



LT GROUP, INC.

growth in diversity
strength of solidarity



Asia Brewery, Inc.

Eton Properties Philippines, Inc.

Philippine National Bank

PMFTC, Inc.

Tanduay Distillers, Inc.

annual report 2012

beverages

property
development

tobacco

banking

distilled spirits

in diversity
is strength



The LT Group Logo

Strength and solidarity. This is the essence of the LT Group (LTG) logo. The clean balanced lines and curves are the central element--a mystical symmetrical tree. Drawn in an Eastern-Oriental style, it gives hint to the Company's Chinese heritage.

Tree is life. Life is growth. Like a tree, a company with firm roots, properly nurtured, will continuously grow and give value.

The tree's trunk is upright, and the branches spread out--a symbolic consolidation of the subsidiaries and stakeholders within two circles, one for continuity, the outer one for solidarity.



About The Cover

The cover is a literal translation of the LT Group's logo. Reinforced by the title "Growth in Diversity. Strength of Solidarity," the elements show the coming together of the companies under the consolidation.

The oak tree is the LT Group . Its roots dig deep into both the legacy and spirit of each of the industry-leading companies under its shade. It is in fact a reflection of the Group's strength in combining five of its successful companies with interests in tobacco, beverages, distilled spirits, banking and property development.

Contents

2	Chairman's Message
4	Management Report
7	Financial Highlights
8	Business Groups
16	Corporate Governance
18	Corporate Social Responsibility
22	Statement Of Management's Responsibility For Financial Statements
23	Independent Auditor's Report
24	Consolidated Balance Sheets
25	Consolidated Statements Of Income
26	Consolidated Statements Of Comprehensive Income
27	Consolidated Statements Of Changes In Equity
29	Consolidated Statements Of Cash Flows
31	Notes To Consolidated Financial Statements
74	Investor's Information



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this is the
LT Group



Chairman's Message



"We are many. Yet we are one.

We are the LT Group."

Dr. Lucio C. Tan



We are now LT Group !

We are now among the biggest Philippine conglomerates, with a diversified and enlarged portfolio that provides vast opportunities for synergies and business growth. More than ever, we are in a much better position to provide the best value to our shareholders.

At year-end, we have completed the acquisition of majority stakes in Asia Brewery, Fortune Tobacco and Eton Properties. The folding in of Philippine National Bank will be fully completed by the second half of 2013. Same as Tanduay, these companies are market leaders in consumer-oriented industries, supported by strong brands and comprehensive distribution networks and with an in-depth understanding and commitment to the Filipino mass market. With domestic consumption anchoring the favorable performance of the Philippine economy, we are in a stronger and more strategic position for growth and profitability.

Tanduay laid down the groundwork for this business consolidation by becoming the Group's first listed company in 1999. From then on, it undertook a series of debt and capital raising transactions to establish links with investors and put the Group always within the sight of the financial community.

Following the business consolidation, our Company raised \$920 Million fresh capital from 137 global institutional investors that was considered the largest follow-on offering by a Philippine company. The transaction was seven times oversubscribed, with 11 global long-term investors committing to become cornerstone investors, the first in the country.

The success of the share offering affirms our Company's viability and is a tribute to our management team and employees. We are extremely pleased and humbled by the strong level of interest in our Company by global investors. We are aware, however, that this comes with a greater responsibility for transparency and a commitment to adhere to higher standards of governance. It also challenges us to further improve our organization's capability to deliver value and preserve the trust of our investors.

The stage has been set for our Company to seek higher levels of success! Together, we should continue to work hard to keep our commitment to our stakeholders!

Thank you and MABUHAY!!!



DR. LUCIO C. TAN
Chairman

Management Report

Your company's robust growth and the opportunities offered by a steadying economy in 2012 gave birth to a new corporate structure and a new name – LT Group, Inc. (LTG). This new structure reinforced our image and position as one of the country's strongest diversified conglomerates.

The corporate restructuring yielded positive reaction from investors resulting in surging stock prices, registering a 204.1% increase to ₱13.38 per share in mid-2012 from ₱4.40 per share in December 2011.

RESULTS OF OPERATIONS

On a restated basis, LTG's consolidated net income attributable to equity holders of the Company grew by 29.1% from ₱5.8 billion in 2011 to ₱7.5 billion in 2012 mainly a result of the 22.1% increase in operating income.

Revenues

The distilled spirits segment grew its revenues by 4.2% as an effect of the increased sales volume of its products. The beverage group also reflected an improvement in its sales by 1.6%, with energy drinks and bottled water as top performers in the product mix. Although both the aforementioned segments improved, the sales of the property development and tobacco segments declined, causing LTG's consolidated revenues to go down by 6.5%. The property segment's construction of projects slowed down as a result of design changes and delays in securing necessary permits. And while FTC's sale of goods went up by 56.8%, its total revenues declined due to the termination of the transitional services agreement where FTC received fees for providing employee and administrative services to PMFTC.

Cost of Sales

Cost of sales, similar to revenues, declined by 4.7%. Cost of sales of the beverage and property segments decreased by 2.9% and 49.2%, respectively which offset the increases in tobacco and distilled spirits. The beverage segment was able to reduce its costs due to favourable prices of sugar which is a major input in the production of energy drinks, its major revenue generator. The decline in the property development segment's cost of sales was commensurate to the drop in its revenues caused by delays on the construction projects. On the other hand, increased cost of sales of the tobacco and distilled spirits was influenced by their higher sales volumes.

Operating Expenses

Consolidated operating expenses decreased by 6.6% on account of lower selling costs that resulted mainly from the beverage group's reduction in promotional expenses and freight and handling charges, as well as the property developments' lower sales-related expenses like commissions. Although general and administrative expenses remained steady at ₱2.1 billion, a reduction of 47.8% was seen in the tobacco segment as the retrenchment program reduced personnel-related costs. This offset the increase in the beverage segment's taxes, depreciation and personnel costs, together with the property development's repairs and maintenance, outside services and business taxes.

Other Income (Charges)

Finance income grew on account of higher interest income on bank deposits and interest-bearing contracts receivables though finance costs also increased as a result of the increase in interest payments on unsecured term loans. Foreign exchange losses substantially increased from ₱1.4 million in 2011 to ₱108.1 million in 2012, reflecting the loss in the peso value of US dollar denominated receivables of the tobacco segment due to the appreciation of the Philippine Peso. Other sources of income was the ₱491.2 million excise tax refund received by the tobacco segment from the BIR in 2012.

FINANCIAL CONDITION

LTG's total assets as restated to reflect its enhanced business portfolio amounted to ₱97.6 billion or an increase by 30.5% from last year's ₱74.8 billion due to significant movements in cash and cash equivalents, receivables and accounts with related parties.

Cash and cash equivalents increased by 72% arising mainly from cash dividends received by the tobacco segment and from the ₱5 billion additional equity infusion. Receivables increased by 24% mainly due to the significant increase in December sales of the distilled and beverage segments in anticipation of the excise tax – related selling price increases in January 2013. Due from related parties increased by ₱11.7 Billion mainly representing advances assigned to the Company in relation to the acquisition of stakes in the property and banking segments.

The consolidated liabilities of LTG grew by 29.1% to ₱45 billion this year, with Due to Related parties increasing by 110.5% as part of the group's corporate restructuring and consolidation activities. Customers' Deposits also increased by 50% coming from sales bookings on newly opened projects. Short-term debt decreased by 22.5% on account of payments made during the year.

Total equity increased by 17.1% to ₱52.6 billion from ₱39.9 billion. Main drivers for this growth were the 13.9% and 11.1% increase in capital stock and retained earnings, respectively. Capital stock increased by ₱5.4 billion to ₱9.0 billion this year due to the additional capital contributions totalling ₱5.398 billion on May 2, 2012 and July 27, 2012. The increase in retained earnings was due mainly to the net income for the year of ₱ 7.5 Billion.

LTG's current ratio improved slightly from 1.4:1 in 2011 to 1.5:1 while debt-to-equity ratio likewise improved to 0.85 : 1.00 from 0.87 : 1.00. Earnings per share increased to ₱0.85 per share from ₱0.68 per share.

ONGOING CAPITAL EXPENDITURE PROJECTS

Continuing LTG's business plan to further improve operating efficiency and rationalize its business processes, additional projects were initiated by its distilled and beverage segments in 2012.

Distilled spirits

Alcohol production capacity of Absolut Distillers in Lian, Batangas will be upgraded to 175,000 liters per day to provide TDI with more high-grade alcohol to be used in the production of new products for Luzon and export markets. Construction of a warehouse for raw materials and finished goods as well as a new bottle sorting facility has also started in TDI's Negros Plant and is expected to be completed in 2014.

Beverage

A Polyethylene Terephthalate (PET) bottling plant that is capable of producing both bottled water and carbonated softdrinks at a rated capacity of 15,000 bottles per hour was commissioned in December. This fully integrated plant in ABI's Cagayan de Oro complex will be used to serve the growing demand for bottled water and carbonated softdrinks in the Visayas and Mindanao areas. Major capex projects for its glass manufacturing and beer production facilities as well as a new Head Office building in Cabuyao were also initiated. Lastly, investments were made in returnable containers to both replace fully depreciated bottles/crates and to support increasing sales of Cobra Energy Drinks, Beer and Alcopop drinks.

Your LT Group will remain competitive, in fact relentless, in our push for expansion and profitability. We will protect our investments by bringing down costs. We will improve our competitiveness by good pricing and product development. We will efficiently deliver our promises, confident in our management and staff. We will continue to connect intensely with our customers through quality yet affordable products and to keep innovation in the forefront of our product development efforts.

As one big family, held together by a rich legacy and thrust forward by a commitment to excellence, we shall strive to bring your Company to stability and higher profitability as we surmount the challenges that lie ahead. In diversity we will always be united and strong!



DR. LUCIO C. TAN

Chairman & Chief Executive Officer



MICHAEL G. TAN
President



JOSE GABRIEL D. OLIVES
Chief Financial Officer

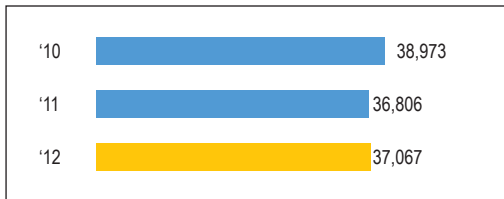


Financial Highlights

Result of Operations

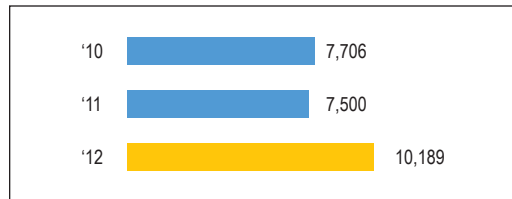
Revenues

(In Million Pesos)



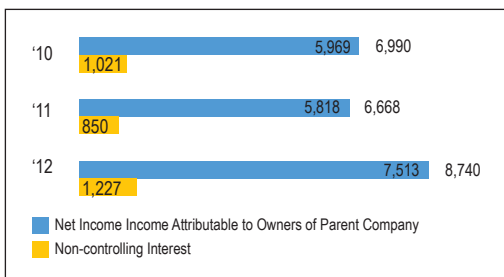
EBITDA

(In Million Pesos)



Net Income

(In Million Pesos)



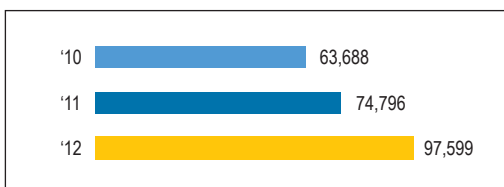
Per Share Data

	2012	2011	2010
Earnings	0.85	0.68	0.70
Equity	5.28	4.11	3.13

Financial Position

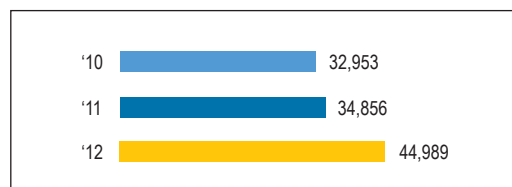
Total Assets

(In Million Pesos)



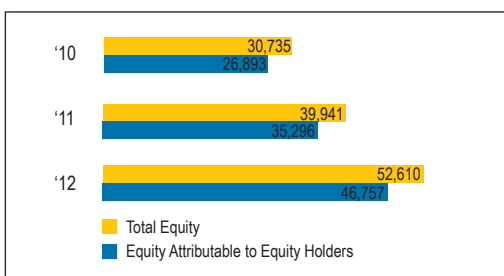
Total Liabilities

(In Million Pesos)



Total Equity

(In Million Pesos)



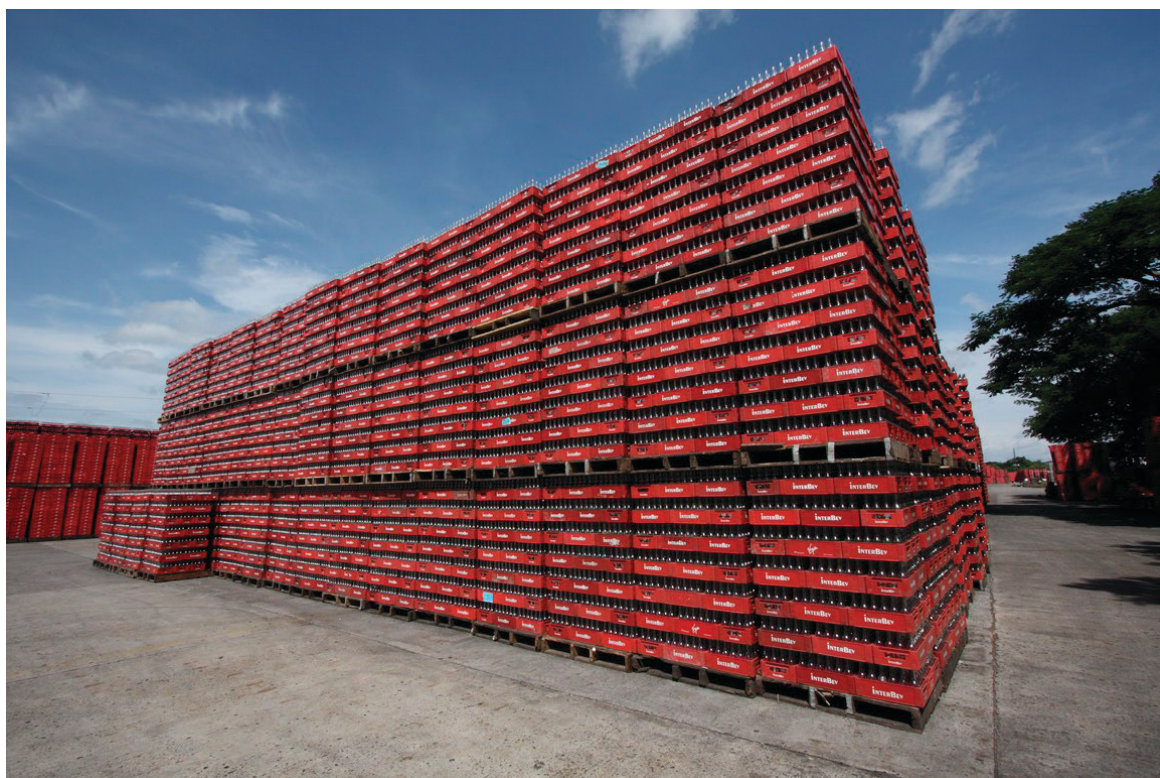
Ratios and Percentages

	2012	2011	2010
Current	1.52	1.38	1.38
Debt to Equity	0.86	0.87	1.07
Return on Assets			

Beverages

Asia Brewery, Inc.

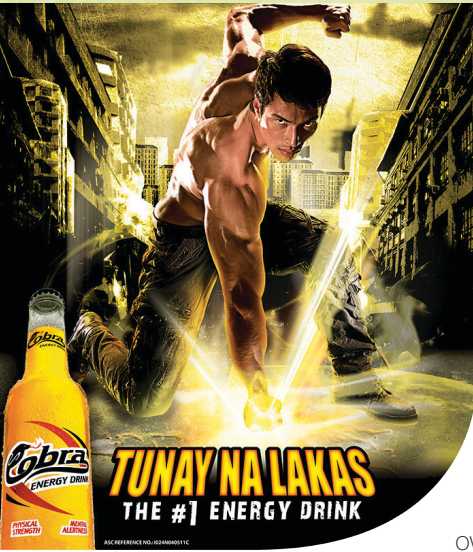
Asia Brewery, Inc. (ABI) is a flagship in the Philippine beverage industry owing to its extensive distribution network and broad portfolio of alcoholic and non-alcoholic products. Founded in 1982, ABI produced its first batch of beers from its plant in Cabuyao, Laguna.



Over the years, ABI launched products that have become a part of every Filipino home. It began in 1988 when Asia Brewery launched its most successful and controversial brand called Beer Pale Pilsen. Now popularly known as Beer na Beer, it quickly became a serious contender in the beer market because of its high quality taste and affordable price.

Four years later in 1992, the thirst for beer was growing rapidly in Mindanao. To fill this need, the company inaugurated its second brewery in El Salvador, Misamis Oriental. Its fully automated facilities enabled Asia Brewery to produce an additional 2 million hectoliters of beer annually. During the same year, the company also began to diversify its product portfolio from beer to non-alcoholic beverages with Absolute Pure Distilled Drinking Water and Summit Natural Drinking Water collectively leading the diverse bottled water market with 30% share. This achievement is driven by its strength in both the Distilled and Mineral segments despite the similarities in product perception. Absolute, being the only brand certified in the Philippines by the National Sanitation Foundation International, was successfully positioned to cater to households and critical mothers prioritizing quality. Summit, on the other hand, captured a broader market with its active lifestyle positioning and maintained its foothold in the sports scene as the official bottled water of the Philippine National Athletes.





Asia Brewery continued with its aggressive expansion and it brought Colt 45 Malt Liquor to the market, enabling strong beer brands to enter local bars and on-premise outlets. To further strengthen its position in the total beverage market, the company recognized the growing need for beverages specially formulated for Filipinos who engage in sports and active lifestyles. In 2006, the company launched Cobra Energy Drink with the latter owning 70% share in the energy drinks market.

One success followed the other and in 2009, ABI once again surprised the beverage industry with the creation of Tanduay Ice Alcomix. The product became an instant hit among the youth as it invaded both on and off premise outlets. Asia Brewery is also instrumental in dominating the alcopop category with formidable 92% market share.

With the global trend on wellness, Asia Brewery entered strategic partnerships with Asian beverage players. ABI in partnership with Greenspot was able to capture 68% of the entire Soya RTD category in less than 2 years from launch. ABI with Grupo Leche Pascual is the first company to launch long life yogurt customized to the Filipino taste.

All these were made possible by ABI's continued presence all over the Philippines. Asia Brewery's passion for innovation and its desire to be a part of the life of every Filipino have brought to it enormous success. Thirty years since its foundation, it remains committed to challenging leaders in other sectors and offering superior product alternatives by continuing to produce more premium products that earned international recognition for taste and quality. The Company has become particularly effective in identifying and capitalizing on unfilled gaps in customer needs.

Today, Asia Brewery remains a stable and robust organization, proud and confident of its role in bringing the best beverages to the average Filipino. The company maintains its leadership in the water, soya, alcopop and energy drinks segments with its Absolute, Summit, Vitamilk, Tanduay Ice and Cobra Energy Drink brands. Though relatively new in the market, Cobra's immediate success has proven that the company can quickly grow and dominate whatever market it chooses to enter.



Property Development

Eton Properties Philippines, Inc.

Eton Properties Philippines, Inc. (EPPI), in just 5 years, has made a strong presence in the local property development scene. The Company rides on the name of Eton Properties China and Eton Properties Limited Hong Kong both internationally recognized real estate brands.



EPPI's strength comes from the Lucio Tan Group's current land bank, estimated to be enough for land development for the next 20 years. Backed by the LT Group and its land assets, the Company is pursuing innovative projects and has introduced many firsts in property development in the country.

With some 47 projects encompassing residential, township, commercial and office developments, it has further expanded by creating two brands, Belton Communities and First Homes—both dedicated to the same ideals of attention to quality, detail and fine craftsmanship. The two new brands focus on the mid-market and broad affordable segments of the residential market.

Eton City is the Company's flagship, multi-billion peso project occupying some 1,000 hectares of prime land takes inspiration from world-class waterfront cities only found abroad. It is home to South Lake Village, the country's first residential island lot development and other unique residential communities. The Eton City's master plan will include residential enclaves catering to various markets, a world-class business district and dynamic leisure destinations.

Eton Centris, will be gateway to the emerging 250-hectare Triangle Park Central Business District in Quezon City. Found right in the middle of the commercial districts north of



Manila, this 12-hectare mixed-use township promises to deliver a complete living experience. By integrating business, residential, retail and recreational components in one location, offices, retail and commercial establishments will co-exist with residential towers and communities to complete the whole integrated “work-live-play” concept.

High rise projects like Eton Baypark Manila, One Archers' Place, The Eton Residences Greenbelt, Eton Parkview Greenbelt, Belton Place and Eton Emerald Lofts have established the Company as a formidable force in multi-storey living spaces.

To add to this accolade, Eton Properties takes pride in its architecturally-advanced commercial centers like Centris Walk and Centris Station, as well as commercial made-for-BPO (business processing outsourcing) buildings Cyberpod Centris One, Cyberpod Centris Two and Eton Cyberpod Corinthian.

The Company partners with local and international design and architectural firms to ensure both quality and functionality, marrying form and style, in all of the Company's projects. It recently received the “Top Developer Award in the Philippines” by BCI Asia, a leading construction and development industry research company.

While strengthening its leadership in the realty industry with the completion of the projects mentioned previously, it also keeps in the pipeline several projects that are already in various stages of construction. This ensures that the company is one step ahead of the competition. Eager to build more quality projects in strategic locations in the country, the company is now setting its sights on the next 10 years.

Appropriately encapsulating EPPI's actions is its slogan *“Building dreams. Building homes. Building with pride.”*



Tobacco

PMFTC, Inc.

PMFTC, Inc. merged two market leaders in the tobacco industry, Philip Morris Philippines Manufacturing Inc. (PMPMI) and Fortune Tobacco Corporation (FTC). The merger effectively made it the leading tobacco company in the country with 90% total market share. It now owns 43 of the 76 existing cigarette brands in the market. It contributes significantly to the LT Group's operating income.

Surviving in a market stressed by laws and regulations is no mean feat for PMFTC, Inc. Its brand power is its ownership of the most popular international cigarette brands, Marlboro and Philip Morris, and the leading local brands Fortune, Hope and More.



2012 saw the company further strengthen its sales and marketing organization on the back of the completion of the renovations and improvements of the Marikina plant and the Vigan facilities. PMPMI's operational efficiency and FTC's expansive distribution system worked beautifully together to further entrench PMFTC into a firm hold on its leadership of the local tobacco market.

Moreover, 4,500 contract tobacco growers from the Virginia tobacco-growing Ilocos region and the Burley tobacco-growing Cagayan Valley and Occidental Mindoro form a most





reliable supply source of raw material. These growers in turn also benefit from the Good Agricultural Practices (GAP) guidelines and assessment and the Agricultural Labor Practices (ALP) Code as promoted by PMFTC to all its growers. This initiative is not only to comply with PMI's standards, but is motivated by the company's desire to ensure that good labor practices and safe work environment are observed in all areas where the Company operates.

This understanding and acceptance of fair labor practices also fuels PMFTC's adherence to good corporate citizenship. In 2012, it established a milestone for EMBRACE, PMFTC corporate social responsibility organization which won recognition in the 9th International Business Awards held in Seoul, South Korea for "making a difference in the communities where the company lives and works."

Three EMBRACE projects won the Best Corporate Social Responsibility Program (lovingly called the "Stevie" Awards) of the Year in Asia, Australia and New Zealand. The Silver Stevie Award was given for the company's education project called "Proficient Measures for Quality Education (PQME)" while two bronze Stevies were given for two livelihood and green projects—"Cooperative Organizing and Reforestation" and the "Curing Barn Optimization Project."

Continuing its support for the Philippine Arts Awards (PAA), the country's most preeminent modern art competition and exhibition today which marked its 18th year in 2012, also confirms PMFTC support for local young and contemporary artists.

Finally, PMFTC recognizes the important contributions of journalists covering the agriculture beat through the annual Bright Leaf Agriculture Journalism Awards. This annual competition for print, radio, television and photojournalism creates awareness for the most current agricultural issues and promotes best farming practices that impact on environmental care, safety and crop sustainability. Since Bright Leaf's inception in 2006, a total of 82 participants joined. In 2010, the number of entries blossomed to 927 and in 2012, it breached the thousandth mark with a total of 1,571 entries.



Distilled Spirits

Tanduay Distillers, Inc.

Tanduay Distillers, Inc. is the oldest among the subsidiaries and carries with it the distinction of being one of the biggest brands in the distilled spirits category with a 99% share in the rum category. Literally “above-it-all,” it is Tanduay that started the corporate juggernaut that is now the LT Group when it became the first publicly listed company of the Group in 1999.

Spurred by a constantly upgraded quality policy, strong market research and the introduction of an innovative and all-new product line, Tanduay Distillers, Inc. continued its strong market presence by showing a 6% sales increase in 2012.



How does Tanduay maintain its market leadership?



TANDUAY
Distillers, Inc.

It does this with modern distilling and bottling facilities found in 4 strategically-located plants all over the country and an ageing facility of almost 200,000 oak barrels--which if any competitor would wish to replicate--will take many years to build and make productive.



LT GROUP, INC.



It does this through an integrated marketing communications campaign that utilizes innovative music marketing and product endorsements that enhances brand awareness and acceptance to high levels despite increased competition.

