007.

- Sold equity options

The Group has outstanding equity put options related to certain shares of stock. The positive fair value of the outstanding equity put options amounted to ₱0.2 million as of December 31, 2006.

- Commodity options

The Group enters into fuel derivatives as economic hedges of exposures to fuel price fluctuations. As of December 31, 2007 and 2006, the Company has outstanding three (3)-way fuel options with a nominal quantity of 1,350,000 US barrels and 510,000 US barrels, respectively. The call options can be exercised at various calculation dates with specified



quantities on each calculation date. The call options have various maturity/expiry dates through December 31, 2008. The positive fair value of the commodity options amounted to ₱66.2 million as of December 31, 2007. The negative fair value of the commodity options amounted to ₱16.9 million as of December 31, 2006.

- Embedded forwards

The total outstanding notional amount of currency forwards embedded in nonfinancial contracts amounted to US\$559.5 million and US\$256.7 million as of December 31, 2007 and 2006, respectively. The positive fair values amounted to ₱1.4 billion and ₱691.6 million as of December 31, 2007 and 2006, respectively. The nonfinancial contracts consist mainly of foreign currency-denominated purchase orders with various expected delivery dates.

Fair value changes on derivatives

The net movements in fair value changes of all derivative instruments in 2007 and 2006 are as follows:

	2007	2006
Balances at beginning of year:		
Derivative assets	₱1,520,700,009	₱341,057,676
Derivative liabilities	(276,564,489)	(82,721,989)
Net changes in fair value of derivatives	1,712,759,453	1,134,762,076
Fair value of settled instruments	(632,049,811)	(148,962,243)
Balances at end of year:		
Derivative assets (Note 4)	₱3,303,006,306	₱1,520,700,009
Derivative liabilities (Note 4)	(₱978,161,144)	(₱276,564,489)

5. Fair Value Measurement

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 and accounts payable and accrued expenses

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

Amounts due from and due to related parties

Carrying amounts of due from and due to related parties which are payable and due on demand approximate their fair values.

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 3.6% to 9.8% and from 5.9% to 15.9% in 2007 and 2006, respectively.



Long-term debt

The fair value of floating rate loan is 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 (3) months will have a carrying value closer to the fair value than a six (6)-month repriceable loan with similar maturity and interest basis. For loans repricing every six (6) months (in US Dollar), the discount curve was in the range of 3.7% to 6.8% and from 3.86% to 4.47% in 2007 and 2006, respectively.

Derivative instruments

The fair values of the credit default swap, cross currency swaps, and commodity options are determined based on the quotes obtained from independent parties. 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 fuel derivatives are based on quotes obtained from an independent counterparty.

The table below presents a comparison by category of carrying amounts and estimated fair values of all the Group's financial instruments as of December 31, 2007 and 2006.

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents (Notes 4 and 7)	₱13,317,839,151	₱13,317,839,151	₱24,834,015,322	₱24,834,015,322
Receivables - net:				
Trade receivables (Notes 4, 10 and 30)	8,844,289,606	8,588,897,303	6,006,653,549	5,845,032,755
Finance receivables (Notes 4 and 10)	5,206,496,384	5,213,300,923	4,679,718,362	4,845,008,401
Due from related parties (Notes 4, 10 and 35)	1,490,274,017	1,490,274,017	1,222,276,315	1,222,276,315
Interest receivable (Notes 4 and 10)	702,667,101	702,667,101	805,208,175	805,208,175
Other receivables (Notes 4 and 10)	1,271,010,437	1,271,010,437	1,813,510,285	1,813,510,285
Refundable security deposits (included under Other Noncurrent Assets account in the consolidated balance sheet) (Notes 4, 19 and 32)	564,696,243	547,979,501	294,405,593	279,643,512
Other Assets (included under Other Noncurrent Assets account in the consolidated balance sheet) (Notes 4, 19 and 32)	292,771,152	292,771,152	28,726,457	28,726,457
Total loans and receivables	31,690,044,091	31,424,739,585	39,684,514,058	39,673,421,222
AFS investments (Notes 3, 4 and 9)	4,734,603,262	4,734,603,262	4,680,336,858	4,680,336,858
Financial assets at FVPL:				
Financial assets at FVPL (Notes 4 and 8)	19,240,698,816	19,240,698,816	22,012,174,167	22,012,174,167
Derivative assets (Note 4)	3,303,006,306	3,303,006,306	1,520,700,009	1,520,700,009
Total financial assets at FVPL	22,543,705,122	22,543,705,122	23,532,874,176	23,532,874,176
HTM investments (Notes 4 and 13)	261,139,262	266,816,076	448,513,078	457,828,168
	₱59,229,491,737	₱58,969,864,045	₱68,346,238,170	₱68,344,460,424

(Forward)



	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Financial liabilities carried at amortized cost:				
Accounts payable and accrued expenses (Notes 4, 20, 35 and 37)	₱25,071,502,251	₱25,091,142,961	₱30,560,080,668	₱30,567,226,324
Short-term debt (Notes 4, 22 and 25)	17,256,285,954	17,256,285,954	14,643,707,884	14,643,707,884
Deposits from real estate buyers and lessees (including current portion) (Notes 21 and 24)	3,288,732,643	3,095,558,022	2,152,027,907	1,954,433,309
Due to related parties (included under Accounts Payable and Accrued Expenses account in the consolidated balance sheets) (Note 20)	2,434,542,441	2,434,542,441	1,727,839,524	1,727,839,524
Long-term debt (including current portion) (Note 4, 16, 22 and 25)	62,752,719,290	66,248,826,580	69,744,859,631	72,698,046,384
Cumulative redeemable preferred shares (Notes 23 and 25)	2,107,818,750	2,107,818,750	—	—
Total financial liabilities at amortized cost	112,911,601,329	116,234,174,708	118,828,515,614	121,591,253,425
Financial liabilities at FVPL				
Derivative liabilities (Notes 3 and 4)	978,161,144	978,161,144	276,564,489	276,564,489
	₱113,889,762,473	₱117,212,335,852	₱119,105,080,103	₱121,867,817,914

6. Business Segment Information

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

The industry segments where the Group operates are as follows:

- Food, agro-industrial and commodities businesses - manufacturing of snack foods, granulated coffee and pre-mixed coffee, chocolates, candies, biscuits, instant noodles, ice cream and frozen novelties, pasta and tomato-based products and canned beans; raising of hog, chicken and manufacturing and distribution of animal feeds, corn products and vegetable oil and the synthesis of veterinary compound; and sugar milling and refining and flour milling.
- Air transportation - air transport services, both domestic and international.
- Telecommunications - service provider of voice and data telecommunications services which include international gateway facilities, a local exchange network and traditional business services (fax, telex, leased lines and other value-added network products, value-added network provider using electronics data interchange).
- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.



- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), and other industrial chemicals.
- International capital and financial services - thrift banking operations; foreign exchange and securities dealing; and offshore financial institutions.
- Other supplementary businesses - printing services and insurance brokering (see Note 38).

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs and revenue) and income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Group's business segment information follows:



2007

	CONTINUING OPERATIONS								DISCONTINUED OPERATIONS				
	Foods, Agro-Industrial and Commodities	Air Transportation	Tele- communications	Real Estate and Hotels	Petrochemicals	International Capital and Financial Services	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL CONTINUING OPERATIONS	Textiles	Printing	TOTAL DISCONTINUED OPERATIONS	TOTAL OPERATIONS
Results													
Sale of goods and services	₱37,720,260,615	₱15,015,781,716	₱8,313,292,759	₱8,278,182,991	₱5,151,157,476	₱–	₱–	₱–	₱74,478,675,557	₱391,957,032	₱–	₱391,957,032	₱74,870,632,589
Interest income	1,461,971,091	21,364,620	13,043,102	710,366,315	546,734	4,417,052,896	2,997	(2,218,030,891)	4,406,316,864	642,130	171,044	813,174	4,407,130,038
Equity in net income of associates and joint ventures (Note 14)	23,287,500	9,084,348	–	–	–	1,591,786,322	–	–	1,624,158,170	–	–	–	1,624,158,170
Other revenue	3,265,206,286	2,000,872,494	8,419,321,522	–	148,846,459	1,006,387,932	53,741,892	(2,879,912,011)	12,014,464,574	96,168,647	–	96,168,647	12,110,633,221
	42,470,725,492	17,047,103,178	16,745,657,383	8,988,549,306	5,300,550,669	7,015,227,150	53,744,889	(5,097,942,902)	92,523,615,165	488,767,809	171,044	488,938,853	93,012,554,018
Cost of sales and services (Note 28)	27,616,777,337	9,474,992,791	845,739,173	4,212,370,152	5,459,813,206	–	–	–	47,609,692,659	656,531,730	–	656,531,730	48,266,224,389
General and administrative expenses (Note 29)	6,923,154,660	2,931,904,552	10,687,325,044	1,232,391,875	213,056,576	752,169,008	40,463,736	(103,395,501)	22,677,069,950	59,035,230	824,743	59,859,973	22,736,929,923
Finance cost and other charges (Note 31)	1,632,842,270	905,521,090	2,320,750,168	119,969,856	301,124,500	3,655,299,925	100	(1,925,654,094)	7,009,853,815	1,795,023	–	1,795,023	7,011,648,838
Impairment losses and others (Note 30)	344,666,537	35,778,968	199,719,615	19,000,000	48,171,852	26,222,004	–	(323,622,075)	349,936,901	–	–	–	349,936,901
Income before income tax									14,877,061,840			(229,247,873)	14,647,813,967
Provision for income tax (Note 33)									3,312,037,822			(34,063,621)	3,277,974,201
Net income									₱11,565,024,018			(₱195,184,252)	₱11,369,839,766
Net income (loss) from equity holders of the parent	₱3,288,431,624	₱3,614,009,931	₱582,881,123	₱1,465,039,424	(₱722,440,760)	₱2,262,289,102	₱8,461,143	(₱1,689,485,196)	₱8,809,186,391	(₱194,530,553)	(₱653,699)	(₱195,184,252)	₱8,614,002,139
Other Information													
Segment assets	₱58,674,099,212	₱24,210,352,499	₱64,144,884,445	₱36,785,778,275	₱6,130,991,923	₱153,022,028,201	₱362,406,107	(₱114,188,225,422)	₱229,142,315,240	₱780,645,281	₱10,984,954	₱791,630,235	₱229,933,945,475
Investments in associates (Notes 3, 14, 16 and 30)	₱89,872,575	₱90,979,496	₱–	₱–	₱–	₱18,694,979,945	₱–	₱–	₱18,875,832,016	₱–	₱–	₱–	₱18,875,832,016
Segment liabilities	₱23,678,396,426	₱19,465,359,652	₱61,077,472,001	₱15,495,682,535	₱6,855,083,742	₱84,551,666,812	₱123,328,799	(₱80,719,224,856)	₱130,527,765,111	₱23,006,106	₱426,201	₱23,432,307	₱130,551,197,418
Capital expenditures (Notes 15 and 16)	₱4,116,565,737	₱4,531,595,873	₱9,892,834,126	₱8,884,207,767	₱110,326,728	₱84,808,256	₱–	₱–	₱27,620,338,487	₱63,472,075	₱–	₱63,472,075	₱27,683,810,562
Depreciation and amortization (Notes 15 and 16)	₱2,203,907,995	₱1,318,041,700	₱6,069,583,416	₱1,402,911,884	₱99,484,845	₱128,709,546	₱468,731	₱–	₱11,223,108,117	₱128,739,958	₱–	₱128,739,958	₱11,351,848,075
Non-cash expenses other than depreciation and amortization:													
Impairment losses on:													
Receivables (Notes 10 and 30)	₱141,230,297	₱–	₱196,482,386	₱19,000,000	₱45,691,564	₱26,222,004	₱–	(₱141,230,297)	₱287,395,954	₱–	₱–	₱–	₱287,395,954
Property and equipment (Notes 16 and 30)	203,436,240	–	–	–	–	–	–	(203,436,240)	–	–	–	–	–
Inventory obsolescence and market decline (Notes 11 and 30)	–	35,778,968	3,237,229	–	2,480,288	–	–	21,044,462	62,540,947	–	–	–	62,540,947
	₱344,666,537	₱35,778,968	₱199,719,615	₱19,000,000	₱48,171,852	₱26,222,004	₱–	(₱323,622,075)	₱349,936,901	₱–	₱–	₱–	₱349,936,901



2006

	CONTINUING OPERATIONS								DISCONTINUED OPERATIONS				
	Foods, Agro-Industrial and Commodities	Air Transportation	Tele- communications	Real Estate and Hotels	Petrochemicals	International Capital and Financial Services	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL CONTINUING OPERATIONS	Textiles	Printing	TOTAL DISCONTINUED OPERATIONS	TOTAL OPERATIONS
Results													
Sale of goods and services	₱35,183,814,854	₱9,716,893,805	₱7,633,563,382	₱6,635,596,145	₱5,303,742,986	₱–	₱–	–	₱64,473,611,172	₱2,254,296,485	₱26,728,809	₱2,281,025,294	₱66,754,636,466
Interest income	2,141,912,152	5,932,289	20,719,807	331,670,643	3,149,505	4,408,366,152	–	(1,997,530,416)	4,914,220,132	3,169,610	485,976	3,655,586	4,917,875,718
Equity in net income (loss) of associates and joint ventures (Note 14)	319,996,500	(3,198,199)	–	–	–	1,064,763,587	–	(301,520,000)	1,080,041,888	–	–	–	1,080,041,888
Other revenue	698,682,529	663,368,204	3,639,825,265	–	209,276,411	7,074,720,418	47,514,991	3,261,205,771	15,594,593,589	204,061,942	1,264,736	205,326,678	15,799,920,267
	38,344,406,035	10,382,996,099	11,294,108,454	6,967,266,788	5,516,168,902	12,547,850,157	47,514,991	962,155,355	86,062,466,781	2,461,528,037	28,479,521	2,490,007,558	88,552,474,339
Cost of sales and services (Note 28)	26,359,974,231	6,953,482,760	652,866,936	3,269,349,242	5,527,038,615	–	–	–	42,762,711,784	2,136,915,189	33,259,154	2,170,174,343	44,932,886,127
General and administrative expenses (Note 29)	6,122,748,436	2,488,911,466	7,792,338,867	1,081,434,143	172,173,390	596,590,276	38,009,014	(56,843,714)	18,235,361,878	334,118,036	97,653,176	431,771,212	18,667,133,090
Finance cost and other charges (Note 31)	2,284,248,132	544,760,544	2,151,650,105	195,519,707	312,317,214	4,191,235,899	182	(2,172,552,038)	7,507,179,745	34,701,655	–	34,701,655	7,541,881,400
Impairment losses and others (Note 30)	283,979,473	673,933,413	248,105,092	4,869,390	2,858,195,032	1,532,195,886	–	326,857,238	5,928,135,524	–	–	–	5,928,135,524
Income before income tax									11,629,077,850			(146,639,652)	11,482,438,198
Provision for income tax (Note 33)									2,812,494,523			(26,892,354)	2,785,602,169
Net income									₱8,816,583,327			₱119,747,298	₱8,696,836,029
Net income (loss) from equity holders of the parent	₱1,786,492,538	(₱287,879,266)	(₱479,519,869)	₱1,031,546,240	(₱2,766,146,413)	₱5,942,978,884	₱5,159,173	₱1,345,855,140	₱6,578,486,427	(₱17,314,489)	(₱102,432,809)	(₱119,747,298)	₱6,458,739,129
Other Information													
Segment assets	₱59,689,944,915	₱20,235,030,198	₱56,784,998,940	₱28,611,766,195	₱4,682,695,046	₱165,377,754,858	₱406,079,624	(₱117,825,278,806)	₱217,962,990,970	₱2,353,302,178	₱50,642,450	₱2,403,944,628	₱220,366,935,598
Investments in associates (Notes 3, 14, 16 and 30)	₱66,585,075	₱86,625,118	₱–	₱–	₱–	₱18,772,795,058	₱–	₱–	₱18,926,005,251	₱–	₱–	₱–	₱18,926,005,251
Segment liabilities	₱28,462,929,741	₱18,842,076,900	₱54,888,051,138	₱13,986,008,266	₱4,684,346,105	₱94,463,323,902	₱175,463,559	(86,195,830,866)	₱129,306,368,745	₱565,358,115	₱3,990,329	₱569,348,444	₱129,875,717,189
Capital expenditures (Notes 15 and 16)	₱5,830,795,216	₱10,633,592,702	₱4,571,711,548	₱6,317,689,982	₱130,743,534	₱62,716,116	₱–	₱–	₱27,547,249,098	₱77,438,939	₱2,443,529	₱79,882,468	₱27,627,131,566
Depreciation and amortization	₱2,308,858,770	₱1,003,527,574	₱3,339,102,109	₱1,265,809,016	₱226,285,666	₱132,464,475	₱468,731	₱–	₱8,276,516,341	₱121,788,416	₱4,871,755	₱126,660,171	₱8,403,176,512
Non-cash expenses other than depreciation and amortization:													
Impairment losses on:													
Receivables (Notes 10 and 30)	₱43,290,658	₱488,147,452	₱241,003,063	₱4,869,390	₱–	₱1,418,590,958	₱–	(₱523,979,931)	₱1,671,921,590	₱–	₱–	₱–	₱1,671,921,590
Property and equipment (Notes 16 and 30)	–	151,498,931	–	–	2,507,100,028	–	–	857,939,198	3,516,538,157	–	–	–	3,516,538,157
Other assets (Note 30)	240,688,815	–	–	–	278,394,939	113,604,928	–	–	632,688,682	–	–	–	632,688,682
Inventory obsolescence and market decline (Notes 11 and 30)	–	34,287,030	7,102,029	–	72,700,065	–	–	(7,102,029)	106,987,095	–	–	–	106,987,095
	₱283,979,473	₱673,933,413	₱248,105,092	₱4,869,390	₱2,858,195,032	₱1,532,195,886	₱–	₱326,857,238	₱5,928,135,524	₱–	₱–	₱–	₱5,928,135,524



