SOLID GROUP INC.

2012
ANNUAL REPORT

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Message to
Stockholders

Dear Fellow SGI Shareholders,

2012 was a very significant year for Solid Group, Inc. as the company reached close to 5 billion pesos in revenue and a record 1.2 billion pesos in consolidated profits. This performance marked our fifth consecutive year of growth in building Filipino brands.

We successfully completed the sale of our assets in Solid Broadband Corporation to Sky Cable Corporation for one billion pesos which contributed 656 million to our net income after tax. This strategic move allows us to explore new technologies in wireless digital platforms for mobile applications that would enhance our core business.

Amidst intense competition in the market, MyPhone, the flagship business of Solid Group, was again a major success. Revenue reached over 3.8 billion pesos from 2.9 billion the previous year. Profits soared to 252 million pesos from 143 million in 2011. This remarkable 76% increase in profits was mainly due to the generally higher gross margins for android smart phones such as the very popular A818duo and A919duo as well as the huge demand surge from dealers for our line-up during the last quarter of the year.

Our marketing communication aimed towards the Filipino youth using fresh stars from ABS-CBN and GMA7 networks was further strengthened with the signing up of sensational heartthrobs Coco Martin and Daniel Padilla. We appreciate and continue to support our over 300 dealer partners operating about 1300 outlets including 200 MyPhone concept shops and exclusive kiosks located in major malls nationwide. In the face of ever changing technologies and tougher competition our challenge is to sustain this momentum of growth.

The MyHouse brand continued to make strides in its second year of operation achieving revenue of 39 million pesos up from 14 million in 2011. By 2013 MyHouse expects to bring positive results to SGI's bottom line as we develop the market for our modular structures as a viable solution for building schools, commercial establishments and residences. Myhouse modular systems are now being adopted by local governments (such as in Cavite and Isabela) and private foundations for public schools; by tourism investors for their beach houses and staff quarters (as used by Alphaland in Balesin), and by private entities for offices and showrooms. In the pipeline are modular hotels, dormitories and residential units.

Meanwhile Solid Manila Corporation, our principal real estate company embarked on a major redevelopment project investing 300 million pesos into transforming SolidHouse in Makati into a new exciting site called Green Sun Place for our SGI corporate headquarters as well as a 150-room business hotel and event centre with unique food outlets and venues. The project is expected to be completed by end of 2013. In another real estate project, the 11-storey Zen Tower Office Building was completed on schedule with over 50% occupancy by end of 2012. Overall the real estate segment contributed a substantial 217 million pesos in net income, up 9%from the previous year despite a slight decline in revenue.

Looking ahead, there are great opportunities for SGI especially with the current Philippines' positive economic and political landscape. However there is much work yet to be done and greater challenges to be overcome. Creating Values. Embracing Technologies. Uplifting People. These are never-ending pursuits that motivate us towards building a truly Solid Company that we can all be proud of. Again, thank you for your continued trust and support.

Maraming Salamat! Mabuhay ang Pilipino!

David S. Lim
President & Chief Executive Officer

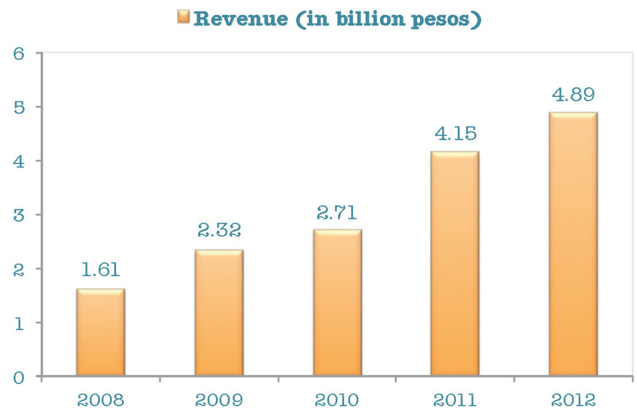
Consolidated
Performance Overview

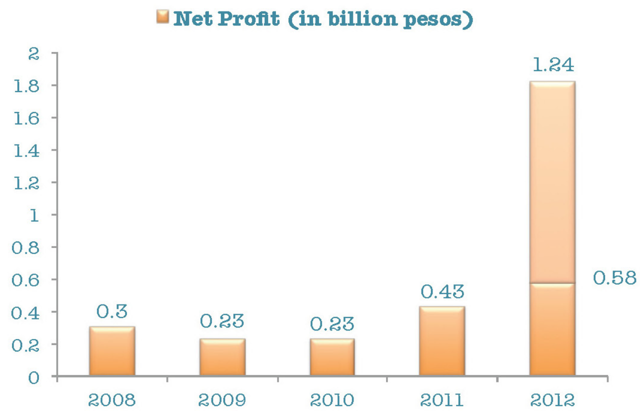
2012 was a stellar year for Solid Group Inc. as the company's consolidated revenue and net profits reached record highs.