Talking to both the young and traditional drinkers through music and sports, brand-led rock concerts, like the “Tanduary Rhum Rock Fest” has now become an iconic music-brand touring the country and imitated heavily in the industry. Apart from having created an anthem for the youth, this also created an irreversible link aptly sloganed “One Nation. One Music. One Rhum.” To keep the pace, a new concept called “Tanduary’s First 5” created waves as it invaded at least 22 key cities nationwide.

On-ground activation through tie-ups with major off-site partners and promotional selling directly bringing the taste and warmth of Tanduary products to potential drinkers as a year round enticement known as the “Under-the-Cap” promo constantly brings back patrons to the beverage shelves and convenience stores, securing that niche but at the same time hauling a new market to the brand.

In the virtual world, Tanduary talks to the customer in every manner of social media- Facebook, Twitter, Instagram - connecting with far greater reach. The virtual connections serve to cement together all the marketing actions in a venue readily available and easily understood by the target market.

Like excellent rum mellowing in an oak barrel, the fruits of the integrated marketing campaign became evident in the positive growth in sales. In turn, the upswing in sales led to a 10.4% increase in assets a remarkable ₱16.3 billion in 2012.

With marketing expanding the customer horizons of the Tanduary brand, improvements in operating capacity became a necessity and among the major initiatives included the expansion of the Batangas distillery. On going as well are projects in Negros that will expand warehousing capacity.

Tanduary Distillers, Inc. will continue to be at the forefront of the distilled spirits market constantly innovating not only to fulfil the needs of the customer, but also to be one step ahead of competition and develop new drinking trends.



Corporate Governance

Compliance with the principles of good corporate governance is primary in the consciousness of each member of the Board of Directors and Management. Recently, the Chairperson of the Corporate Governance Committee, Ms. Florencia G. Tarriela, required a thorough review of the Manual on Corporate Governance which was last updated and amended or revised on March 22, 2011. The Chairperson's mandate was to ensure that the Manual is updated with all the requirements prescribed by the regulators and that it should contain appropriate provisions to enable the Committee to exercise oversight functions on all of the corporate governance of all of the subsidiaries. Since the Company was recently restructured and organized as a conglomerate, the challenge is to require and secure compliance of timely, transparent and responsible disclosures from the subsidiaries. The subsidiaries were informed that there are material information that requires prompt and timely disclosures to the Philippine Stock Exchange and the Securities and Exchange Commission.

Further to the disclosure requirements, corporate good governance requires that the Board as the highest governing Board in the Company, should act with the diligence and foresight that will forge the Company to success. The Company endeavors to elect and retain as many independent directors as possible. It continues to search for the right individuals who share the vision and goals of the Company.

The Board of Directors

The Board of Directors is the highest governing and decision-making body in the organization. It consists of eleven members, four of whom are independent directors. Headed by Dr. Lucio C. Tan, the members of the Board are businessmen of long-standing with exemplary track record on achievement. Their combined experiences and business acumen, as well as their knowledge of the market and business processes are the key factors that have propelled the Company to an enviable position of profitability and growth.

The Board is responsible for promoting and adhering to the principles and best practices of corporate

governance, fostering the long-term success of the Company and ensuring its competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interests of the Company, its shareholders and other shareholders.

The Board held 14 meetings during the year with an average attendance of 81%.

Executive Committee

The Board's Executive Committee, which has seven members, meet regularly or may call for special meetings to exercise all duties delegated to it by the Board. The Board has the power to change members of the Executive Committee at any time, or to fill vacancies therein. The Chairman of the Executive Committee is Lucio C. Tan. The other members of the Executive Committee are Harry C. Tan, Michael G. Tan, Lucio K. Tan Jr., Juanita Tan Lee, Florencia G. Tarriela and Antonino L. Alindogan Jr.

Audit Committee

The Company has an Audit Committee composed of five directors, who have accounting and finance backgrounds. The Chairman of the Audit Committee, Antonino L. Alindogan Jr., is an independent director. The other members of Audit Committee are Lucio K. Tan, Jr., Michael G. Tan, Wilfrido E. Sanchez and Wilson T. Young.

The Committee's duties and responsibilities include, but are not limited to, the following:

- (a) Assisting the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations.
- (b) Providing oversight management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. This function shall include regular receipt from management of information on risk exposures and risk management activities.
- (c) Performing oversight functions over the Company's internal and external auditors. The Audit Committee also ensures that the internal

and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

Nomination and Compensation Committee

The Company has a Nomination and Compensation Committee composed of five members. The Chairman of the Nomination and Compensation Committee is Mr. Harry C. Tan. The other members of the Nomination and Compensation Committee are Michael G. Tan, Lucio K. Tan, Jr., Juanita Tan Lee, and Wilfrido E. Sanchez.

The Nomination and Compensation Committee's duties and responsibilities include:

1. Pre-screening and short-listing all candidates nominated to become a member of the Board; and
2. Reviewing and evaluating the qualifications of all persons nominated to the Board and other appointments that require Board approval. It shall also assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.
3. Establishing a formal and transparent procedure for developing a policy on remuneration for directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates.

Risk Committee

The Company has a Risk Committee composed of five members. The Chairman of the Risk Committee is Mr. Antonino L. Alindogan Jr. The other members of the Risk Committee are Michael G. Tan, Lucio K. Tan, Jr., Wilfrido E. Sanchez and Florencia G. Tarriela.

The Risk Committee provides an oversight of operational, legal and other risks and is primarily responsible for monitoring the statutory requirements of the Company. The Risk Committee monitors and evaluates the adequacy and effectiveness of the Company's internal control systems. It ensures that the Board is taking appropriate corrective action in addressing control and compliance functions with regulatory agencies. It oversees the policies and procedures relating to the identification, analysis, management, monitoring and reporting of financial and non-financial risks. It also ensures the Company's adherence to corporate governance principles, best practices and compliance with the Governance Manual.

Corporate Governance Committee

The Company has a Corporate Governance Committee composed of five members, two of whom are independent directors. The Chairman is Florencia G. Tarriela, one of the four independent directors. The other members of the Committee are Michael G. Tan, Lucio K. Tan, Jr., Antonino Alindogan Jr. and Juanita Tan Lee.

The Corporate Governance Committee is responsible for ensuring the Board's and the Board committees' effectiveness and compliance with good corporate governance principles and guidelines. It periodically reviews performance of the Board and the Company's subsidiaries, including their respective boards and management. The Corporate Governance Committee also evaluates and recommends whether or not a Director is able to and has been adequately carrying out his duties as Director, bearing in mind the Director's contribution and performance.



Corporate Social Responsibility

Creatively Caring For The Filipino's Future



"Giving back to the community" is an understatement for what Dr. Lucio C. Tan has been doing in the realm of education, health, social welfare and protection for the environment. After demonstrating its business acumen with corporate achievements, the LT Group gives back to the community its successes through a unique sense of corporate citizenship. This is expressed through the Tan Yan Kee Foundation, Inc., (TYKFI) an organization formed by Dr. Lucio C. Tan in honor of his father, the late Tan Yan Kee.

Mirroring the generosity of the Lucio Tan Group of Companies by building a legacy of caring and commitment to the Filipino people, the Foundation shares its time, energy and resources in the fields of education, culture and sports, research, health, social welfare, and manpower development. All these are made possible through the bighearted support of the different companies within the LT Group. It takes for its mission the commitment to its corporate social responsibility—creatively caring for the Filipino's future.

Education

Dr. Tan strongly believes that one definitive avenue for success is education. This is his advocacy. And for the past 26 years, education has been the main advocacy of the Foundation. Tan Yan Kee partnered with different organizations such as the Philippine Foundation of Science and Technology, the Department of Education, the Foundation for Upgrading the Standard of Education (FUSE) and the local government to provide learning opportunities to thousands of elementary and high school students and teachers all over the country.

Proving this pledge to education, the school year 2012-2013 saw 214 scholars and grantees enrolling in various disciplines and schools under the Tan Yan Kee Scholarship Program in cooperation with the University of the East. Separate TYKFI Scholarship Grants in partnerships with the Philippine National Bank and Allied Bank provided grants to a total of 114 new and continuing scholars enrolled in various schools and universities all over the country. Over the years, this program has provided students with the opportunities for a better life through access to college education.

Other projects included building schools and classrooms, install televisions under the "Education of Television (ETV) Infrastructure Program," water



The UE-Tan Yan Kee Foundation

Health

Social Welfare

Environment

Education

supply systems, playground equipment and story book distribution in many remote provinces under the Adopt-A-School program.

Health Services

In 1984 Asia Brewery Inc. (ABI) established the ABI Medical Foundation with the mission of financially supporting deserving doctors who wish to specialize and pursue advanced studies in their respective fields. The foundation cooperates constantly with the TYKFI not only to assist and support these doctors but also conducts a team tasked to conduct regular forums on the latest medical issues, trends and available treatment options for various illnesses under the banner of the Asia Brewery Medical Specialty Scholars.

Distribution of medical equipment and PhilHealth Cards were the main activities of the foundation. A total of 3,036 Philhealth cards were distributed to families in various provinces ensuring their access to quality, affordable healthcare.

In another front, Project Asthma Nebulizer Distribution Program provided a total of 19 nebulizers and 190 kits to various health

facilities in Cebu and Ilocos Sur. TYKI also expressed full support to UERMMMC's newly opened Philippine School of Prosthetics and Orthotics (PSPO) housed in the newly constructed Tan Yan Kee Building inside the University of the East Ramon Magsaysay Memorial Medical Center (UERMMMC).

Social Welfare

Disaster preparedness. Calamity assistance. This is where the different companies within the LT Group come together in pursuit of a common purpose—to assist those struck by unforeseen calamities and natural disasters.

This commitment was once again demonstrated through the Foundation's Hope Caravan in its relief operations in the Cagayan de Oro City which was twice struck by super typhoons. A team of volunteers from Tanduary, UERMMMC and PNB quickly responded with medical missions, raised funds and distributed food, water, clothes, blankets and medicines to the families that were left homeless.

In 2012, the TYKI Hope Caravan was able to help at least 5,000 victims of various calamities from all over the country.



10 FT

on, Inc. Scholars, SY 2012-2013

Environment

The LT Group, through the TYKFI, took the lead in revitalizing and protecting the fragile ecosystem of Boracay's mangroves. With a product (Boracay Rum) sharing a name with the world renowned beach, Tanduay Distillers, Inc. led "Roots for Boracay", a project that has brought people together to save, protect and preserve the mangroves of Boracay Island. Increasing the mangrove population by 2,000 trees was the initial success of the program with an aim of planting another 10,000 mangrove trees.

The campaign was made successful through partnerships with the DENR, the Municipality of Malay Aklan, and volunteers from all over Boracay.

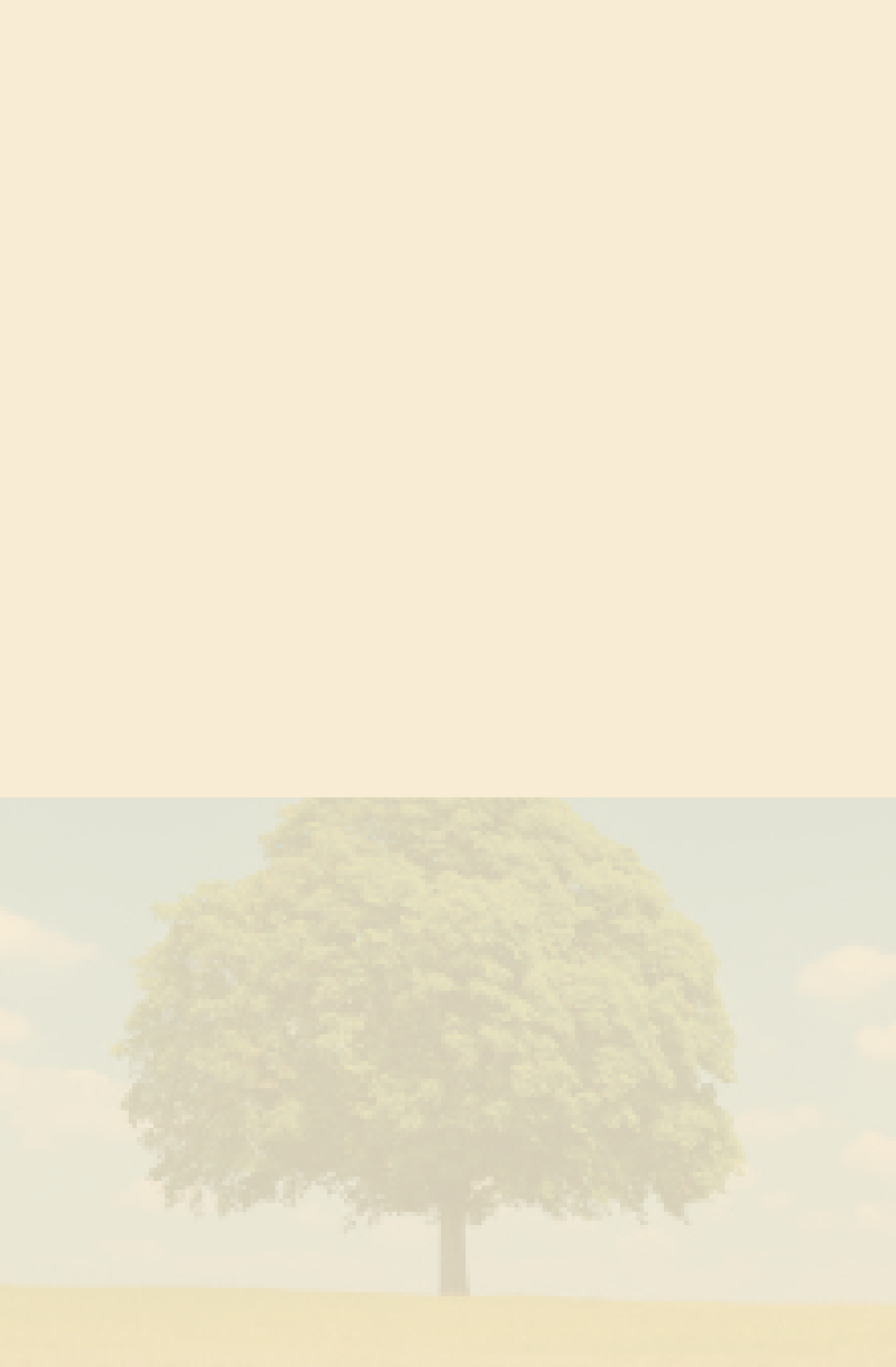
In recognition of the Group's efforts, Dr. Lucio C. Tan was awarded with a plaque of recognition and was proclaimed "Adopted Son of Malay, Aklan". To further encourage and engage both locals and tourists, a boardwalk was constructed in an existing mangroves site in Sitio Lugutan, Barangay Manoc-Manoc. The area that was once a dark stretch has been transformed into a lovely park constantly receiving admiration from visiting tourists.

"I am grateful that in our small way, we help narrow the gap between lack of knowledge and a good education; between lack of medical treatment to access to equipment and better health services; between a decaying world and a healthier environment we can leave to the next generations."
-Dr. Lucio C. Tan



Boardwalk at Sitio Lugutan

Consolidated Financial Statements for 2012



Statement of Management's Responsibility For Financial Statements



The management of LT Group, Inc. [formerly Tanduary Holdings, Inc. (a subsidiary of Tangent Holdings Corporation)] is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2012 and 2011 and January 1, 2011 and for each of the three years in the period ended December 31, 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated 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.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor, appointed by the stockholders, has examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

A handwritten signature in black ink, appearing to read "Lucio C. Tan", written in a cursive style.

DR. LUCIO C. TAN
Chairman & Chief Executive Officer

A handwritten signature in black ink, appearing to read "Michael G. Tan", written in a cursive style.

MICHAEL G. TAN
President

A handwritten signature in black ink, appearing to read "Jose Gabriel D. Olives", written in a cursive style.

JOSE GABRIEL D. OLIVES
Chief Financial Officer

Independent Auditor's Report



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
December 28, 2012, valid until December 31, 2015
SEC. Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

The Stockholders and the Board of Directors
LT Group, Inc.

We have audited the accompanying consolidated financial statements of LT Group, Inc. [formerly Tanduary Holdings, Inc. (a subsidiary of Tangent Holdings Corporation)] and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and January 1, 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2012, 2011 and 2010 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility For The Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of LT Group, Inc. and its subsidiaries as at December 31, 2012 and 2011, and January 1, 2011, and their financial performance and cash flows for the years ended December 31, 2012, 2011 and 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

A handwritten signature in black ink, appearing to read "Josephine H. Estomo".

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669680, January 2, 2013, Makati City

March 4, 2013

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31, 2012	December 31, 2011 (As Restated - Note 30)	January 1, 2011 (As Restated - Note 30)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 5 and 18)	₱8,906,360	₱5,166,645	₱3,478,691
Receivables (Notes 6 and 18)	11,090,291	8,952,006	9,726,703
Due from related parties (Note 18)	20,540,635	8,882,922	7,058,438
Inventories (Note 7)	10,964,286	8,931,159	8,628,802
Other current assets (Note 8)	2,718,823	2,461,640	2,028,439
Total Current Assets	54,220,395	34,394,372	30,921,073
Noncurrent Assets			
Receivables - net of current portion (Note 6)	874,290	2,052,869	—
Available-for-sale (AFS) financial assets (Note 9)	765,926	280,085	277,630
Investments in associate and joint venture (Note 10)	13,906,189	11,623,387	11,188,773
Property, plant and equipment (Note 11):			
At appraised values	17,022,509	16,272,335	13,355,533
At cost	3,122,299	3,135,640	2,707,493
Investment properties (Note 12)	4,567,826	4,183,391	3,683,666
Net retirement plan assets (Note 19)	1,215,603	1,067,218	21,841
Deferred income tax assets (Note 24)	660,598	594,235	774,155
Other noncurrent assets (Note 13)	1,243,075	1,192,524	758,028
Total Noncurrent Assets	43,378,315	40,401,684	32,767,119
TOTAL ASSETS	₱97,598,710	₱74,796,056	₱63,688,192
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term debts (Notes 16 and 18)	₱1,870,000	₱2,414,000	₱2,176,000
Accounts payable and other liabilities (Notes 14 and 18)	7,805,513	9,347,840	7,864,991
Income tax payable	236,519	140,497	105,795
Customers' deposits (Note 15)	2,626,388	1,744,780	1,831,889
Current portion of long-term debts (Notes 16 and 18)	2,741,143	1,525,234	610,552
Current portion of due to related parties (Note 18)	20,503,550	9,739,440	9,753,525
Total Current Liabilities	35,783,113	24,911,791	22,342,752
Noncurrent Liabilities			
Long-term debts - net of current portion (Notes 16 and 18)	5,873,432	6,529,423	6,812,955
Due to related parties - net of current portion (Note 18)	—	1,350,332	1,372,127
Accrued retirement benefits (Note 19)	534,044	443,523	1,546,552
Deferred income tax liabilities (Note 24)	1,329,722	1,483,281	662,562
Other noncurrent liabilities (Notes 7, 12 and 29)	1,468,333	137,160	215,785
Total Noncurrent Liabilities	9,205,531	9,943,719	10,609,981
Total Liabilities	44,988,644	34,855,510	32,952,733
Equity			
Attributable to equity holders of the parent company (Notes 1, 11, 25, and 30):			
Capital stock	8,981,389	3,583,250	3,583,250
Capital in excess of par	1,173,772	—	—
Deposit for future stock subscription	—	1,639,401	—
Other comprehensive income	4,993,008	5,334,105	3,789,388
Other equity reserves	270,416	1,592,521	1,536,400
Retained earnings	31,337,931	23,297,289	18,135,144
Shares held by a subsidiary	—	(150,889)	(150,889)
	46,756,516	35,295,677	26,893,293
Non-controlling interests (Notes 1, 11 and 25)	5,853,550	4,644,869	3,842,166
Total Equity	52,610,066	39,940,546	30,735,459
TOTAL LIABILITIES AND EQUITY	₱97,598,710	₱74,796,056	₱63,688,192

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements Of Income

(Amounts in Thousands, Except for Basic/Diluted Earnings per Share)

Years Ended December 31

	2012	2011 (As Restated - Note 30)	2010 (As Restated - Note 30)
REVENUE (Notes 4 and 20)			
Distilled spirits	₱12,719,679	₱12,208,165	₱11,392,465
Beverage	12,188,007	11,938,021	10,978,463
Tobacco (Notes 1 and 10)	2,974,897	3,350,002	13,489,911
Property development	2,685,795	5,191,651	4,450,076
	30,568,378	32,687,839	40,310,915
COST OF SALES (Notes 4 and 20)	22,728,862	23,837,420	30,634,710
GROSS INCOME	7,839,516	8,850,419	9,676,205
EQUITY IN NET EARNINGS (LOSS) OF AN ASSOCIATE (Note 10)	6,498,972	4,117,904	(1,338,254)
	14,338,488	12,968,323	8,337,951
OPERATING EXPENSES			
Selling expenses (Note 21)	2,731,566	3,073,983	2,906,668
General and administrative expenses (Note 22)	2,144,172	2,143,590	2,329,590
	4,875,738	5,217,573	5,236,258
OPERATING INCOME	9,462,750	7,750,750	3,101,693
OTHER INCOME (CHARGES)			
Finance costs (Notes 17 and 18)	(605,199)	(578,118)	(973,693)
Finance income (Notes 5, 6, 9 and 18)	203,430	122,079	184,902
Foreign exchange losses	(108,053)	(1,446)	(28,704)
Others - net (Note 23)	724,353	271,377	5,311,540
	214,531	(186,108)	4,494,045
INCOME BEFORE INCOME TAX	9,677,281	7,564,642	7,595,738
PROVISION FOR INCOME TAX (Note 24)			
Current	1,158,598	753,616	784,816
Deferred	(221,407)	143,426	(178,473)
	937,191	897,042	606,343
NET INCOME	₱8,740,090	₱6,667,600	₱ 6,989,395
Net Income Attributable To:			
Equity holders of the parent company	₱7,513,430	₱5,817,867	₱5,968,839
Non-controlling interests	1,226,660	849,733	1,020,556
	₱8,740,090	₱6,667,600	₱6,989,395
Basic/Diluted Earnings Per Share (Note 26)	₱0.85	₱0.68	₱0.70

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements Of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2012	2011 (As Restated - Note 30)	2010 (As Restated - Note 30)
NET INCOME	₱8,740,090	₱6,667,600	₱6,989,395
OTHER COMPREHENSIVE INCOME			
Revaluation increment on property, plant and equipment, net of deferred income tax effect (Note 11)	–	2,000,057	5,586
Net changes in fair value of AFS financial assets, net of deferred income tax effect (Note 9)	190,664	2,666	37,547
Realized gain through sale on changes in fair value of AFS financial assets transferred to profit or loss during the year (Notes 9 and 23)	–	–	(42,892)
	190,664	2,002,723	241
TOTAL COMPREHENSIVE INCOME	₱8,930,754	₱8,670,323	₱6,989,636
Total Comprehensive Income Attributable To:			
Equity holders of the parent company	₱7,699,545	₱7,811,499	₱5,967,516
Non-controlling interests	1,231,209	858,824	1,022,120
	₱8,930,754	₱8,670,323	₱6,989,636

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements Of Changes In Equity

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010

(Amounts in Thousands)

Attributable to Equity Holders of the Parent Company (Notes 1, 11, 25 and 30)

	Other Comprehensive Income												
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Revaluation Increment on Property, Plant and Equipment (Note 11)	Revaluation Increment on Property, Plant and Equipment Transferred to an Associate (Notes 2, 10 and 25)	Net Changes in Fair Value of AFS Financial Assets (Note 9)	Total Other Comprehensive Income (Loss)	Other Equity Reserves	Retained Earnings	Shares Held by a Subsidiary	Total	Non-Controlling Interests (Notes 1 and 25)	Total
BALANCES AT DECEMBER 31, 2009, AS PREVIOUSLY REPORTED	₱3,257,500	₱-	₱-	₱566,303	₱-	₱8,115	₱574,418	₱151,811	₱1,612,180	₱-	₱5,595,909	₱126,843	₱5,722,752
Effect of restatements (Note 30)				5,535,467	-	39,773	5,575,240	1,384,589	8,520,928	(150,889)	15,329,868	2,693,203	18,023,071
BALANCES AT DECEMBER 31, 2009, AS RESTATED	3,257,500	-	-	6,101,770	-	47,888	6,149,658	1,536,400	10,133,108	(150,889)	20,925,777	2,820,046	23,745,823
Net income for the year, as restated	-	-	-	-	-	-	-	-	5,988,839	-	5,988,839	1,020,556	6,989,395
Other comprehensive income (loss), as restated	-	-	-	5,187	-	(6,510)	(1,323)	-	-	-	(1,323)	1,564	241
Total comprehensive income (loss) for the year, as restated	-	-	-	5,187	-	(6,510)	(1,323)	-	5,988,839	-	5,987,516	1,022,120	6,989,636
Transfer of revaluation increment of property, plant and equipment to associate, as restated	-	-	-	(3,770,644)	1,871,371	-	(1,899,273)	-	1,899,273	-	-	-	-
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal, as restated	-	-	-	(207,929)	(251,745)	-	(459,674)	-	459,674	-	-	-	-
Stock dividend	325,750	-	-	-	-	-	-	-	(325,750)	-	-	-	-
BALANCES AT DECEMBER 31, 2010, AS RESTATED	₱3,583,250	₱-	₱-	₱2,128,384	₱1,619,626	₱41,378	₱3,789,388	₱1,536,400	₱18,135,144	(₱150,889)	₱26,893,293	₱3,842,166	₱30,735,459
BALANCES AT DECEMBER 31, 2010, AS PREVIOUSLY REPORTED	₱3,583,250	₱-	₱-	₱525,165	₱-	₱13,520	₱538,685	₱151,811	₱1,975,689	₱-	₱6,249,435	₱129,585	₱6,379,020
Effect of restatements (Note 30)	-	-	-	1,603,219	1,619,626	27,858	3,250,703	1,384,589	16,159,455	(150,889)	20,643,858	3,712,581	24,356,439
BALANCES AT DECEMBER 31, 2010, AS RESTATED	3,583,250	-	-	2,128,384	1,619,626	41,378	3,789,388	1,536,400	18,135,144	(150,889)	26,893,293	3,842,166	30,735,459
Net income for the year, as restated	-	-	-	-	-	-	-	-	5,817,867	-	5,817,867	849,733	6,667,600
Other comprehensive income, as restated	-	-	-	1,991,357	-	2,275	1,993,632	-	-	-	1,993,632	9,091	2,002,723
Total comprehensive income for the year, as restated	-	-	-	1,991,357	-	2,275	1,993,632	-	5,817,867	-	7,811,499	858,824	8,670,323
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal, as restated	-	-	-	(202,744)	(246,171)	-	(448,915)	-	448,915	-	-	-	-
Deposit for future stock subscription	-	-	-	-	-	-	-	-	-	-	-	-	1,680,146
Stock issue cost	-	-	-	-	-	-	-	-	-	-	-	-	(40,745)
Acquisition of non-controlling interest	-	-	-	-	-	-	-	56,121	(1,104,637)	-	(1,104,637)	(56,121)	-
Cash dividend (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	(1,104,637)
BALANCES AT DECEMBER 31, 2011, AS RESTATED	₱3,583,250	₱-	₱1,639,401	₱3,916,997	₱1,373,455	₱43,653	₱5,334,105	₱1,592,521	₱23,297,289	(₱150,889)	₱35,295,677	₱4,644,869	₱39,940,546