2005

	CONTINUING OPERATIONS								DISCONTINUED OPERATIONS				
	Foods, Agro-Industrial and Commodities	Air Transportation	Tele- communications	Real Estate and Hotels	Petrochemicals	International Capital and Financial Services	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL CONTINUING OPERATIONS	Textiles	Printing	TOTAL DISCONTINUED OPERATIONS	TOTAL OPERATIONS
Results													
Sale of goods and services	₱31,199,275,746	₱7,810,796,488	₱8,295,824,443	₱5,112,267,374	₱5,046,903,912	₱–	₱–	₱–	₱57,465,067,963	₱2,965,673,046	₱118,150,183	₱3,083,823,229	₱60,548,891,192
Interest income	1,867,353,845	7,359,242	39,168,806	319,569,789	3,525,652	3,997,137,007	12,610	(1,867,666,027)	4,366,460,924	156,624	402,826	559,450	4,367,020,374
Equity in net income (loss) of associates and joint ventures (Note 14)	244,623,123	2,810,745	(16,455,234)	–	–	1,046,365,777	–	(228,833,623)	1,048,510,788	–	–	–	1,048,510,788
Other revenue	477,479,429	157,055,833	2,172,536,094	–	(5,166,046)	2,156,986,265	31,914,586	–	4,990,806,161	65,129,588	10,983	65,140,571	5,055,946,732
	33,788,732,143	7,978,022,308	10,491,074,109	5,431,837,163	5,045,263,518	7,200,489,049	31,927,196	(2,096,499,650)	67,870,845,836	3,030,959,258	118,563,992	3,149,523,250	71,020,369,086
Cost of sales and services (Note 28)	23,307,712,686	5,424,949,942	1,135,415,000	2,725,580,788	5,023,955,103	–	–	(171,760,198)	37,445,853,321	2,728,300,532	112,086,929	2,840,387,461	40,286,240,782
General and administrative expenses (Note 29)	5,230,519,490	2,428,181,130	7,012,381,688	1,034,020,916	208,563,223	911,394,490	–	256,539,503	17,081,600,440	244,804,129	12,783,512	257,587,641	17,339,188,081
Finance cost and other charges (Note 31)	2,131,901,563	99,387,800	2,803,119,171	77,181,504	240,549,431	3,682,028,239	2,106	(1,856,180,594)	7,177,989,220	33,143,381	7,372	33,150,753	7,211,139,973
Impairment losses and others (Note 30)	223,518,513	–	415,396,907	905,649	–	25,289,012	–	21,911,646	687,021,727	–	–	–	687,021,727
Income before income tax									5,478,381,128			18,397,395	5,496,778,523
Provision for income tax (Note 33)									1,846,697,923			(18,724,941)	1,827,972,982
Net income									₱3,631,683,205			₱37,122,336	₱3,668,805,541
Net income from equity holders of the parent	₱2,175,651,579	₱81,999,197	(₱793,193,394)	₱1,109,484,070	(₱352,568,866)	₱2,198,536,231	₱17,173,525	(₱296,740,601)	₱4,140,341,741	₱42,938,093	(₱5,815,757)	₱37,122,336	₱4,177,464,077
Other Information													
Segment assets	₱54,884,260,935	₱13,761,859,308	₱54,573,071,586	₱23,218,982,985	₱8,588,893,562	₱166,221,486,221	₱303,846,176	(₱126,979,818,904)	₱194,572,581,869	₱3,769,206,207	₱175,139,437	₱3,944,345,644	₱198,516,927,513
Investments in associates	₱68,108,517	₱89,823,317	₱–	₱–	₱–	₱16,960,654,997	₱–	₱–	₱17,118,586,831	₱–	₱–	₱–	₱17,118,586,831
Segment liabilities	₱29,624,056,757	₱13,027,159,800	₱52,927,628,738	₱9,583,207,301	₱5,228,674,892	₱99,821,384,030	₱235,288,559	(₱85,170,212,126)	₱125,277,187,951	₱1,429,729,185	₱173,470,871	₱1,603,200,056	₱126,880,388,007
Capital expenditures	₱3,646,648,409	₱7,419,585,771	₱8,841,356,000	₱4,224,990,378	₱142,591,503	₱75,842,426	₱–	₱–	₱24,351,014,487	₱75,947,054	₱4,151,697	₱80,098,751	₱24,431,113,238
Depreciation and amortization (Notes 28 and 29)	₱1,870,320,505	₱688,447,460	₱3,471,009,753	₱1,251,850,580	₱181,386,836	₱147,958,219	₱–	₱–	₱7,610,973,353	₱183,111,058	₱11,337,947	₱194,449,005	₱7,805,422,358
Non-cash expenses other than depreciation and amortization:													
Impairment losses on: Receivables (Note 30)	₱223,518,513	₱–	₱225,231,093	₱905,649	₱–	₱25,289,012	₱–	(₱905,649)	₱474,038,618	₱–	₱–	₱–	₱474,038,618
Investments in associates and joint ventures (Note 30)	–	–	148,954,506	–	–	–	–	–	148,954,506	–	–	–	148,954,506
Inventory obsolescence and market decline (Note 30)	–	–	41,211,308	–	–	–	–	22,817,295	64,028,603	–	–	–	64,028,603
	₱223,518,513	₱–	₱415,396,907	₱905,649	₱–	₱25,289,012	₱–	₱21,911,646	₱687,021,727	₱–	₱–	₱–	₱687,021,727



Geographical Segments

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

The following tables show the distribution of the Group's consolidated sales by geographical market, regardless of where the goods were produced, and the carrying amounts of segment assets, additions to property, plant, equipment, depreciation and amortization and non-cash expenses (other than depreciation and amortization) by geographical area in which the assets are located.

With regard to the Group's fleet of aircraft which is employed across its route network (both domestic and international), management considers that there is no reasonable basis for allocating such assets to geographical segments. Accordingly, segment assets and capital expenditures relating to the air transportation segment have not been included and disclosed in the tables below.

2007

	Domestic	Foreign	Total
Revenue	₱71,163,651,874	₱21,848,902,144	₱93,012,554,018
Segment assets	₱188,048,282,694	₱41,885,662,781	₱229,933,945,475
Capital expenditures	₱22,346,078,689	₱806,136,000	₱23,152,214,689
Depreciation and amortization	₱10,637,881,293	₱713,966,782	₱11,351,848,075
Non-cash expenses other than depreciation and amortization			
Impairment losses on trade and other receivables (Notes 10 and 30)	₱287,395,954	₱—	₱287,395,954
Inventory obsolescence and market decline (Note 30)	62,540,947	—	62,540,947
	₱349,936,901	₱—	₱349,936,901

2006

	Domestic	Foreign	Total
Revenue	₱68,589,197,920	₱19,963,276,419	₱88,552,474,339
Segment assets	₱174,160,727,085	₱46,206,208,513	₱220,366,935,598
Capital expenditures	₱15,303,410,864	₱1,690,128,000	₱16,993,538,864
Depreciation and amortization	₱7,721,682,535	₱681,493,977	₱8,403,176,512
Non-cash expenses other than depreciation and amortization			
Impairment losses on:			
Trade and other receivables (Notes 10 and 30)	₱906,758,686	₱765,162,904	₱1,671,921,590
Property, plant and equipment (Notes 16 and 30)	3,516,538,157	—	3,516,538,157
Other assets (Note 30)	391,999,867	240,688,815	632,688,682
Inventory obsolescence and market decline (Note 30)	106,987,095	—	106,987,095
	₱4,922,283,805	₱1,005,851,719	₱5,928,135,524



2005

	Domestic	Foreign	Total
Revenue	₱53,492,485,666	₱17,527,883,420	₱71,020,369,086
Segment assets	₱146,266,586,045	₱52,250,341,468	₱198,516,927,513
Capital expenditures	₱16,205,391,467	₱806,136,000	₱17,011,527,467
Depreciation and amortization	₱7,313,308,280	₱492,114,078	₱7,805,422,358
Non-cash expenses other than depreciation and amortization			
Impairment losses on:			
Trade and other receivables (Notes 10 and 30)	₱250,520,105	₱223,518,513	₱474,038,618
Investment in a joint venture (Notes 14 and 30)	—	148,954,506	148,954,506
Inventory obsolescence and market decline (Note 30)	64,028,603	—	64,028,603
	₱314,548,708	₱372,473,019	₱687,021,727

7. Cash and Cash Equivalents

This account consists of:

	2007	2006
Cash on hand and in banks	₱3,029,415,358	₱7,390,412,370
Cash equivalents	10,288,423,793	17,443,602,952
	₱13,317,839,151	₱24,834,015,322

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents, which represent money market placements, are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

Cash and cash equivalents of Robinsons Savings Bank Corporation (RSBC), a wholly owned subsidiary of JG Summit Capital Services Corp., amounted to ₱2.8 billion and ₱6.2 billion as of December 31, 2007 and 2006, respectively.

8. Financial Assets at Fair Value through Profit or Loss

These investments that are held for trading consist of:

	2007	2006
Private bonds	₱11,233,546,709	₱13,609,008,767
Government securities	5,327,000,040	6,680,998,491
Equity securities	2,680,152,067	1,722,166,909
	₱19,240,698,816	₱22,012,174,167

The above investments consist of quoted debt and equity securities issued by certain domestic and foreign entities. Net market valuation gains of financial assets at FVPL amounted to ₱247.4 million, ₱1.2 billion and ₱1.3 billion in 2007, 2006 and 2005, respectively.



9. Available-for-Sale Investments

This account consists of investments in:

	2007	2006
Government securities	₱3,252,505,654	₱3,627,606,359
Equity securities	998,469,169	491,637,682
Private bonds	483,628,439	561,092,817
	₱4,734,603,262	₱4,680,336,858

Equity securities include the Group's investments in certain nonmarketable equity securities amounting to ₱60.0 million as of December 31, 2007 and 2006, respectively. These investments are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

10. Receivables

This account consists of:

	2007	2006
Trade receivables (Notes 4 and 5)	₱11,889,593,169	₱8,954,282,094
Finance receivables - net of unearned discounts (Notes 4 and 5)	5,366,983,667	4,814,394,371
Due from related parties (Notes 4, 5 and 35)	2,661,334,024	2,393,336,322
Interest receivable (Notes 4 and 5)	702,667,101	805,208,175
Other receivables (Notes 4 and 5)	1,284,162,110	1,826,661,958
	21,904,740,071	18,793,882,920
Less allowance for impairment loss	4,390,002,526	4,266,516,234
	₱17,514,737,545	₱14,527,366,686

Trade Receivables

Trade receivables are noninterest-bearing and generally have thirty (30) to ninety (90) days terms.

Finance Receivables

Finance receivables represent receivables from customers of RSBC.



Allowance for Impairment Loss on Trade and Other Receivables

Changes in allowance for impairment losses on trade and other receivables follow:

2007

	Individual Assessment			Collective Assessment		Total
	Trade Receivables	Due from Related Parties	Other Receivables	Trade Receivables	Finance Receivables	
Balances at beginning of year	₱460,746,049	₱1,171,060,007	₱13,151,673	₱2,486,882,496	₱134,676,009	₱4,266,516,234
Provision for impairment loss (Notes 3, 5, 6 and 30)	13,167,429	–	–	248,006,521	26,222,004	287,395,954
Write offs	(154,891,403)	–	–	(8,607,529)	(410,730)	(163,909,662)
Balances at end of year	₱319,022,075	₱1,171,060,007	₱13,151,673	₱2,726,281,488	₱160,487,283	₱4,390,002,526

2006

	Individual Assessment			Collective Assessment		Total
	Trade Receivables	Due from Related Parties	Other Receivables	Trade Receivables	Finance Receivables	
Balances at beginning of year	₱527,744,241	₱–	₱8,960,731	₱2,100,074,279	₱100,893,995	₱2,737,673,246
Provision for impairment loss (Notes 3, 5, 6 and 30)	66,685,825	1,171,060,007	4,190,942	386,808,217	43,176,599	1,671,921,590
Write offs	(133,684,017)	–	–	–	(9,394,585)	(143,078,602)
Balances at end of year	₱460,746,049	₱1,171,060,007	₱13,151,673	₱2,486,882,496	₱134,676,009	₱4,266,516,234

Aging Analysis

The aging analysis of the Group's receivables as of December 31, 2007 follow:

	Total	Neither Past Due Nor Impaired	Past Due But Not Impaired				Past Due and Impaired
			Less than 30 Days	30 to 60 Days	60 to 90 Days	Over 90 Days	
Trade receivables (Notes 4 and 5)	₱11,889,593,169	₱4,331,702,388	₱2,242,424,734	₱1,009,111,615	₱368,539,186	₱892,511,682	₱3,045,303,564
Finance receivables (Notes 4 and 5)	5,366,983,666	5,184,599,797	14,163,863	3,343,249	4,389,474	–	160,487,283
Due from related parties (Notes 4, 5 and 35)	2,661,334,024	1,102,789,693	–	38,459,007	66,174,540	282,850,777	1,171,060,007
Interest receivable (Notes 4 and 5)	702,667,101	292,198,746	5,319,592	–	–	405,148,763	–
Others (Notes 4 and 5)	1,284,162,111	725,050,632	167,562,073	93,601,752	15,231,145	269,564,837	13,151,672
	₱21,904,740,071	₱11,636,341,256	₱2,429,470,262	₱1,144,515,623	₱454,334,345	₱1,850,076,059	₱4,390,002,526

11. Inventories

This account consists of inventories held:

	2007	2006
At cost:		
Raw materials	₱2,425,149,088	₱2,481,293,253
Finished goods	2,467,584,752	1,461,823,869
	4,892,733,840	3,943,117,122

(Forward)



	2007	2006
At NRV:		
Spare parts, packaging materials and other supplies	₱2,530,649,142	₱2,261,813,192
Work-in-process	175,964,941	200,338,281
Subdivision land and condominium and residential units for sale	1,966,786,592	1,788,468,078
By-products	26,117,179	18,037,757
	4,699,517,854	4,268,657,308
Materials in-transit	709,339,469	739,518,337
	₱10,301,591,163	₱8,951,292,767

Under the terms of agreements covering liabilities under trust receipts amounting to ₱2.6 billion and ₱3.9 billion as of December 31, 2007 and 2006, respectively, certain inventories have been released to the Group in trust for the banks. The Group is accountable to the banks for the value of the trusted inventories or their sales proceeds.

Inventory variances written down as expense (included under Cost of Sales account in the consolidated statements of income) amounted to ₱32.0 million and ₱57.0 million in 2007 and 2006, respectively (see Note 28).

Inventory obsolescence and market decline (included under Impairment Losses and Others account in the consolidated statements of income) amounted to ₱62.5 million, ₱107.0 million and ₱64.0 million in 2007, 2006 and 2005, respectively (see Note 30).

12. Other Current Assets

This account consists of:

	2007	2006
Input VAT - net	₱3,777,858,078	₱2,230,133,870
Advances to suppliers	556,086,490	454,625,927
Prepaid expenses	609,515,245	493,934,970
Others	74,801,872	45,105,421
	₱5,018,261,685	₱3,223,800,188

13. Held-to-Maturity Investments

This account consists of investments in:

	2007	2006
Government securities	₱114,607,639	₱119,555,282
Treasury notes	107,750,377	328,957,796
Private bonds	38,781,246	—
	₱261,139,262	₱448,513,078



The Group's HTM investments are carried net of accumulated unearned premium amounting to ₱31.03 million and ₱43.72 million as of December 31, 2007 and 2006, respectively, and unearned discount amounting to ₱11.22 million as of December 31, 2007. The aggregate market value of HTM investments amounted to ₱266.8 million and ₱457.8 million as of December 31, 2007 and 2006, respectively (see Note 5).