Revenues reached Php 4.89 billion for an 18% growth over Php 4.15 billion the prior year; achieving a threefold increase in the past five years mainly due to MyPhone sales.

Net Profit after tax zoomed to Php 1.24 billion from Php 430 million for a 188% increase.

This exceptional growth was attributable to a one-time gain on the sale of broadband assets and reversal of impairment amounting to Php 656 million. Without this one-time gain, consolidated net income reached Php 585 million, a substantial 36% increase from the previous year's Php 430 million, driven by improved revenues, better product margins and increased fund placement incomes.





Following are highlights of the consolidated balance sheet and key ratios showing the company's performance in terms of liquidity, solvency and profitability.

	2012	2011	2010
Balance Sheet (in billion Php)			
Cash and Cash Equivalents	3.020	1.721	1.620
Total Assets	12.848	11.717	10.642
Total Liabilities	3.176	3.160	2.530
Total Equity	9.672	8.556	8.112
Key Performance Ratios			
Current Ratio	3.14 : 1	2.47 : 1	2.81 : 1
Debt to Equity Ratio	0.33 : 1	0.36 : 1	0.29 : 1
Return on Total Assets (in percent)	10.11	3.8	2.2
Return on Equity (in percent)	12.8	5.0	2.8
EPS (in Php)	0.68	0.24	0.13

Print Ad for Android M|phone with Daniel Padilla

Branding and sustaining growth

Myphone

Catholic Mass Media Award 2012 (Top);
Superbrands recognition (Bottom)

MyPhone endorser Coco Martin

Since its market launch 5 years ago, MyPhone business under My Solid Technologies and Devices Corporation has grown phenomenally to become SGI's flagship. In 2012 it contributed 78% of SGI's revenue and 43% of its net income (excluding the one-time gain from the sale of broadband assets).

In absolute figures, MyPhone posted Php 3.8 billion in sales or an increase of 32% from Php 2.9 billion in 2011. Moreover, it realized Php 252 million in net income, an impressive 76% increase from Php 143 million the year before. Average unit price and gross margins rose with the introduction of affordable android smartphones, which complemented the regular line-up of bar-type phones, TV phones and wi-fi phones.

MyPhone's marketing efforts supported its dealer network of over 1300 outlets including 200 exclusive concept shops and kiosks in popular malls nationwide. Celebrity endorsers Daniel Padilla and Coco Martin were signed up heighten brand equity.

Noteworthy was the tie-up with PBA (Philippine Basketball Association) to be its official mobile phone of the 38th season. We also supported Bayan Mo I-Patrol Mo of ABS-CBN in the advocacy for citizen vigilance in elections.

In 2012, MyPhone became an awardee of Superbrands, an independent organization that recognizes outstanding brands in the market. Indeed, MyPhone is proud to be a pinoy brand that delivers high quality products at prices within the reach of common Filipinos.

Another source of pride was the 2012 Blessed Pope John Paul II Trophy awarded by the prestigious Catholic Mass Media Award for the "mylfaith" content feature of MyPhone which has helped millions of Filipinos worldwide through prayers, songs and Bible scripture.

Marketing new technologies

Myhouse

Modular office with glass façade

Typical modular school (top);
Beach house with veranda (bottom)

Kanta Pilipinas studio of ABC5

Partnering with leading global manufacturers of modular technology, SolidGroup Technologies Corporation embarked on its second year of marketing and building modular systems under the brand MyHouse. Revenue grew from Php 14 million in its maiden year to Php 39 million in 2012. While a net loss of Php 4 million was posted, SGTC is confident of generating positive returns as it grows its volume in 2013 and beyond.