(Forward)

(Amounts in Thousands)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements Of Cash Flows

(Amounts in Thousands)

Years Ended December 31

	2012	2011 (As Restated)	2010 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱9,677,281	₱7,564,642	₱7,595,738
Adjustments for:			
Depreciation and amortization (Notes 11, 12 and 13)	2,328,634	2,210,611	2,093,593
Provision for (reversal of):			
Impairment loss on property, plant and equipment (Notes 11 and 23)	(5,108)	179,929	(2,259)
Contingencies (Note 22)	93,098	103,359	184,750
Recovery from insurance claims (Note 23)	–	(186,033)	–
Gain on disposal of:			
Property and equipment	(1,699)	(3,556)	–
AFS financial assets (Notes 9 and 23)	–	–	(42,536)
Business (Notes 10 and 23)	–	–	(5,077,578)
Equity in net loss (earnings) of an associate (Note 10)	(6,498,972)	(4,117,904)	1,338,254
Finance costs (Notes 17 and 18)	605,199	578,118	973,693
Finance income (Notes 5 and 6)	(203,430)	(122,079)	(184,902)
Unrealized foreign exchange loss (gain) - net	74,609	(51,139)	3,586
Movements in retirement plan assets and benefits liability	(57,864)	(2,148,406)	(17,151)
Operating income before changes in working capital	6,011,748	4,007,542	6,865,188
Decrease (increase) in:			
Receivables - net	(927,612)	(1,067,178)	1,482,440
Inventories	(2,033,127)	(302,357)	(1,321,748)
Other current assets	(335,466)	(295,571)	(3,923,520)
Other noncurrent assets	(48,710)	(412,950)	16,103
Increase (decrease) in:			
Accounts payable and other liabilities	(1,626,011)	675,443	477,136
Customers' deposits	881,608	(87,109)	(243,145)
Other noncurrent liabilities	1,888,935	(78,625)	99,719
Cash generated from operations	3,811,365	2,439,195	3,452,173
Dividends received (Notes 10 and 23)	4,176,977	3,491,605	841,290
Interest received	175,852	145,750	116,295
Income taxes paid, including creditable withholding and final taxes	(984,293)	(856,544)	(1,182,584)
Net cash from operating activities	7,179,901	5,220,006	3,227,174
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
AFS financial assets (Note 9)	(280,772)	–	–
Investment in PMFTC (Note 10)	–	–	(33,090)
Investment in joint venture (Note 10)	(20,091)	–	–
Property, plant and equipment (Note 11)	(3,325,409)	(3,052,960)	(2,972,624)
Investment properties (Note 12)	(1,020,544)	(561,463)	(730,112)
Software (Note 13)	(11,177)	(26,850)	(16,171)
Advances granted to affiliates (Note 18)	(1,750,819)	(2,272,998)	(2,708,093)
Proceeds from disposal of:			
AFS financial assets (Note 9)	–	–	230,653
Property and equipment (Note 11)	346,341	279,034	329,249
Proceeds from recovery from insurance claims (Note 23)	–	186,033	–
Net cash used in investing activities	(6,062,471)	(5,449,204)	(5,900,188)

(Forward)

Consolidated Statements Of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2012	2011 (As Restated)	2010 (As Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments (payments) of short-term debts (Notes 16 and 18)	(P544,000)	P238,000	P26,000
Proceeds from:			
Issuance of shares (Notes 1, 25 and 30)	5,000,000	–	–
Sale of parent company shares held by a subsidiary (Note 25)	344,101	–	–
Availments of long-term debts (Notes 16 and 18)	837,353	1,294,143	7,475,266
Advances from affiliates (Note 18)	–	–	1,002,502
Payments of:			
Long-term debts (Note 16)	(290,583)	(679,181)	(6,080,260)
Advances from affiliates (Note 18)	(2,030,961)	(35,880)	–
Finance costs (Notes 17 and 18)	(607,326)	(544,480)	(1,058,745)
Stock issue costs (Notes 1 and 25)	(67,490)	(40,745)	–
Dividends (Note 25)	–	(3,265)	–
Deposit for future stock subscription (Note 25)	–	1,680,146	–
Net cash from financing activities	2,641,094	1,908,738	1,364,763
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(18,809)	8,414	(22,383)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,739,715	1,687,954	(1,330,634)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,166,645	3,478,691	4,809,325
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P8,906,360	P5,166,645	P3,478,691

See accompanying Notes to Consolidated Financial Statements.

Notes To Consolidated Financial Statements

1. Corporate Information, Corporate Restructuring, and Authorization for Issue of the Consolidated Financial Statements

Corporate Information

LT Group, Inc. [formerly Tanduay Holdings, Inc. (THI); referred to as "LTG" or the "Company"] was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 25, 1937 under the name "The Manila Wine Merchants, Inc." to engage in the trading business. On November 17, 1947, the Company's shares of stock were listed in the Philippine Stock Exchange (PSE). The Company's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. On September 22, 1995, the Philippine SEC approved the change in Company's name to "Asian Pacific Equity Corporation" and the change in its primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation (Tangent). The share swap resulted in THI wholly owning TDI and Tangent increasing its ownership in THI to 97.0%. On November 10, 1999, the Philippine SEC approved the change in the Company's corporate name from "Asian Pacific Equity Corporation" to "Tanduay Holdings, Inc.". On September 24, 2012, THI's Board of Directors (BOD) approved the amendment in its Articles of Incorporation and By-Laws to reflect the change in its corporate name from "Tanduay Holdings, Inc." to "LT Group, Inc." which was approved by the Philippine SEC on September 28, 2012. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of, any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

After a series of restructuring activities in 2012, LTG has expanded and diversified its investments to include the beverages, tobacco and property development businesses, all belonging to Mr. Lucio C. Tan and his family and assignees (collectively referred to as the "Controlling Shareholders"). These business segments in which LTG and subsidiaries (collectively referred to as "the Group") operate are described in Note 4 to the consolidated financial statements.

As of December 31, 2012, LTG is 89.59%-owned (from 86%-owned and 97%-owned as of December 31, 2011 and 2010, respectively) by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

The official business address of the head office is 11th Floor, Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig City.

Capital Raising of LTG

On October 26, 2011, LTG's BOD approved a capital raising exercise via the 2-tranche Placing and Subscription Transaction involving (i) the sale by Tangent of 398,138,889 shares in LTG to the public at an offer price of ₱4.22 each (the "Placing Tranche") and (ii) the subscription at a price equivalent to the offer price offered to the public at the Placing Tranche, as maybe adjusted to account for the expenses of the Placing Tranche (the "Subscription Tranche").

The capital raising exercise is intended to fund LTG's expansion of its distilled spirits segment's plant capacity, increase in operational efficiency and rationalization of operations, and at the same time offer the investing public the opportunity to participate in LTG's growth. In December 2011, Tangent sold the said shares, thereby reducing its ownership interest in LTG from 97% to 86%. In accordance with the Subscription Tranche, Tangent agreed to subscribe to 398,138,889 new common shares from LTG's unissued capital stock for a total consideration of ₱1,639.4 million (presented as "Deposit for future stock subscription" as of December 31, 2011 in the equity section of the consolidated balance

sheets). On May 2, 2012, LTG's BOD and stockholders approved the conversion of the deposit for future stock subscription into issued common shares of LTG, which resulted to an increased ownership of Tangent in LTG, from 86% to 87% as of that date.

On July 27, 2012, LTG's BOD and stockholders approved the amendments in the Articles of Incorporation to reflect the increase in LTG's authorized capital stock from ₱5.0 billion divided into 5,000,000,000 shares with a par value of ₱1.00 per share to ₱25.0 billion divided into 25,000,000,000 shares with a par value of ₱1.00 per share. On the same date, LTG's BOD and stockholders also approved the issuance of 5,000,000,000 shares to Tangent in support of the increase in authorized capital stock and the waiver of rights/public offering in relation to the said shares to be issued to Tangent. On September 28, 2012, upon approval by the SEC of the increase in authorized capital stock, Tangent increased its ownership interest to 95.25%.

In December 2012, Tangent sold 508,544,100 shares to the public, thus, decreasing its ownership interest to 89.59% as of December 31, 2012.

On September 24, 2012, LTG's stockholders approved the 2-tranche Placing and Subscription Transaction involving the sale by Tangent of up to, but not exceeding 3,000,000,000 common shares of LTG registered in its name to investors by way of a follow-on offering at a placing price to be determined through a book building exercise to be hereafter conducted (the "Placing Tranche") and the subsequent subscription by Tangent using the proceeds of the Placing Tranche (net of expenses incurred in the Placing Tranche) to new shares of LTG in an amount equivalent to the number of shares sold during the Placing Tranche at an issue price equivalent to the placing price (the "Subscription Tranche"). The total number of the shares subject of the Placing Tranche shall be determined based on investor demand as determined through a book building exercise, provided the same shall not exceed 3,000,000,000 shares and the total number of subscription shares shall not exceed the shares sold in the Placing Tranche. The BOD was granted authority to determine such other terms and conditions of the transaction as may be most beneficial to LTG, including (but not limited to) the timing of the same and total funds to be raised therefrom. Further, the subscription shares shall be listed with the PSE.

Corporate Restructuring

Consolidation of Businesses under LTG

In preparation for, and prior to the completion of the capital raising exercise approved by the stockholders on September 24, 2012 as discussed above, the Group has undergone certain transactions to transfer certain businesses of the Controlling Shareholders to LTG. This restructuring exercise was approved by LTG's BOD on July 31, 2012. In support of LTG's restructuring activities, Tangent contributed cash amounting to ₱5.0 billion in exchange for LTG's 5,000,000,000 common shares (see Note 25).

The significant transactions that occurred as of December 31, 2012 are as follows:

- a. Consolidation of the beverage business and acquisition of Asia Brewery, Incorporated (ABI)

On May 24, 2012, ABI's BOD approved the subscription to 400,000,000 shares of Interbev Philippines, Inc. (Interbev) at ₱1.00 par value per share by way of conversion of ABI advances to equity investment in Interbev. On the same date, ABI's BOD approved the acquisition of 125,000,000 shares of Packageworld, Inc. (Packageworld) at ₱1.00 par value per share through cash infusion. Effective June 29, 2012, upon approval by the Philippine SEC of Interbev's and Packageworld's application for the increase in capital stock, ABI became a stockholder of Interbev and Packageworld with 80.0% and 33.3% ownership interests, respectively. On June 24, 2012 and July 19, 2012, ABI's BOD approved the

resolutions to buy out 100.0% of the outstanding shares of Waterich Resources Corporation (Waterich) and the remaining ownership interests in Interbev and Packageworld owned by the Controlling Shareholders, respectively. To effect the buyout transactions, ABI and the Controlling Shareholders executed the deeds of sale of shares of Waterich on June 24, 2012 and the deeds of assignment of ABI's advances to Packageworld and Interbev on July 25, 2012. Thus, Waterich, Interbev and Packageworld became wholly-owned subsidiaries of ABI.

On July 19, 2012, ABI's BOD authorized ABI to issue 800,000,000 shares to LTG from its authorized but unissued capital stock and 1,000,000,000 shares from the proposed increase in its authorized capital stock with par value of ₱1.00 per share. In August 2012, ABI issued the remaining authorized but unissued capital stock to LTG, thus, making ABI an 80.0%-owned subsidiary. On October 10, 2012, SEC approved ABI's application to increase its authorized capital stock, thus, increasing LTG's ownership interest in ABI to 90.0%. In December 2012, LTG acquired the shares of ABI which are owned by Shareholdings, Inc. (Shareholdings), a company belonging to the Controlling Shareholders, and certain stockholders, thus, increasing LTG's ownership interest in ABI to 99.99%.

b. Acquisition of Fortune Tobacco Corporation (FTC)

On July 31, 2012, LTG's BOD approved the acquisition of at least 83.0% of FTC through a cash subscription to 1,646,489,828 shares at its par value of ₱1.00 per share. FTC has 49.6% ownership in PMFTC, Inc. (PMFTC), a company incorporated and domiciled in the Philippines which operates the combined businesses contributed by FTC and Philip Morris Philippines Manufacturing, Inc. (PMPMI) (see Note 10).

On September 26, 2012, LTG subscribed to 346,489,828 new shares of FTC with a par value of ₱1.00 per share, which was paid in cash by LTG in the amount of ₱346.5 million resulting in 49.5% interest of LTG in FTC.

On September 28, 2012, LTG subscribed in cash an additional 1,300,000,000 common shares of FTC with a par value of ₱1.00 per share, which was issued to LTG on October 10, 2012 upon approval of the Philippine SEC of FTC's application to increase its authorized capital stock. Thus, LTG increased its direct ownership interest in FTC to 82.32% while diluting ownership interest of Shareholdings in FTC from 98.0% to 17.33%.

On October 30, 2012, LTG's BOD approved the acquisition of up to 100% of equity interests in FTC.

c. Acquisition of Eton Properties Philippines, Inc. (Eton)

Prior to restructuring in 2012, Paramount Landequities, Inc. (Paramount) and Saturn Holdings, Inc. (Saturn) have ownership interest of 55.07% and 42.39%, respectively, in Eton, a listed company incorporated and registered with the Philippine SEC and is primarily engaged in real estate development.

On September 17, 2012, LTG's BOD approved the assumption by LTG of certain liabilities of Paramount from Step Dragon Co. Ltd. and Billinge Investments Ltd., BVI-based companies, and Saturn from Penick Group Ltd., also a BVI-based company, amounting to ₱1,350.8 million and ₱521.3 million, respectively.

On September 25 and September 26, 2012, LTG subscribed to 1,350,819,487 common shares of Paramount and 490,000,000 common shares of Saturn, respectively, with a par value of ₱1.00 per share and will be issued to LTG out of an increase in Paramount's and Saturn's authorized capital stock. LTG paid the subscription in full by way of conversion into equity of LTG's advances to Paramount and Saturn amounting to ₱1,350.8 million and ₱490.0 million, respectively. On the same dates, Paramount and Saturn filed its application for increase

in authorized capital with the Philippine SEC in order to accommodate LTG's investment.

Upon SEC's approval on October 10, 2012, Paramount and Saturn became subsidiaries of LTG with 98.18% and 98.99% ownership interests, respectively, thus, giving LTG a 98.0% effective ownership in Eton.

On October 30, 2012, LTG entered into deeds of sale of shares with the Controlling Shareholders of Paramount and Saturn for the remaining issued and outstanding shares of the said companies. Thus, Paramount and Saturn became wholly owned subsidiaries of LTG.

On December 8, 2012, Paramount made a tender offer to buy back shares of Eton traded in the PSE resulting in the increase in its ownership interest from 55.07% to 56.86%, thus, increasing LTG's effective ownership interest in Eton to 99.3%.

The business combinations in 2012 involving LTG and ABI and Subsidiaries, FTC, Saturn, and Paramount and Subsidiaries (collectively referred to as "Acquired Subsidiaries"), all belonging to the Controlling Shareholders and under common control, were accounted for using pooling of interest method. Accordingly, LTG recognized the net assets of the acquired subsidiaries equivalent to their carrying values. Comparatives were restated to include the balances and transactions as if the subsidiaries had been acquired at the beginning of the earliest period presented. The difference between the consideration paid (or liability incurred) and the combined equities of the acquired subsidiaries amounting to ₱3.5 million is reflected within the Group's equity and presented as part of "Other equity reserves" as if the companies had always been combined (see Note 25).

Note 30 discusses the restatements on the Group's December 31, 2011 and January 1, 2011 consolidated balance sheets and statements of income, statements of comprehensive income and statements of cash flows for the years ended December 31, 2011 and 2010 as a result of the application of pooling of interest method for the business combinations. The restated December 31, 2010 balances were presented under the January 1, 2011 column.

The following transactions happened subsequent to December 31, 2012:

a. Acquisitions of Philippine National Bank (PNB) and Allied Banking Corporation (Allied Bank)

On July 27, 2012, LTG's BOD approved the acquisition of 34.79% of PNB and 27.62% of Allied Bank through the purchase of 100% of the outstanding capital stock of 11 and two holding companies of PNB and Allied Bank, respectively, all controlled by the Controlling Shareholders. Further, on January 22, 2013, PNB's BOD approved to set the effective date of merger between PNB and Allied Bank on February 9, 2013. On January 23, 2013, Allied Bank's BOD also approved February 9, 2013 as the effective date of merger.

In February 2013, LTG acquired Donfar Management Ltd., Fast Return Enterprises Ltd., Fragile Touch Investments Ltd., Mavelstone International Ltd., Uttermost Success Ltd., True Success Profits Ltd., and Key Landmark Investments Ltd. which hold a total of 22.72% in the merged PNB. Further, in various dates in February 2013, Merit Holdings & Equities Corp., Ivory Holdings Corp., Leadway Holdings, Inc., Dunmore Development Corp., Multiple Star Holdings Corp., Kenrock Holdings Corporation, Caravan Holdings Corporation and Solar Holdings Corp., companies which hold interests in the merged PNB, filed their applications for increase in authorized capital stock with the SEC, to accommodate LTG's investment. In various dates in February 2013, SEC approved their applications with the SEC. As of February 28, 2013, LTG has

an effective ownership over the merged PNB of 36.1%. As of March 4, 2013, LTG is currently obtaining the requisite regulatory approval to increase its stake in PNB up to the maximum allowable limit of 60%.

b. Acquisition of FTC's noncontrolling interest

In February 2013, to effect the LTG's acquisition of up to 100% equity interest in FTC, LTG acquired the shares of certain noncontrolling shareholders equivalent to 0.34% interest in FTC thereby increasing LTG's direct ownership interest in FTC from 82.32% to 82.66%; purchased 453,500,000 issued shares of Shareholdings, which is equivalent to 90.70% ownership interest in Shareholdings thereby increasing LTG's effective ownership in FTC to 98.36%; and subscribed to 1,500,000,000 shares out of the unissued capital stock of Shareholdings thereby increasing its total direct and indirect equity interest of LTG in FTC from 98.36% to 99.58%.

The business combination of LTG and the merged PNB and Allied Bank (merged PNB), which management expects to be completed in 2013, and the acquisition of noncontrolling interest in FTC shall also be accounted for similar to the pooling of interest method. Thus, the December 31, 2012 and 2011 comparative financial information to be included in the December 31, 2013 consolidated financial statements shall be restated to include the accounts of the merged PNB at their carrying values and to present the net assets attributed to the noncontrolling interest in FTC as part of the equity attributable to the Parent Company as if the noncontrolling interest had been acquired at the beginning of the earliest period presented.

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2012 and 2011 and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010, were authorized for issue by the BOD on March 4, 2013.

Subsidiaries	Effective Percentage of Ownership		
	December 31		
	2012	2011*	2010*
Distilled Spirits			
TDI and subsidiaries	100.0	100.0	100.0
Absolut Distillers, Inc. (ADI)	95.0	95.0	95.0
Asian Alcohol Corporation (AAC)	96.0	96.0	96.0
Tanduay Brands International, Inc. (TBI)**	100.0	100.0	100.0
Beverages			
ABI and subsidiaries	99.9	99.9	99.9
Agua Vida Systems, Inc.	99.9	99.9	99.9
Interbev	99.9	99.9	99.9
Waterich	99.9	99.9	99.9
Packageworld	99.9	99.9	99.9
Tobacco			
FTC	82.3	82.3	82.3
Property Development			
Saturn***	100.0	100.0	100.0
Paramount and subsidiaries***	100.0	100.0	100.0
Eton	99.3	97.5	94.4
Belton Communities, Inc. (BCI)	99.3	97.5	94.4
Eton City, Inc. (ECI)	99.3	97.5	94.4
FirstHomes, Inc. (FHI)	99.3	97.5	94.4

* Effective percentage of ownership in 2011 and 2010 was restated to reflect pooling of interest as if the newly acquired subsidiaries have always been combined.

** Incorporated on May 6, 2003 to handle the marketing of TDI's products in the export market, TBI has not yet started commercial operations.

*** In July 2011, upon approval by the Philippine SEC of the asset-for-share swap which was filed in 2009, Paramount acquired 1.6 billion unissued shares of Eton, which is equivalent to 55.07% ownership interest in Eton. The acquisition resulted to dilution of Saturn and the non-controlling ownership interest in Eton from 94.4% and 5.6% as of December 31, 2010 to 42.39% and 2.54% as of December 31, 2011, respectively.

Subsidiaries are entities over which an entity within the Group has the power to govern the financial and operating policies of the entities, or generally have an interest of more than one-half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity within the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where an entity within the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments, where necessary, are made to ensure consistency with the policies adopted by the Group.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but are considered as an impairment indicator of the assets transferred.

Non-controlling interest

Non-controlling interest represents equity in a subsidiary not attributable, directly or indirectly, to the equity holders of LTG and subsidiaries. Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group. Transactions with non-controlling interest are accounted for as equity transaction.

Non-controlling interest shares in losses even if the losses exceed the non-controlling equity interest in the subsidiary.

If the Group loses control over a subsidiary, it derecognizes assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, any investment retained, and any surplus or deficit in profit or loss; and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

The consolidated financial statements have been prepared under the historical cost basis, except for AFS financial assets, land and land improvements, plant buildings and building improvements, and machineries and equipment that have been measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), the functional currency of LTG. All values are rounded to the nearest Peso, except when otherwise indicated.

The consolidated financial statements of LTG have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements include the financial statements of LTG and the following subsidiaries (all incorporated in the Philippines):

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When a business is acquired, the financial assets and financial liabilities assumed are assessed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

A CGU to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Group shall recognize the impairment loss. Impairment losses relating to goodwill cannot be reversed in subsequent periods.

The Group performs its impairment test of goodwill on an annual basis every December 31 or earlier whenever events or changes in circumstances indicate that goodwill may be impaired.

Common control business combinations

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same

ultimate parent (i.e., Controlling Shareholders) before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction. The Group recorded the difference as other equity reserves and presented as separate component of equity in the consolidated balance sheets. Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented as if the companies had always been combined.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRSs which were adopted effective beginning January 1, 2012.

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)*, require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance (see Note 6).
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendment)*, clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred income tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

The Group does not have investment properties carried at fair value. Further, the Group measures its deferred income tax on a sale basis of the revalued assets. Thus, the amendment has no impact on the consolidated financial statements of the Group.

Significant Accounting Policies

Investments in Associate and Joint Venture

Investment in associate pertains to investment in PMFTC over which the Group has significant influence but not control. Investment in joint venture pertains to the Group's interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The joint venture arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its investments in associate and joint venture using equity method.

Under the equity method, the investments in associate and joint venture are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate and joint venture. The Group's share in the associate's and joint venture's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associate's and joint venture's equity reserves is recognized directly in other comprehensive income. When the Group's share of losses in the associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate and joint venture. Profits and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate and joint venture.

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

For additional acquisitions resulting to a significant influence over an associate whose original investments were previously held at fair value through other comprehensive income, the changes in fair value previously recognized are reversed through equity reserves to bring the asset back to its original cost. The difference between the sum of consideration and the share of fair value of net assets at date the investment becomes an associate.

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

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 months or less from dates of acquisition, and that are subject to an insignificant risk of change in value.

Financial Instruments

Date of recognition

The Group recognizes financial asset or financial liability in the consolidated balance sheet when it 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 market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). If part of consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated using a valuation technique. The initial measurement of financial instruments, except for those financial assets and liabilities at fair value through profit or loss (FVPL), includes transaction costs.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into FVPL and other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Group has no financial assets or financial liabilities at FVPL and HTM investments as of December 31, 2012, 2011 and 2010.

Determination of fair value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the end of reporting period. For investments and all other financial instruments where there is no active market, fair value is determined using generally acceptable valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models. However, a valuation can only be used if it results in an estimate of the fair value of the instrument which should not have a significant degree of variability.

Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.

Day 1 difference

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is 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 difference amount.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are integral parts of the effective interest rate and transaction costs. 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. These financial assets are included in current assets if maturity is within 12 months from the end of reporting period. Otherwise, these are classified as noncurrent assets. Included under this category are cash in bank and cash equivalents, trade and other receivables, due from related parties and refundable deposits.

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated in this category or not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains

or losses being recognized in other comprehensive income as "Net changes in fair value of AFS financial assets, net of deferred income tax effect". When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed of, the cumulative gains or losses recognized in other comprehensive income are recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on investments are recognized in the consolidated statement of income as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within 12 months from the end of reporting period.