The range of nominal annual interest rates of HTM investments in 2007 and 2006 follow:

	2007	2006
US Dollar	8.3% to 10.6%	7.6% to 8.3%
Philippine Peso	5.4% to 11.0%	4.5% to 12.2%

14. Investments in Associates and Joint Ventures

This account consists of:

	2007	2006
Acquisition cost:		
Balances at beginning of year	₱15,317,762,378	₱13,845,314,219
Additional investments	1,776,870,443	1,472,448,159
Balances at end of year	17,094,632,821	15,317,762,378
Accumulated equity in net earnings:		
Balances at beginning of year	₱4,434,771,076	₱3,926,950,376
Equity in net earnings	1,624,158,170	1,080,041,888
Cash dividends received	(1,196,260,913)	(572,221,188)
Balances at end of year	4,862,668,333	4,434,771,076
Cumulative translation adjustment	(2,832,014,632)	(577,073,697)
	19,125,286,522	19,175,459,757
Less allowance for impairment losses	249,454,506	249,454,506
	₱18,875,832,016	₱18,926,005,251

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	
	2007	2006	2007	2006
	(In Million Pesos)			
Associates				
Domestic:				
Sterling Holdings and Security Corporation	49.00	49.00	₱127.8	₱127.8
Jobstreet.com Philippines, Inc.	40.00	40.00	11.2	11.2
Bayantrade Dotcom, Inc.	17.15	20.50	5.0	0.3
First Private Power Corporation (FPPC)	20.00	20.00	458.5	596.2
Cebu Light Industrial Park, Inc.	20.00	20.00	50.9	52.6

(Forward)



	Percentage of Ownership		Equity in Net Assets	
	2007	2006	2007	2006
	(In Million Pesos)			
Foreign:				
United Industrial Corp., Limited (UIC Limited)	33.49	31.98	₱18,041.5	₱17,984.7
Digitel Crossing (DC)	19.92	19.92	—	—
			18,694.9	18,772.8
Joint Ventures				
Aviation Partnership (Philippines) Corp.	49.00	49.00	91.0	86.6
Hunt-Universal Robina Corporation	29.59	29.59	89.9	66.6
			180.9	153.2
			₱18,875.8	₱18,926.0

UIC Limited

Financial information of UIC Limited follows (amounts in millions, except basic/diluted EPS):

	2007	2006
Total current assets	₱28,848	₱16,874
Total assets	193,191	147,066
Total current liabilities	25,734	21,090
Total liabilities	60,777	29,508
Net income	3,931	2,508
Basic/diluted EPS	2.36	1.72

UIC Limited follows the revaluation method of valuing property, plant and equipment. Since the Group's accounting policy for the valuation of property, plant and equipment is the cost basis, the financial information above on UIC Limited represents the adjusted amounts after reversal of the effect of revaluation on the said assets.

Had the revaluation gain on the assets of UIC Limited been consolidated on the basis of its accounting policy, the Group's equity in net earnings of its associates (reported in the consolidated statements of income) and equity in net assets (reported in the consolidated balance sheets) of UIC would have increased by ₱11.20 billion and ₱29.39 billion, and ₱440.6 million and ₱19.62 billion, in 2007 and 2006, respectively. Accordingly, the Group's consolidated net income would have increased by ₱11.20 billion and ₱440.6 million in 2007 and 2006, respectively.

FPPC

Financial information of FPPC follows (amounts in millions, except basic/diluted EPS):

	2007	2006
Total current assets	₱1,847,542	₱1,851,196
Total assets	5,264,991	6,335,845
Total current liabilities	398,240	1,226,085
Total liabilities	2,521,718	3,122,479
Net income	1,170,609	1,169,453
Basic/diluted EPS	95.26	71.02



15. Investment Properties

Movements in Investment Properties account in 2007 follow:

	Land and Land Improvements	Buildings and Improvements	Theater Furniture and Equipment	Total
Cost				
Balances at beginning of year	₱7,011,881,989	₱17,164,357,195	₱254,274,144	₱24,430,513,328
Additions	3,828,451,083	816,042,871	—	4,644,493,954
Retirements/disposals	(58,561,423)	—	—	(58,561,423)
Transfers/other adjustments	49,511,958	1,931,943,595	—	1,981,455,553
Balances at end of year	10,831,283,607	19,912,343,661	254,274,144	30,997,901,412
Accumulated Depreciation and Amortization				
Balances at beginning of year	30,972,490	5,561,153,915	150,126,096	5,742,252,501
Depreciation and amortization	4,353,046	1,187,736,596	24,411,595	1,216,501,237
Transfers/other adjustments	5,668,812	(12,297,238)	—	(6,628,426)
Balances at end of year	40,994,348	6,736,593,273	174,537,691	6,952,125,312
Net Book Value	₱10,790,289,259	₱13,175,750,388	₱79,736,453	₱24,045,776,100

Movements in Investment Properties account in 2006 follow:

	Land and Land Improvements	Buildings and Improvements	Theater Furniture and Equipment	Total
Cost				
Balances at beginning of year	₱5,069,267,300	₱16,535,082,960	₱254,159,654	₱21,858,509,914
Additions	2,302,701,712	418,366,355	114,490	2,721,182,557
Retirements/disposals	(42,994,137)	—	—	(42,994,137)
Transfers/other adjustments	(317,092,886)	210,907,880	—	(106,185,006)
Balances at end of year	7,011,881,989	17,164,357,195	254,274,144	24,430,513,328
Accumulated Depreciation and Amortization				
Balances at beginning of year	26,588,205	4,494,095,960	124,673,101	4,645,357,266
Depreciation and amortization	4,157,215	1,066,489,955	25,452,995	1,096,100,165
Transfers/other adjustments	227,070	568,000	—	795,070
Balances at end of year	30,972,490	5,561,153,915	150,126,096	5,742,252,501
Net Book Value	₱6,980,909,499	₱11,603,203,280	₱104,148,048	₱18,688,260,827

Investment Properties Transferred from Property, Plant and Equipment

Investment properties transferred from property, plant and equipment aggregated to ₱2.0 billion and ₱0.2 billion as of December 31, 2007 and 2006. These represent completed mall expansions that are located in Dasmariñas, Novaliches and Lipa, Batangas.

Fair Value of Investment Properties

The fair value of investment properties, which has been determined based on valuations performed by Asian Appraisal Company, Inc. as of May 31, 2005, exceeds its carrying cost. Asian Appraisal Company, Inc. is an industry specialist in valuing these types of investment properties. 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 ₱37.1 billion. Subsequently, there was no available fair value.



Rent Income from Investment Properties

Consolidated rent income from investment properties amounted to ₱4.0 billion, ₱3.3 billion and ₱3.3 billion in 2007, 2006 and 2005, respectively. Direct operating expenses pertaining to rental operations (included under Cost of Sales and Services account in the consolidated statements of income) amounted to ₱1.4 billion, ₱1.2 billion and ₱1.5 billion in 2007, 2006 and 2005, respectively.

Depreciation

The breakdown of consolidated depreciation of investment properties follows:

	2007	2006
Depreciation and amortization expense		
(included under):		
Cost of sales and services (Note 28)	₱1,212,153,698	₱1,088,588,693
General and administrative expenses (Note 29)	4,347,539	7,511,472
	₱1,216,501,237	₱1,096,100,165

Collaterals

As of December 31, 2007 and 2006, the Group has no investment properties that are pledged as collaterals.

16. Property, Plant and Equipment

Movements in the Property, Plant and Equipment account in 2007 follow:

	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Tele- communications Equipment	Investment in Cable Systems	Sub-total
Cost						
Balances at beginning of year	₱3,351,093,802	₱14,711,923,762	₱31,803,950,492	₱32,327,473,996	₱758,846,202	₱82,953,288,254
Additions	86,737,200	865,993,515	3,964,019,120	66,946,647	–	4,983,696,482
Transfers, disposals and other adjustments	(23,110,387)	54,692,698	1,597,695,901	10,296,597,940	(99)	11,925,876,053
Balances at end of year	3,414,720,615	15,632,609,975	37,365,665,513	42,691,018,583	758,846,103	99,862,860,789
Accumulated Depreciation and Amortization						
Balances at beginning of year	764,088,982	6,312,554,472	18,309,516,300	13,839,578,730	69,771,391	39,295,509,875
Depreciation and amortization expense	33,495,093	537,446,860	2,066,502,211	4,586,899,117	37,063,284	7,261,406,565
Disposals and other adjustments	(483,491)	4,229,741	546,553,174	3,701,114,941	–	4,251,414,365
Balances at end of year	797,100,584	6,854,231,073	20,922,571,685	22,127,592,788	106,834,675	50,808,330,805
Net Book Value	₱2,617,620,031	₱8,778,378,902	₱16,443,093,828	₱20,563,425,795	₱652,011,428	₱49,054,529,984

	Assets Under Finance Lease	Transportation, Furnishing and Other Equipment	Passenger Aircraft and Other Flight Equipment	Construction In-progress	Equipment In-transit	Total
Cost						
Balances at beginning of year	₱4,419,920,840	₱7,898,710,218	₱19,240,759,203	₱28,688,088,991	₱1,703,378,173	₱144,904,145,679
Addition	109,565,743	412,167,811	4,524,129,400	14,418,924,119	(1,472,639,022)	22,975,844,533
Transfers, disposals and other adjustments	(4,529,486,583)	(1,672,182,865)	4,213,355	(8,688,623,269)	–	(2,960,203,309)
Balances at end of year	–	6,638,695,164	23,769,101,958	34,418,389,841	230,739,151	164,919,786,903
Accumulated Depreciation and Amortization						
Balances at beginning of year	3,395,263,106	5,539,489,881	2,088,425,912	–	–	50,318,688,774
Depreciation and amortization	317,939,242	375,449,144	1,318,041,700	–	–	9,272,836,651
Disposals and other adjustments	(3,713,202,348)	(814,920,631)	(3,406,436)	–	–	(280,115,050)
Balances at end of year	–	5,100,018,394	3,403,061,176	–	–	59,311,410,375
Net Book Value	₱–	₱1,538,676,770	₱20,366,040,782	₱34,418,389,841	₱230,739,151	₱105,608,376,528



Movements in the Property, Plant and Equipment account in 2006 follow:

	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Tele- communications Equipment	Investment in Cable Systems	Sub-total
Cost						
Balances at beginning of year	₱3,216,217,666	₱13,837,745,335	₱32,075,637,874	₱31,341,108,297	₱795,030,250	₱81,265,739,422
Additions	405,096,005	1,181,172,958	2,407,228,586	184,345,000	—	4,177,842,549
Disposals and other adjustments	(270,219,869)	(306,994,531)	(2,678,915,968)	802,020,699	(36,184,048)	(2,490,293,717)
Balances at end of year	3,351,093,802	14,711,923,762	31,803,950,492	32,327,473,996	758,846,202	82,953,288,254
Accumulated Depreciation and Amortization						
Balances at beginning of year	513,127,243	4,917,619,827	17,629,992,246	11,757,915,730	44,032,633	34,862,687,679
Depreciation and amortization expense	223,038,589	605,377,753	1,882,174,535	2,060,646,016	—	4,771,236,893
Provisions for impairment loss (Note 30)	—	653,327,074	2,288,772,954	—	—	2,942,100,028
Disposals and other adjustments	27,923,150	136,229,818	(3,491,423,435)	21,016,984	25,738,758	(3,280,514,725)
Balances at end of year	764,088,982	6,312,554,472	18,309,516,300	13,839,578,730	69,771,391	39,295,509,875
Net Book Value	₱2,587,004,820	₱8,399,369,290	₱13,494,434,192	₱18,487,895,266	₱689,074,811	₱43,657,778,379

	Assets Under Finance Lease	Transportation, Furnishing and Other Equipment	Passenger Aircraft and Other Flight Equipment	Construction In-progress	Equipment In-transit	Total
Cost						
Balances at beginning of year	₱4,419,920,840	₱6,933,016,307	₱11,293,599,116	₱24,160,237,054	₱574,592,107	₱128,647,104,846
Addition	—	638,226,072	10,626,215,070	8,032,314,579	1,431,350,739	24,905,949,009
Disposals and other adjustments	—	327,467,839	(2,679,054,983)	(3,504,462,642)	(302,564,673)	(8,648,908,176)
Balances at end of year	4,419,920,840	7,898,710,218	19,240,759,203	28,688,088,991	1,703,378,173	144,904,145,679
Accumulated Depreciation and Amortization						
Balances at beginning of year	3,079,757,510	5,028,079,402	2,591,807,873	—	—	45,562,332,464
Depreciation and amortization	315,504,448	655,561,342	1,003,529,240	—	—	6,745,831,923
Provisions for impairment loss (Note 30)	—	—	574,438,129	—	—	3,516,538,157
Disposals and other adjustments	1,148	(144,150,863)	(2,081,349,330)	—	—	(5,506,013,770)
Balances at end of year	3,395,263,106	5,539,489,881	2,088,425,912	—	—	50,318,688,774
Net Book Value	₱1,024,657,734	₱2,359,220,337	₱17,152,333,291	₱28,688,088,991	₱1,703,378,173	₱94,585,456,905



Depreciation, Amortization and Impairment Loss

The breakdown of consolidated depreciation and amortization and provisions for impairment losses on property, plant and equipment follows:

	2007	2006
Depreciation and amortization expense (included under):		
General and administrative expenses (Note 29)	₱7,248,848,738	₱4,268,312,457
Cost of sales and services (Note 28)	2,023,987,913	2,477,519,466
	9,272,836,651	6,745,831,923
Provision for impairment loss (Note 30)	—	3,516,538,157
	₱9,272,836,651	₱10,262,370,080

Investment in Cable Systems

Investment in cable systems represents Digitel's indefeasible rights of use (IRU) of circuits in certain cable systems (see Note 22).

Facilities under Finance Lease

The Group previously leased certain telecommunications facilities covering local exchange facilities under various Finance Lease Agreements (FLAs) with the Department of Transportation and Communications (DOTC) for a period of thirty (30) years, at the end of which the ownership of the facilities automatically transfer to the Group. In 2007, the Group purchased the leased facilities in accordance with the option provided for under the FLAs to purchase the leased facilities. Accordingly, these assets have been reclassified to Telecommunications Equipment under Property, Plant and Equipment account in 2007, and certain expense accruals made in prior years relating to and prior to the termination of the lease agreement have been reversed to income in 2007.

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 (10) Airbus A319 aircraft (see Note 22). The Group also entered into a commercial loan facility to partially finance the purchase of two (2) Airbus A320 aircraft, one (1) CFM 565B4/P engine, two (2) CFM 565B5/P engines and one (1) Quick Engine Change (QEC) Kit (see Note 22). 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 by the guarantors which are CP Air Holdings Inc. (CPAHI) and the Parent Company, or failing that, the respective lenders will foreclose on the securing assets. As of December 31, 2007 and 2006, the carrying amount of the securing assets (included under the Property, Plant and Equipment account in the consolidated balance sheets) amounted to ₱19.3 billion and ₱16.7 billion, respectively.



17. Biological Assets

Movements in the Biological Assets account in 2007 follow:

	Swine (At Fair Values Less Estimated Point-of-Sale Costs)			Poultry (At Cost)	Total
	Mature	Immature	Sub-total	Mature	
Balances at beginning of year	₱555,415,570	₱209,979,070	₱765,394,640	₱97,225,296	₱862,619,936
Additions	1,312,996,220	409,051,179	1,722,047,399	119,355,254	1,841,402,653
Disposal	(1,321,813,233)	(476,209,662)	(1,798,022,895)	(78,556,520)	(1,876,579,415)
Gain arising from changes in fair value less estimated point-of-sale costs	146,173,504	130,641,732	276,815,236	—	276,815,236
Balances at end of year	692,772,061	273,462,319	966,234,380	138,024,030	1,104,258,410
Accumulated Depreciation					
Balances at beginning of year	—	—	—	45,616,483	45,616,483
Depreciation	—	—	—	85,923,741	85,923,741
Disposal	—	—	—	(77,850,587)	(77,850,587)
Balances at end of year	—	—	—	53,689,637	53,689,637
Net Carrying Value	₱692,772,061	₱273,462,319	₱966,234,380	₱84,334,393	₱1,050,568,773

Movements in the Biological Assets account in 2006 follow:

	Swine (At Fair Values Less Estimated Point-of-Sale Costs)			Poultry (At Cost)	Total
	Mature	Immature	Sub-total	Mature	
Balances at beginning of year	₱504,844,065	₱224,602,896	₱729,446,961	₱88,759,302	₱818,206,263
Additions	1,659,396,764	66,583,548	1,725,980,312	125,517,604	1,851,497,916
Disposal	(1,742,678,885)	(192,062,936)	(1,934,741,821)	(117,051,610)	(2,051,793,431)
Gain arising from changes in fair value less estimated point-of-sale costs	133,853,626	110,855,562	244,709,188	—	244,709,188
Balances at end of year	555,415,570	209,979,070	765,394,640	97,225,296	862,619,936
Accumulated Depreciation					
Balances at beginning of year	—	—	—	57,563,853	57,563,853
Depreciation	—	—	—	73,762,770	73,762,770
Disposal	—	—	—	(85,710,140)	(85,710,140)
Balances at end of year	—	—	—	45,616,483	45,616,483
Net Carrying Value	₱555,415,570	₱209,979,070	₱765,394,640	₱51,608,813	₱817,003,453

The Group has about 167,841 and 190,385 heads of swine as of December 31, 2007 and 2006, respectively, and about 413,231 and 425,539 heads of poultry as of December 31, 2007 and 2006, respectively.