Equity - linked free standing derivatives

A derivative is a financial instrument whose value depends on (in whole or in part) the values of one or more underlying assets or liabilities. Put options are derivative contracts which give one party the right but not the obligation, to sell to the other party the underlying asset for a fixed price at a future date (or during a longer period ending on a future date). These are recognized as assets when the holder becomes party to the contract and are initially measured at fair value. Subsequently, these are measured at fair value, with the changes to profit or loss.

The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the Group shall measure the instrument initially and subsequently at cost.

Other financial liabilities

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest 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 the consolidated statement of income when the liabilities are derecognized as well as through the amortization process. Included under this category are the accounts payable and other liabilities (excluding statutory liabilities), short and long-term debts and other financial liabilities.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount 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, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to 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 the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred 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 the 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 was discharged, 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.

Impairment of Financial Assets

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

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 current market rate of return of a similar financial asset.

Loans and receivables

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 the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment.

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 there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial

asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income under "Other income" account. 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 reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group.

AFS financial assets

For AFS financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss 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 other comprehensive income 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 other comprehensive income.

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Consumer goods inventories

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage	Tobacco
Consumer goods:			
Finished goods	Moving-average	Weighted-average	Moving-average
Work in process	Moving-average	Weighted-average	First-in first-out
Raw materials	Moving-average	Moving-average	First-in first-out

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials, NRV is current replacement cost.

Materials and supplies

Materials and supplies include purchase cost. The cost of these inventories is determined using moving-average method. NRV of materials and supplies is the estimated realizable value of the materials and supplies when disposed of at their condition at the end of the reporting period.

Real estate inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV). Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises prepaid importation charges and excise tax, prepaid rentals and insurance premiums and other prepaid items, and creditable withholding tax. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred. Prepaid importation charges are applied to respective asset accounts, i.e., inventories and equipment, as part of their direct cost once importation is complete. Prepaid excise taxes are applied to inventory as part of its cost once related raw material item is consumed in the production. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise, these are classified as other noncurrent assets.

Property, Plant and Equipment

Property, plant and equipment, other than land and land improvements, plant buildings and building improvements, and machineries and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance

costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment, net of related deferred income tax effect" (presented as part of "other comprehensive income" in the equity section of the consolidated balance sheet). Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment in respect of an item of property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

As discussed in Note 1, certain assets and liabilities of FTC were transferred by the Group as capital contribution to PMFTC. Such properties transferred include revaluation increment on depreciable property, plant and equipment amounting to ₱4.6 billion. Thus, the carrying value of the net assets transferred to PMFTC, including the revaluation increment, plus the fair value adjustment at the date of transfer, was deemed as the historical cost of such assets for PMFTC. Upon transfer in 2010, the Group realized through retained earnings portion of its share in the net appraisal increase from the previous revaluation of FTC's property, plant and equipment amounting to ₱1.9 billion and transferred the unrealized portion amounting to ₱1.9 billion to "Revaluation increment on property, plant and equipment transferred to an associate", net of related deferred income tax effect, in the consolidated balance sheet and consolidated statement of changes in equity. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost.

Construction in progress consists of properties in the course of construction for production or administrative purposes, which are carried at cost less any recognized impairment loss. This includes cost of construction and equipment, and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 15
Plant buildings and building improvements	8 - 50
Machineries and equipment	5 - 30
Office and administration buildings	20 - 40
Leasehold improvements	3 - 30
Transportation equipment	2 - 5
Returnable containers	5 - 7
Furniture, fixtures and other equipment	3 - 20

Leasehold improvements are amortized on a straight-line basis over the terms of the leases or the estimated useful lives, whichever is shorter.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operation* and the date the item is derecognized.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any gain or loss resulting from their disposal is recognized in the consolidated statement of income.

Investment Properties

Investment properties are initially measured at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Any gain or loss on the exchange is recognized in 'Gain on acquisition of investment properties' and presented in the consolidated statement of income.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations in the period in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis using the estimated useful life from the time of acquisition of the investment properties.

The estimated useful life of the depreciable investment properties which generally include building and improvements ranges from 5 to 50 years.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in "Others - net" in the year of retirement or disposal.

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful/economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The Group amortizes the software costs over five years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of the reporting period. Changes in the expected useful life 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 lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Impairment of Noncurrent Nonfinancial Assets

Property, plant and equipment, investment properties, investments in associate and joint venture, and software

At each reporting date, the Group assesses whether there is any 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).

An impairment loss is charged to operations or to the revaluation increment for assets carried at revalued amount, in the year in which it arises.

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 accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization 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.

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 for goodwill 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 of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

Customers' Deposits including Excess of Collections over Recognized Receivables

Customers' deposits represent payments from buyers which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits

Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated balance sheet, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest rate method.

The difference between the cash received and its fair value is deferred, included in the "Other noncurrent liabilities" account in the consolidated balance sheet, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

Revenue

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. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when goods are delivered to and accepted by customers. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, returns and value-added tax (VAT).

Real estate sales

The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. 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.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group's consolidated balance sheet as part of real

estate inventories and the deposit as part of liabilities as “Customers’ deposits”.

Interest income

Interest income is recognized as the interest accrues based on effective interest method.

Dividend income

Dividend income is recognized when Group’s right as shareholder to receive the payment is established.

Royalty income

Royalty income is recognized on an accrued basis in accordance with the substance of the relevant agreement.

Rental income

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income 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.

Costs and Expenses

Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Cost of sales

Cost of sales is recognized as expense where the related goods are sold.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group’s in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Selling and general and administrative expenses

Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

Retirement Benefits Costs

Retirement benefits cost is actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the Group’s retirement plan at the end of the previous reporting year exceed 10% of the higher of the present value of defined benefits obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense on a straight-line basis over the average period that the benefits become vested. If the benefits are vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognized immediately.

The defined benefits liability is either the aggregate of the present value of the defined benefits obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of plan assets from which the obligations are to be settled, or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. If there is no change or there is an increase in the present value of economic benefits, the entire net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the asset is measured with the aggregate of cumulative unrecognized net actuarial losses and past service cost at the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Gains or losses on the curtailment or settlement of retirement benefits are recognized in the consolidated statement of income when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement consists of the resulting change in the present value of the defined benefits obligation and any related actuarial gains and losses, and past service cost that had not been previously recognized.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

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

The Group as lessor

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated balance sheet. 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. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under "Other income" account in the consolidated statement of income.

The Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

Foreign Currency-denominated Transaction and Translation

The Group's consolidated financial statements are presented in Philippine peso, which is also LTG's functional currency. Each of the subsidiaries 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 by the combining entities in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

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

Taxes

Current income tax

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

Deferred income tax

Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO),

to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits 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 reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period. Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set-off the current income tax asset against the current income tax liabilities and deferred income taxes relate to the same taxable entity and the same taxation authority.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

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. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow

of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Equity

Capital stock is measured at par value for all shares issued by the Company. When the Company issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares held by a subsidiary"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Company.

Deposits for future stock subscription are cash received from a stockholder for subscription of shares out of the Company's increase in authorized capital stock with pending approval from the Philippine SEC as of the end of the reporting period. These deposits are to be settled only by issuance of a fixed number of equity shares.

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS. Other comprehensive income of the Group includes revaluation increment in property, plant and equipment and net changes in fair values of AFS investments and share in other comprehensive income of associates.

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Dividend Distributions

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events after the Reporting Period

Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit

that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

New Accounting Standards, Amendments and Interpretations Effective Subsequent to 2012

The Group will adopt the following standards, amendments and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRSs and Philippine Interpretations to have significant impact on its financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective 2013

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation and Disclosures*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
 - a. The gross amounts of those recognized financial assets and recognized financial liabilities;
 - b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
 - c. The net amounts presented in the balance sheet;
 - d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
 - e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The amendment will have no impact on the Group's financial position and performance.
- PAS 27, *Separate Financial Statements (as revised in 2011)*, as a consequence of the new PFRS 10, *Consolidated Financial*

Statements, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment will have no impact on the Group's financial position and performance.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities -Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact to the financial position of the Group as the Group's interest in a joint venture is currently accounted for using the equity method.
- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, as a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.
- PFRS 12, *Disclosure of Interests in Other Entities*, includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The amendment affects disclosures only and has therefore no impact on the Group's financial position or performance.
- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The adoption of this new standard will not have significant impact on the Group's assets and liabilities carried at fair value.
- Amendments to PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

	December 31		
	2012	2011	2010
	(In Thousands)		
Increase (decrease) in:			
Consolidated Balance Sheets:			
Net retirement plan asset	(P108,618)	(P26,882)	P-
Accrued retirement benefits	(340,194)	(212,912)	327,758
Deferred income tax assets	32,645	8,065	-
Deferred income tax liabilities	102,058	63,874	(98,327)
Other comprehensive income	274,666	(135,891)	-
Retained earnings	(939,509)	15,474	(244,904)

(Forward)

	December 31		
	2012	2011	2010
	(In Thousands)		
Consolidated Statements of Income:			
Net retirement benefits cost	56,630	(1,342,156)	22,105
Provision for income tax	16,989	(402,647)	6,632
Net income	39,641	(939,509)	15,474
Attributable to equity holders of the parent company	39,577	(939,579)	15,876
Attributable to non-controlling interests	63	70	(402)

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This standard will have no impact on the Group's financial position and performance.
- Amendments to PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*, change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*, clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.
- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Group expects that the adoption of this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*, clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects interim financial reporting disclosures only and has no impact on the Group's financial position or performance.

Effective 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- PFRS 9, *Financial Instruments - Classification and Measurement*, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

The Group has made an initial high-level evaluation of the impact of the adoption of this standard. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as of December 31, 2012, 2011 and 2010 do not reflect the impact of the said standard. Based on this evaluation, loans and receivables and other financial liabilities, both carried at amortized cost, will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at amortized cost, thus, the standard would have no impact to the Group's financial position and performance. Further, the Group's investments in equity securities classified as available-for-sale investments would be affected by the adoption of this standard. These investments shall be carried at fair value either through other comprehensive income or through profit or loss upon adoption of this standard. If carried at fair value through profit or loss, the ₱229.8 million unrealized gain as of December 31, 2012 will be transferred to retained earnings. If carried at fair value through other comprehensive income, the unrealized gain will stay within equity.

The Group shall conduct another impact assessment at the end of the 2013 reporting period using the consolidated financial statements as of and for the year ended December 31, 2012. Given the proposed amendments on PFRS 9 and the status of its other phases, the Group at present, does not plan to early adopt in 2013 financial reporting. It plans to reassess its current position once the phases of PFRS 9 on impairment and hedge accounting become effective.

The Group's decision whether to early adopt PFRS 9 for its 2013 financial reporting will be disclosed in the consolidated financial statements as of and for the year ending December 31, 2013.

Effectivity to be determined

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related contracts receivables, deferred income tax assets and retained earnings accounts. The adoption of this Philippine Interpretation will be accounted for retrospectively, and will result to restatement of prior period financial statements. The Group is currently assessing the impact of this amendment on its financial position or performance.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use 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 accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting 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 effects on amounts recognized in the consolidated financial statements:

Determination of functional currency

Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Philippine peso. It is the currency of the primary economic environment in which the entities in the Group operate.

Classification of financial instruments

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as 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 Group's consolidated balance sheets.

Classifications of financial instruments are further discussed in Note 27.

Revenue recognition on real estate sales

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2012, 2011 and 2010.

Operating lease commitments - the Group as lessor

The Group has various lease agreements in respect of certain properties, which include commercial property leases of its investment properties. The Group evaluates whether significant risks and rewards of ownership of the leased properties are transferred (finance lease) or retained by the lessor (operating lease). The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that all significant risk and rewards of ownership over the leased properties are retained by the Group (see Note 29).

Operating lease commitments - the Group as lessee

Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant risks and rewards of ownership of these properties, thus, accounts for the lease agreements as operating leases (see Note 29).

The Group has also entered into a finance lease agreement covering certain transportation equipment. The Group has determined that it bears substantially all the risks and benefits incidental to ownership of said properties based on the terms of the contracts (such as existence of bargain purchase option and the present value of minimum lease payments amount to at least substantially all of the fair value of the leased asset) (see Note 29).

Classification of properties

The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, 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 as of the financial reporting date, 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 investment property. The Group considers each property separately in making its judgment.

Determination of fair value of unquoted equity instruments

The Group has investment in shares of stock. As of December 31, 2011 and 2010, management assessed that the fair value of these instruments was not readily available due to suspended trading of the shares and cannot be measured reliably since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, the instruments are measured at cost less any impairment in value.

As of December 31, 2011 and 2010, investment in unquoted shares of stock amounted to ₱85.5 million. In 2012, the fair value of the investment in shares of stock becomes determinable (i.e., quoted market price) upon lifting of the trading suspension of the shares of stock (see Note 9).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Revenue and cost recognition on real estate sales

The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱2,289.0 million, ₱4,884.8 million and ₱4,282.9 million in 2012, 2011 and 2010, respectively, and cost of real estate sales amounting to ₱1,692.2 million, ₱3,500.5 million and ₱3,117.0 million in 2012, 2011 and 2010, respectively (see Note 20).

Measurement of NRV of consumer goods and materials and supplies inventories

The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The Group's consumer goods inventories and certain materials and supplies carried at cost as of December 31, 2012, 2011 and 2010 amounted to ₱5,318.2 million, ₱6,086.2 million and ₱5,950.5 million, respectively. Certain materials and supplies amounting to ₱150.7 million, ₱382.1 million and ₱305.1 million as of December 31, 2012, 2011 and 2010, respectively, are carried at NRV (see Note 7).

Measurement of net realizable value of real estate inventories

The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of

cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

As of December 31, 2012, 2011 and 2010, real estate inventories carried at cost amounted to ₱5,495.4 million, ₱2,462.8 million and ₱2,373.2 million, respectively (see Note 7).

Estimation of allowance for doubtful accounts on loans and receivables

The Group assesses on a regular basis if there is objective evidence of impairment of loans and receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The determination of impairment requires the Group to estimate the future cash flows based on certain assumptions as well as to use judgment in selecting an appropriate rate in discounting. The Group uses specific impairment on its loans and receivables.

The Group did not assess its loans and receivables for collective impairment due to the few counterparties which can be specifically identified and the balance involved is immaterial.

Total carrying value of current and noncurrent portion of loans and receivables which comprise trade and other receivables, due from related parties, and refundable deposits (excluding cash and cash equivalents) amounted to ₱32,640.3 million, ₱20,062.8 million and ₱16,931.4 million as of December 31, 2012, 2011 and 2010, respectively, net of allowance for doubtful accounts amounting to ₱15.5 million, ₱17.7 million and ₱17.5 million, respectively (see Notes 6, 18 and 27).

Impairment of AFS financial assets

The computation for the impairment of AFS financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2012, 2011 and 2010, the carrying value of the Group's AFS financial assets amounted to ₱765.9 million, ₱280.1 million and ₱277.6 million, respectively (see Note 9). There were no impairment losses recognized on these AFS financial assets.

Valuation of equity-linked free standing derivatives

The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument is reliably measurable if: (a) the variability in the range of reasonable fair value estimates is not significant for the instrument; or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the Group is precluded from measuring the instrument at fair value.

As of December 31, 2012, 2011 and 2010, the Group has concluded that the put option cannot be measured at fair value as the put option is linked to and settled by the delivery of unquoted equity instruments whose fair value cannot be reliably determined.

Valuation of property, plant and equipment under revaluation basis

The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to ₱17,022.5 million, ₱16,272.3 million and ₱13,355.5 million as of December 31, 2012, 2011 and 2010, respectively (see Note 11).

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

The Group estimates the useful lives of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets.

In 2011 and 2010, the Group reassessed and changed the estimated useful lives of distillery buildings and building improvements, and machineries and equipment (see Note 11).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2012, 2011 and 2010 amounted to ₱18,996.9 million, ₱18,260.0 million and ₱15,011.4 million, respectively (see Note 11). The estimated useful lives of the Group's property, plant and equipment are discussed in Note 2 to the consolidated financial statements. The carrying amount of depreciable investment properties, net of accumulated depreciation, as of December 31, 2012, 2011 and 2010 amounted to ₱2,552.4 million, ₱2,618.7 million and ₱2,504.5 million, respectively (see Note 12).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount

The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRS.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	December 31 2012	December 31 2011	January 1, 2011
	<i>(In Thousands)</i>		
Other current assets (Note 8)	₱2,718,823	₱2,461,640	₱2,028,439
Investments in associate and joint venture (Note 10)	13,906,189	11,623,387	11,188,773
Property, plant and equipment (Note 11)	20,144,808	19,407,975	16,063,026
Investment properties (Note 12)	4,567,826	4,183,391	3,683,666
Other noncurrent assets (except refundable deposits) (Note 13)	1,107,886	1,079,159	702,437

In 2011, the Group recognized full impairment losses for certain property, plant and equipment amounting to ₱179.9 million. Reversal of impairment loss recognized in 2012 and 2010 amounted to ₱5.1 million and ₱2.3 million, respectively (see Notes 11 and 23).

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to ₱163.7 million as of December 31, 2012, 2011 and 2010 is not impaired (see Note 13).

Estimation of retirement benefits cost and liability

The Group's retirement benefits cost and liability is actuarially computed. This entails using certain assumptions with respect to future annual increase in salary, expected annual rate of return on plan assets and discount rate per annum.

Net retirement plan assets as of December 31, 2012, 2011 and 2010 amounted to ₱1,215.6 million, ₱1,067.2 million and ₱21.8 million, respectively. Accrued retirement benefits amounted to ₱534.0 million, ₱443.5 million and ₱1,546.6 million as of December 31, 2012, 2011 and 2010, respectively. Retirement benefits income recognized in 2011 amounted to ₱132.3 million and retirement benefits costs amounted to ₱83.7 million and ₱220.5 million in 2012 and 2010, respectively (see Note 19).

Provisions and contingencies

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

Provisions for tax contingencies amounted to ₱428.0 million, ₱335.0 million and ₱387.4 million as of December 31, 2012, 2011 and 2010, respectively (see Note 29).

Recognition of deferred income tax assets

The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of

forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets recognized in the consolidated balance sheets amounted to ₱1,324.1 million, ₱1,203.8 million and ₱1,129.5 million as of December 31, 2012, 2011 and 2010, respectively. On the other hand, deferred income tax assets on deductible temporary differences, MCIT and NOLCO amounting to ₱496.1 million, ₱419.9 million and ₱85.6 million as of December 31, 2012, 2011 and 2010, respectively, were not recognized based on the assessment that sufficient future taxable profits will not be available to allow the deferred income tax assets to be utilized (see Note 24).

4. 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 Group's identified operating segments classified as business groups, which are consistent with the segments reported to LTG's BOD, its Chief Operating Decision Maker (CODM), are as follows:

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.
- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons production facility, to support the requirements of its brewing, bottled water and non-beer products operations. The Group conducts its beverage business through ABI, Interbev, Waterich and Packageworld.
- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC.
- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its consolidated subsidiaries.
- Others, consist of various holding companies (LTG, Paramount and Saturn) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD reviews the operating results of the business units to make decisions on resource allocation and assesses performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statements of income. Finance costs (including interest expense) and income taxes are managed per business segment.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business segment information is not presented.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies, except for TDI investment properties which are carried at fair value in TDI consolidated financial statements, TDI's investment property is adjusted at the consolidated level to carry it at cost in accordance with the Group's policy.

Segment assets are resources owned and segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated.

Segment revenue and expenses are those directly attributable to the segment except that intersegment revenue and expense are eliminated only at the consolidated level. Transfer prices between

operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The components of capital expenditures reported to the CODM are the acquisitions of property, plant and equipment during the period.

The Group's distilled spirits segment derives 99% of its revenue from major distributors from 2010 to 2012. Revenue from each of the four major distributors averaged 46%, 46%, 6% and 1%, respectively, of the total revenue of the segment. The other segments of the Group have no significant customer which contributes 10% or more of their segment revenues.

The following tables present the information about the Group's operating segments:
As of and for the year ended December 31, 2012:

	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
	<i>(In Thousands)</i>						
Segment revenue:							
External customers	₱12,719,679	₱12,188,007	₱2,974,897	₱2,685,795	₱-	₱-	₱30,568,378
Inter-segment	229,913	1,263,472	-	-	-	(1,493,385)	-
Cost of sales	12,949,592	13,451,479	2,974,897	2,685,795	-	(1,493,385)	30,568,378
Gross profit	(9,926,671)	(9,678,189)	(2,769,695)	(1,835,107)	-	1,480,800	(22,728,862)
Equity in net earnings of an associate	3,022,921	3,773,290	205,202	850,688	-	(12,585)	7,839,516
	-	-	6,498,972	-	-	-	6,498,972
Selling expenses	3,022,921	3,773,290	6,704,174	850,688	-	(12,585)	14,338,488
General and administrative expenses	(601,883)	(1,820,522)	(600)	(308,561)	-	-	(2,731,566)
	(598,652)	(735,736)	(273,246)	(495,987)	(87,447)	46,896	(2,144,172)
Operating income	1,822,386	1,217,032	6,430,328	46,140	(87,447)	34,311	9,462,750
Finance costs	(417,656)	(113,911)	(1,278)	(72,354)	-	-	(605,199)
Finance income	6,686	9,395	94,619	54,222	38,508	-	203,430
Foreign exchange gains (losses)	(2,745)	(6,316)	(100,198)	12,358	(11,152)	-	(108,053)
Other income (charges)	107,443	6,594	524,682	73,042	241,220	(228,628)	724,353
Income before income tax	1,516,114	1,112,794	6,948,153	113,408	181,129	(194,317)	9,677,281
Provision for income tax	(495,532)	(329,984)	(39,550)	(66,496)	(5,629)	-	(937,191)
Segment profit	₱1,020,582	₱782,810	₱6,908,603	₱46,912	₱175,500	₱194,317	₱8,740,090
Depreciation and amortization expense	₱493,158	₱1,640,549	₱63,730	₱131,185	₱12	₱-	₱2,328,634
Reversal of impairment on property, plant and equipment	-	-	(2,212)	-	-	-	(2,212)

Other financial information of the operating segments is as follows:

	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	₱9,542,269	₱6,570,152	₱18,119,568	₱10,523,262	₱16,058,625	(₱6,593,481)	₱54,220,395
Noncurrent assets	6,560,330	14,855,886	16,558,381	7,231,991	18,827,760	(20,656,033)	43,378,315
	₱16,102,599	₱21,426,038	₱34,677,949	₱17,755,253	₱34,886,385	(₱27,249,514)	₱97,598,710
Liabilities:							
Current liabilities	₱2,183,662	₱13,387,910	₱662,603	₱8,456,795	₱16,508,487	(₱5,616,344)	₱35,783,113
Noncurrent liabilities	5,553,847	1,404,221	-	2,549,614	8,548	(310,699)	9,205,531
	₱7,737,509	₱14,792,131	₱662,603	₱11,006,409	₱16,517,035	(₱5,927,043)	₱44,988,644
Investments in associate and joint venture	₱-	₱20,091	₱13,886,098	₱-	₱18,548,136	(₱18,548,136)	₱13,906,189
Additions to noncurrent assets:							
Property, plant and equipment	1,156,277	2,127,633	867	40,041	-	-	3,324,818
Investment properties	-	-	500,004	513,040	-	-	1,013,044
Short-term debts	-	1,870,000	-	-	-	-	1,870,000
Long-term debts	4,968,295	17,996	-	3,628,284	-	-	8,614,575

As of and for the year ended December 31, 2011:

	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
	<i>(In Thousands)</i>						
Segment revenue:							
External customers	₱12,208,165	₱11,938,021	₱3,350,002	₱5,191,651	₱-	₱-	₱32,687,839
Inter-segment	198,447	1,295,740	-	-	-	(1,494,187)	-
Cost of sales	12,406,612	13,233,761	3,350,002	5,191,651	-	(1,494,187)	32,687,839
	(9,493,686)	(9,966,902)	(2,210,839)	(3,612,181)	-	1,446,188	(23,837,420)
Gross profit	2,912,926	3,266,859	1,139,163	1,579,470	-	(47,999)	8,850,419
Equity in net earnings of an associate	-	-	4,117,904	-	-	-	4,117,904
Selling expenses	2,912,926	3,266,859	5,257,067	1,579,470	-	(47,999)	12,968,323
General and administrative expenses	(599,236)	(2,009,010)	(31,708)	(472,283)	-	38,254	(3,073,983)
	(599,537)	(555,288)	(523,018)	(426,214)	(87,532)	47,999	(2,143,590)
Operating income	1,714,153	702,561	4,702,341	680,973	(87,532)	38,254	7,750,750
Finance costs	(418,547)	(150,085)	-	(9,486)	-	-	(578,118)
Finance income	951	2,517	60,894	40,746	16,971	-	122,079
Foreign exchange gains (losses)	1,323	(1,355)	-	37	(1,451)	-	(1,446)
Others - net	223,137	(173,084)	72,004	139,576	4,103,482	(4,093,738)	271,377
Income before income tax	1,521,017	380,554	4,835,239	851,846	4,031,470	(4,055,484)	7,564,642
Provision for income tax	(504,048)	(134,087)	(134,856)	(118,555)	(5,496)	-	(897,042)
Segment profit	₱1,016,969	₱246,467	₱4,700,383	₱733,291	₱4,025,974	(₱4,055,484)	₱6,667,600
Depreciation and amortization expense	₱435,292	₱1,604,107	₱68,846	₱102,229	₱137	₱-	₱2,210,611
Provision for (reversal of) impairment on property, plant and equipment	-	182,201	(2,272)	-	-	-	179,929

Other financial information of the operating segments is as follows:

	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
	<i>(In Thousands)</i>						
Assets							
Current assets	₱8,642,266	₱6,216,906	₱12,839,979	₱6,892,890	₱6,775,547	(₱6,973,216)	₱34,394,372
Noncurrent assets	5,965,718	14,593,459	13,402,474	8,422,006	13,156,037	(15,138,010)	40,401,684
	₱14,607,984	₱20,810,365	₱26,242,453	₱15,314,896	₱19,931,584	(₱22,111,226)	₱74,796,056
Liabilities							
Current liabilities	₱1,602,233	₱14,136,220	₱1,007,932	₱7,766,621	₱6,544,862	(₱6,146,077)	₱24,911,791
Noncurrent liabilities	5,673,653	1,652,370	-	1,420,002	1,932,050	(734,356)	9,943,719
	7,275,886	15,788,590	1,007,932	9,186,623	8,476,912	(6,880,433)	34,855,510
Investment in associate	₱-	₱-	₱11,623,387	₱-	₱12,693,659	(₱12,693,659)	₱11,623,387
Additions to noncurrent assets:							
Property, plant and equipment	638,765	3,396,928	20,678	22,830	-	-	4,079,201
Investment properties	7,500	-	-	550,498	10,966	-	568,964
Short-term debts	250,000	2,164,000	-	-	-	-	2,414,000
Long-term debts	4,955,148	308,579	-	2,790,930	-	-	8,054,657

As of and for the year ended December 31, 2010:

	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
<i>(In Thousands)</i>							
Segment revenue:							
External customers	₱11,392,465	₱10,978,463	₱13,489,911	₱4,450,076	₱-	₱-	₱40,310,915
Inter-segment	104,394	1,012,150	-	-	-	(1,116,544)	-
Cost of sales	11,496,859	11,990,613	13,489,911	4,450,076	-	(1,116,544)	40,310,915
	(8,871,448)	(9,426,384)	(10,242,538)	(3,174,885)	-	1,080,545	(30,634,710)
Gross profit	2,625,411	2,564,229	3,247,373	1,275,191	-	(35,999)	9,676,205
Equity in net earnings of an associate	-	-	(1,338,254)	-	-	-	(1,338,254)
Selling expenses	2,625,411	2,564,229	1,909,119	1,275,191	-	(35,999)	8,337,951
General and administrative expenses	(497,709)	(1,824,101)	(214,876)	(377,353)	-	7,371	(2,906,668)
	(657,033)	(434,571)	(1,054,372)	(179,951)	(3,424)	(239)	(2,329,590)
Operating income	1,470,669	305,557	639,871	717,887	(3,424)	(28,867)	3,101,693
Finance costs	(472,147)	(138,954)	(350,880)	(11,712)	-	-	(973,693)
Finance income	7,880	2,089	55,321	85,250	2,479	31,883	184,902
Foreign exchange gains (losses)	171	(4,871)	-	(4,810)	(3,561)	(15,633)	(28,704)
Others - net	(225,541)	24,405	5,300,899	183,146	-	28,631	5,311,540
Income before income tax	781,032	188,226	5,645,211	969,761	(4,506)	16,014	7,595,738
Provision for income tax	(167,282)	(82,779)	(113,486)	(238,150)	(406)	(4,240)	(606,343)
Segment profit	₱613,750	₱105,447	₱5,531,725	₱731,611	₱(4,912)	₱11,774	₱6,989,395
Depreciation and amortization expense	₱532,046	₱1,252,736	₱237,801	₱70,692	₱-	₱318	₱2,093,593
Reversal of impairment on property, plant and equipment	-	-	(2,259)	-	-	-	(2,259)

Other financial information of the operating segments is as follows:

	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
<i>(In Thousands)</i>							
Assets:							
Current assets	₱7,156,662	₱6,328,939	₱11,106,577	₱6,513,098	₱5,299,336	(₱5,483,539)	₱30,921,073
Noncurrent assets	4,880,057	12,033,872	12,118,521	5,690,766	5,438,778	(7,394,875)	32,767,119
	₱12,036,719	₱18,362,811	₱23,225,098	₱12,203,864	₱10,738,114	(₱12,878,414)	₱63,688,192
Liabilities:							
Current liabilities	₱1,491,084	₱13,807,838	₱1,497,970	₱5,145,826	₱5,854,042	(₱5,454,008)	₱22,342,752
Noncurrent liabilities	5,359,080	1,126,646	1,195,199	1,709,886	1,945,788	(726,618)	10,609,981
	₱6,850,164	₱14,934,484	₱2,693,169	₱6,855,712	₱7,799,830	(₱6,180,626)	₱32,952,733
Investment in associate	₱-	₱-	₱11,188,773	₱-	₱5,184,719	(₱5,184,719)	₱11,188,773
Additions to noncurrent assets:							
Property, plant and equipment	354,864	2,785,902	106,151	37,095	-	-	3,284,012
Investment properties	-	-	-	730,112	-	-	730,112
Short-term debts	-	2,176,000	-	-	-	-	2,176,000
Long-term debts	4,943,080	389,141	-	2,091,286	-	-	7,423,507

5. Cash and Cash Equivalents

	December 31		January 1,
	2012	2011	2011
	<i>(In Thousands)</i>		
Cash on hand	₱2,815	₱5,715	₱3,187
Cash in banks (Note 18)	3,873,996	2,053,573	2,343,008
Cash equivalents (Note 18)	5,029,549	3,107,357	1,132,496
	₱8,906,360	₱5,166,645	₱3,478,691

Cash in banks earn interest at bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group, and earn annual interest ranging from 3.53% to 4.06%, 0.80% to 4.56% and 1.50% to 4.06% in 2012, 2011 and 2010, respectively. Interest income earned from cash in banks and cash equivalents amounted to ₱101.1 million, ₱71.2 million and ₱76.1 million in 2012, 2011 and 2010, respectively.

6. Receivables

	December 31		January 1,
	2012	2011	2011
	<i>(In Thousands)</i>		
Trade receivables:			
Consumer goods (Note 18)	₱8,384,951	₱6,486,698	₱7,166,369
Contracts receivables	2,475,770	3,866,778	1,824,889
Lease receivables (Note 29)	46,443	17,725	34,515
	10,907,164	10,371,201	9,025,773
Noncurrent portion of contracts receivables	(874,290)	(2,052,869)	–
	10,032,874	8,318,332	9,025,773
Dividend receivable (Note 10)	366,193	306,909	115,224
Receivables from landowners	–	–	350,000
Other receivables	706,722	344,473	253,233
	11,105,789	8,969,714	9,744,230
Less allowance for doubtful accounts	15,498	17,708	17,527
	₱11,090,291	₱8,952,006	₱9,726,703

Trade Receivables

Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are non-interest bearing and generally have 30 to 90 days' terms.

Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to ₱50.3 million and ₱20.5 million in 2012 and 2011, respectively, while interest income pertaining to amortization of the discount arising from non-interest bearing contracts receivable amounted to ₱17.0 million and ₱62.3 million in 2011 and 2010, respectively.

Receivables from landowners

Receivables from landowners represent payments made by Eton for parcels of land that were intended for future development which are based on respective Memorandum of Agreement (MOA) entered by Eton and the various landowners. In 2010, the parties agreed to cancel the respective MOA and for the landowners to return the amounts paid by Eton not later than one year from the financial reporting date. These amounts of receivables from landowners were collected in 2011.

Other Receivables

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Assignment of Receivables

The Group assigned certain contracts receivables to Banco de Oro Unibank, Inc. (BDO) on a with recourse basis. The total assigned contracts receivables amounted to ₱438.3 million, ₱423.1 million and ₱895.6 million as of December 31, 2012, 2011 and 2010, respectively (see Note 16). The carrying values of the assigned contracts receivables approximate their fair values.

Movements of Allowance for Doubtful Accounts

Details and movements of allowance for doubtful accounts, determined using specific assessment as of December 31 follow:

	2009	Write-offs	2010	Provisions (Note 22)	2011	Write-offs	2012
	<i>(In Thousands)</i>						
Trade receivables from customers of consumer goods	₱12,234	(₱221)	₱12,013	₱181	₱12,194	(₱2,210)	₱9,984
Other receivables	5,514	–	5,514	–	5,514	–	5,514
	₱17,748	(₱221)	₱17,527	₱181	₱17,708	(₱2,210)	₱15,498

7. Inventories

	December 31		January 1
	2012	2011	2011
	<i>(In Thousands)</i>		
At Cost:			
Consumer goods:			
Alcohol	₱2,790,260	₱3,319,627	₱3,243,076
Beverage	1,516,184	1,426,397	1,533,945
Tobacco (Note 10)	153,366	468,426	467,411
	4,459,810	5,214,450	5,244,432
Real estate inventories:			
Condominium and residential units for sale	3,551,902	1,261,778	1,309,203
Land held for future development	952,041	952,041	827,821
Subdivision land under development	991,498	249,024	236,175
	5,495,441	2,462,843	2,373,199
Materials and supplies	858,364	871,762	706,090
	10,813,615	8,549,055	8,323,721
At NRV - Materials and supplies	150,671	382,104	305,081
	₱10,964,286	₱8,931,159	₱8,628,802

a. Components of the consumer goods inventories are as follows:

	December 31		January 1,
	2012	2011	2011
	<i>(In Thousands)</i>		
Finished goods	₱703,415	₱1,461,399	₱1,176,997
Work in process	1,268,307	976,344	1,047,497
Raw materials	2,488,088	2,776,707	3,019,938
	₱4,459,810	₱5,214,450	₱5,244,432

Cost of consumer goods inventories recognized as expenses under cost of sales amounted to ₱20.9 billion, ₱20.2 billion and ₱27.5 billion in 2012, 2011 and 2010, respectively (see Note 20).

b. Allowance for inventory obsolescence on materials and supplies amounted to ₱12.3 million, ₱10.4 million and ₱10.4 million as of December 31, 2012, 2011 and 2010, respectively.

c. Movements in real estate inventory are set out below:

	December 31		January 1,
	2012	2011	2011
	(In Thousands)		
Opening balance at January 1	₱2,462,843	₱2,373,199	₱2,871,715
Land acquired during the year	2,120,184	63,000	532,532
Construction/development costs incurred	2,548,040	3,432,189	2,599,291
Borrowing costs capitalized	56,576	94,960	65,430
Disposals (recognized as cost of real estate sales, Note 20)	(1,692,202)	(3,500,505)	(3,117,020)
Transfers to investment property (Note 12)	-	-	(578,749)
	₱5,495,441	₱2,462,843	₱2,373,199

In 2012, the Group purchased parcels of land from third parties and executed the corresponding promissory notes amounting to ₱1,296.77 million. The promissory notes, which are outstanding as of December 31, 2012, bear interest rates based on PDSTF 3 years plus 0.5% to 1% and payable in lump-sum on the third year from the date of execution of the promissory notes (included under "Other noncurrent liabilities" in the consolidated balance sheet).

8. Other Current Assets

	December 31		January 1,
	2012	2011	2011
	(In Thousands)		
Advances to contractors	₱639,815	₱507,451	₱432,977
Creditable withholding tax (CWT)	465,954	544,237	406,607
Input VAT	425,220	191,790	125,549
Advances to suppliers	404,594	437,293	373,743
Prepaid commission	385,402	301,610	194,367
Excise tax	157,208	177,687	161,278
Deferred rent (Note 29)	68,267	59,979	21,814
Prepaid importation charges	49,413	171,530	209,740
Others	122,950	70,063	102,364
	₱2,718,823	₱2,461,640	₱2,028,439

- Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities to which these advances pertain will be completed within the normal operating cycle.
- CWT pertains mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWT can be applied against any income tax liability of a company in the Group to which the CWT relates.
- Input VAT primarily arose from ongoing construction of the plant building and machineries.
- Advances to suppliers pertain to deposits made for raw material purchases and are realized upon delivery of the related inventories. Allowance for doubtful accounts on these advances amounted to ₱590.5 million as of December 31, 2012, 2011 and 2010.
- Prepaid commission consists of payments to agents and brokers which will be charged to the consolidated statements of income in the period in which the related revenue is recognized.
- Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.
- Others include, among others, current portion of refundable deposits and deposits in escrow bank.

9. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of investments in:

	December 31		January 1,
	2012	2011	2011
	(In Thousands)		
Government debt securities	₱442,252	₱129,229	₱127,133
Equity securities:			
Quoted	323,674	65,329	64,970
Unquoted	-	85,527	85,527
	₱765,926	₱280,085	₱277,630

- In 2009, the Group acquired an investment on a government security amounting to ₱121.3 million. This investment has a face value of ₱120.0 million maturing on January 27, 2014. The investment bears fixed interest of 6.25% payable on a semi-annual basis.

On November 11, 2010, the Group's investment in US Dollar-denominated Philippine Government bonds was sold for a price equivalent to ₱230.7 million or US\$5.7 million, resulting in a gain on sale of ₱42.5 million (see Note 23).

In 2012, the Group acquired various peso denominated government securities amounting to ₱280.8 million. These investments have total face value of ₱275.0 million with fixed interest rates ranging from 5.4% to 6.3% and will mature on various dates from January 27, 2014 to March 1, 2027.

Interest income from these investments amounting to ₱9.2 million, ₱7.2 million and ₱21.7 million includes accretion of interest amounting to ₱1.0 million, ₱0.3 million and ₱0.1 million in 2012, 2011 and 2010, respectively.

- The Group's investments in quoted equity shares include various investments in club shares and shares listed in the PSE which are carried at fair value based on the quoted price of the shares at the close of business, with changes in fair value being recognized in other comprehensive income.

The Group's unquoted equity shares pertain to the investment in shares of stock of Victorias Milling Company, Inc. (VMC) as of December 31, 2011 and 2010, which was carried at cost because fair value (i.e., quoted market price) was not readily available due to the suspended trading of its shares. On May 21, 2012, the Philippine Stock Exchange lifted the trading suspension of the shares of stock of VMC, thus, the investment in shares of stock of VMC was reclassified as quoted equity securities.

- c. Presented below are the movements in the net changes in fair values of AFS financial assets:

	December 31		January 1,
	2012	2011	2011
	<i>(In Thousands)</i>		
At beginning of year	₱50,027	₱47,361	₱52,706
Fair value changes during the year on AFS investments*	190,664	2,666	37,547
Transfer to consolidated statements of income through sale (Note 23)	-	-	(42,892)
At end of year	₱240,691	₱50,027	₱47,361
Attributable to:			
Equity holders of the parent company	₱229,768	₱43,653	₱41,378
Non-controlling interests	10,923	6,374	5,983
	₱240,691	₱50,027	₱47,361

* Net of deferred income tax effect amounting to ₱4.4 million, ₱0.8 million and ₱2.6 million in 2012, 2011 and 2010, respectively.

10. Investments in Associate and Joint Venture

The Group has the power to participate in the financial and operating policy decisions in PMFTC, a 49.6%-owned associate, which does not constitute control or joint control. The Group also has 50.0% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings), which is a joint controlled entity. The Group's investments in its associate and joint venture are accounted for using equity method of accounting.

Investment in PMFTC

Details of investment in PMFTC are as follows:

	December 31		January 1,
	2012	2011	2011
	<i>(In Thousands)</i>		
Acquisition cost	₱13,483,541	₱13,483,541	₱13,483,541
Accumulated equity in net earnings (loss):			
Balance at beginning of period	(1,860,154)	(2,294,768)	-
Equity in net earnings (loss)	6,498,972	4,117,904	(1,338,254)*
Less cash dividends	(4,236,261)	(3,683,290)	(956,514)
Balance at end of period	402,557	(1,860,154)	(2,294,768)
	₱13,886,098	₱11,623,387	₱11,188,773

*For the period February 25 to December 31, 2010.

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI manages the day-to-day operations and has majority members of the BOD of PMFTC, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed of ₱18.5 billion by FTC, net of unrealized gain of ₱5.0 billion. The transaction was accounted for similar to a contribution in a joint venture using the Standing Interpretations Committee (SIC) Interpretation

13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*, where FTC recognized only that portion of the gain which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010 and shown under "Other income" in the consolidated statement of income. The portion attributable to FTC is being recognized once the related assets are realized or disposed. FTC recognized the gain amounting to ₱293.0 million in 2012 and 2011 and an outright loss of ₱2.0 billion in 2010, which are included in the "Equity in net earnings (loss) of an associate" in these periods. Further, as a result of the transfer, portion of the revaluation increment on FTC's property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings in 2010.

Details of the carrying values of the contributed assets are indicated below *(In thousands)*:

Cash	₱33,090
Inventories	19,084,092
Other current assets	4,382,894
Property, plant and equipment	8,432,235
Trade and other payable	(2,707,797)
Loans payable	(19,000,000)
Deferred income tax liability	(1,818,551)
	₱8,405,963

Further, FTC holds the right, at its sole option, to sell its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018 under an Exit Rights Agreement dated February 25, 2010. The agreed upon exercise price for such exit right is approximately \$1.17 billion or ₱54.0 billion for all common shares held by FTC in PMFTC (see Note 3).

The summarized financial information of PMFTC as of December 31 is as follows:

	2012	2011	2010
	<i>(In Millions)</i>		
Current assets	₱23,297	₱20,621	₱27,872
Noncurrent assets	32,449	32,884	33,652
Current liabilities	15,289	6,916	14,064
Noncurrent liabilities	4,269	15,961	18,635
Net assets	36,188	30,628	28,825
Revenue	78,941	74,639	58,510
Net income	12,512	7,697	1,266

Investment in Joint Venture

On February 15, 2012, ABI and Corporation Empresarial Pascual, S. L. (CEP), an entity organized and existing under the laws of Spain, agreed to form ABI Pascual Holdings, a jointly controlled entity organized and domiciled in Singapore. In accordance with the Agreement, ABI and CEP (the "venturers") each will hold 50% interest in ABI Pascual Holdings. Further, the arrangement requires unanimous agreement for financial and operating decisions among venturers.

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and domiciled in the Philippines, that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to ₱20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to ₱40.2 million. As of March 4, 2013, the joint venture has not started operations.

December 31, 2012

December 31, 201155

	At Appraised Values			At Cost					Total	
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment		Construction in progress
<i>(In Thousands)</i>										
Accumulated Depreciation and Impairment Losses										
Balance at beginning of year	₱4,105	(₱2,485,030)	(₱9,169,677)	(₱11,658,812)	(₱113,628)	(₱1,101,415)	(₱3,255,839)	(₱881,170)	₱-	(₱17,010,864)
Depreciation and amortization	(4,382)	(234,635)	(1,015,064)	(1,254,081)	(14,860)	(150,195)	(663,379)	(53,554)	-	(2,136,069)
Revaluation increase	-	(2,493,058)	(4,847,247)	(7,340,305)	-	-	-	-	-	(7,340,305)
Disposals, transfers and other adjustments (Notes 10 and 31)	-	58,290	279,538	337,828	-	61,359	326,091	12,369	-	737,647
Impairment loss (Note 23)	(26,490)	(35,521)	-	(62,011)	-	-	(117,918)	-	-	(179,929)
Balance at end of year	(34,977)	(5,189,954)	(14,752,450)	(19,977,381)	(128,488)	(1,190,251)	(3,711,045)	(922,355)	-	(25,929,520)
Net Book Value	₱1,205,922	₱5,168,685	₱9,897,728	₱16,272,335	₱121,217	₱444,380	₱1,583,765	₱359,572	₱626,706	₱19,407,975

December 31, 2010

	At Appraised Values			At Cost							
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
(In Thousands)											
Cost											
Balance at beginning of year	₱2,136,370	₱7,378,571	₱25,861,520	₱35,376,461	₱222,186	₱1,350,521	₱4,153,576	₱1,022,295	₱394,272	₱7,142,850	₱42,519,311
Additions	44,198	171,573	1,528,312	1,744,083	-	163,246	964,823	216,953	194,907	1,539,929	3,284,012
Revaluation increase (decrease)	(77,227)	81,761	220,148	224,682	-	-	-	-	-	-	224,682
Disposals, transfers and other adjustments (Notes 10 and 31)	(983,069)	(2,081,989)	(9,265,823)	(12,330,881)	5,580	(24,664)	(253,752)	(52,868)	(297,530)	(623,234)	(12,954,115)
Balance at end of year	1,120,272	5,549,916	18,344,157	25,014,345	227,766	1,489,103	4,864,647	1,186,380	291,649	8,059,545	33,073,890
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	(2,829)	(2,746,154)	(11,110,938)	(13,859,921)	(99,819)	(958,503)	(2,889,923)	(850,794)	-	(4,799,039)	(18,658,960)
Depreciation and amortization	(4,128)	(235,691)	(1,213,878)	(1,453,697)	(13,809)	(167,574)	(365,916)	(42,351)	-	(589,650)	(2,043,347)
Revaluation increase	-	(49,071)	(167,630)	(216,701)	-	-	-	-	-	-	(216,701)
Disposals, transfers and other adjustments (Notes 10 and 31)	2,852	543,627	3,322,769	3,869,248	-	24,662	-	11,975	-	36,637	3,905,885
Impairment loss (Note 23)	-	2,259	-	2,259	-	-	-	-	-	-	2,259
Balance at end of year	(4,105)	(2,485,030)	(9,169,677)	(11,658,812)	(113,628)	(1,101,415)	(3,255,839)	(881,170)	-	(5,352,052)	(17,010,864)
Net Book Value	₱1,116,167	₱3,064,886	₱9,174,480	₱13,355,533	₱114,138	₱387,688	₱1,608,808	₱305,210	₱291,649	₱2,707,493	₱16,063,026

Revaluation of Land and Land Improvements and Plant Buildings and Machineries and Equipment

The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2011. Movements in revaluation increment, net of deferred income tax effect, are as follows:

	December 31		
	2012	2011	2010
	(In Thousands)		
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:			
Beginning of year	₱4,221,848	₱2,477,486	₱6,912,451
Revaluation increase	-	2,000,057	5,586
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	(334,656)	(255,695)	(669,907)
Transfer of revaluation increment on property, plant and equipment to an associate (Note 10)	-	-	(3,770,644)
	₱3,887,192	₱4,221,848	₱2,477,486
Attributable to:			
Equity holders of the parent company	₱3,635,956	₱3,916,997	₱2,128,384
Non-controlling interests	251,236	304,851	349,102
	₱3,887,192	₱4,221,848	₱2,477,486

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using cost model, the carrying amount would be as follows:

	December 31		
	2012	2011	2010
	(In Thousands)		
Cost			
Land and land improvements	₱293,663	₱293,663	₱293,663
Plant buildings and building improvements	4,443,913	4,121,046	4,014,968
Machineries and equipment	16,759,979	15,055,225	14,194,954
	21,497,555	19,469,934	18,503,585
Accumulated depreciation			
Plant buildings and building improvements	(2,299,609)	(2,009,785)	(1,843,894)
Machineries and equipment	(7,728,568)	(7,219,025)	(6,843,424)
	(10,028,177)	(9,228,810)	(8,687,318)
	₱11,469,378	₱10,241,124	₱9,816,267

Impairment, Write-off and Disposal of Property, Plant and Equipment

The Group recognized impairment losses for certain property, plant and equipment amounting to ₱179.9 million in 2011 (see Note 23). Management assessed that the carrying amounts of these assets should be fully impaired since there is no more expected future economic benefit from these assets.

Allowance for impairment losses on property, plant and equipment amounted to ₱252.6 million as of December 31, 2012 and 2011 and ₱350.2 million as of December 31, 2010.

Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

	December 31		
	2012	2011	2010
	(In Thousands)		
Cost of sales (Note 20)	₱1,270,427	₱1,153,708	₱1,245,108
Selling expenses (Note 21)	666,056	710,262	456,945
General and administrative expenses (Note 22)	311,968	272,099	341,294
	₱2,248,451	₱2,136,069	₱2,043,347

The Group has recorded additional depreciation amounting to ₱32.3 million and ₱100.4 million in 2011 and 2010, respectively, due to the revision of the estimated useful lives of certain buildings and building improvements and machineries and equipment of the distilled spirits business.

Fully depreciated property, plant and equipment that are still used in operations amounted to ₱2.2 billion, ₱2.1 billion and ₱1.9 billion as of December 31, 2012, 2011 and 2010, respectively.

Borrowing Costs

Borrowing costs capitalized as part of property, plant and equipment under construction amounted to ₱7.1 million and ₱2.1 million in 2011 and 2010, respectively. Unamortized capitalized borrowing costs amounted to ₱15.1 million, ₱15.5 million and ₱84.0 million as of December 31, 2012, 2011 and 2010, respectively. The average capitalization rates used to determine the amount of borrowing costs eligible for capitalization is 8.8% and 5.7% in 2011 and 2010, respectively.

Property, Plant and Equipment Held as Collateral

Interbev used its land property amounting to ₱46.5 million to partially secure its outstanding long-term debts as of 2011 and 2010, which were fully paid in 2012 (see Note 16).

12. Investment Properties

Movements of the Group's investment properties are as follows:

	December 31, 2012				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
	(In Thousands)				
Cost					
Beginning balance	₱1,203,576	₱2,747,105	₱7,620	₱361,072	₱4,319,373
Additions	504,959	201,191	-	306,894	1,013,044
Transfers	-	(196,690)	-	(361,072)	(557,762)
Ending balance	1,708,535	2,751,606	7,620	306,894	4,774,655
Accumulated Depreciation					
Beginning balance	-	128,362	7,620	-	135,982
Depreciation (Notes 20 and 22)	-	70,847	-	-	70,847
Ending balance	-	199,209	7,620	-	206,829
Net Book Value	₱1,708,535	₱2,552,397	₱-	₱306,894	₱4,567,826

	December 31, 2011				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
	(In Thousands)				
Cost					
Beginning balance	₱1,177,031	₱2,563,616	₱7,620	₱2,143	₱3,750,410
Additions	26,545	81,558	-	460,860	568,963
Transfers	-	101,931	-	(101,931)	-
Ending balance	1,203,576	2,747,105	7,620	361,072	4,319,373
Accumulated Depreciation					
Beginning balance	-	59,124	7,620	-	66,744
Depreciation (Notes 20 and 22)	-	69,238	-	-	69,238
Ending balance	-	128,362	7,620	-	135,982
Net Book Value	₱1,203,576	₱2,618,743	₱-	₱361,072	₱4,183,391

	December 31, 2010				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
	(In Thousands)				
Cost					
Beginning balance	₱539,616	₱1,894,313	₱7,620	₱-	₱2,441,549
Additions	58,666	669,303	-	2,143	730,112
Transfers (Notes 7 and 31)	578,749	-	-	-	578,749
Ending balance	1,177,031	2,563,616	7,620	2,143	3,750,410
Accumulated Depreciation					
Beginning balance	-	12,034	7,620	-	19,654
Depreciation (Notes 20 and 22)	-	47,090	-	-	47,090
Ending balance	-	59,124	7,620	-	66,744
Net Book Value	₱1,177,031	₱2,504,492	₱-	₱2,143	₱3,683,666

The Group's investment properties consist of parcels of land for appreciation and residential and condominium units for lease, which are valued at cost.