18. Intangibles

Movements in the Intangibles account in 2007 follow:

	Technology Licenses	Branch Licenses	Software Costs	Trademarks	Total
Cost					
Balances at beginning of year	₱552,331,752	₱98,216,671	₱63,719,973	₱190,223,400	₱904,491,796
Additions	–	1,000,000	1,512,000	11,301,181	13,813,181
Balances at end of year	552,331,752	99,216,671	65,231,973	201,524,581	918,304,977
Accumulated Amortization and Impairment Loss					
Balances at beginning of year	552,331,752	–	46,757,352	–	599,089,104
Amortization	–	–	9,452,932	1,383,818	10,836,750
Balances at end of year	552,331,752	–	56,210,284	1,383,818	609,925,854
Net Carrying Value	₱–	₱99,216,671	₱9,021,689	₱200,140,763	₱308,379,123

Movements in the Intangibles account in 2006 follow:

	Technology Licenses	Branch Licenses	Software Costs	Trademarks	Total
Cost					
Balances at beginning of year	₱552,331,752	₱98,216,671	₱59,202,975	₱–	₱709,751,398
Additions	–	–	4,516,998	190,223,400	194,740,398
Balances at end of year	552,331,752	98,216,671	63,719,973	190,223,400	904,491,796
Accumulated Amortization and Impairment Loss					
Balances at beginning of year	237,806,861	–	36,785,250	–	274,592,111
Amortization	36,129,952	–	9,972,102	–	46,102,054
Provision for impairment loss (Note 30)	278,394,939	–	–	–	278,394,939
Balances at end of year	552,331,752	–	46,757,352	–	599,089,104
Net Carrying Value	₱–	₱98,216,671	₱16,962,621	₱190,223,400	₱305,402,692

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 (see Note 30).

Branch Licenses

Branch licenses represent amounts paid by RSBC relating to the purchase of property and equipment and the assumption of liabilities of a certain bank.

Trademarks

Trademarks represent trademarks which were acquired by URC from Nestle Water Philippines, Inc. and Acesfood Network Pte. Ltd. in 2007 and 2006, respectively (see Note 39).



19. Other Noncurrent Assets

This account consists of:

	2007	2006
Security deposits (Note 4)	₱2,260,809,110	₱1,656,330,135
Deferred subscriber acquisition and retention costs - net	733,021,983	530,286,174
Pension assets (Note 32)	92,534,300	236,346,400
Sinking fund for preferred shares (Note 23)	10,672,500	10,672,500
Others	1,619,919,427	1,164,479,368
	₱4,716,957,320	₱3,598,114,577

Security Deposits

Security deposits include pre-delivery payments made by CAI for its purchases of new aircraft amounting to ₱427.9 million and ₱940.2 million as of December 31, 2007 and 2006, respectively.

Deferred Subscriber Acquisition and Retention Costs

Changes in deferred subscriber acquisition and retention costs follow:

	2007	2006
Balances at beginning of year	₱530,286,174	₱398,594,371
Deferral of subsidies	842,112,586	563,139,546
Amortization during the year	(639,376,777)	(431,447,743)
Balances at end of year	₱733,021,983	₱530,286,174

20. Accounts Payable and Accrued Expenses

This account consists of:

	2007	2006
Deposit liabilities	₱10,301,717,608	₱13,617,267,932
Accrued expenses	7,157,213,311	7,121,696,209
Trade payables	6,364,207,824	5,981,127,894
Due to related parties (Notes 4 and 35)	2,434,542,441	1,727,839,524
Withholding taxes payable	226,269,534	238,053,696
Dividends payable	4,671,049	23,589,152
Obligations under finance lease (Note 16)	—	2,475,539,952
Other payables	1,017,422,925	1,102,805,833
	₱27,506,044,692	₱32,287,920,192

Deposit Liabilities

Deposit liabilities represent the savings, demand and time deposit liabilities of RSBC. Of the total deposit liabilities of RSBC as of December 31, 2007 and 2006, 61.8% and 78.7%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities earn an annual fixed interest rate of 2.0% in 2007 and 2006.



Accrued Expenses

Accrued expenses and other payables include accruals for interest and various expenses. The Group's Accrued Expenses account consists of accruals for:

	2007	2006
Interest expense	₱1,488,508,626	₱1,826,591,927
Import bills payable	1,336,978,148	628,221,720
Rental expense	930,962,288	766,184,527
Advertising and promotions	693,456,615	706,395,518
Landing and take-off, navigational charges, and other aircraft-related expenses	367,725,121	154,105,064
Taxes and licenses	322,554,044	252,284,387
Compensation and benefits	286,760,180	148,523,353
Contracted services	201,083,336	108,406,070
Utilities	123,772,629	54,101,070
Royalties	118,767,483	47,298,936
Freight and handling costs	110,913,437	66,470,996
Insurance	93,799,248	354,414,070
Other accrued expenses	1,081,932,156	2,008,698,571
	₱7,157,213,311	₱7,121,696,209

Other accrued expenses include accruals for travel and transportation, repairs and maintenance and other professional services.

Trade Payables

Trade payables which consist mostly of payables related to the purchase of inventories are noninterest-bearing and are normally settled on sixty (60)-day terms.

21. Other Current Liabilities

	2007	2006
Current portion of deposits from real estate buyers and lessees (Notes 5 and 24)	₱2,610,344,201	₱1,702,901,624
Unearned revenue (Notes 4 and 5)	2,129,790,294	1,025,544,194
Others	465,486,730	444,081,972
	₱5,205,621,225	₱3,172,527,790

Unearned Revenue

Unearned revenue account includes the Group's (a) unearned air transportation revenue, and (b) unearned telecommunications revenue.

Unearned air transportation revenue

Passenger ticket and cargo waybill sales are initially recorded under Unearned Revenue account in the consolidated balance sheet, until recognized under Revenue account in the statement of income, when the transportation service is rendered by the Group (or once tickets are flown). As of December 31, 2007 and 2006, the Group's unearned air transportation revenue amounted to ₱1.6 billion and ₱0.9 billion, respectively.



Unearned telecommunications revenue

Unearned telecommunications revenue represents the proceeds from sale of prepaid cards and airtime values through over-the-air reloading services. As of December 31, 2007 and 2006, the Group's unearned air telecommunications revenue amounted to ₱0.5 billion and ₱0.3 billion, respectively.

22. Short-term and Long-term Debt

Short-term Debt

Short-term debt consists of:

	2007	2006
Parent Company:		
Philippine Peso - with interest rates ranging from 4.53% to 5.88% per annum in 2007	₱3,428,500,000	₱—
Subsidiaries:		
Foreign currencies - with interest rates ranging from 2.72% to 5.95% per annum in 2007 and from 4.37% to 8.25% per annum in 2006	13,401,385,954	14,092,707,884
Philippine Peso - with interest rates ranging from 5.93% to 7.50% per annum in 2007 and from 7.25% to 7.75% per annum in 2006	426,400,000	551,000,000
	13,827,785,954	14,643,707,884
	₱17,256,285,954	₱14,643,707,884

The foregoing secured notes payable in 2007 and 2006 are covered by certain inventories amounting to ₱2.0 billion and ₱670.8 million, respectively.

Long-term Debt

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

	Maturities	Interest Rates	2007	2006
Parent Company:				
Bayerische HypoVereinsbank AG (HypoVereinsbank) loan	2010	USD London Interbank Offering Rate (LIBOR) + 0.625% and 3.72%	₱2,895,834,492	₱4,525,350,718
Subsidiaries:				
Foreign currencies:				
Universal Robina (Cayman), Ltd. (URCL) US\$100 million notes	2006	8.375%	—	1,869,297,064
JGSPL US\$300 million guaranteed notes	2008	8.25%	11,991,681,444	14,193,794,167
URC Philippines, Limited (URCPL) US\$125 million guaranteed notes	2008	9.00%	4,912,482,077	6,250,682,012
URC HypoVereinsbank term loan facilities	Various dates through 2009	EURIBOR/USD LIBOR + 0.75%	214,084,334	385,330,227

(Forward)



	Maturities	Interest Rates	2007	2006
URC US\$200 million guaranteed notes	2012	8.25%	₱8,958,806,192	₱9,976,989,649
JGSPL US\$300 million guaranteed note	2013	8.00%	10,752,995,403	12,760,330,701
Digitel zero coupon convertible bonds	2013	12.00%	1,795,327	1,999,742
Digitel term loan facilities	Various dates through 2015	USD LIBOR + 0.75% to 2.70%	5,943,716,687	4,894,649,849
CAI commercial loan from foreign banks	Various dates through 2017	6.51%	2,803,449,270	—
CAI export credit loan agreement (Notes 2 and 16)	Various dates through 2018	4.89% to 5.83%	9,595,605,270	12,407,415,360
Suppliers' credit agreements	2007	USD LIBOR + 1.50% to 2.00%	7,995,482	35,968,849
Minimum capacity purchase agreement (Note 16)	2007	—	61,920,000	220,635,000
			55,244,531,486	62,997,092,620
Philippine Peso:				
URC 5-year Metrobank loan	Various dates through 2007	3 months MART 1 + 1.00% to 2.00%	—	500,000,000
RLC ₱1,000 million bonds	2008	3 months MART 1 + 1.00% to 2.00%	1,000,000,000	1,000,000,000
RLC ₱1,000 million loan facility	2009	9.20% + 1.50% + 5% grt	560,000,000	670,000,000
Philippine Sugar Corporation restructured loan	2013	7.50%	52,353,312	52,416,293
RLC ₱3,000 million loan facility	2012	6.375%	3,000,000,000	—
			4,612,353,312	2,222,416,293
			62,752,719,290	69,744,859,631
Less current portion			21,443,502,972	5,835,972,474
			₱41,309,216,318	₱63,908,887,157

Long-term debt to foreign banks is shown net of unamortized debt issuance costs totaling ₱595.5 million (US\$14.1 million) and ₱508.2 million (US\$10.8 million) as of December 31, 2007 and 2006, respectively (see Note 4).

Except for the liability under the minimum capacity purchase agreement, repayments of the long-term debt (gross of debt issuance costs) follow:

	2007	2006
Due in:		
2007	₱—	₱5,856,833,516
2008	21,512,682,725	24,978,376,949
2009	3,480,475,901	3,297,304,540
2010	3,115,470,894	2,806,002,840
2011	2,607,240,496	2,298,486,485
Thereafter	32,522,948,051	30,828,390,716
	₱63,238,818,067	₱70,065,395,046

The liability under the minimum capacity purchase agreement is payable based on the actual material capacity purchased (see discussion within the note under Minimum Capacity Purchase Agreement section).



The exchange rates used to restate the foreign currency borrowings were ₱41.28 to US\$1.00 and ₱49.03 to US\$1.00 as of December 31, 2007 and 2006, respectively, except for the foreign currency borrowings of certain subsidiaries with fiscal year ending September 30, which were restated at ₱45.04 and ₱50.21 to US\$1.00 as of September 30, 2007 and 2006, respectively.

Certain loan agreements contain provisions which, among others, require the maintenance of specified financial ratios at certain levels and impose negative covenants which, among others, prohibit a merger or consolidation with other entities, dissolution, liquidation or winding-up except with any of its subsidiaries; prohibit 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 HypoVereinsbank Credit Facility

On October 26, 2001, the Parent Company entered into a loan agreement with HypoVereinsbank. HypoVereinsbank agreed to make available to the Parent Company a facility up to a maximum estimated amount of US\$98.5 million (the HypoVereinsbank facility) to refinance the contract signed by Digitel with a certain supplier on August 6, 2001, to the extent covered by the guarantee of Compagnie Francaise d'Assurance pour le Commerce Exterieur SA (COFACE), a French credit insurance agency. The purpose of the said facility is to finance: (1) up to 85% of the contract value or the counter value of US\$94 million which will be divided into two tranches, one corresponding to Phase I up to US\$78.2 million and one to Phase II up to US\$15.8 million, and (2) 100% of the COFACE premium estimated at US\$4.5 million.

Each tranche of the HypoVereinsbank facility shall be repaid in fourteen (14) equal, consecutive, semi-annual installments, each first repayment date becoming due six (6) months after the starting point of repayment of each phase. Any amount disbursed and outstanding during the preliminary period and repayment period shall carry interest at an interest rate of six (6) months USD LIBOR as determined by HypoVereinsbank on the quotation date plus a margin of 0.625% per annum. The interest due during the repayment period will be calculated on the amount of the credit outstanding as evidenced by the repayment schedule. These will be payable semi-annually in arrears on the same dates as the repayments of principal.

As of December 31, 2007 and 2006, the outstanding balance of the loans obtained from the HypoVereinsbank facility amounted to ₱2.9 billion (US\$70.3 million) and ₱4.5 billion (US\$92.4 million), respectively.

URCL US\$100 Million Guaranteed Notes Due 2006

On December 19, 1996, URCL issued US\$100 million 8.375% notes due 2006 guaranteed by the Parent Company. Unless previously redeemed or purchased and cancelled, the notes will be redeemed at their principal amount, plus accrued and unpaid interest, on December 19, 2006.

On May 2006, notes with a face value of US\$28.6 million were redeemed. The remaining balance of the loan was fully settled in 2006.



JGSPL 8.25% Guaranteed Notes Due 2008

In January 2003, JGSPL issued US\$ 300 million 8.25% guaranteed notes due 2008 which are unconditionally and irrevocably guaranteed by the Parent Company. Unless previously purchased and cancelled the 8.25% Guaranteed Notes will be redeemed at their principal amount on June 20, 2008.

As of December 31, 2007 and 2006, the outstanding balance of the notes amounted to ₱12.0 billion (US\$290.5 million) and ₱14.2 billion (US\$289.5 million), respectively.

URCPL 9% Guaranteed Notes Due 2008

On February 5, 2003, URCPL issued US\$125 million, 9% guaranteed notes due 2008 which are unconditionally and irrevocably guaranteed by URC. Unless previously redeemed or purchased and cancelled, the 9% Guaranteed Notes will be redeemed at their principal amount, plus accrued and unpaid interest, on February 6, 2008. Related terms and conditions provide for financial covenants to be complied with by URCPL and URC.

As of December 31, 2007 and 2006, the outstanding balance of the notes amounted to ₱4.9 billion (US\$109.1 million) and ₱6.3 billion (US\$124.5 million), respectively.

URC HypoVereinsbank Term Loan Facilities

URC entered into two credit term loan facilities with HypoVereinsbank to finance the supply of certain property and equipment for its biaxially-oriented polypropylene plant and flour mill plant. The loans obtained from said facility shall bear interest at floating rate based on the EURIBOR/ USD LIBOR plus 2.82% to 4.26%. The loan shall be payable in fourteen (14) equal, consecutive, semi-annual payments starting six (6) months after the weighted average delivery period of all units or, at the latest, starting six (6) months after August 1, 2002, whichever date shall occur earlier, with the last repayment installment due October 15, 2009.

As of December 31, 2007 and 2006, the outstanding balance of the loan obtained from the term loan facilities amounted to ₱214.1 million (US\$4.8 million) and ₱385.3 million (US\$7.7 million), respectively.

URCPL 8.25% Guaranteed Notes Due 2012

On January 14, 2005, URCPL issued US\$200 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.

As of December 31, 2007 and 2006, the outstanding balance of the notes amounted to ₱9.0 billion (US\$198.9 million) and ₱10.0 billion (US\$198.7 million), respectively.

JGSPL 8.00% Guaranteed Notes Due 2013

In January 2006, JGSPL issued US\$ 300 million 8% 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.