Fair Values of Investment Properties

Below are the fair values of the investment properties, which were determined by professionally qualified independent appraisers based on market values:

	December 31, 2012	December 31, 2011	January 1, 2011
	(In Thousands)		
Land	₱2,405,271	₱1,891,958	₱1,338,324
Buildings and improvements	2,560,476	2,625,910	2,516,187
	₱4,965,747	₱4,517,868	₱3,854,511

The fair value of land and buildings and improvements of the Group was arrived at using the Market Data Approach. In this approach, the fair value of the investment properties is based on sales and listings of comparable property registered in the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as a basis for comparison are situated within the immediate vicinity of the subject property.

The Group expects that the fair value of investment properties under construction to be reliably determinable when the construction is complete.

Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties amounted to ₱396.8 million and ₱142.9 million in 2012, ₱306.9 million and ₱111.7 million in 2011 and ₱167.1 million and ₱57.9 million in 2010, respectively (see Note 20).

Depreciation of investment properties charged to operations is as follows:

	2012	2011	2010
	(In Thousands)		
Cost of rental income (Note 20)	₱70,671	₱69,062	₱46,791
General and administrative expenses (Note 22)	176	176	299
	₱70,847	₱69,238	₱47,090

13. Other Noncurrent Assets

	December 31, 2012	December 31, 2011	January 1, 2011
	(In Thousands)		
Deferred input VAT	₱591,050	₱603,112	₱365,611
Goodwill	163,735	163,735	163,735
Software costs	45,538	44,258	22,712
Others	442,752	381,419	205,970
	₱1,243,075	₱1,192,524	₱758,028

Deferred Input VAT

Deferred Input VAT arises from the acquisition of capital goods.

Goodwill

The Group recognized goodwill related to ADI and Eton amounting to ₱144.7 million and ₱19.0 million, respectively. As at December 31, 2012, the Group performed its annual impairment testing of goodwill related to ADI, a CGU.

The recoverable amount of ADI is determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 15.2%. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 4.0%. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value in use.

Software Costs

Movements in software costs are as follows:

	December 31, 2012	December 31, 2011	January 1, 2010
	(In Thousands)		
Beginning of year	₱44,258	₱22,712	₱9,716
Additions	11,177	26,850	16,171
Disposals	(561)	-	-
Reclassification	-	-	(19)
Amortization (Note 22)	(9,336)	(5,304)	(3,156)
End of year	₱45,538	₱44,258	₱22,712

Others

Others include refundable deposits, various long-term cash deposits and other noncurrent assets which are not significant as to amounts.

14. Accounts Payable and Other Liabilities

	December 31, 2012	December 31, 2011	January 1, 2011
	(In Thousands)		
Trade payables (Note 18)	₱2,087,622	₱1,644,457	₱1,939,638
Accrued expenses (Note 18)	2,726,713	2,828,776	2,610,809
Retention payable (Note 18)	746,373	594,717	412,068
Deposit liability on returnable containers	612,718	707,851	690,376
Advances from customers	179,788	90,559	227,103
Nontrade payables	548,487	1,256,541	1,291,705
Provisions (Note 29)	428,050	334,952	387,435
Output value added tax	385,519	1,145,908	206,121
Due to government agencies	34,236	40,471	79,443
Dividends payable (Note 25)	-	652,858	-
Other payables	56,007	50,750	20,293
	₱7,805,513	₱9,347,840	₱7,864,991

Trade Payables

Trade payables are noninterest-bearing and are normally settled on 30 to 60-day terms. Trade payables arise mostly from purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations. Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Accrued Expenses

Accrued expenses consist accruals for the following:

	December 31, 2012	December 31, 2011	January 1, 2011
	(In Thousands)		
Projects development costs	₱1,665,381	₱1,144,134	₱1,033,626
Purchase of materials and supplies	528,509	1,175,142	1,308,602
Commission	210,892	207,027	38,511
Outside services	104,546	56,422	9,095
Interest	64,002	79,277	61,827
Advertising and promotions	30,323	31,640	21,843
Others	123,060	135,134	137,305
	₱2,726,713	₱2,828,776	₱2,610,809

Retention Payable

Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Deposit Liability on Returnable Containers

Deposit liability on returnable containers pertains to the liability of the Group to third parties upon return of its returnable containers.

Other Payables

Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

15. Customers' Deposits

Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱2,626.4 million, ₱1,744.8 million and ₱1,831.9 million as of December 31, 2012, 2011 and 2010, respectively.

16. Short-term and Long-term Debts

Short-term Debts

At various dates in 2012, 2011 and 2010, the Group obtained unsecured short-term loans from various local banks amounting to ₱1,870.0 million, ₱2,414.0 million and ₱2,176.0 million, respectively, to meet its working capital requirements. The loans are subject to annual interest rates ranging from 5.0% to 6.0%, 3.5% to 7.0% and 5.0% to 9.75%, which are payable lump sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks. Short-term debts are unsecured except for the ₱400.0 million loan which is secured by corporate guaranty of ABI and Interbev.

Long-term Debts

	December 31		January 1,
	2012	2011	2011
	<i>(In Thousands)</i>		
Bonds payable	₱4,968,295	₱4,955,148	₱4,943,080
Secured term loans (Note 18)	—	282,500	352,500
Unsecured term loan (Note 18)	1,650,500	1,800,500	1,275,000
Notes payable	1,977,784	990,430	816,286
Obligations under finance lease (Notes 18 and 29)	17,996	26,079	36,641
	8,614,575	8,054,657	7,423,507
Less current portion	(2,741,143)	(1,525,234)	(610,552)
	₱5,873,432	₱6,529,423	₱6,812,955

TDI's ₱5.0 billion bonds payable

On November 24, 2009, TDI's and LTG's BOD approved and confirmed the issuance of the retail bonds amounting to ₱5.0 billion due in 2015 at 8.055% per annum, payable quarterly, to be used for general corporate purposes, including debt refinancing. On February 12, 2010, TDI completed the bond offering and issued the Retail Bonds with an aggregate principal amount of ₱5.0 billion, which will mature on February 13, 2015. Bond issue cost incurred amounted to ₱66.7 million. As of December 31, 2012, 2011 and 2010, unamortized bond issue cost amounted to ₱31.7 million, ₱44.9 million and ₱56.9 million, respectively (presented as a reduction from the principal loan balance) (see Note 17).

The proceeds from the bond issuance was used to preterminate and fully pay the outstanding balance of TDI's syndicated loan on February 15, 2010 amounting to ₱4.2 billion.

The bond provides that TDI may at any time purchase any of the bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase bonds pro-rata from all bondholders and the bondholders shall not be obliged to sell. Any bonds so purchased shall be redeemed and cancelled and may not be re-issued.

The bond also provides for certain negative covenants on the part of TDI such as:

- TDI shall not create or suffer to exist any lien, security interest or other charge or encumbrance, upon or with respect to any of its properties, whether now owned or hereafter acquired.
- TDI shall not assign any right to receive income for the purpose of securing any other debt, unless at the same time or prior thereto, its obligations under the bond agreement are forthwith secured equally and ratably therewith.
- TDI shall not have the benefit of such other security as shall not be materially less beneficial to the bondholders.
- TDI shall maintain, based on the most recent audited financial statements prepared in accordance with PFRS, a maximum debt-to-equity ratio of 1.75 times and a minimum current ratio of 2.0 times.

As of December 31, 2012, 2011 and 2010, TDI has complied with the bond covenants.

Interbev's secured term loans

On December 29, 2009, Interbev availed of a ₱200.0 million long-term loan with Allied Bank Corporation (Allied Bank) to partially finance the construction of its manufacturing plant in Davao City. The principal is payable on a monthly installment of ₱3.3 million until December 2014 and bears an interest rate of 6.0% in 2011 and 2010 which is repriced at the start of the year.

On September 15, 2010, Interbev availed of a ₱200.0 million long-term loan to meet its working capital requirements. The principal shall be amortized monthly at ₱2.5 million until May 2017 and interest shall be payable monthly at 6.0% in 2012 and 2011.

In 2011 and 2010, Interbev paid the principal of the long-term loans amounting to ₱40.0 million and ₱77.5 million, respectively. In 2012, Interbev fully paid the Allied Bank loans using portion of the proceeds of the short-term loan availed from another local bank.

Interbev's term loan facility agreement with BDO

On June 24, 2011, Interbev entered into a Facility Agreement with BDO for a term loan facility amounting to ₱1,200.0 million to refinance its short-term loans with BDO and Allied Bank and to finance its capital expenditure requirements for capacity expansion of its Davao and Cagayan de Oro plants and establishment of new bottling lines in San Fernando, Pampanga.

In accordance with the Facility Agreement, Interbev shall be subject to the following terms and conditions:

- Compliance with the following financial ratios: maximum debt to equity ratio of 3.0x in 2011, 2.0x in 2012 and 2013 and 1.0x in succeeding years and minimum debt service coverage ratio of 1.2x in all years;
- Existence of negative pledge on all existing and future assets of Interbev, except for permitted liens;
- Increasing the Interbev paid up capitalization by ₱100.0 million on or before December 31, 2012 and by ₱800.0 million on or before December 31, 2013, with the increase in capitalization to come from a new shareholder which is belonging to the Controlling Shareholders; and
- Continuing suretyship of Interbev.

As of December 31, 2012 and 2011, Interbev is compliant with these terms and conditions.

Unsecured term loan of Packageworld

In 2009, Packageworld obtained a five-year unsecured loan from Allied Bank, due in November 2012 bearing interest at prevailing bank rates. The loan amounting to ₱60.0 million was pre-terminated and settled in full in 2010.

Unsecured term loans of Eton

On December 10, 2009, Eton entered into an unsecured term loan agreement with Allied Bank to finance the construction of Eton's investment properties. The loan amounting to ₱300.00 million bears fixed interest rate of 6.66%. Principal repayments are due annually for at least 10.00% of the total principal amount with final repayment in 2012.

Eton obtained additional loans from Allied Bank on various dates for purposes of financing its working capital requirements totaling to ₱990.0 million in 2010 and ₱1,120.0 million in 2011 with interest rates ranging from 5.18% to 6.57% and 6.0%, respectively. Principal repayments are due annually for at least 5.00% of the total principal amount with final payments due in 2013 and 2014, respectively.

In 2011 and 2010, Eton paid Allied Bank total principal amount of ₱594.5 million and ₱15.0 million, respectively.

Notes payable of Eton

Notes payable include various notes from BDO which arose from assigning Eton's contracts receivables on a with recourse basis in 2012, 2011 and 2010 (see Note 6). These notes bear interest based on Philippine Dealing System Treasury Fixing rate for one year plus 1.5% net of gross receipts tax, which ranges from 6.00% to 6.66% in 2012 and 2011 and 6.34% to 6.92% in 2010, subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first.

Interest on loans payable from general borrowings capitalized as part of investment properties and real estate inventories amounted to ₱77.0 million and ₱10.4 million in 2012, ₱21.2 million and ₱95.0 million in 2011 and ₱43.9 million and ₱65.4 million in 2010, respectively. Capitalization rates in 2012, 2011 and 2010 were 5.83%, 5.74% and 5.82%, respectively.

18. Related Party Transactions

The Company has transacted with its subsidiaries and associates and other related parties as follows:

Parent Company, Subsidiaries, Associate and Joint Venture	Entities Under Common Control	
Parent Company	Banks and Bank Holding Companies	Other Entities Under Common Control
Tangent	Allied Bank ⁽¹⁾	Ascot Holdings, Inc.
	Allied Bank Trust Department	Pol Holdings, Inc.
Subsidiaries	Allied Bankers Insurance Corporation	Sierra Holdings & Equities, Inc.
TDI and Subsidiaries	PNB ⁽¹⁾	Grand Cargo and Warehousing Services, Inc.
ADI	Allmark Holdings Corp.	Northern Corporation Tobacco Redrying Co., Inc.
AAC	Dunmore Development Corp. ⁽²⁾	Basic Holdings Corporation
TBI	Kenrock Holdings Corp. ⁽²⁾	Dominium Realty & Construction Corp
ABI and subsidiaries	Leadway Holdings, Inc. ⁽²⁾	Foremost Farms Inc.
Agua Vida	Multiple Star Holdings Corp. ⁽²⁾	Grandsan Development Corp.
Interbev	Pioneer Holdings & Equities, Inc.	Himmel Industries Inc.
Waterich	Dontar Management Ltd. ⁽²⁾	Lapu Lapu Packaging
Packageworld	Fast Return Enterprises Ltd. ⁽²⁾	Lucky Travel Corporation
FTC	Fragile Touch Investment, Ltd. ⁽²⁾	Negros Biochem Corp.
Satum	Mavelstone International Ltd. ⁽²⁾	Philippine Airlines, Inc.
Paramount and subsidiaries	Uttermost Success, Ltd. ⁽²⁾	Rapid Movers & Forwarders Co. Inc.
Eton	All Seasons Realty Corp.	Upright Profits Ltd.
Belton	Dynaworld Holdings Inc.	Dyzum Distillery Inc.
Eton City	Fit-Care Holdings Inc.	Parity Packaging Corp.
FirstHomes	Ivory Holdings, Inc. ⁽²⁾	Heritage Holdings Corp.
	Kentwood Development Corp.	Maxell Holdings, Corp.
Associate	La Vida Development Corp.	Networks Holdings & Equities, Inc.
PMFTC	Merit Holdings & equities Corp. ⁽²⁾	Cube Factor Holdings, Inc.
	Profound Holdings Inc.	Trustmark Holdings Corporation
Joint Venture	Purple Crystal Holdings, Inc.	Polima International Limited
ABI Pascual Holdings	Safeway Holdings & Equities Inc.	Cosmic Holdings Corp.
ABI Pascual Foods	Society Holdings Corp.	Negros Biochem Corporation
	Total Holdings Corp.	Shareholdings ⁽³⁾
	True Success Profits Ltd. ⁽²⁾	Grandway Construct, Inc.
	Key Landmark Investments Ltd. ⁽²⁾	Harmonic Holdings Corp.
	Caravan Holdings, Corp. ⁽²⁾	Proton Realty & Development Corporation
	Solar Holdings Corp. ⁽²⁾	Billinge Investments Limited
		Step Dragon Co. Limited
		High Above Properties Ltd.
		Pernick Group Limited
		In Shape Group Ltd.
		Hilbersham Assets Ltd.
		Orient Legend Developments Ltd.
		Complete Best Development Ltd.
		Cormack Investments Ltd
		Link Great International Ltd.
		Bright Able Holdings Ltd.

⁽¹⁾ As of March 4, 2013, LTG has 45.03% effective ownership interest over the merged PNB (see Note 1)

⁽²⁾ In various dates in February 2013, LTG acquired these holding companies through subscription of unissued shares of the holding companies.

⁽³⁾ As of March 4, 2013, Shareholdings is a 97.7%-owned subsidiary of LTG thereby LTG's effective interest in FTC increased from 82.33% as of December 31, 2012 to 99.58% (see Note 1).

17. Finance Costs and Finance Income

	2012	2011	2010
	(In Thousands)		
Finance costs:			
Short-term debts	₱99,629	₱138,282	₱475,608
Long-term debts:			
Bonds payable	402,786	402,750	358,000
Secured term loans	13,325	12,361	16,357
Syndicated loans	—	—	99,330
Unsecured term loan	57,806	6,507	4,285
Obligations under finance leases	2,716	4,079	4,168
Amortization of bond issue cost (Note 16)	13,112	12,068	9,775
Security deposit (Note 29)	2,428	2,071	6,170
Others	13,397	—	—
Finance costs	605,199	578,118	973,693
Capitalized borrowing costs on long-term debts (Notes 11 and 16)	124,518	129,727	126,810
Total finance costs and capitalized borrowing cost	₱729,717	₱707,845	₱1,100,503
Finance income:			
Cash in banks and cash equivalents	₱101,133	₱71,241	₱76,068
Receivables:			
Interest-bearing contracts receivables	50,331	20,478	—
Amortization of discount on noninterest bearing contracts receivables	—	16,960	62,294
AFS financial assets	9,188	7,200	21,740
Due from related parties	42,778	6,200	24,800
	₱203,430	₱122,079	₱184,902

The consolidated statements of income include the following revenue and other income-related (costs and other expenses)-related account balances arising from transactions with related parties:

	Nature	2012	2011	2010
		(In Thousands)		
Parent Company	Interest income	P-	P6,193	P24,772
	Sales	642	29,013	2,896,484
Associate	Professional and management fee	-	1,452,457	1,223,816
	Outside services	(188,713)	-	-
Entities Under Common Control	Sales	23,189	17,900	6,236,281
	Commission income	-	27,400	41,500
	Interest income	44,738	28,782	28,559
	Purchases	(172,925)	(151,311)	(70,339)
	Management and professional fee	(390,305)	(435,750)	(376,357)
	Outside services	(65,413)	(29,676)	(5,351)
	Freight and handling	(10,322)	(19,745)	(20,745)
	Insurance	(30,911)	(14,770)	(1,329)
Key Management	Rent	(57,269)	(58,098)	(21,564)
	Finance charges	(57,012)	(52,167)	(196,254)
	Short-term benefits	58,892	66,593	63,407
	Post employment benefits	3,624	4,511	3,368

The consolidated balance sheets include the following account balances with related parties:

	Financial Statement Account	Terms and Conditions	December 31	January 1,
			2012	2011
			(In Thousands)	
Parent Company	Receivables - net	30 to 90 days terms; non-interest bearing	P-	P-
	Due from related parties	On demand; non-interest bearing except for P9.9 million and P391.2 million in 2011 and 2010, respectively, which is subject to 10% annual interest	5,671,578	1,901,210
	Due to related parties	On demand; non-interest bearing	(9,906,894)	-
Associate	Receivables - net	30 to 90 days terms; non-interest bearing	366,418	320,299
	Due from related parties	On demand; non-interest bearing	2,772	-
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	(56,152)	(10,481)
Entities Under Common Control	Cash and cash equivalents	On demand; earn rates at bank deposit rates	3,482,195	4,358,133
	Receivables - net	30 to 60 days terms; non-interest bearing	787,096	622,027
	Due from related parties	On demand; non-interest bearing	13,089,802	6,981,712
	Short-term debts	Payable lump sum in various dates within one year	(250,000)	(1,194,000)
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	(672,850)	(3,657,696)
	Obligations under finance lease	Maturing in 2011; non-interest bearing	-	-
	Due to related parties	On demand; non-interest bearing	(10,596,656)	(11,089,772)
	Long-term debts: Secured	Payable in monthly installments but preterminated in 2012; bear an interest rate of 6%; subject to corporate guaranty	-	(282,500)
	Unsecured	Maturing in 2013 and 2014; bear interest rates of 5.18% and 6.57% in 2010 and 2011, respectively	(2,453,500)	(1,800,500)
	Due from Stockholders	On-demand, non-interest bearing	1,776,483	-

The outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- In March 2011, LTG applied the advances to Tangent amounting to P389.7 million and interest receivable amounting to P58.8 million against the dividends due to Tangent. The receivable from Tangent in 2011 represents expenses paid in behalf of Tangent.
- Due to Tangent was used in connection with the purchase of the government-owned shares in PNB belonging to the Controlling Shareholders.

Transactions with Entities under Common Control

- The Group has outstanding Peso and United States (US) dollar-denominated current and savings deposits with Allied Bank and PNB.
- Short-term debts consist of peso-denominated loans with Allied Bank.
- The Company, ABI and Eton entered into an operating lease arrangement with ABC for the lease of office space while Packageworld entered into a one year renewable lease contract from Dominion Realty and Construction Corporation for the lease of land where its manufacturing facilities are located (see Note 29).
- Obligation under finance lease pertains to finance lease arrangements of ABI and Interbev, as lessees, with Allied Leasing Corporation, as lessor, for the lease of various transportation equipment (see Note 29).
- Due to related parties include cash advances provided to the Group to support its working capital requirements.
- Several subsidiaries of the Group entered into management service agreement with Basic Holdings Corporation.
- Eton has commission income amounting to P27.4 million and P41.5 million in 2011 and 2010, respectively representing cash received from PNB for the service rendered by Eton in selling a property of PNB.

Transactions with an Associate

FTC has management services agreement with PMFTC. Under the Transitional Service Agreement (TSA), FTC shall render management services in relation to PMFTC's operations such as procurement, marketing, sales and merchandising, human resource, financial and administrative, legal and information systems services. Management fee is computed based on the cost plus 5% mark-up.

On December 30, 2010, the parties signed an addendum to the TSA for the termination of the TSA effective July 31, 2011. PMFTC paid a cancellation fee amounting to P772.6 million for the salaries and allowances of all employees who rendered services to PMFTC under the TSA.

Transactions with Joint Ventures

PNB and Eton signed two Joint Venture Agreements (JVA) for the development of two properties with book values of P1.2 billion. These two projects are among PNB's strategies in reducing its non-performing assets. The nature of the transactions is purely a joint venture undertaking where the risks and benefits are shared by both parties based on the agreed parameters. Exit mechanisms and warranties were provided in the JVA to protect the interests of both parties.

PNB contributed the aforementioned properties into the JV as approved by BSP. Eton, on the other hand, contributed its resources and technical expertise for the completion of the said JV.

PNB is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV.

The following are the transactions and balances among related parties which are eliminated in the consolidated financial statements:

	Nature	2012	2011	2010
<i>(In Thousands)</i>				
Costs and expenses recognized by:	Revenue and other income recognized by:			
ABI/Interbev	ADI/TDI	Purchase/sale of raw materials	2012	2011
ABI	TDI	Royalty	2011	2010
		Purchase/sale of commercial bottles		
TDI	ABI	Rent		
TDI	LTG	Professional and management fee		
		Purchase/sale of packaging materials		
FTC/TDI	Packageworld			
<i>(In Thousands)</i>				
		December 31	January 1,	
	Terms and Conditions	2012	2011	2011
<i>(In Thousands)</i>				
Amounts owed to:	Amounts owed by:			
ABI	TDI	30 to 60 days; noninterest-bearing		
		30 to 60 days; noninterest-bearing		
Packageworld	TDI	30 to 60 days; noninterest-bearing		
Absolut Distillers	ABI/ Interbev	30 to 60 days; noninterest-bearing		
		30 to 60 days; non interest-bearing		
TDI	ABI/ Interbev	On demand; noninterest-bearing		
Saturn	ABI/ LTG	On demand; noninterest-bearing		
LTG	Eton/Saturn/TDI/ Paramount			

19. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2012, 2011 and 2010, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

The following tables summarize the components of the net retirement benefits cost recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets:

The details of the Group's net retirement plan assets and liabilities are as follows:

	December 31	January 1,
	2012	2011
<i>(In Thousands)</i>		
Net retirement plan assets:		
TDI	9,214	16,518
FTC	1,206,389	1,050,700
	1,215,603	1,067,218
Accrued retirement benefits:		
LTG	8,543	8,058
AAC	16,603	19,222
ADI	4,388	5,024
Eton	23,120	9,924
FTC	-	-
ABI	437,630	370,421
Interbev	20,040	12,614
Packageworld	12,022	9,416
WRC	11,698	8,844
	534,044	443,523
	1,549,647	1,510,741

The details of the Group's net retirement benefits cost (income) are as follows:

	2012	2011	2010
<i>(In Thousands)</i>			
Current service cost	106,220	211,011	119,751
Interest cost on defined benefits obligation	47,145	155,989	183,516
Expected return on plan assets	(77,663)	(62,575)	(60,806)
Net actuarial loss (gain)	8,008	7,523	(29,945)
Curtailment gain	-	(444,227)	-
Effect of employee curtailment	-	-	8,022
	83,710	(132,279)	220,538
Cost of sales	63,306	50,418	15,074
Selling expenses	18,513	16,742	1,271
General and administrative expenses	1,891	(199,439)	204,193
	83,710	(132,279)	220,538

Net Retirement Plan Assets

The details of the net retirement plan assets of TDI and FTC are as follows:

	December 31	January 1,
	2012	2011
<i>(In Thousands)</i>		
Present value of defined benefit obligation	218,398	121,002
Fair value of plan assets	(1,289,599)	(1,141,284)
	(1,071,201)	(1,020,282)
Unrecognized net actuarial losses before the effect of retirement assets ceiling	(164,242)	(66,775)
Effect of retirement assets ceiling	19,840	19,839
	(1,215,603)	(1,067,218)

Changes in the present value of the defined benefits obligation of TDI and FTC are as follows:

	December 31	January 1,
	2012	2011
<i>(In Thousands)</i>		
At January 1*	121,002	1,630,069
Current service cost	10,010	145,269
Interest cost	7,890	119,132
Benefits paid**	(1,450)	(1,778,896)
Unrecognized actuarial loss on defined benefits obligation	80,946	5,428
At December 31	218,398	121,002

* Beginning balance in 2011 includes present value of the defined benefits obligation of FTC amounting to ₱1.6 billion which was previously presented under accrued retirement benefits as of December 31, 2010.

** Includes payments made by FTC amounting to ₱1.8 billion from FTC's resources.

Changes in the fair value of the plan assets of TDI and FTC are as follows:

	December 31	January 1,
	2012	2011
<i>(In Thousands)</i>		
At January 1*	1,141,284	888,840
Expected return on plan assets	74,263	57,850
Contributions to the plan**	93,880	2,004,809
Benefits paid**	(1,450)	(1,778,896)
Unrecognized actuarial loss on plan assets	(18,378)	(31,319)
At December 31	1,289,599	1,141,284
Actual return on plan assets	55,885	26,531

* Beginning balance in 2011 includes fair value of FTC plan assets amounting to ₱813.7 million which was previously presented under accrued retirement benefits as of December 31, 2010.

** Includes payments made by FTC amounting to ₱1.8 billion from FTC's resources.

Accrued Retirement Benefits

The details of the accrued retirement benefits are as follows:

	December 31		January 1,
	2012	2011	2011
	(In Thousands)		
Present value of defined benefits obligation	₱798,836	₱666,166	₱2,060,870
Fair value of plan assets	(48,463)	(61,691)	(894,779)
	750,373	604,475	1,166,091
Unrecognized net actuarial gains (losses)	(216,329)	(160,952)	380,461
	₱534,044	₱443,523	₱1,546,552

Changes in the present value of the defined benefits obligations are as follows:

	2012	2011	2011
	(In Thousands)		
At January 1*	₱666,166	₱504,241	₱1,552,207
Current service cost	96,210	65,742	118,502
Interest cost	39,255	36,857	169,911
Benefits paid	(61,530)	(29,350)	(204,176)
Unrecognized actuarial losses on defined benefits obligation	58,735	88,676	424,426
At December 31	₱798,836	₱666,166	₱2,060,870

*Ending balance as of December 31, 2010 includes present value of the defined benefits obligation of FTC amounting to ₱1.6 billion, which was presented under net retirement plan asset in 2011.

Changes in the fair value of the plan assets are as follows:

	December 31		January 1,
	2012	2011	2011
	(In Thousands)		
At January 1*	₱61,691	₱81,100	₱796,866
Expected return on plan assets	3,400	4,725	51,928
Contributions to the plan	45,358	6,208	236,188
Benefits paid	(61,530)	(29,350)	(204,176)
Actuarial gains (losses) on plan assets	(456)	(992)	13,973
At December 31	₱48,463	₱61,691	₱894,779
Actual return on plan assets	₱2,945	₱3,733	₱65,901

*Ending balance as of December 31, 2010 includes fair value of FTC's plan assets amounting to ₱313.7 million, which was presented under net retirement plan asset in 2011.

Major Categories of the Consolidated Plan Assets

The major categories of the consolidated plan assets as a percentage of the fair value of consolidated plan assets are as follows:

	December 31		January 1,
	2012	2011	2011
Cash and cash equivalents	8.28%	10.70%	8.27%
Investments in debt securities	90.25%	81.95%	76.45%
Receivables and others	1.48%	7.36%	15.34%
Payables	(0.01%)	(0.01%)	(0.06%)
Net plan assets	100.00%	100.00%	100.00%

The retirement funds of the companies in the Group are maintained by Allied Bank, as the trustee bank.

The Group's retirement funds have no investments in debt or equity securities of the companies in the Group.

The Group expects to contribute ₱25.4 million to their defined benefit pension plans in 2013.

The principal assumptions used in determining retirement benefits cost for the Group's plans as of December 31 are as follows:

	2012	2011	2010
Discount rates per annum	5.16% to 6.85%	5.8% to 7.4%	7.0% to 10.94%
Expected annual rates of return on plan assets	2.3% to 8.5%	2.3% to 6.6%	2.3% to 8.5%
Future annual increase in salary	5.0% to 10.0%	5.0% to 10.0%	5.0% to 10.0%

The expected rates of return used as of December 31, 2012, 2011 and 2010 are based on the respective current rates of return of the funds.

Amounts for the current and previous years are as follows:

	December 31				
	2012	2011	2010	2009	2008
	(In Thousands)				
Defined benefits obligations	₱1,017,234	₱787,168	₱2,134,309	₱1,603,561	₱1,400,617
Plan assets	(1,338,062)	(1,202,975)	(969,940)	(764,342)	(588,342)
Deficit (excess)	(320,828)	(415,807)	1,164,369	839,219	812,275
Experience adjustment on defined benefits obligations	(21,572)	(46,334)	(108,526)	34,271	(144,482)
Experience adjustment on plan assets	(1,087)	(30,266)	(4,238)	(7,328)	(1,346)

FTC's Redundancy Program

On June 10, 2011, the BOD approved FTC's redundancy as a result of the Asset Purchase Agreement executed between the FTC and PMFTC (see Note 10). In view of said agreement, a number of departments, positions, job functions and services have become redundant and no longer necessary for the operations of FTC. FTC made payments amounting to ₱1,512.6 million in 2011 and ₱65.5 million in 2010. As a result of this redundancy, FTC recognized curtailment gain of ₱444.2 million in 2011.

20. Revenue and Cost of Sales

Revenue consists of:

	2012	2011	2010
	(In Thousands)		
Gross sales	₱29,157,505	₱27,125,613	₱35,282,040
Less sales returns, discounts and allowances	1,274,922	1,081,886	645,017
	27,882,583	26,043,727	34,637,023
Real estate sales	2,288,952	4,884,774	4,282,939
Rental income	396,843	306,877	167,137
Service income (Note 18)	—	1,452,461	1,223,816
	₱30,568,378	₱32,687,839	₱40,310,915

Cost of sales consists of:

	2012	2011	2010
	(In Thousands)		
Materials used and changes in inventories (Note 7)	₱12,616,092	₱12,126,263	₱16,202,431
Taxes and licenses	2,726,135	2,319,220	5,115,295
Fuel and power	1,908,460	1,685,669	1,431,809
Depreciation and amortization (Note 11)	1,270,427	1,153,709	1,245,107
Personnel costs (Note 19)	1,086,608	1,029,839	984,060
Repairs and maintenance	384,051	507,846	649,285
Freight and handling	244,596	254,535	239,559
Management and professional fees (Note 18)	110,795	98,625	71,627
Occupancy	81,972	70,888	54,488
Others	464,619	456,466	679,599
	20,893,755	19,703,060	26,673,260
Cost of real estate sales (Notes 7 and 12)	1,692,202	3,500,505	3,117,020
Cost of rental income (Note 12)	142,905	111,676	57,865
Cost of service income (Note 18)	—	522,179	786,565
	₱22,728,862	₱23,837,420	₱30,634,710

Cost of service income in 2011 and 2010 includes personnel costs amounting to ₱515.5 million and ₱772.3 million, which relates to the management service provided to PMFTC. As discussed in Note 18, the management services agreement was preterminated effective July 31, 2011.

Other expenses include insurance, utilities and outside services which are not significant as to amounts.

21. Selling Expenses

	2012	2011	2010
	<i>(In Thousands)</i>		
Advertising and promotions	₱1,251,986	₱1,302,343	₱1,298,358
Depreciation and amortization (Note 11)	666,056	710,262	456,945
Travel and transportation	240,558	252,192	161,388
Commissions	199,952	382,453	490,496
Personnel costs (Note 19)	103,232	97,036	96,153
Management, consulting and professional fees (Note 18)	86,513	66,679	55,237
Repairs and maintenance	56,846	73,996	154,833
Materials and consumables	17,974	95,559	86,582
Others	108,449	93,463	106,676
	₱2,731,566	₱3,073,983	₱2,906,668

Others include occupancy fees, fuel and oil, insurance, donations, membership and subscription dues, which are individually not significant as to amounts.

22. General and Administrative Expenses

	2012	2011	2010
	<i>(In Thousands)</i>		
Personnel costs (Note 19)	₱428,787	₱546,718	₱864,115
Management, consulting and professional fees (Note 18)	374,155	332,862	318,772
Depreciation and amortization (Notes 11, 12 and 13)	321,480	277,579	344,749
Taxes and licenses	286,041	248,436	209,911
Outside services	160,326	103,139	26,946
Materials and consumables	124,889	68,580	47,655
Provision for contingencies and other losses (Note 29)	93,098	103,359	184,750
Repairs and maintenance	88,445	113,005	77,838
Communication, light and water	83,050	50,155	36,892
Travel and transportation	42,309	31,947	22,625
Entertainment, amusement and recreations	24,101	19,108	11,340
Occupancy	18,120	16,795	11,396
Others	99,371	231,907	172,601
	₱2,144,172	₱2,143,590	₱2,329,590

Others include fuel and oil, insurance, donation and contribution and membership and subscription dues and expenses which are individually not significant in amount.

23. Other Income (Charges) - Others

	2012	2011	2010
	<i>(In Thousands)</i>		
Tax refunds	₱491,183	₱—	₱—
Rental income	66,813	35,169	15,906
Commission income	—	27,369	41,509
Loss from fire	—	—	(228,611)
Recovery from insurance claim	—	186,033	—
Gain on disposal of a business (Note 10)	—	—	5,077,578
Gain on disposal of AFS investments (Note 9)	—	—	42,536
Others - net	166,357	22,806	362,622
	₱724,353	₱271,377	₱5,311,540

a. On October 29, 2012, FTC received excise tax refund from the Bureau of Internal Revenue (BIR) amounting to ₱491.2 million.

b. On October 14, 2010, a fire broke out at TDI's Cabuyao Plant, which destroyed certain inventories and properties. TDI recorded fire loss amounting to ₱228.6 million for which recovery claim was filed with the insurance company in December 2010. The carrying value of damaged inventories and properties and equipment amounted to ₱189.0 million and ₱39.6 million, respectively. In 2011, TDI recognized ₱176.9 million from recovery from insurance claims for the properties that were destroyed by fire in 2010. As of December 31, 2011, TDI collected the full amount from the insurance company. TDI also recognized ₱9.1 million pertaining to recovery from insurance claim on certain assets in 2011 (see Note 11).

c. Others include forfeiture income on real estate sales cancellation amounting to ₱62.6 million and ₱59.4 million in 2011 and 2010, respectively, and marketing fee amounting to ₱30.7 million in 2011.

24. Income Taxes

a. Details of the Group's deferred income tax assets and liabilities are as follows:

	December 31		December 31		January 1, 2011	
	2012	2011	2011	2010	2010	2009
	Net	Net	Net	Net	Net	Net
	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred
	Income	Income	Income	Income	Income	Income
	Tax	Tax	Tax	Tax	Tax	Tax
	Assets ⁽¹⁾	Liabilities ⁽²⁾	Assets ⁽³⁾	Liabilities ⁽⁴⁾	Assets ⁽⁵⁾	Liabilities ⁽⁶⁾
<i>(In Thousands)</i>						
Deferred income tax assets on:						
Allowance for impairment loss on:						
Receivables	₱177,158	₱10,891	₱177,158	₱10,891	₱183,340	₱6,784
Inventories	—	3,681	—	4,130	5,110	—
Property, plant and equipment	9,119	66,660	9,119	66,660	9,119	95,949
Unamortized discount on contracts receivables	—	—	—	—	5,250	—
Net retirement benefits liabilities	15,511	137,586	5,383	122,185	372,816	89,313
Unamortized past service cost	106,004	3,624	93,140	3,908	37,556	1,877
Accrued expenses	546	5,311	8,141	6,721	114	4,270
Loss from fire	—	—	—	—	—	68,583
Provision for losses	47,369	16,329	27,346	16,329	31,515	—
Unrealized losses on:						
Foreign exchange	23,081	825	2,803	2	6,906	—
Inventories on hand purchased from subsidiaries	—	44,726	—	21,437	—	7,403
Sale of property to a subsidiary	—	7,416	—	8,379	—	9,341
Difference between tax and book basis of accounting for real estate transactions	201,650	—	131,093	—	116,083	—
NOLCO	341,985	—	479,541	—	67,110	—
MCIT	17,226	—	—	—	—	—
Reserves and others	90,605	11,095	—	10,093	—	11,093
	1,030,254	308,144	933,724	270,735	834,919	294,613
Deferred income tax liabilities on:						
Revaluation increment on property, plant and equipment	—	1,558,267	—	1,678,713	34,332	876,510
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	—	42,893	—	43,930	—	48,893
Borrowing cost capitalized to property, plant and equipment	4,524	16,596	—	22,516	—	21,961
Net changes in fair values of AFS financial assets	3,216	3,010	—	1,525	—	1,480
Net retirement plan assets	361,916	2,764	315,210	4,955	—	6,552
Unrealized foreign exchange gains	—	—	15,172	2,240	10,620	166
Deferred rental income	—	—	8,424	—	5,033	—
Others	—	14,336	683	137	10,779	1,613
	(369,656)	(1,637,866)	(339,489)	(1,754,016)	(60,764)	(957,175)
	₱660,598	(₱1,329,722)	₱594,235	(₱1,483,281)	₱774,155	(₱662,562)

(1) Pertain to THI, Eton and FTC

(2) Pertain to AAC, ADI, PWI, TDI, ABI, IPI and WRC

(3) Pertain to THI, AAC, ADI, Eton, FTC, WRC and PWI

(4) Pertain to TDI, ABI, and IPI

(5) Pertain to THI, AAC, Eton, WRC and PWI

(6) Pertain to ADI, FTC, TDI, ABI and IPI

- b. The Group has not recognized deferred income tax assets on NOLCO, excess MCIT and other deductible temporary differences for certain entities based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized:

	December 31		January 1,
	2012	2011	2011
	<i>(In Thousands)</i>		
NOLCO	₱488,740	₱414,566	₱80,609
Excess MCIT	7,368	5,284	5,019
Unrealized foreign exchange losses	2,918	–	8,794
Allowance for impairment on receivables and property, plant and equipment	10,818	13,027	–
Others	10,115	22,620	23,743

- c. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2012	2011	2010
	<i>(In Thousands)</i>		
Provision for income tax at statutory income tax rate	₱2,903,184	₱2,269,393	₱2,278,721
Adjustments resulting from:			
NOLCO, excess MCIT and other deductible temporary differences for which no deferred income tax assets were recognized	40,323	110,120	28,425
Application of NOLCO, MCIT and other deductible temporary differences for which no deferred income tax assets were recognized in prior year	(2,379)	(1,999)	(93,956)
Loss (income) relating to real estate projects under income tax holiday	40,769	(195,505)	(135,329)
Difference of itemized deduction against 40% of taxable income	(341)	–	107,524
Derecognition of deferred income tax liability resulting from availment of Optional Standard Deduction	–	–	(20,342)
Nontaxable gain on disposal of a business	–	–	(1,973,675)
Equity in net loss (earnings) of an associate	(1,949,692)	(1,235,371)	401,476
Others	(91,958)	(49,596)	13,499
Provision for income tax	₱939,906	₱897,042	₱606,343

- d. Provision for current income tax consists of:

	2012	2011	2010
	<i>(In Thousands)</i>		
RCIT	₱1,139,593	₱747,669	₱777,900
MCIT	2,396	583	–
Final tax	16,609	5,364	6,916
Provision for current income tax	₱1,158,598	₱753,616	₱784,816

- a. Capital stock was held by a total of 408, 517 and 519 stockholders as of December 31, 2012, 2011 and 2010, respectively.

- b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	₱1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
–	6,000,000	1.00
October 1995	247,500,000	1.00

- c. As discussed in Note 1, in July 2012, the Company received from Tangent ₱5.0 billion cash in exchange for LTG's 5,000,000,000 common shares. Costs related to the share issuance amounted to ₱67.5 million and is presented as a deduction to additional paid in capital.

Retained Earnings and Dividends

- a. On March 22, 2011 and December 20, 2011, LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.115 per share and ₱0.20 per share or a total of ₱412.1 million and ₱716.6 million, respectively, of which ₱8.8 million and ₱15.3 million were received by a subsidiary of LTG.
- b. On February 23, 2010 and May 5, 2010, LTG's BOD and stockholders, respectively, approved the declaration and distribution of stock dividends amounting to ₱325.8 million, which is equivalent to 10% of LTG's outstanding capital stock.
- c. As of December 31, 2012, 2011 and 2010, retained earnings include undistributed earnings amounting to ₱30.3 billion, ₱22.8 billion and ₱17.6 billion, respectively, representing accumulated earnings of subsidiaries and equity in net earnings of associate, which are not available for dividend declaration until received in the form of dividends from the subsidiaries and associates.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury and deferred income tax assets recognized as of December 31, 2012, 2011 and 2010.

Deposit for Future Subscription

As discussed in Note 1 on October 26, 2011, pursuant to the 2-tranche Placing and Subscription Transaction, LTG's BOD accepted the offer of THC to subscribe to 398,138,889 new common shares from the Company's unissued capital stock at the offer price of ₱4.22 each, subject to the approval at the Company's annual shareholders' meeting.

The respective BODs of LTG and THC approved the execution of a Memorandum of Agreement setting forth each of their rights and obligations under the Placing and Subscription Transaction, including the undertaking of THC to use the offer proceeds to subscribe to additional new shares in LTG's unissued capital stock.

In December 2011, LTG received from THC the net offer proceeds amounting to ₱1,639.4 million, net of stock issue cost amounting to ₱40.7 million, as deposit for future subscription. Subsequently, LTG invested ₱1,627.0 million of the total proceeds in TDI for the latter's capital and operational requirements.

On June 13, 2012, LTG's BOD and stockholders approved the conversion of the deposit for future stock subscription amounting to ₱1,639.4 million into 398,138,889 common shares of LTG which resulted to the recognition of capital stock and corresponding additional paid-in capital amounting to ₱398.1 million and ₱1,241.3 million, respectively.

25. Equity

Capital Stock

Authorized and issued capital stock of the Company as of December 31 are as follows:

	Number of Shares		
	2012	2011	2010
Authorized capital stock at ₱1 par value	25,000,000,000	5,000,000,000	5,000,000,000
Issued capital stock at 1 par value:			
At beginning of year	₱3,583,250,000	₱3,583,250,000	₱3,257,500,000
Issuance	5,398,138,889	–	–
Stock dividends	–	–	325,750,000
At end of year	₱8,981,388,889	₱3,583,250,000	₱3,583,250,000

Other Equity Reserves

Other equity reserves consist of:

	December 31		January 1,
	2012	2011	2011
	<i>(In Thousands)</i>		
Effect of transaction with non-controlling interest	(P25,943)	P108,277	P52,156
Effect of sale of a subsidiary to parent company	99,655	99,655	99,655
Equity adjustments arising from business combination under common control (Notes 1 and 30)	3,492	1,384,589	1,384,589
Equity adjustments from sale of Company's shares held by a subsidiary	193,212	-	-
	P270,416	P1,592,521	P1,536,400

Equity adjustments arising from business combination under common control amounting to P1,384.6 million as of December 31, 2011 and 2010 pertain to the share of the parent company in the legal capital of the acquired subsidiaries upon application of pooling of interest method (see Note 1). In 2012, the total consideration given by LTG through payment of cash and assumption of certain liabilities in favor of the Controlling Shareholders amounted to P1,381.1 million, which was charged against the equity adjustments.

Shares Held by a Subsidiary

LTG has 76.5 million shares owned by Saturn amounting to P150.9 million and presented as "Shares Held by a Subsidiary" in the consolidated balance sheets as of December 31, 2011 and 2010. On July 25, 2012, these shares of stocks were sold to Tangent at P4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to P193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2012	2011	2010
	<i>(In Thousands)</i>		
Balance as of January 1	P4,644,869	P3,842,166	P2,820,046
Net income attributable to non-controlling interests	1,226,660	849,733	1,020,556
Share in other comprehensive income:			
Net changes in fair value of AFS financial assets, net of deferred income tax effect (Note 9)	4,549	391	1,165
Revaluation increment on property, plant and equipment, net of deferred income tax effect (Note 11)	-	8,700	399
Changes in ownership interest in subsidiaries resulting in the reduction of non-controlling interests in subsidiaries	(22,528)	(56,121)	-
Balance as of December 31	P5,853,550	P4,644,869	P3,842,166

26. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	2012	2011 (As Restated Notes 1 and 30)	2010 (As Restated Notes 1 and 30)
	<i>(In Thousands)</i>		
Net income attributable to equity holders of the parent company	P7,513,430	P5,817,867	P5,968,839
Divided by weighted-average number of shares	8,848,676	8,583,250	8,583,250
Basic/diluted EPS for net income attributable to equity holders of the parent company	P0.85	P0.68	P0.70

EPS is calculated using the consolidated net income attributable to equity holders of the parent company divided by the weighted average number of shares, wherein the 5,000,000,000 additional shares issued in 2012 to effect and fund the group restructuring were recognized as if these shares were issued at the beginning of the earliest period presented (see Note 1).

27. Financial Risk Management Objectives and Policies

Risk Management Strategies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BODs of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group. Funds are normally deposited with affiliated local banks and financial transactions are normally dealt with companies belonging to the Group (see Note 18).

Financial Risk Management Policy

The Group's principal financial instruments comprise of short-term and long-term debts and cash and cash equivalents. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are market risks (consisting of foreign exchange risk, cash flow interest rate risk and equity price risk), liquidity risk, counterparty risk and credit risk.

Market risks

The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2012, 2011 and 2010, changes in fair value of equity instruments held as AFS equity instruments due to a reasonably possible change in equity interest, with all other variables held constant, will increase other comprehensive income by P16.8 million, P3.4 million and P3.4 million, respectively, if equity prices will increase by 5.2%. An equal change in the opposite direction would have decreased in equity by the same amount.

Foreign exchange risk

The Group's foreign currency risk related to its US\$-denominated cash in banks and cash equivalents and due to and from related parties. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments. The Group currently does not enter into derivative transactions to hedge its currency exposure.

The Group's significant US\$-denominated financial assets as of December 31 are as follows:

	December 31				January 1, 2010	
	2012		2011		2010	
	Dollar Value	Peso Equivalent	Dollar Value	Peso Equivalent	Dollar Value	Peso Equivalent
(In Thousands)						
Cash in banks and cash equivalents	\$13,344	₱544,702	\$12,471	₱546,749	\$20,336	₱891,531
Receivables - net	1,008	41,147	942	41,283	339	14,874
Due from related parties	30,000	1,224,600	30,000	1,315,200	3,272	143,453
Due to related parties	(13,993)	(571,194)	(13,993)	(613,459)	(13,993)	(613,459)

The Group recognized foreign exchange losses amounting to ₱108.1 million, ₱1.4 million and ₱28.7 million in 2012, 2011 and 2010, respectively, presented in the consolidated statements of income, arising from the translation and settlement of these foreign currency-denominated financial instruments.

Shown below is the impact on the Group's income before income tax of reasonably possible changes in exchange rate of the US\$ against the peso:

2012		2011		2010	
Change in Foreign Exchange Rate	Effect on Income Before Income Tax (In Thousands)	Change in Foreign Exchange Rate	Effect on Income Before Income Tax (In Thousands)	Change in Foreign Exchange Rate	Effect on Income Before Income Tax (In Thousands)
+6.13%	Increase by ₱75,966	+5.49%	Increase by ₱70,809	+5.00%	Increase by ₱21,820
-6.13%	Decrease by ₱75,966	-5.49%	Decrease by ₱70,809	-5.00%	Decrease by ₱21,820

The reasonable movement in exchange rates was determined using one-year historical data.

There is no other impact on the Group's equity other than those already affecting the profit or loss.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2012, 2011 and 2010, certain long-term debts of the Group such as the bonds payable and the secured and unsecured loans are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. As of December 31, 2012, 2011 and 2010, the Group's exposure pertains mainly to short-term debts and long-term notes payable (see Note 16). Repricing of floating rate financial instruments is mostly at interval of three months or six months for the short-term debts and annually for the notes payable.

Shown below is the impact on the Group's income before income tax of reasonably possible changes in interest rates of the short-term bank loans and notes payable:

		Effect on Income before Income Tax		
	Changes in basis points	2012	2011	2010
(In Thousands)				
Short-term bank loans	+100	(P18,700)	(P24,140)	(P21,760)
	-100	18,700	24,140	21,760
Notes payable	+100	(19,778)	(9,904)	(8,163)
	-100	19,778	9,904	8,163

Credit and concentration risk

The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. Management closely monitors the fund and financial condition of the Group. Funds are normally deposited with affiliated banks, and financial transactions are normally dealt with related parties. These strategies, to an extent, mitigate the Group's counterparty risk.

In addition, credit risk of Property development group is managed primarily through analysis of receivables on a continuous basis. The credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

The table below summarizes the Group's exposure to credit risk for the components of the consolidated balance sheets.

	December 31		January 1, 2011
	2012	2011	2011
(In Thousands)			
Loans and receivables:			
Cash and cash equivalents*	₱8,903,545	₱5,160,930	₱3,475,504
Trade receivables**	10,897,180	10,359,007	9,013,760
Other receivables***	1,067,401	645,868	712,943
Due from related parties	20,540,635	8,882,922	7,058,438
Refundable deposits	135,190	113,365	55,191
AFS debt investments	442,252	129,229	127,133
	₱41,986,203	₱25,291,321	₱20,442,969

*Excluding cash on hand amounting to ₱2.8 million, ₱5.7 million and ₱3.2 million as of December 31, 2012 and 2011 and January 1, 2011, respectively.

** Net of allowance for doubtful accounts amounting to ₱10.0 million, ₱12.2 million and ₱12.0 million as of December 31, 2012 and 2011 and January 1, 2011, respectively (see Note 6).

*** Include dividend receivable amounting to ₱366.2 million, ₱306.9 million and ₱115.2 million and net of allowance for doubtful accounts amounting to ₱5.5 million as of December 31, 2012 and 2011 and January 1, 2011.