As of December 31, 2007 and 2006, the outstanding balance of the notes amounted to ₱10.8 billion (US\$260.5 million) and ₱12.8 billion (US\$260.3 million), respectively.



Digitel Zero Coupon Convertible Bonds

On December 8, 2003, Digitel issued zero coupon convertible bonds due 2013 with face value of US\$31.11 million and issue price of US\$10.02 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 (1) 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 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 bonds were redeemed multiplied by the exchange rate for the relevant date divided by the ₱1 par value. Unless previously converted, purchased or cancelled or redeemed, the 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 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% 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.

As of December 31, 2007 and 2006, the outstanding balance of the bonds amounted to ₱1.8 million (US\$43,491) and ₱2.0 million (US\$40,786), respectively.



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\$14.02 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 shall make available the total amount of US\$14.0 million, to be made available in two tranches of US\$11.8 million and US\$2.2 million. The amount shall be used to finance 85% of the export contract value totaling US\$16.5 million. Said loan is payable in fourteen (14) equal, consecutive, semi-annual installments beginning six (6) months after the final acceptance of all units purchased but not later than June 30, 2002. Digitel shall pay interest equivalent to US Dollar LIBOR plus 0.75%.

As of December 31, 2007 and 2006, the outstanding balance of the HypoVereinsbank loan, under the two (2) tranches, amounted to ₱193.6 million (US\$4.7 million) and ₱321.1 million (US\$6.6 million), respectively.

- 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% of the offshore contract value amounting to US\$40.6 million, and (ii) 85% of the Swedish Export Credits Guarantee Board (EKN) premium. The interest payable on the loan shall be the US Dollar LIBOR plus 0.75% per annum. The loan is payable in fourteen (14) consecutive equal semi-annual installments, the first of which shall fall due on March 15, 2005, subject to EKN's rules and regulations.

As of December 31, 2007 and 2006, the outstanding balance of the Nordea loan aforementioned facility amounted to ₱1.0 billion (US\$24.5 million) and ₱1.5 billion (US\$30.1 million), respectively.

- 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 twelve (12) consecutive equal semi-annual installments on the payment dates starting on March 15, 2006 and September 15, 2011.

As of December 31, 2007 and 2006, the outstanding balance of the Nordic loan amounted to ₱547.3 million (US\$13.3 million) and ₱811.3 million (US\$16.6 million), respectively.



- Digitel Societe Generale (SG) and Calyon term loan facilities

On April 11, 2005, Digitel 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 fourteen (14) consecutive equal semi-annual installments, the first one of which will become due six (6) months after repayment date and thereafter, each of them falling due on the following interest payment date. Digitel shall pay interest equivalent to USD LIBOR plus 0.60% per annum.

On May 5, 2005, Digitel entered into a supply and service contract with a certain foreign supplier for the supply of various telecommunications materials, software and services (the Supply and service contract). Under the terms and conditions of the Export Credit Agreements, SG and Calyon 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 credit insurance agency. The aggregate amount of all disbursements under the facility shall be payable in fourteen (14) consecutive equal semi-annual installments, the first one of which will become due six (6) months after the starting for repayment date and thereafter each of them falling due on the following interest payment date. The Parent Company shall pay interest equivalent to US Dollar LIBOR plus 0.40% per annum.

As of December 31, 2007 and 2006, the outstanding balance of the SG and Calyon loan amounted to ₱776.7 million (US\$18.8 million) and ₱628.2 million (US\$13.0 million), respectively.

- 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 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 Compagnie Francaise d'Assurance pour le Commerce Extérieur S.A., a credit insurance agency. The aggregate amount of all disbursements under the Loan shall be payable in fourteen (14) consecutive equal semi-annual installments, the first one of which will become due six (6) 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 US Dollar LIBOR plus 0.40% per annum.

As of December 31, 2007 and 2006, the outstanding balance of the aforementioned loan pertaining to the Supply and Service Contract amounted to ₱559.9 million (US\$13.6 million) and ₱775.4 million (US\$15.9 million), respectively.



- 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% of the premium payable to the Swedish Export Credits Guarantee Board (the 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 US Dollar LIBOR plus 0.35% per annum. The loan is payable in eighteen (18) consecutive equal semi-annual installments, the first of which shall fall due on October 30, 2006, subject to EKN's rules and regulations.

As of December 31, 2007 and 2006, the outstanding balance of the Nordea loan amounted to ₱610.5 million (US\$14.8 million) and ₱342.7 million (US\$7.0 million), respectively.

- 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 aggregate amount of all disbursements under the SG and Calyon shall be payable in fourteen (14) consecutive equal semi-annual installments, the first one of which will become due six (6) months after the starting date for repayment and thereafter, each of them falling due on the following interest payment date.

As of December 31, 2007, the outstanding balance of the SG and Calyon loan amounted to ₱400.2 million (US\$9.7 million).

- DMPI ING loans

In 2006, DMPI entered into various purchase agreements with certain suppliers and service contractors. The purchase agreements relate to the supply of equipment, software, and services for the Mobile Messaging Core Network (the Phase 5 project) and the Visayas-Mindanao Expansion Project (the Phase 6 project).

Pursuant to the aforementioned purchase agreements, the Company 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 owed from ING shall be payable in fourteen (14) consecutive equal semi-annual installments (the start payment dates for which the various drawdowns of which 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.

As of December 31, 2007 and 2006, the outstanding balance of the ING loans amounted to ₱1.8 billion (US\$44.7 million) and ₱538.8 million (US\$11.0 million), respectively.



CAI Commercial Loan From Foreign Banks

In 2007, CAI entered into a commercial loan facility to partially finance the purchase of two (2) Airbus A320 aircraft, one (1) CFM 565B4/P engine, two (2) CFM 565B5/P engines and one (1) QEC Kit. The security trustee of the commercial loan facility established IBON Leasing Limited (ILL), special purpose company, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to a: (a) ten (10)-year finance lease arrangement for the aircraft, (b) six (6)-year finance lease arrangement for the engines and (c) five (5)-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.

The terms of the commercial loan from foreign banks follow:

- Term of ten (10) years starting from the delivery date of each aircraft.
- Term of six (6) and five (5) years for the engines and QEC Kit, respectively.
- Annuity style principal repayments for the two (2) aircraft, and equal principal repayments for the engines and the QEC Kit. 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.
- 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 the securing assets.

As of December 31, 2007, the total outstanding balance of the commercial loan from foreign banks amounted to ₱2.8 billion (US\$67.9 million).

CAI Export Credit Agency (ECA) Loans

CAI entered into ECA-backed loan facilities to partially finance the purchase of ten (10) 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 twelve-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.

The terms of the ECA-backed facility which are the same for each of the ten (10) Airbus A319 aircraft follow:

- Term of twelve (12) years starting from the delivery date of each aircraft.



- Annuity style principal repayments for the first four (4) aircraft, and equal principal repayments for the last six (6) 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 4.9% to 5.8% in 2007 and 2006.
- 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 loan will be payable, including interest accrued. The ECA lenders will foreclose on secured assets, namely the aircraft.
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

As of December 31, 2007 and 2006, the total outstanding balance of the ECA loan amounted to ₱9.6 billion (US\$232.4 million) and ₱12.4 billion (US\$253.1 million).

Digitel Minimum Capacity Purchase Agreement

Digitel and Asia Netcom Asia Pacific Limited entered into a Network Agreement, where Digitel has agreed to purchase and Asia Global Crossing has agreed to grant rights with regard to, not less than, US\$40 million of capacity of an indefeasible right of use basis (IRU) of circuits in various cables systems. Pursuant to the restructuring of US\$18.0 million capacity purchase agreement with its joint venture partner, Digitel was granted an adjustment in the purchase price of the use of the submarine fiber optic cable system amounting to US\$3.0 million in 2004.

Digitel's outstanding liability under capacity purchase agreement amounted to ₱61.9 million (US\$1.5 million) and ₱220.7 million (US\$4.5 million) as of December 31, 2007 and 2006, respectively.



URC 5-Year Metrobank loan

URC obtained a five (5)-year loan from Metrobank, a local bank, payable in six (6) semi-annual amortizations of ₱100 million commencing in January 2002, with the remaining balance payable at maturity. The loan, which was fully paid in January 2007, was used to finance capital expenditures relative to the expansion of certain operations of the branded consumer food segment.

The loan was collateralized by a negative pledge on certain assets. The loan agreement contained certain provisions which, among others, imposed negative covenants relating to the Parent Company's ownership structure and nature of business, merger or consolidation with another entity, and acquisition of its own capital stock.

As of December 31, 2006, the outstanding balance of the loan amounted to ₱500.0 million. The loan was fully settled in 2007.

RLC ₱1,000 Million Bonds

On March 13, 2003, RLC issued ₱1,000 million bonds constituting direct, unconditional, unsubordinated and unsecured obligations ranking pari passu with all direct, unconditional, unsubordinated and unsecured obligations of RLC at par of 100% of face value. The term of the bond is 5 years and 1 day from issue date and shall be redeemable at par upon maturity or on a date which is 5 years and 1 day from issue date.

Interest on the outstanding principal sum of the bonds shall be paid at a rate determined for each quarterly interest period, accrued and payable quarterly on the dates indicated in the interest coupon of the bonds. The interest shall be the sum of three (3) months MART 1 plus a spread of 1.00% to 2.00%.

As of December 31, 2007 and 2006, the outstanding balance of the bonds amounted to ₱1.0 billion.

RLC ₱1,000 Million Loan

On October 6, 2004, RLC obtained a five (5)-year loan from ING, Manila and Security Bank Corporation under the DBP-JBIC loan facility payable in nine (9) semi-annual installments. The loan which bears a fixed interest rate of 9.2% per annum plus a margin of 1.5% per annum was used to partially finance capital expenditures of RLC.

As of December 31, 2007 and 2006, the outstanding balance of the loan facility amounted to ₱560.0 million and ₱670.0 million, respectively.

Philippine Sugar Corporation Restructured Loan

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 Republic Act (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% yearly and all penalties and surcharges due.



Certain assets of a subsidiary with net book value of ₱97.3 million as of December 31, 2007 and 2006 were used to secure the loan. The loan is payable in 25 equal annual amortizations of ₱9.9 million. Unpaid interest on the loan amounted to ₱2.9 million and ₱3.6 million as of December 31, 2007 and 2006, respectively.

As of December 31, 2007 and 2006, the outstanding balance of the restructured loan amounted to ₱52.4 million.

RLC ₱3,000 Million Loan Facility

On May 24, 2007, the Group issued ₱3.0 billion Fixed rate Corporate Note Facility constituting direct, unconditional, unsubordinated, general and unsecured obligations of the Group ranking at least pari passu in all respects and rateably without preference or priority (except for any statutory preference or priority applicable in the winding-up of the Group) 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 6.375% 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.

As of December 31, 2007, the outstanding balance of the loan facility amounted to ₱3.0 billion.

23. Cumulative Redeemable Preferred Shares

As of December 31, 2007 and 2006, the details as to the number of preferred shares of the Parent Company follow:

Authorized	2,000,000,000
Issued:	
11.75% preferred stock, ₱1.00 par value	171,900,000
12.00% preferred stock, ₱1.00 par value	255,000,000
	426,900,000

The preferred shares are nonconvertible, nonvoting, nonparticipating, cumulative and redeemable. Such shares enjoy preference in case of liquidation but are excluded from the preemptive rights in the issuance of preferred and common shares.

On July 27 and August 2, 2004, the Parent Company's BOD authorized the offer and issuance of 255,000,000 and 171,900,000 redeemable preferred shares, respectively. The issuances were designated as Tranche 1 Series A and Tranche 2 Series A, respectively. On said dates, the BOD further resolved that the preferred stock shall have a par value of ₱1.00 per share and an issue price of ₱5.00 per share, and shall be redeemed on the fifth year from issue date. The dividend rate shall be 12.00% and 11.75% respectively, and shall be payable quarterly until final redemption. The Parent Company shall establish a sinking fund for the preferred stock and for the sole purpose of providing funds to pay the redemption value amounting to ₱3.9 billion, not later than thirty (30) days after issue date (see Note 19).



24. Other Noncurrent Liabilities

This account consists of:

	2007	2006
Accrued project costs	₱5,246,874,011	₱650,382,147
ARO (Notes 3, 16 and 31)	1,119,176,248	856,389,693
Deposits from real estate buyers and lessees		
- net of current portion (Note 21)	1,030,761,354	836,003,182
Pension liabilities (Note 32)	367,050,400	266,917,970
Others	28,820,400	825,000
	₱7,792,682,413	₱2,610,517,992

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, 2007 and 2006. The determination of costs to be capitalized is based on the contract price multiplied by the percentage of shipped materials and/or delivered services.

ARO

The rollforward analysis of the Group's ARO follows:

	2007	2006
Balances at beginning of year	₱856,389,693	₱724,099,214
Capitalized to property and equipment	163,881,921	49,150,043
Accretion expense (Note 31)	98,904,634	83,140,436
Balances at end of year	₱1,119,176,248	₱856,389,693

Deposits from Real Estate Buyers and Lessees

The Customers' Deposits account represents cash received from tenants representing three (3) to six (6) months rent which shall be refunded to tenants at the end of lease term. In 2007, the Group recognized discount on customers' deposit amounting to ₱132.7 million (net of interest expense of ₱118.9 million) and unearned rental income of ₱129.6 million. The deposits from real estate buyers and lessees were discounted using MART 1 plus 2% spread.

In addition, other customers' deposits 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 ₱1.1 billion and ₱1.0 billion as of December 31, 2007 and 2006, respectively.



25. Equity

As of December 31, 2007 and 2006, the details of the Parent Company's common stock follow:

Authorized shares	12,850,800,000
Par value per share	₱1.00
Issued	6,895,273,657

Capital Management

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

The Group monitors its use of capital structure using a debt-to-capital ratio which is gross debt divided by total capital. The Group includes within gross debt all interest-bearing loans and borrowings, while capital represents total equity. Following is a computation of the Group's debt-to-capital ratio as of December 31, 2007 and 2006.

	2007	2006
(a) Gross debt		
Short-term debt (Note 22)	₱17,256,285,954	₱14,643,707,884
Long-term debt (Note 22)	62,752,719,290	69,744,859,631
Cumulative preferred shares (Note 23)	2,107,818,750	2,107,818,750
	₱82,116,823,994	₱86,496,386,265
(b) Capital	₱99,382,748,057	₱90,491,218,409
(c) Debt-to-capital ratio (a/c)	0.83:1	0.96:1

The Group's policy is to keep the debt-to-capital ratio at the 1.5:1 level.

Cash Dividends

On June 28, 2007, the Parent Company's BOD declared cash dividends at the rate of ₱0.03 per share or a total of ₱203.9 million from the Parent Company's unrestricted retained earnings as of December 31, 1997 to shareholders of record as of July 27, 2007.

On June 28, 2006, the Parent Company's BOD declared cash dividends at the rate of ₱0.03 per share or a total of ₱203.9 million from the Parent Company's unrestricted retained earnings as of December 31, 1997 to shareholders of record as of July 28, 2006.

Treasury Shares

The Parent Company has outstanding treasury shares of 98,082,000 shares amounting to ₱721.8 million as of December 31, 2007 and 2006, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.



26. Gain on Sale of Investments and Gain on Dilution of Equity Interest

In February 2006, Universal Robina Corporation (URC) made a follow-on offering of 695.4 million common shares at an offer price of ₱17.0 per share. Of the total common shares offered, 282.4 million common shares were from URC's unissued capital stock, and 413.0 million common shares were from URC's existing shareholders. The Parent Company and a wholly owned subsidiary sold a total of 355.6 million URC common shares. Total gain on sale of said investments in common shares of URC amounted to ₱3.2 billion in 2006.

In October 2006, Robinsons Land Corporation (RLC) made a follow-on offering where a total of 932.8 million of its common shares were offered at a price of ₱12.0 per share. Of the total common shares offered, 450.0 million common shares were from RLC's unissued capital stock and 482.9 million common shares were from RLC's existing shareholders. The Parent Company, URC and a certain wholly owned subsidiary sold a total of 482.8 million common shares of RLC. Total gain on sale of said investments in common shares of RLC amounted to ₱3.1 billion in 2006.

The issuance of additional URC and RLC common shares to the public and the secondary sale of the Group's common shares in URC and RLC decreased the effective ownership of the Group from 86.12% to 59.18% in URC and from 90.11% to 60.01% in RLC. As a result of the foregoing, the Group recognized a gain on dilution of equity interest amounting to ₱2.8 billion in 2006.