Concentrations arise when a number of counterparties are engaged in similar business activities having 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. Concentration risk per business segment could arise on the following:

- Distilled spirits segment's sale of alcoholic beverage pertains mainly to four main customers with sales to them comprising about 99% of total distilled spirits sales.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets

"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts:

December 31, 2012:

	Neither past due nor impaired		Past due but not impaired				Impaired Financial Assets	Total
	Standard Grade	Substandard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days		
	(In Thousands)							
Loans and receivables:								
Cash in banks and cash equivalents	₱8,903,545	₱–	₱–	₱–	₱–	₱–	₱–	₱8,903,545
Trade receivables	7,864,350	–	1,233,235	421,830	225,004	1,152,761	9,984	10,907,164
Other receivables	1,002,203	88	863	144	23	64,080	5,514	1,072,915
Due from related parties	9,158,725	–	–	–	–	11,381,910	–	20,540,635
Refundable deposits	135,190	–	–	–	–	–	–	135,190
AFS financial assets	442,252	–	–	–	–	–	–	442,252
	₱27,506,265	₱88	₱1,234,098	₱421,974	₱225,027	₱12,598,751	₱15,498	₱42,001,701

December 31, 2011:

	Neither past due nor impaired		Past due but not impaired				Impaired	
	Standard Grade	Substandard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Financial Assets	Total
	(In Thousands)							
Loans and receivables:								
Cash in banks and cash equivalents	₱5,160,930	₱-	₱-	₱-	₱-	₱-	₱-	₱5,160,930
Trade receivables	8,281,984	-	947,343	380,265	620,303	129,112	12,194	10,371,201
Other receivables	242,976	594	3,480	2,317	44,539	351,962	5,514	651,382
Due from related parties	5,216,722	-	-	-	-	3,666,200	-	8,882,922
Refundable deposits	113,365	-	-	-	-	-	-	113,365
AFS financial assets	129,229	-	-	-	-	-	-	129,229
	₱19,145,206	₱594	₱950,823	₱382,582	₱664,842	₱4,147,274	₱17,708	₱25,309,029

January 1, 2011:

	Neither past due nor impaired		Past due but not impaired				Impaired	
	Standard Grade	Substandard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days	Financial Assets	Total
	(In Thousands)							
Loans and receivables:								
Cash in banks and cash equivalents	₱3,475,504	₱-	₱-	₱-	₱-	₱-	₱-	₱3,475,504
Trade receivables	6,331,494	-	1,507,306	458,045	547,767	169,148	12,013	9,025,773
Other receivables	551,408	178	114	1,468	778	158,997	5,514	718,457
Due from related parties	772,279	-	-	-	-	6,286,159	-	7,058,438
Refundable deposits	55,591	-	-	-	-	-	-	55,591
AFS financial assets	127,133	-	-	-	-	-	-	127,133
	₱11,313,409	₱178	₱1,507,420	₱459,513	₱548,545	₱6,614,304	₱17,527	₱20,460,896

Impairment assessment

The main consideration for impairment assessment includes whether there are known difficulties in the cash flow of the counterparties. The Group assesses impairment in two ways: individually and collectively.

First, the Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, non-moving accounts receivable and other accounts of defaulted counterparties.

The amount of loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured placements is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns. The Group also keeps its liquidity risk minimum by prepaying, to the extent possible, interest bearing debt using operating cash flows.

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management:

December 31, 2012:

	Less than one year	1 to less than 3 years	3 to less than 5 years	More than 5 years	Total
(In Thousands)					
Cash and cash equivalents	₱8,903,545	₱-	₱-	₱-	₱8,903,545
Trade receivables	10,022,890	444,016	66,119	364,155	10,897,180
Other receivables	1,067,401	-	-	-	1,067,401
Due from related parties	20,540,635	-	-	-	20,540,635
AFS financial assets	442,252	-	-	-	442,252
	₱40,976,723	₱444,016	₱66,119	₱364,155	₱41,851,013
Short term debts	₱1,880,738	₱-	₱-	₱-	₱1,880,738
Accounts payable and other liabilities*	6,957,708	-	-	-	6,957,708
Long-term debts	2,997,983	6,504,753	-	-	9,502,736
Due to related parties	20,503,550	-	-	-	20,503,550
Other liabilities	-	1,459,740	6,135	2,458	1,468,333
	₱32,339,979	₱7,964,493	₱6,135	₱2,458	₱40,313,065

*Excluding non-financial liabilities amounting to ₱0.8 billion.

December 31, 2011:

	Less than one year	1 to less than 3 years	3 to less than 5 years	More than 5 years	Total
(In Thousands)					
Cash and cash equivalents	₱5,160,930	₱-	₱-	₱-	₱5,160,930
Trade receivables	8,306,138	-	1,730,562	322,307	10,359,007
Other receivables	645,868	-	-	-	645,868
Due from related parties	8,882,922	-	-	-	8,882,922
AFS financial assets	129,229	-	-	-	129,229
	₱23,125,087	₱-	₱1,730,562	₱322,307	₱25,177,956
Short term debts	₱2,449,938	₱-	₱-	₱-	₱2,449,938
Accounts payable and other liabilities*	7,826,509	-	-	-	7,826,509
Long-term debts	3,423,711	2,397,982	5,048,106	-	10,869,799
Due to related parties	9,739,440	1,350,332	-	-	11,089,772
Other liabilities	-	137,025	-	135	137,160
	₱23,439,598	₱3,885,339	₱5,048,106	₱135	₱32,373,178

*Excluding non-financial liabilities amounting to ₱1.5 billion.

January 1, 2011:

	Less than one year	1 to less than 3 years	3 to less than 5 years	More than 5 years	Total
(In Thousands)					
Cash and cash equivalents	₱3,475,504	₱-	₱-	₱-	₱3,475,504
Trade receivables	9,013,760	-	-	-	9,013,760
Other receivables	712,943	-	-	-	712,943
Due from related parties	7,058,438	-	-	-	7,058,438
AFS financial assets	127,133	-	-	-	127,133
	₱20,387,778	₱-	₱-	₱-	₱20,387,778
Short term debts	₱2,206,140	₱-	₱-	₱-	₱2,206,140
Accounts payable and other liabilities*	7,191,992	-	-	-	7,191,992
Long-term debts	1,050,712	2,448,297	5,629,508	227,631	9,356,148
Due to related parties	9,753,525	1,372,127	-	-	11,125,652
Other liabilities	-	215,785	-	-	215,785
	₱20,202,369	₱4,036,209	₱5,629,508	₱227,631	₱30,095,717

*Excluding non-financial liabilities amounting to ₱0.7 billion.

Financial Instruments Carried at Fair Value

The fair value information as of December 31, 2012, 2011 and 2010 of AFS financial assets are analyzed by source of inputs on fair valuation as follows:

- Quoted prices in active markets for identical assets (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

The Group's financial instruments carried at fair values pertain to quoted equity securities amounting to ₱326.7 million, ₱65.3 million and ₱64.9 million, respectively, which have been determined by reference to the price of the most recent transaction at the close of the end of reporting period (Level 1). There were no financial instruments carried at fair values measured under Level 2 and Level 3. In 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Categories of Financial Instruments

The following tables present a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	December 31				January 1, 2011	
	2012		2011			
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Thousands)					
Financial Assets						
Cash on hand	₱2,815	₱2,815	₱5,715	₱5,715	₱3,187	₱3,187
Loans and Receivables:						
Cash in bank and cash equivalents	8,903,545	8,903,545	5,160,930	5,160,930	3,475,504	3,475,504
Trade receivables	10,897,180	10,897,180	10,359,007	10,359,007	9,013,760	9,013,760
Other receivables	1,067,401	1,067,401	645,868	645,868	712,943	712,943
Due from related parties	20,540,635	20,540,635	8,882,922	8,882,922	7,058,438	7,058,438
Refundable deposits	135,190	135,190	113,365	113,365	55,591	55,591
	41,543,951	41,543,951	25,162,092	25,162,092	20,316,236	20,316,236
AFS financial assets	765,926	765,926	280,085	280,085	277,630	277,630
	₱42,312,692	₱42,312,692	₱25,447,892	₱25,447,892	₱20,597,053	₱20,597,053

	December 31					
	2012		2011		January 1, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Thousands)					
Financial Liabilities						
Short term debts	₱1,870,000	₱1,870,000	₱2,414,000	₱2,414,000	₱2,176,000	₱2,176,000
Accounts payable and other liabilities	6,957,708	6,957,708	7,826,509	7,826,509	7,191,992	7,191,992
Long-term debts	8,764,575	8,926,032	8,054,657	8,304,347	7,423,507	8,112,420
Due to related parties	20,503,550	20,503,550	11,089,772	11,089,772	11,125,652	11,125,652
Other liabilities	1,468,333	1,460,973	137,160	130,919	215,785	205,769
	₱39,564,166	₱39,718,263	₱29,522,098	₱29,765,547	₱28,132,936	₱28,811,833

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents and receivables

The carrying amounts of cash and cash equivalents approximate fair value. The carrying amounts of receivables approximate fair value due to their short-term settlement period.

Other current financial instruments

The historical cost carrying amounts of refundable deposits, accounts payable, accrued expenses and due to related parties approximate their fair values due to the short-term nature of these accounts.

Equity investments (available-for-sale investments)

The fair values of quoted equity investments are based on market prices. Unquoted equity investments are carried at cost (subject to impairment).

The derivative asset relating to the put option is carried at cost as the fair value cannot be reliably determined (see Notes 3 and 10). As of December 31, 2012, 2011 and January 1, 2011, the value of the derivative is nil (see Note 10).

Long-term obligations and short-term, fixed rate notes payable

The fair value of long-term obligations (whether fixed or floating) is generally based on the present value of expected cash flows with discount rates that are based on risk-adjusted benchmark rates (in the case of floating rate liabilities with annual repricing, the carrying value approximates the fair value in view of the recent and regular repricing based on current market rates). The discount rates used for the unsecured debts are 5.03%, 5.03% and 5.20% in 2012, 2011 and 2010, respectively. The fair value of bonds payable is determined by reference to latest transaction price at the end of reporting period.

The carrying value of the short-term bank loans and secured debts approximates its fair value due to their short-term settlement period (i.e., effect of discounting is minimal). The carrying value of the notes payable approximate their fair value since the notes carry interest rates based on market.

28. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2012, 2011 and 2010.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2012, 2011 and 2010.

The Group considers its total equity reflected in the consolidated balance sheets as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt-to-equity ratio (total debt/total equity). Included as debt are the Group's total liabilities while equity pertains to total equity as shown in the consolidated balance sheets.

The table below shows the leverage ratios of the Group:

	December 31		January 1,
	2012	2011	2011
	(In Thousands, except ratios)		
Total liabilities	₱44,988,644	₱34,855,510	₱32,952,733
Total equity	52,610,066	39,940,546	30,735,459
Total liabilities and equity	₱97,598,710	₱74,796,056	₱63,688,192
Debt ratio	0.46:1	0.47:1	0.52:1
Debt-to-equity ratio	0.86:1	0.87:1	1.07:1

29. Agreements, Commitments and Contingencies

Agreements

- The Group's projects namely, Eton Cyberpod Corinthian and Eton Centris, were registered with PEZA on August 27, 2008 and September 19, 2008, respectively, as non-pioneer "ecozone developer/operator". The locations are created and designated as Information Technology Park.
- The Group has three Board of Investment (BOI)-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP).

BP is registered with BOI as a new developer of low-cost housing project on a Non-Pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226) on September 15, 2008. This registration entitles the Group to four years ITH from November 2008 or actual commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. The ITH shall be limited only to the revenue generated from this project. Revenue with selling price exceeding ₱3.0 million shall not be covered by ITH.

Likewise, on September 23, 2008, two other projects of the Group namely, OAP and EEL, were registered with the BOI as a new developer of low-cost housing project on a Non-Pioneer status. These two projects shall enjoy the same benefits as BP.

Commitments

Operating lease commitments - the Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has security deposits and advance rentals which are presented under "Other noncurrent liabilities." Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. As of December 31, 2012, 2011 and 2010, security deposits and advance rentals amounted to ₱65.1 million and ₱36.2 million, ₱36.6 million and ₱25.0 million, and ₱87.8 million and ₱49.3 million, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	December 31		
	2012	2011	2010
	(In Thousands)		
Within one year	₱469,089	₱313,919	₱233,852
After one year but not more than five years	1,051,055	802,260	995,033
More than five years	459,944	254,155	299,354
	₱1,980,088	₱1,370,334	₱1,528,239

Operating lease commitments - the Group as lessee

The future aggregate minimum lease payments under several operating leases of the Group are as follows:

	December 31		
	2012	2011	2010
	(In Thousands)		
Within one year	₱26,404	₱27,940	₱15,345
Within two to five years	68,999	75,861	33,816
More than five years	1,466,263	1,483,705	-
Obligation under operating lease	₱1,561,666	₱1,587,506	₱49,161

Obligations under finance lease

The Group has finance lease arrangements with a related party for the lease of various transportation equipment. The lease agreements provide for the transfer of ownership to the Group at the end of the lease term, which among other considerations met the criteria for a finance lease. Therefore, the leased assets were capitalized as part of property, plant and equipment (see Notes 11 and 18). In 2012, 2011 and 2010, accretion of interest pertaining to the lease obligation amounted to ₱2.7 million, ₱4.0 million and ₱4.3 million, respectively.

The future minimum lease payments of the obligations under finance lease, together with the present value of the net minimum lease payments are as follows:

	December 31		January 1,
	2012	2011	2011
	(In Thousands)		
Within one year	₱8,934	₱10,829	₱14,681
Beyond one year but not more than five years	11,912	20,847	31,676
Total minimum lease payments	20,846	31,676	46,357
Less amount representing interest	2,850	5,596	9,717
Present value of minimum lease payments (Notes 16 and 18)	17,996	26,080	36,640
Less current portion	7,078	8,083	10,552
Obligations under finance lease, net of current portion	₱10,918	₱17,997	₱26,088

In 2010, the Group recorded various transportation equipment under finance lease amounting to ₱32.9 million. The net carrying values of the transportation equipment held by the Group under finance lease amounted to ₱11.9 million, ₱28.2 million and ₱42.5 million as of December 31, 2012, 2011 and 2010, respectively (see Notes 11 and 18).

Contingencies

In the ordinary course of business, the Group is a party to various litigations related mainly to trademark infringement, probable claims and tax refund and other cases. The timing of the cash outflows of these provisions is uncertain as it depends upon the outcome of the Group's negotiations and/or legal proceedings, which are currently ongoing with the parties involved.

Disclosure on additional details beyond the present disclosures may seriously prejudice the Group's position and strategy. Thus, as allowed by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, only general descriptions were provided.

30. Business Combination under Common Control

As discussed in Note 1, the business combination in 2012 involving LTG and its subsidiaries were accounted using the pooling of interest method. Below are the restatements on the Group's consolidated balance sheets as of December 31, 2011 and January 1, 2011:

	December 31, 2011			January 1, 2011		
	As Previously Reported	Effect of Restatements	As Restated	As Previously Reported	Effect of Restatements	As Restated
	(In Thousands)					
ASSETS						
Current Assets						
Cash and cash equivalents	₱2,498,322	₱2,668,323	₱5,166,645	₱1,091,888	₱2,386,803	₱3,478,691
Receivables	3,196,711	5,755,295	8,952,006	2,312,436	7,414,267	9,726,703
Due from related parties	–	8,882,922	8,882,922	–	7,058,438	7,058,438
Inventories	4,129,595	4,801,564	8,931,159	4,060,865	4,567,937	8,628,802
Other current assets	334,841	2,126,799	2,461,640	412,587	1,615,852	2,028,439
Total Current Assets	10,159,469	24,234,903	34,394,372	7,877,776	23,043,297	30,921,073
Noncurrent Assets						
Receivables - net of current portion	–	2,052,869	2,052,869	–	–	–
Available-for-sale financial assets	112,527	167,558	280,085	112,027	165,603	277,630
Investment in associate and joint venture	–	11,623,387	11,623,387	–	11,188,773	11,188,773
Property, plant and equipment:						
At appraised values	4,441,959	11,830,376	16,272,335	3,700,315	9,655,218	13,355,533
At cost	1,270,108	1,865,532	3,135,640	875,273	1,832,220	2,707,493
Investment properties	251,105	3,932,286	4,183,391	188,862	3,494,804	3,683,666
Net retirement plan assets	16,518	1,050,700	1,067,218	21,841	–	21,841
Deferred income tax assets	5,226	589,009	594,235	61,930	712,225	774,155
Other noncurrent assets	186,481	1,006,043	1,192,524	196,968	561,060	758,028
Total Noncurrent Assets	6,283,924	34,117,760	40,401,684	5,157,216	27,609,903	32,767,119
TOTAL ASSETS	₱16,443,393	₱58,352,663	₱74,796,056	₱13,034,992	₱50,653,200	₱63,688,192
LIABILITIES AND EQUITY						
Current Liabilities						
Short-term debts	₱250,000	₱2,164,000	₱2,414,000	₱–	₱2,176,000	₱2,176,000
Accounts payable and other liabilities	1,982,406	7,365,434	9,347,840	1,390,954	6,474,037	7,864,991
Income tax payable	60,072	80,425	140,497	47,805	57,990	105,795
Customers' deposits	–	1,744,780	1,744,780	–	1,831,889	1,831,889
Current portion of long-term debts	–	1,525,234	1,525,234	–	610,552	610,552
Current portion of due to related parties	–	9,739,440	9,739,440	–	9,753,525	9,753,525
Total Current Liabilities	2,292,478	22,619,313	24,911,791	1,438,759	20,903,993	22,342,752
Noncurrent Liabilities						
Long-term debts - net of current portion	4,955,148	1,574,275	6,529,423	4,943,080	1,869,875	6,812,955
Due to related parties - net of current portion	–	1,350,332	1,350,332	–	1,372,127	1,372,127
Accrued retirement benefits	32,305	411,218	443,523	35,373	1,511,179	1,546,552
Deferred tax liabilities	473,796	1,009,485	1,483,281	167,902	494,660	662,562
Other noncurrent liabilities	70,856	66,304	137,160	70,858	144,927	215,785
Total Noncurrent Liabilities	5,532,105	4,411,614	9,943,719	5,217,213	5,392,768	10,609,981
Total Liabilities	7,824,583	27,030,927	34,855,510	6,655,972	26,296,761	32,952,733
Equity						
Equity attributable to equity holders of the parent company:						
Capital stock	3,583,250	–	3,583,250	3,583,250	–	3,583,250
Deposits for future stock subscription	1,639,401	–	1,639,401	–	–	–
Other comprehensive income	1,142,376	4,191,729	5,334,105	538,685	3,250,703	3,789,388
Other equity reserves	151,811	1,440,710	1,592,521	151,811	1,384,589	1,536,400
Retained earnings	1,963,608	21,333,681	23,297,289	1,975,689	16,159,455	18,135,144
Shares held by subsidiary	–	(150,889)	(150,889)	–	(150,889)	(150,889)
	8,480,446	26,815,231	35,295,677	6,249,435	20,643,858	26,893,293
Non-controlling interests	138,364	4,506,505	4,644,869	129,585	3,712,581	3,842,166
Total Equity	8,618,810	31,321,736	39,940,546	6,379,020	24,356,439	30,735,459
TOTAL LIABILITIES AND EQUITY	₱16,443,393	₱58,352,663	₱74,796,056	₱13,034,992	₱50,653,200	₱63,688,192

Restatements on the consolidated statements of income of the Group for the years ended December 31 are as follows:

	2011			2010		
	As Previously Reported	Effect of Restatements	As Restated	As Previously Reported	Effect of Restatements	As Restated
	<i>(In Thousands)</i>					
SALES						
Distilled spirits	₱12,406,612	(₱198,447)	₱12,208,165	₱11,496,859	(₱104,394)	₱11,392,465
Beverage	–	11,938,021	11,938,021	–	10,978,463	10,978,463
Tobacco	–	3,350,002	3,350,002	–	13,489,911	13,489,911
Property development	–	5,191,651	5,191,651	–	4,450,076	4,450,076
	12,406,612	20,281,227	32,687,839	11,496,859	28,814,056	40,310,915
COST OF SALES	9,493,686	14,343,734	23,837,420	8,871,448	21,763,262	30,634,710
GROSS INCOME	2,912,926	5,937,493	8,850,419	2,625,411	7,050,794	9,676,205
EQUITY IN NET EARNINGS (LOSS) OF ASSOCIATE	–	4,117,904	4,117,904	–	(1,338,254)	(1,338,254)
	2,912,926	10,055,397	12,968,323	2,625,411	5,712,540	8,337,951
OPERATING EXPENSES						
Selling expenses	599,236	2,474,747	3,073,983	497,709	2,408,959	2,906,668
General and administrative expenses	593,550	1,550,040	2,143,590	656,854	1,672,736	2,329,590
	1,192,786	4,024,787	5,217,573	1,154,563	4,081,695	5,236,258
OPERATING INCOME	1,720,140	6,030,610	7,750,750	1,470,848	1,630,845	3,101,693
OTHER INCOME (CHARGES)						
Finance costs	(418,547)	(159,571)	(578,118)	(472,147)	(501,546)	(973,693)
Finance income	16,570	105,509	122,079	39,764	145,138	184,902
Foreign exchange gains (losses)	–	(1,446)	(1,446)	–	(28,704)	(28,704)
Others - net	266,780	4,597	271,377	(220,348)	5,531,888	5,311,540
	(135,197)	(50,911)	(186,108)	(652,731)	5,146,776	4,494,045
INCOME BEFORE INCOME TAX	1,584,943	5,979,699	7,564,642	818,117	6,777,621	7,595,738
PROVISION FOR INCOME TAX						
Current	426,698	326,918	753,616	354,951	429,865	784,816
Deferred	82,663	60,763	143,426	(182,110)	3,637	(178,473)
	509,361	387,681	897,042	172,841	433,502	606,343
NET INCOME	₱1,075,582	₱5,592,018	₱6,667,600	₱645,276	₱6,344,119	₱6,989,395
Net income attributable to:						
Equity holders of the company	₱1,075,502	₱4,742,365	₱5,817,867	₱642,933	₱5,325,906	₱5,968,839
Non-controlling interests	80	849,653	849,733	2,343	1,018,213	1,020,556
	₱1,075,582	₱5,592,018	₱6,667,600	₱645,276	₱6,344,119	₱6,989,395

Restatements on the consolidated statements of comprehensive income of the Group for the years ended December 31 are as follows:

	2011			2010		
	As Previously Reported	Effect of Restatements	As Restated	As Previously Reported	Effect of Restatements	As Restated
	<i>(In Thousands)</i>					
NET INCOME	₱1,075,582	₱5,592,018	₱6,667,600	₱645,276	₱6,344,119	₱6,989,395
OTHER COMPREHENSIVE INCOME						
Revaluation increment on property, plant and equipment, net of deferred income tax effect (Note 11)	653,076	1,346,981	2,000,057	5,586	–	5,586
Net changes in fair value of AFS financial assets, net of deferred income tax effect (Note 9)	455	2,211	2,666	5,405	32,142	37,547
Unrealized gain on changes in fair value transferred to profit or loss during the year	–	–	–	–	(42,892)	(42,892)
	653,531	1,349,192	2,002,723	10,991	(10,750)	241
TOTAL COMPREHENSIVE INCOME	₱1,729,113	₱6,941,210	₱8,670,323	₱656,267	₱6,333,369	₱6,989,636
Total comprehensive income attributable to:						
Equity holders of the parent company	₱1,720,334	₱6,091,165	₱7,811,499	₱653,525	₱5,313,991	₱5,967,516
Non-controlling interests	8,779	850,045	858,824	2,742	1,019,378	1,022,120
	₱1,729,113	₱6,941,210	₱8,670,323	₱656,267	₱6,333,369	₱6,989,636

31. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

- As discussed in Note 10, FTC transferred in 2010 certain assets and liabilities to PMFTC in exchange for the 49.6% ownership interest in PMFTC
- On December 4, 2012, LTG assumed certain receivables of Tangent from various holding companies amounting to ₱9,906.9 million, thereby increasing its payable to Tangent by the same amount.

Non-cash Financing Activities

- In 2011, LTG applied ₱448.5 million of its dividends payable to Tangent against LTG's advances to and interest receivable from Tangent amounting to ₱389.7 million and ₱58.8 million, respectively. As of December 31, 2011, outstanding dividends payable amounted to ₱668.2 million.
- As of December 31, 2012, 2011 and 2010, accrued interest payable amounted to ₱64.0 million ₱79.3 million and ₱61.8 million, respectively.
- As discussed in Note 7, LTG issued, additional common shares to Tangent amounting to ₱398.1 million upon conversion of its deposit for future stock subscription of ₱1,639.4 million resulting in an increase in additional paid in capital of ₱1,241.3 million

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Board of Directors



DR. LUCIO C. TAN
Chairman &
Chief Executive Officer



HARRY C. TAN
Director
Vice Chairman / Treasurer



MICHAEL G. TAN
Director / President



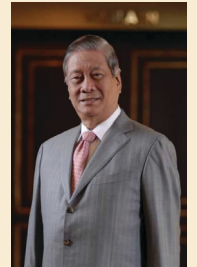
ANTONINO L. ALINDOGAN, JR.
Independent Director



JUANITA T. TAN LEE
Director



PETER P. ONG
Independent Director



WILFRIDO E. SANCHEZ
Independent Director



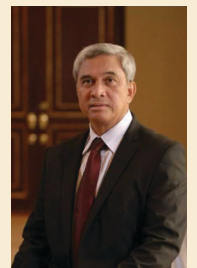
CARMEN K. TAN
Director



LUCIO K. TAN, JR.
Director



FLORENCIA G. TARRIELA
Independent Director



WILSON T. YOUNG
Director

Executive Officers



JOSE GABRIEL D. OLIVES
Chief Financial Officer



NESTOR C. MENDONES
Deputy Chief Financial Officer



ATTY. MA. CECILIA L. PESAYCO
Corporate Secretary



ATTY. ERWIN C. GO
Chief Legal Counsel

Annual General Meeting

LT Group
19 June 2013 at 10:00 A.M.
Seda Bonifacio Global City
30th Street corner 11th Avenue
Global City, Taguig City
Philippines

beverages

property development

tobacco

banking

distilled spirits

in diversity
is strength

this is the



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