27. Other Revenue

This account consists of:

	2007	2006	2005
Foreign exchange gain - net (Notes 4, 7, 8, 9, 10, 12, 13, 19, 20, 21 and 22)	₱7,213,001,815	₱3,381,895,231	₱2,423,376,916
Market valuation gain on derivative instruments - net (Note 4)	1,712,759,453	1,134,762,076	258,335,686
Market valuation gain on financial assets at FVPL (Note 8)	247,396,519	1,226,373,047	1,279,254,492
Trading gain (loss) - net	(44,000,237)	294,634,613	222,801,690
Dividend income	129,223,295	194,647,816	57,721,118
Gain (loss) on sale of financial assets at FVPL	321,227,238	35,686,213	309,691,509
Income on early debt extinguishment	—	—	177,195,885
Others (Note 16)	2,434,856,491	276,474,637	262,428,865
	₱12,014,464,574	₱6,544,473,633	₱4,990,806,161



28. Cost of Sales and Services

This account consists of:

	2007	2006	2005
Raw materials used	₱26,313,126,754	₱24,148,534,281	₱21,748,747,258
Direct labor	865,731,739	754,253,419	429,828,247
Overhead cost	10,959,345,808	9,707,127,858	9,285,143,492
Total manufacturing cost	38,138,204,301	34,609,915,558	31,463,718,997
Goods in process	24,373,340	(41,171,077)	(61,499,885)
Cost of goods manufactured	38,162,577,641	34,568,744,481	31,402,219,112
Finished goods	(892,616,946)	587,617,607	(657,883,279)
Cost of sales	37,269,960,695	35,156,362,088	30,744,335,833
Cost of services	10,339,731,964	7,606,349,696	6,701,517,488
Cost of sales and services	₱47,609,692,659	₱42,762,711,784	₱37,445,853,321

29. General and Administrative Expenses

This account consists of:

	2007	2006	2005
Outside services	₱5,303,496,385	₱5,426,464,271	₱4,481,226,141
Depreciation and amortization	7,253,196,277	4,275,823,929	4,070,743,322
Personnel expenses (Note 32)	3,390,762,132	3,087,998,926	2,836,141,015
Rent	1,312,946,176	1,114,833,391	993,371,135
Utilities and supplies	1,086,304,082	895,274,835	675,915,575
Repairs and maintenance	884,560,905	792,640,146	715,120,084
Travel and transportation	695,790,792	620,558,926	529,031,864
Taxes, licenses and fees	656,787,800	472,464,526	449,276,550
Insurance	502,472,360	473,669,608	414,248,412
Communication	184,446,489	141,141,017	148,199,894
Others	1,406,306,552	934,492,303	1,768,326,448
	₱22,677,069,950	₱18,235,361,878	₱17,081,600,440

30. Impairment Losses and Others

This account consists of:

	2007	2006	2005
Provisions for impairment losses on:			
Trade and other receivables (Note 10)	₱287,395,954	₱1,671,921,590	₱474,038,617
Property, plant and equipment (Note 16)	—	3,516,538,157	—
Intangibles (Note 18)	—	278,394,939	—
Goodwill	—	240,688,815	—
Investment in a joint venture (Note 14)	—	—	148,954,506
Others	—	113,604,928	—
Inventory obsolescence and market decline	62,540,947	106,987,095	64,028,603
	₱349,936,901	₱5,928,135,524	₱687,021,726



In 2006, the following transactions resulted in the recognition of impairment losses on certain assets:

- JGSPC recorded a provision for impairment losses amounting to ₱2.8 billion on a certain cash-generating unit. The cash-generating unit is the total amount of machinery and equipment, building and improvements and technology license. This is predicated on the premise that JGSPC's cash inflows are entirely dependent on this group of assets which are critical in the manufacturing process for its polypropylene and polyethylene products. The recoverable amount was determined as the cash-generating unit's value in use.
- URC recorded a provision for impairment losses on certain machinery and equipment relating to its packaging operations amounting to ₱435.0 million. The recoverable amount was determined as the higher of the assets' net selling price and value in use. URC used the net selling price in computing for the provision on impairment losses.
- The Group's goodwill pertains to (a) 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 (b) the acquisition of Southern Negros Development Corporation (SONEDCO) in 1998. HCFCL, UABCL and SONEDCO are subsidiaries of URC. The goodwill arising from these acquisitions was translated at the applicable year-end exchange rate, and is being tested for impairment on an annual basis.

Due to continued losses from operations in HCFCL, the allocated goodwill on this subsidiary was written down and a provision for impairment loss amounting to ₱240.7 million was recorded in 2006.

Movements in the Group's Goodwill account follows:

	2007	2006
Cost		
Balances at beginning and end of year	₱1,085,237,005	₱1,085,237,005
Impairment Loss		
Balances at beginning of year	240,688,815	—
Provision for impairment loss	—	240,688,815
Balances at end of year	240,688,815	240,688,815
Net	₱844,548,190	₱844,548,190

In 2005, Digitel recorded a full provision for impairment losses on its investment in a joint venture (see Note 14).



31. Financing Costs and Other Charges

This account consists of:

	2007	2006	2005
Interest expense	₱6,690,277,208	₱7,205,499,012	₱6,869,803,640
Dividends on preferred shares	255,818,906	255,402,313	252,155,188
Bank charges and others	63,757,701	46,278,420	56,030,392
	₱7,009,853,815	₱7,507,179,745	₱7,177,989,220

The Group's interest expense is incurred from the following:

	2007	2006	2005
Long-term debt (Note 22)	₱4,183,859,101	₱5,128,510,676	₱4,320,058,945
Short-term debt (Note 22)	2,015,050,849	1,381,161,035	1,095,660,241
Accretion of ARO (Note 24)	98,904,634	83,140,436	67,858,481
Others	392,462,624	612,686,865	1,386,225,973
	₱6,690,277,208	₱7,205,499,012	₱6,869,803,640

32. Employee Benefits

Pension Plans

Except for URC, the Parent Company and certain consolidated subsidiaries have unfunded, noncontributory, defined benefit pension plans covering substantially all of their regular employees. The benefits are based on a defined formula with minimum lump-sum guarantee of 22.5 days pay per year of service. The latest actuarial valuation reports of the pension plans were made on December 31, 2007.

URC has a funded, noncontributory defined benefit pension plan covering all its regular employees. The pension fund is being administered and managed by certain stockholders as trustees.

Total pensions assets and liabilities recognized in the consolidated balance sheets follow:

	2007	2006
Pension assets (shown under Other Noncurrent Assets account in the consolidated balance sheets) (Note 19)	₱92,534,300	₱236,346,400
Pension liabilities (shown under Other Noncurrent Liabilities account in the consolidated balance sheets) (Notes 3 and 24)	367,050,400	266,917,970



The amounts recognized as pension liabilities (under Other Noncurrent Liabilities account in the consolidated balance sheets) follow:

	2007	2006
Present value of defined benefit obligation	₱295,685,863	₱452,691,489
Unrecognized amortizations:		
Unrecognized actuarial gain (loss) - net	71,364,537	(182,512,119)
Increase in liability	—	(182,400)
Benefits paid	—	(3,079,000)
Pension liabilities at end of year	₱367,050,400	₱266,917,970

URC's pension assets for its pension plans (included under Other Noncurrent Assets account in the consolidated balance sheets) follow:

	2007	2006
Present value of unfunded obligation	₱934,438,200	₱753,987,300
Fair value of plan assets	1,218,540,900	1,162,943,500
Excess of fair value of plan assets over present value of unfunded obligation	284,102,700	408,956,200
Unrecognized actuarial gain - net	92,534,300	—
Net pension plan assets	376,637,000	408,956,200
Asset limit to be recognized in the consolidated balance sheets	92,534,300	236,346,400
Net pension asset in excess of the asset ceiling not recognized in the consolidated balance sheets	₱284,102,700	₱172,609,800

Asset limits to be recognized in the consolidated balance sheets were determined as follows:

	2007	2006
Present value of available future contributions	₱92,534,300	₱236,346,400
Asset limit to be recognized in the consolidated balance sheets	₱92,534,300	₱236,346,400

Movements in the fair value of URC's plan assets follow:

	2007	2006
Balances at beginning of year	₱1,162,943,500	₱1,098,144,300
Expected return on plan assets	81,406,000	76,195,900
Actual contributions	—	5,770,500
Benefits paid	(7,614,900)	(25,034,700)
Actuarial gain - net	(18,193,700)	7,867,500
Balances at end of year	₱1,218,540,900	₱1,162,943,500
Actual return on plan assets	₱63,212,300	₱84,063,400



URC's plan assets consist of the following:

	2007	2006
Cash	₱27,090	₱26,130
Receivables	1,351,241,612	1,289,301,558
Liabilities	(132,727,802)	(126,384,188)
	₱1,218,540,900	₱1,162,943,500

Changes in the present value of the defined Group's benefit obligation follow:

2007

	URC	Others*	Total
Balances at beginning of year	₱753,987,300	₱452,691,489	₱1,206,678,789
Current service cost	47,374,300	79,825,200	127,199,500
Interest cost	66,350,900	38,293,200	104,644,100
Benefits paid	(7,614,900)	(32,945,544)	(40,560,444)
Actuarial loss (gain)	74,340,600	(242,178,482)	(167,837,882)
Balances at end of year	₱934,438,200	₱295,685,863	₱1,230,124,063

* Others include the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans.

2006

	URC	Others*	Total
Balances at beginning of year	₱593,828,500	₱373,464,700	₱967,293,200
Current service cost	35,275,200	41,021,514	76,296,714
Interest cost	67,463,600	28,940,350	96,403,950
Benefits paid	(35,546,509)	(109,290,375)	(144,836,884)
Actuarial loss - net	92,966,509	118,555,300	211,521,809
Balances at end of year	₱753,987,300	₱452,691,489	₱1,206,678,789

* Others include the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans.

Components of pension expense (included under General and Administrative Expenses account in the consolidated statements of income) follow:

2007

	URC	Others*	Total
Current service cost	₱47,374,300	₱79,825,200	₱127,199,500
Interest cost	66,350,900	38,293,200	104,644,100
Expected return on plan assets	(81,406,000)	(19,000)	(81,425,000)
Net actuarial loss recognized during the year	111,492,900	13,032,538	124,525,438
Total pension expense	₱143,812,100	₱131,131,938	₱274,944,038

* Others include the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans.



2006

	URC	Others*	Total
Current service cost	₱35,275,200	₱41,021,514	₱76,296,714
Interest cost	67,463,600	28,940,350	96,403,950
Expected return on plan assets	(76,195,900)	—	(76,195,900)
Net actuarial loss (gain) recognized during the year	(82,266,691)	9,229,575	(73,037,116)
Total pension expense	(₱55,723,791)	₱79,191,439	₱23,467,648

* Others include the Parent Company and certain consolidated subsidiaries with unfunded, noncontributory, defined benefit pension plans.

2005

	URC	Others*	Total
Current service cost	₱26,159,500	₱32,288,225	₱58,447,725
Interest cost	58,780,200	31,722,100	90,502,300
Expected return on plan assets	(71,609,400)	(10,400,500)	(82,009,900)
Net actuarial loss recognized during the year	41,402,296	29,451,105	70,853,401
Total pension expense	₱54,732,596	₱83,060,930	₱137,793,526

*Others include 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:

	2007	2006	2005
Discount rate	9.50 - 10.20%	8.69 - 11.90%	12.51 - 13.94%
Salary rate increase	6.79 - 7.00	5.40 - 6.00	6.00 - 6.06
Expected rate of return on plan assets	5.50	6.94 - 7.00	6.96 - 7.00
Experience adjustments gain (loss) - net	₱158,938,600	(₱165,972,400)	₱—

Digitel ESOP

Digitel's BOD and stockholders approved on August 10, 1994 and November 7, 1994, respectively, an ESOP which provides an opportunity for all directors, officers and managers of Digitel to purchase an ownership interest in Digitel's common stock.

The ESOP covers the offering of 320 million shares out of the authorized but unissued shares, or issued shares reacquired by Digitel to all eligible participants of the ESOP at an exercise price of ₱1.50 per share. Under the ESOP guidelines, eligible participants will be allocated an aggregate amount of shares determined in accordance with their rank, seniority and performance. The option to purchase shares under the ESOP may be exercised after completion of at least five years of continuous service to Digitel by paying the full amount in cash.

No options have been awarded pending approval of the SEC. Once approved, options granted will be accounted for under PFRS 2 and related Philippine Interpretations.



CAI ESOP and ESPP

On July 19, 2007, CAI's BOD approved the ESOP and ESPP, in order to provide a mechanism for eligible employees of CAI to acquire shares. An aggregate of 11.3 million common shares from the unissued portion of the authorized capital of CAI shall be allocated for the ESOP and ESPP, which shall consist of 10.2 million common shares for the ESOP and 1.5 million common shares for the ESPP.

No options have been awarded pending approval of the SEC. Once approved, options granted will be accounted for under PFRS 2 and the related Philippine Interpretations.

33. Income Tax

Provision for income tax consists of:

	2007	2006	2005
Current	₱864,273,049	₱821,020,788	₱652,387,364
Deferred	2,447,764,773	1,991,473,735	1,194,310,559
	₱3,312,037,822	₱2,812,494,523	₱1,846,697,923

Components of the Group's deferred income tax assets and liabilities follow:

	2007	2006
Deferred income tax assets on:		
Allowance for impairment loss on trade and other receivables	₱1,028,981,664	₱817,706,403
NOLCO	589,533,377	503,583,116
Accrued rent	236,812,451	198,771,995
Unfunded pension costs	113,481,020	79,869,577
Foreign exchange loss	93,665,393	2,918,450
Unfunded profit sharing	33,831,706	25,353,701
Allowance for inventory obsolescence	19,000,924	17,007,022
Unearned revenue	16,995,320	1,819,000
ARO	8,605,543	380,000
Others	119,559,451	184,051,597
Unrealized market valuation loss on derivative instruments	—	6,695,415
MCIT carryforward	38,266,423	57,677,719
Others	87,309,077	134,386,788
	2,386,042,349	2,030,220,783

(Forward)



	2007	2006
Deferred income tax liabilities on:		
Unamortized capitalized interest	(P1,867,670,005)	(P1,645,169,769)
Foreign exchange gain - net	(3,772,148,251)	(1,984,776,141)
Market valuation gain on derivative instruments	(1,144,542,969)	(505,954,525)
Excess of financial gross profit over taxable gross profit	(1,020,933,051)	(436,849,198)
Undistributed income of foreign subsidiaries	(281,250,000)	(273,437,500)
Unrealized profit on excess of market value over cost of hog market stocks	(96,885,333)	(88,477,912)
Unamortized debt issuance costs	(86,934,013)	(80,488,000)
Double depreciation	—	(366,888,765)
Accrued interest income	—	(153,151,048)
Accrued rent income	(100,704,480)	(83,736,479)
Others	(634,947,046)	(627,492,468)
	(9,006,015,148)	(6,246,421,805)
Net deferred income tax liabilities	(P6,619,972,799)	(P4,216,201,022)

Certain subsidiaries did not recognize any deferred income tax assets on the following temporary differences of certain subsidiaries on account of the subsidiaries' respective ITH and management believes that certain subsidiaries may not be able to generate sufficient taxable income that will be available to allow all or part of the deferred income tax assets to be realized.

	2007	2006
NOLCO	P3,989,294,973	P4,409,117,034
Allowance for impairment loss on trade and other receivables	707,829,678	657,070,396
Unearned revenue	469,542,728	327,322,165
Accretion of ARO	368,909,214	57,772,378
Depreciation of ARO	362,657,182	18,157,849
Accrued rent	151,493,309	115,871,701
Allowance for inventory obsolescence	35,688,218	18,872,517
Accrued pension costs	17,133,414	14,672,200
MCIT	15,989,900	—
	P6,118,538,616	P5,618,856,240



Reconciliation between the Group's statutory tax rate and effective tax rate follows:

	2007	2006	2005
Statutory income tax rate	35.00%	35.00%	32.50%
Increase (decrease) in tax rate resulting from the effects of:			
Board of Investments (BOI) tax credits and others	(9.44)	10.07	1.05
Equity in net earnings of unconsolidated subsidiaries/affiliates	(3.82)	3.25	(6.22)
Income subjected to lower tax rates	(3.68)	(3.93)	(6.85)
Nontaxable income	3.50	(0.67)	(14.21)
Nondeductible interest expense	1.55	1.65	2.65
Effect of unrecognized deferred income tax assets	0.31	6.43	9.56
Trading gain	—	(0.71)	(0.45)
Others - net	(1.15)	(26.90)	15.68
Effective income tax rate	22.27%	24.19%	33.71%

Republic Act (RA) No. 9337

RA No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. On October 18, 2005, the Supreme Court rendered its final decision declaring the validity of the RA No. 9337. Among the reforms introduced by the said RA which became effective on November 1, 2005 are as follows:

- Increase in the corporate regular income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Increase in VAT rate from 10% to 12% effective February 1, 2006 as authorized by the Philippine President pursuant to the recommendation of the Secretary of Finance; and
- Increase in unallowable interest expense from 38% to 42% of interest income subjected to final tax, with a reduction thereof to 33% beginning January 1, 2009.

34. Earnings Per Share

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

The following reflects the income and share data used in the basic/dilutive EPS computations:

	2007	2006	2005
Net income applicable to common stock	₱8,614,002,139	₱6,458,739,129	₱4,177,464,077
Weighted average number of common shares	6,797,191,657	6,797,191,657	6,797,191,657
Basic/dilutive EPS	₱1.27	₱0.95	₱0.61



To calculate EPS amounts for the discontinued operation, the weighted average number of ordinary shares for basic amount is as per table above. The following table provides the profit figure used as the numerator:

	2007	2006	2005
Net income (loss) attributable to ordinary equity holders of the parent from a discontinued operation for basic EPS calculations (Note 38)	(P195,184,252)	(P119,747,298)	P37,122,336

There were no potential dilutive common shares in 2007, 2006 and 2005.

35. Related Party Transactions

The Group, in the regular conduct of its business, has entered into transactions with associates and other related parties principally consisting of sales, purchases, advances and reimbursement of expenses, various guarantees, regular banking transactions, leases and, management and administrative service agreements.

Intercompany transactions are eliminated in the accompanying consolidated financial statements.

Related party transactions not eliminated are as follows:

	2007	2006
Due from related parties (included under Receivables - net in the consolidated balance sheets)	P2,661,334,024	P2,393,336,322
Due to related parties (included under Accounts payable and accrued expenses in the consolidated balance sheets)	2,434,542,441	1,727,839,524

The compensation of the Group's key management personnel by benefit type follows:

	2007	2006	2005
Short-term employee benefits	P1,001,291,022	P981,407,732	P934,674,030
Post-employment benefits	60,077,461	60,006,073	56,080,442
	P1,061,368,483	P1,041,413,805	P990,754,472

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.



36. Registration with Government Authorities/Franchise

Certain operations of consolidated subsidiaries are registered with BOI as preferred pioneer and nonpioneer 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.

Cebu Air, Inc. (CAI)

In 1991, pursuant to RA No. 7151, CAI was granted a franchise to operate air transportation services, both domestic and international. In 1997, the Office of the President of the Philippines gave CAI the status of official Philippine carrier to operate international services. In 2001, the Philippine Civil Aeronautics Board issued the permit to operate scheduled international services and a certificate of authority to operate international charters.

In 2005, CAI was registered with BOI as a new operator of air transport on a non-pioneer status. Under the terms of the registration, CAI is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of four (4) years from January 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall be limited, only to revenues generated from the registered air transport services. CAI can avail of bonus years in certain specified cases but the aggregate ITH availment (basic and bonus years) shall not exceed eight (8) years. In December 2007, CAI was given by BOI an extension of one (1) year or up to December 31, 2008 to fully comply with the requirement under its BOI registration to increase its paid-up capital to at least ₱5.3 billion; (b) additional deduction from taxable income of fifty (50) percent of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US\$10,000 to one (1) worker, for the first five (5) years from the date of registration and provided that this incentive shall not be availed of simultaneously with the ITH; (c) employment of foreign nationals in supervisory, technical or advisory positions for five (5) years from the date of registration; (d) tax credit equivalent to the national internal revenue taxes and duties paid in raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for ten (10) years from the start of commercial operations; (e) simplification of custom procedures for the importation of equipment, spare parts, raw materials, and supplies; (f) access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Customs' rules and regulations provided firm exports at least 70% of production output; (h) exemption from wharfage dues, any export tax, duty, imposts and fees for a ten (10) year period from the date of registration; (i) importation of consigned equipment for a period of ten (10) years from date of registration, subject to the posting of re-export bond; and (j) exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% of production.



Prior to the grant of the ITH and in accordance with its franchise:

1. CAI was subject to franchise tax of five (5) percent of the gross revenue derived from air transportation operations. For revenue earned from activities other than air transportation, CAI was subject to regular corporate income tax and to tax on real property.
2. In the event that any competing individual, partnership or corporation received and enjoyed tax privileges and other favorable terms which tended to place CAI at any disadvantage, then such provisions shall have been deemed by the fact itself of CAI's tax privileges and shall operate equally in favor of CAI. Hence, for purposes of computing the corporate income tax, CAI depreciated its assets to the extent of not more than twice as fast the normal rate of depreciation, paid the lower of the franchise tax and the corporate income tax and carried over as a deduction from taxable income any net loss incurred in any year up to five (5) years following the year of such loss.

Universal Robina Corporation (URC) and Subsidiaries

Under the terms of their respective registrations, the following consolidated subsidiaries of URC are entitled to the following fiscal and non-fiscal incentives:

Universal Robina Sugar Milling Corporation (URSUMCO)

In 2005, the five (5)-year ITH granted to URSUMCO, a wholly owned subsidiary of URC, under its old BOI registration as a new domestic producer of refined sugar in 1995 expired. However, the following incentives are still available to URSUMCO under said BOI registration: (a) tax credits on taxes and duties on raw materials and supplies used in the manufacture of export products and forming parts thereof; (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) exemption from wharfage dues and any export tax, duty impost and fees for ten (10) years from date of registration; (d) exemption from taxes and duties on imported spare parts and supplies for certain producers at least 70% of production; and (e) other non-fiscal incentives that may be applicable.

In 2004, URSUMCO applied for a new registration with the BOI as expanding producer of refined sugar and molasses. The application for registration for the new activity was approved and granted by the BOI in April 2004. Under the terms of its new registration, URSUMCO is entitled, among others, to the following incentives: (a) ITH for a period of three (3) years from April 2004 or actual start of operations, whichever is earlier; (b) tax credits on taxes and duties on raw materials and supplies used in the manufacture of export products and forming parts thereof for ten (10) years from start of commercial operations; (c) additional deduction from taxable income on wages subject to certain terms and conditions; (d) exemption from wharfage dues and any export tax, duty impost and fees for ten (10) years from date of registration; (e) exemption from taxes and duties on imported spare parts and supplies for export producers with CBMW exporting at least 70% of production; and (f) importation of consigned equipment for a period of ten (10) years from date of registration.

Southern Negros Development Corporation (SONEDCO)

In November 2005, SONEDCO was registered with the BOI as a new producer of refined sugar and its by-product (molasses) on a pioneer status.



Under the terms of the registration and subject to certain requirements, SONEDCO is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of six (6) years from November 2006; (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) employment of foreign nationals; (d) tax credits on taxes and duties on raw materials and supplies used in the manufacture of export products and forming parts thereof for ten (10) years from start of commercial operations; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to CBMW subject to Customs' rules and regulations provided firm exports at least 70% of production output; (g) exemption from wharfage dues and any export tax, duty, impost and fees; (h) importation of consigned equipment for a period of ten (10) years from date of registration; and (i) exemption from taxes and duties on imported spare parts and consumable supplies for exports producers with CBMW exporting at least 70% of production.

CFC Clubhouse Property, Inc. (CCPI)

In June 2005, CCPI was registered with the BOI as a new producer of printed flexible packaging materials on a non-pioneer status, and as a new producer of PET bottles on a non-pioneer status.

Under the terms of the registration and subject to certain requirements, CCPI is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of four (4) years from April 2007 (as a new producer of printed flexible packaging materials) and from January 2007 (as a new producer of PET bottles); (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) employment of foreign nationals; (d) tax credits on taxes and duties on raw materials and supplies used in the manufacture of export products and forming parts thereof for ten (10) years from start of commercial operations; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to CBMW subject to Customs' rules and regulations provided firm exports at least 70% of production output; (g) exemption from wharfage dues and any export tax, duty, impost and fees; (h) importation of consigned equipment for a period of ten (10) years from date of registration; and (i) exemption from taxes and duties on imported spare parts and consumable supplies for exports producers with CBMW exporting at least 70% of production.

Digitel and DMPI

Digitel is a grantee of various authorizations from the NTC as follows:

1. Certificates of Public Convenience and Necessity (CPCN) to: (a) install, operate, maintain and develop telecommunications facilities in Regions I to V; (b) install, operate and maintain telephone systems/networks/services in Quezon City, Valenzuela City and Malabon, Metro Manila and Tarlac; (c) install, operate and maintain an International Gateway Facility (IGF) in Binalonan, Pangasinan; (d) install, operate and maintain an IGF in Metro Manila; and (e) operate and maintain a National Digital Transmission Network;
2. Provisional Authorities (PAs) to: (a) install, operate and maintain Local Exchange Carrier (LEC) services in the National Capital Region (NCR); (b) construct, install, operate and maintain a nationwide Cellular Mobile Telephone System (CMTS) using Global System for Mobile (GSM) and/or Code Division Multiple Access (CDMA) technology; and (c) install, operate and maintain LEC services in Visayas and Mindanao.



On December 28, 2005, the NTC awarded a third generation (3G) frequency assignment to DMPI after finding it legally, financially and technically qualified to undertake 3G services. On January 3, 2006, Digitel confirmed its choice of 3G bandwidth with the NTC.

On August 28, 2003, the NTC approved the assignment to DMPI of the PA to construct, install, operate and maintain a nationwide CMTS using GSM and/or CDMA technology.

Digitel is registered with the BOI as an expanding operator of public telecommunications services and IGF-2 on a nonpioneer status with a registered capacity of 786,000 lines covering the areas of Regions I to V and the Cordillera Autonomous Region. Under the terms of its registration, Digitel is entitled to ITH for three (3) to six (6) years on income derived from certain areas, additional deduction of labor expenses for five (5) years but not simultaneous with the ITH, employment of foreign nationals for five (5) years and unrestricted use of consigned equipment. However, Digitel is subject to certain requirements such as: (a) maintaining a base equity of at least 25%, (b) filing of specialized financial reports with the BOI, and (c) the need for prior approval for the (i) issuance of stock convertible into voting stock, (ii) repurchase of its own stock, (iii) investment in, extension of loans or purchase of bonds in substantial amount from any enterprise other than those bonds issued by the Philippine government, (iv) expansion of its capacity, with or without incentives, and (v) transfer of ownership or control of Digitel.

Digitel is registered with BOI as a new operator of telecommunications systems on nationwide CMTS-GSM communication network on a pioneer status with a registered capacity of 553,451 lines. Consequently, Digitel became entitled to the following incentives: (a) ITH for six (6) years which is reckoned from January 2003 or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration; provided however, that Digitel has complied with the infusion of the minimum investment cost of ₱1.0 billion not later than four (4) years from the date of its registration. In case of failure to comply with the said investment requirement, BOI shall be constrained to automatically amend the project's status of the registration from a pioneer status [entitled to six (6) years ITH] to a nonpioneer status [entitled to four (4) years ITH]. Prior to availment of ITH incentive, Digitel shall submit proof of compliance with the Tree Planting Program of BOI; (b) allowable additional deduction from taxable income of fifty (50) percent of the wages for the first five (5) years from the date of registration, corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to number of workers set by BOI of not more than US\$10,000 to one worker, and provided that this incentive shall not be availed of simultaneously with the ITH; (c) unrestricted use of consigned equipment; and (d) employment of foreign nationals in technical, supervisory or advisory positions for five (5) years from the date of registration.

On October 10, 2003, the BOI registration was transferred to DMPI subject to the following conditions: (1) submission of a resolution duly approved by the BOD accepting all the terms and conditions imposed by the BOI on registration; (2) start of the period of availment of incentives of the DMPI from the date of the registration; and (3) compliance with other requirements/conditions as may be imposed by the BOI. In relation to the incentives from BOI, DMPI is required to maintain a 70:30 debt-to-equity ratio within a specific period as prescribed by BOI.



On December 14, 2006, the Digitel and DMPI were registered with the BOI as a new operator of infrastructure and telecommunications facilities (i.e. 3G telecommunications system) on a pioneer status with a registered capacity of 378 base transceiver stations (BTS) and 950 BTS, respectively. The acceptance of the terms and conditions of the approval of registration states that Digitel and DMPI reserve the right to through due process to appeal entitlement to ITH after the issuance of the Certificate of Registration. As of December 31, 2007 and 2006, Digitel and DMPI have not filed an appeal for ITH entitlement under the new registration.

Under the terms of the registration, the Digitel and DMPI are entitled to the following fiscal and non-fiscal incentives: (a) for the first five (5) years from the date of registration, Digitel and DMPI shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US\$10,000 to 1 worker; (b) Digitel and DMPI shall be allowed the employment of foreign nationals in supervisory, technical or advisory positions for a period of five (5) years from date of registration. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subject to the limitations set in the registration; (c) Digitel and DMPI shall be given tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for ten (10) years from start of commercial operations; (d) Digitel and DMPI shall be entitled to simplification of Customs' procedures for the importation of equipment, spare parts, raw materials and supplies; (e) Digitel and DMPI shall be entitled access to CBMW, subject to Customs' rules and regulations and provided that Digitel and DMPI export at least 70% of the production output; (f) Digitel and DMPI shall be exempted from wharfage dues, any export tax, duty, imposts and fees for a ten (10) year period from date of registration; (g) Digitel and DMPI shall be allowed importation of consigned equipment for a period of ten (10) years from date of registration, subject to the posting of re-export bond; (h) Digitel and DMPI shall be exempted from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% of production; and (i) Digitel and DMPI may also qualify to import capital equipment, spare parts and accessories with exemption on the related duties from date of registration up to June 16, 2011, pursuant to Executive Order No. 528 and its implementing rules and regulations.

Under the specific terms and condition of the BOI registration as a new operator of infrastructure and telecommunications facilities, Digitel and DMPI must increase its subscribed and paid-up capital stock by at least ₱1.6 billion, and must submit proof of compliance prior to availment of incentives.

Digitel and DMPI must submit to the BOI a quarterly report on actual investments, employment and sales pertaining to the project. Said report will be due within fifteen (15) days from end of each quarter, starting on the date of registration. Digitel and DMPI must also submit to the BOI an annual report of its actual investments, taxes paid and employment within 1 month following the end of each fiscal year. Furthermore, Digitel and DMPI must submit a proof of compliance with the Tree Planting Program of the BOI.



JGSPC

JGSPC was registered with the BOI on May 24, 1994 as a new domestic producer of PE and PP under the 1987 Omnibus Investment Code with a capacity of 175,000 metric tons of PE and 180,000 metric tons of PP per year. Under this registration, JGSPC is entitled to certain incentives, the more significant of which are: (a) ITH for six (6) years from projected start of commercial operations or actual start of commercial operations whichever comes first; (b) additional deduction for incremental labor expense; (c) tax and duty free importation of capital equipment; (d) tax credit for taxes and duties paid on raw materials used for its export products; (e) exemption from contractor's tax, wharfage due and any export tax, duty, impost and fees; (f) employment of foreign nationals; and (g) unrestricted use of consigned equipment.

Under the said registration, prior approval by BOI is required relative to, among others, transfer of ownership or control of JGSPC, purchase of treasury shares, issuance of stock convertible into voting stock, substantial investments in, loans to, or purchase of bonds (except Philippine government bonds) from an enterprise, expansion of JGSPC's capacity, and engagement in an undertaking other than the preferred project covered by said registration.

On October 2, 1998, the BOI granted JGSPC's request to move the reckoning date of its ITH incentive from October 1998 to October 2001. This is pursuant to an existing policy on ITH availment of registered enterprises invoking as operational force majeure the Philippine peso devaluation related to the Asian financial crisis.

LMI

LMI is registered with the BOI as a nonpioneer export producer of garments and domestic producer of fabric which requires that the LMI to maintain at all times a minimum of 60% Filipino voting equity and to export at least 50% of its products. LMI is also registered with the BOI under the Textile Modernization Program on a preferred nonpioneer status.

As a registered enterprise, LMI is entitled to certain tax incentives provided for under Presidential Decree 1789, as amended by Batas Pambansa Blg. 391. The tax credits earned by the Group under these incentives amounted to ₱45.0 million in 2006.

On October 13, 2006, the Group's BOD approved the cessation of operations of LMI effective at close of business hours on November 30, 2006 (see Note 38).

37. Commitments and Contingent Liabilities

Operating Lease Commitments - Group as a Lessee

RLC entered into long-term operating leases of land with lease terms ranging from twenty-five (25) to fifty (50) years.



Future minimum rentals payable under noncancelable operating leases of certain lessee subsidiaries follow:

	2007	2006	2005
Within one (1) year	₱34,694,797	₱32,476,612	₱31,400,606
After one (1) year but not more than five (5) years	161,315,477	153,583,640	143,206,108
After more than five (5) years	6,155,001,711	6,198,612,605	6,160,458,860
	₱6,351,011,985	₱6,384,672,857	₱6,335,065,574

Operating Lease Commitments - Group as a Lessor

RLC has entered into commercial property leases on its investment portfolio. These noncancelable leases have remaining noncancelable lease terms of between 1 and 10 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.

Future minimum rentals receivable under noncancelable operating leases follow:

	2007	2006	2005
Within one (1) year	₱1,747,847,370	₱1,908,733,779	₱1,873,733,558
After one (1) year but not more than five (5) years	2,038,092,305	2,182,503,024	2,217,937,476
After more than five (5) years	324,681,209	831,056,004	534,762,314
	₱4,110,620,884	₱4,922,292,807	₱4,626,433,348

Commitments

RLC

RLC and its subsidiaries have commitments of ₱4.6 billion and ₱3.2 billion as of December 31, 2007 and 2006, respectively, for the construction of new malls, residential condominium and office building developments.

CAI

As of December 31, 2007, CAI has existing commitments to purchase ten (10) additional new Airbus A320 aircraft, each amounting to ₱3.0 billion (US\$64.4 million). The ten (10) aircraft which the Company has placed firm orders for are scheduled to be delivered between 2010 and 2012.

CAI also has commitments to purchase six (6) new ATR 72-500 turboprop aircraft amounting to ₱4.3 billion (US\$95.4 million). These turboprop aircraft will cater to destinations in the country's smaller airports. The Company expects to begin to take delivery of the initial six (6) aircraft beginning 2008.

The above-indicated commitments principally relate to CAI's re-fleeting and expansion programs.



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. The technology licenses of JGSPC have been fully impaired in 2006.

Digitel

Digitel has existing agreements with various telecommunications 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 telecommunications 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 telecommunications 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 and ₱19.0 billion in 2007 and 2006, respectively.

Off-Balance Sheet Items

In the normal course of a 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.

Others

The Group has various contingent liabilities arising in the ordinary conduct of business 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 grounds that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.



38. Discontinued Operations

On October 13, 2006, the Group's BOD approved the cessation of operations of Litton Mills, Inc. (LMI) effective at close of business hours on November 30, 2006. LMI is a manufacturer, buyer and seller of textiles and fabrics. In relation to the cessation of operations, LMI will sell the remaining property and equipment except for land, land improvements, and buildings and improvements, which will be leased out to certain related parties.

Also in 2006, the Group announced management's decision to dispose of Premiere Printing Company, Inc. (PPCI). PPCI is a proprietor and publisher of journals, magazines, books and other literary works and undertakings.

The results of LMI and PPCI are presented below:

2007

	LMI	PPCI	Total
Revenue:			
Sales and services:			
Textiles	₱391,957,032	₱—	₱391,957,032
Other supplementary businesses			0
Interest income	642,130	171,044	813,174
Others	96,168,647	—	96,168,647
	488,767,809	171,044	488,938,853
Expenses			
Cost of sales and services	656,531,730	—	656,531,730
Operating and other expenses	59,035,230	824,743	59,859,973
Financing costs and other charges	1,795,023	—	1,795,023
	717,361,983	824,743	718,186,726
Loss before income tax	(228,594,174)	(653,699)	(229,247,873)
Provision for income tax	34,063,621	—	34,063,621
Loss for the period from discontinued operations	(₱194,530,553)	(₱653,699)	(₱195,184,252)

2006

	LMI	PPCI	Total
Revenue:			
Sales and services:			
Textiles	₱2,254,296,485	₱—	₱2,254,296,485
Other supplementary businesses	—	26,728,809	26,728,809
Interest income	3,169,610	485,976	3,655,586
Others	204,061,942	1,264,736	205,326,678
	2,461,528,037	28,479,521	2,490,007,558

(Forward)



	LMI	PPCI	Total
Expenses			
Cost of sales and services	₱2,136,915,189	₱33,259,154	₱2,170,174,343
Operating and other expenses	334,118,036	97,653,176	431,771,212
Impairment losses	—	—	—
Financing costs and other charges	34,701,655	—	34,701,655
	2,505,734,880	130,912,330	2,636,647,210
Loss before income tax	(44,206,843)	(102,432,809)	(146,639,652)
Provision for income tax	(26,892,354)	—	(26,892,354)
Loss for the year from discontinued operations	(₱17,314,489)	(₱102,432,809)	(₱119,747,298)

2005

	LMI	PPCI	Total
Revenue:			
Sales and services:			
Textiles	₱2,965,673,046	₱—	₱2,965,673,046
Other supplementary businesses	—	118,150,183	118,150,183
Interest income	156,624	402,826	559,450
Others	65,129,588	10,983	65,140,571
	3,030,959,258	118,563,992	3,149,523,250
Expenses:			
Cost of sales and services	2,728,300,532	112,086,929	2,840,387,461
Operating and other expenses	244,804,129	12,783,512	257,587,641
Impairment losses	—	—	—
Financing costs and other charges	33,143,381	7,372	33,150,753
	3,006,248,042	124,877,813	3,131,125,855
Income (loss) before income tax	24,711,216	(6,313,821)	18,397,395
Provision for income tax	(18,226,877)	(498,064)	(18,724,941)
Income (loss) for the year from discontinued operations	₱42,938,093	(₱5,815,757)	₱37,122,336

As of December 31, 2007, the major classes of assets and liabilities of LMI and PPCI as held for sale follow:

	LMI	PPCI	Total
Assets:			
Cash and cash equivalents	₱6,075,233	₱5,679,152	₱11,754,385
Available-for-sale investments	48,909,802	—	48,909,802
Receivables - net	135,602,324	5,305,802	140,908,126
Inventories - net	105,784,828	—	105,784,828
Other current assets	123,608,069	—	123,608,069
Property, plant and equipment - net (excluding land, land improvements, and buildings and improvements)	231,516,808	—	231,516,808
Other noncurrent assets	129,148,217	—	129,148,217

(Forward)



	LMI	PPCI	Total
Assets of disposal group classified as held for sale	₱780,645,281	₱10,984,954	₱791,630,235
Liabilities directly associated with the assets classified as held for sale			
Accounts payable and accrued expenses	(23,006,106)	(426,201)	(23,432,307)
Net assets of disposal group classified as held for sale	₱757,639,175	₱10,558,753	₱768,197,928

As of December 31, 2006, the major classes of assets and liabilities of LMI and PPCI as held for sale follow:

	LMI	PPCI	Total
Assets:			
Cash and cash equivalents	₱37,654,511	₱18,227,063	₱55,881,574
Available-for-sale investments	52,825,311	—	52,825,311
Receivables - net	546,888,590	32,413,387	579,301,977
Inventories - net	1,100,086,654	—	1,100,086,654
Other current assets	55,674,011	2,000	55,676,011
Property, plant and equipment - net (excluding land, land improvements, and buildings and improvements)	465,216,931	—	465,216,931
Other noncurrent assets	94,956,170	—	94,956,170
Assets of disposal group classified as held for sale	2,353,302,178	50,642,450	2,403,944,628
Liabilities:			
Accounts payable and accrued expenses	(557,399,590)	(3,990,329)	(561,389,919)
Income tax payable	(7,958,525)	—	(7,958,525)
Liabilities directly associated with the assets classified as held for sale	(565,358,115)	(3,990,329)	(569,348,444)
Net assets of disposal group classified as held for sale	₱1,787,944,063	₱46,652,121	₱1,834,596,184

Unrealized gain on AFS investments of LMI amounted to ₱22.5 million and ₱22.5 million as of December 31, 2007 and 2006, respectively.

39. Business Combinations

The Group engaged in the following business acquisitions and purchase transactions in 2007:

Acquisition of South Luzon Greenland, Inc. (SLGI) and Purchase of Assets from Nestlé Waters Philippines Inc. (NWPI)

On March 1, 2007, URC wholly acquired the water business of NWPI for an aggregate amount of approximately US\$5.0 million (₱248.9 million).



In connection with the foregoing acquisition, URC's BOD also approved the following: (a) the assignment and purchase from NWPI of the "Hidden Spring" trademark and copyright; (b) the purchase from the NWPI of the buildings/improvements and accessories, plants, machinery; (c) laboratory equipment, and furniture; (d) the acquisition of the water source and manufacturing site, through the purchase of all the outstanding shares of stock of South Luzon Greenland, Inc. (SLGI) which are owned by NWPI and Nestlé Philippines, Inc. Retirement Fund; (e) the assignment and transfer to URC by NWPI of all of its financial claims from SLGI consisting of shareholder's advances; (f) the purchase from NWPI of its inventory of finished products, raw and packaging materials, the consideration for which is not included in the purchase price mentioned above and shall be determined on closing date; and (g) the execution of a licensing agreement with Société Des Produits Nestlé S.A., pursuant to which URC shall be licensed to manufacture, promote, distribute and sell, the products carrying the "Nestlé Pure Life" trademark in the Philippines.

SLGI was acquired for an aggregate amount of ₱7.7 million in 2007. The fair values of the identifiable assets and liabilities of SLGI as of the date of acquisition were:

	Fair Value Recorded On Acquisition
Cash	₱565,944
Property and equipment	31,458,905
Other current assets	40,778
Liabilities	(24,398,499)
Total assets acquired	₱7,667,128
Consideration, satisfied by cash	₱7,667,128

Acquisition of Acesfood Network Pte. Ltd.

On May 10, 2007, URC acquired 96.08% of the shares of Acesfood Network Pte. Ltd. (Acesfood) for an aggregate amount of approximately SGD3.0 million (₱87.7 million).

The fair value of the identifiable assets and liabilities of Acesfood as of the date of acquisition were:

	Fair Value Recorded on Acquisition
Property and equipment	₱209,543,860
Accounts payable and other accrued liabilities	(121,803,600)
Total net assets acquired	₱87,740,260
Consideration, satisfied by cash	₱87,740,260

The fair value adjustments as of December 31, 2007 were provisional as the Group had sought an independent valuation for the property and equipment owned by Acesfood. The results of this valuation had not been received as of the date the 2007 consolidated financial statements were authorized for issue by management.

Acesfood trademark

In 2006, the Group acquired the Acesfood trademark amounting to ₱190.2 million (see Note 18).



40. Events After Balance Sheet Date

URC purchased the manufacturing assets of PASSI (Iloilo) Sugar Central, Inc. (PASSI) for ₱680.0 million. PASSI is the largest raw sugar producer in the province of Panay, and currently operates two (2) sugar mills with a combined milling capacity of over 8,000 tons of cane per day. The purchase of PASSI, together with the expansion of the mills and refinery of SONEDCO, will make URC the second largest sugar miller and refiner in the country.

URC's BOD approved the creation and implementation of a share buy-back program involving up to ₱2.5 billion of URC's common shares, representing approximately 7.63% of its current market capitalization.



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) included in this Form 17-A and have issued our report thereon dated April 14, 2008. Our audits were made for the purpose of forming an opinion on the basic 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 the Securities Regulation Code Rule 68.1 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.



Renato J. Galve
Partner
CPA Certificate No. 37759
SEC Accreditation No. 0081-AR-1
Tax Identification No. 102-087-055
PTR No. 0017596, January 3, 2008, Makati City

April 14, 2008



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, 2007**

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	3,200,000	596,223,108	248,236,043	-	(234,620,730)	(151,281,126)	3,200,000	458,557,295
Sterling Holdings & Security Corporation	1,278,798	127,833,149	886	-	-	-	1,278,798	127,834,035
Hunt-Universal Robina Corporation	1,400,000	66,585,075	23,287,500	-	-	-	1,400,000	89,872,575
Cebu Light Industrial Park	600,000	52,560,962	(1,649,600)	-	-	-	600,000	50,911,362
United Industrial Corp. Limited	440,465,000	17,984,685,867	1,316,432,833	1,869,855,115	(932,069,582)	(2,197,409,809)	461,336,000	18,041,494,424
Digitel Crossing	-	-	-	-	-	-	-	-
Bayantrade.com, Inc.	9,737,500	262,745	3,964,663	765,328	-	-	9,481,415	4,992,736
Jobstreet.com Philippines, Inc.	5,645,598	11,229,227	24,801,497	-	(24,840,631)	-	5,645,598	11,190,093
Aviation Partnership (Philippines) Corp.	-	86,625,118	9,084,348	-	(4,729,970)	-	-	90,979,496
		18,926,005,251	1,624,158,170	1,870,620,443	(1,196,260,913)	(2,348,690,935)		18,875,832,016

JG SUMMIT HOLDINGS INC. AND SUBSIDIARIES

SCHEDULE E - PROPERTY, PLANT AND EQUIPMENT December 31, 2007

Classification	Beginning Balance	Additions	Disposals and Other adjustments	Ending Balance
Land and improvements	P 3,351,093,802	P 86,737,200	P (23,110,387)	P 3,414,720,615
Buildings and improvements	14,711,923,762	865,993,515	54,692,698	15,632,609,975
Machinery and equipment	31,803,950,492	3,964,019,120	1,597,695,901	37,365,665,513
Telecommunications equipment	32,327,473,996	66,946,647	10,296,597,940	42,691,018,583
Investment in cable systems	758,846,202	-	(99)	758,846,103
Assets under finance lease	4,419,920,840	109,565,743	(4,529,486,583)	-
Transportation, furnishing and other equipment	7,898,710,218	412,167,811	(1,672,182,865)	6,638,695,164
Passenger aircraft, flight equipment and others	19,240,759,203	4,524,129,400	4,213,355	23,769,101,958
Construction in-progress	28,688,088,991	14,418,924,119	(8,688,623,269)	34,418,389,841
Equipment in-transit	1,703,378,173	(1,472,639,022)	-	230,739,151
	P 144,904,145,679	P 22,975,844,533	P (2,960,203,309)	P 164,919,786,903

JG SUMMIT HOLDINGS INC. AND SUBSIDIARIES

SCHEDULE F - ACCUMULATED DEPRECIATION

December 31, 2007

Classification	Beginning Balance	Depreciation, Amortization and Impairment losses	Disposals and Other adjustments	Ending Balance
Land and improvements	P 764,088,982	P 33,495,093	P (483,491)	P 797,100,584
Buildings and improvements	6,312,554,472	537,446,860	4,229,741	6,854,231,073
Machinery and equipment	18,309,516,300	2,066,502,211	546,553,174	20,922,571,685
Telecommunications equipment	13,839,578,730	4,586,899,117	3,701,114,941	22,127,592,788
Investment in cable systems	69,771,391	37,063,284	-	106,834,675
Assets under finance lease	3,395,263,106	317,939,242	(3,713,202,348)	-
Transportation, furnishing and other equipment	5,539,489,881	375,449,144	(814,920,631)	5,100,018,394
Passenger aircraft, flight equipment and others	2,088,425,912	1,318,041,700	(3,406,436)	3,403,061,176
	P 50,318,688,774	P 9,272,836,651	P (280,115,050)	P 59,311,410,375

JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE H - LONG-TERM DEBT (NET OF DEBT ISSUANCE COST) DECEMBER 31, 2007

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount Shown as Current	Amount Shown as Long-term	Remarks
Guaranteed Notes Due 2008	\$ 300,000,000	P11,991,681,444	-	
Guaranteed Notes Due 2008	\$ 125,000,000	4,912,482,077	-	
Guaranteed Notes Due 2012	\$ 200,000,000	(9,900,452)	P8,968,706,644	
Guaranteed Notes Due 2013	\$ 300,000,000	(10,444,831)	10,763,440,234	
CAI - ECA Loan Facility		1,079,788,777	11,319,265,763	
Hypovereinsbank		913,240,814	1,982,593,678	
Zero coupon 12% Convertible Bonds Due 2013		-	1,795,327	
Suppliers' credit		7,995,482	-	
Nordic Investment Bank		136,510,555	410,776,978	SEE NOTE BELOW
Nordea Bank		322,038,491	1,300,172,923	
Societe Generale (SG) and Calyon		282,072,597	1,468,925,642	
Bayerische Hypo-und VereinsBank		77,226,394	116,338,872	
ING Bank N.V.		298,622,676	1,531,031,559	
Bayerische Vereinsbank AG		154,311,125	59,773,209	
Minimum Capacity Agreement		61,920,000	-	
Philippine Sugar Corporation		5,957,823	46,395,489	
PCI Capital Corp.		1,000,000,000	-	
DBP - JBIC Term Loan		220,000,000	340,000,000	
Hongkong and Shanghai Banking Corp. Ltd.		-	3,000,000,000	
		P21,443,502,972	P41,309,216,318	

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, 2007**

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		
				Affiliates	Directors, Officers and Employees	Others
Common Stock at P1 par value	14,850,800,000	6,797,191,657	-	342,340,145	1,799,146,093	4,655,705,419