MyHouse has been adopted by various private foundations for school donations, local governments for classrooms and by tourism-oriented entities for beach cottages and staff quarters. Other applications are for showrooms, dormitories and residential units.

MyHouse modular systems provide speed, practicality, safety and affordability in construction through pre-fabricated steel and insulated modular structures that can be used for education, commercial and residential purposes. It is TUV-certified for its building materials, compliant with the national building code for structural integrity and is accredited by the HUDCC (Housing & Urban Development Coordinating Council) for “Innovative Technologies for Housing (AITECH)”.

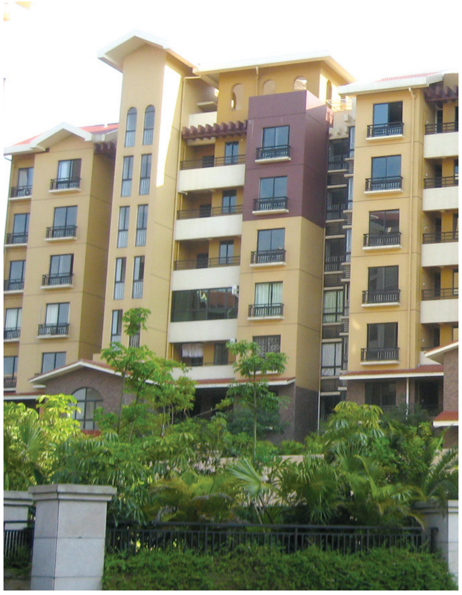
SGTC’s goal is to integrate Filipino ingenuity with modern building technologies and offer MyHouse as a viable option and investment opportunity for local entrepreneurs.

Enhancing asset valuation

Real Estate

Green Sun Place (former SolidHouse) perspective

Zen Offices Building



Golden Hill project in China

SGI's real estate business registered Php 273 million in revenue and Php 217 million in net income in 2012.

In order to enhance one of its prime assets in Makati, Solid Manila Corporation is transforming the SolidHouse building into a Business Hotel and Event Centre with an investment of Php 300 million. The SGI corporate head office will be located in the site which aims to showcase the best in Filipino creativity and hospitality.

In 2012 Zen Towers completed an 11-storey office building for sale and for lease with a Php 220 million investment.

Meanwhile, our Golden Hill investment in Nanning China is waiting for the Government Certificate of Ownership Completion in order to recognize revenues and profit in 2013.

Over the years, SGI has derived a consistent income stream from its real estate assets and property investments. Future opportunities remain positive for this strategic segment.

Investing & Financing

The investing and financing segment contributed a revenue of Php 84 million up by 20% contributed mainly by SGI from increased fund placements.

The company distributed cash dividends of Php .06 per share to stockholders on record as of October 31, 2012 for a total of Php 109 million.

Improving workflow & network efficiency

Support Services

SolidService customer assistance counter

OMNI lab equipment for safety and quality testing

Perspective of Sony Service Center in Palawan using MyHouse modular system

This business segment consists of Solid Electronics Corporation (SolidService) in after-sales service of Sony and MyPhone products; and Omni Solid Services, Inc. (OMNI) in logistics, warehousing, and technical services.

SolidService generated a revenue of Php 199 million and Php 10.4 million in net income from its network of 40 branches nationwide.

OMNI revenue reached Php 184 million, 22% higher than Php 151 million the year before. Net income improved to Php 24.2 million from Php 9.7million or by 150%.

Furthermore OMNI invested in new equipment for electrical safety testing of appliances to upgrade its Test Lab facilities.

Divesting in

Broadband

SGI's divestment in the broadband business in 2012 resulted in a profit contribution of Php 693 million consisting of Php 219 million in asset sale gains and Php 437 million in reversal of impairment and Php 37 million in operating income.

Solid Broadband Corporation sold its wired and satellite infrastructure to Sky Cable Corporation of the Lopez Group in order to focus on new directions in digital mobile technologies more synergistic with SGI's core mobile phone business.

This move also enabled Sky Cable Corporation to consolidate an additional 160,000 cable and 8,800 internet subscribers for greater market reach. Management of both companies worked on a smooth transition for employees and customers alike.

Susan L. Tan
Chairman of the Board,
Director

David S. Lim
President & Chief Executive Officer,
Director

Jason S. Lim
Senior Vice President,
Chief Operating Officer, Director

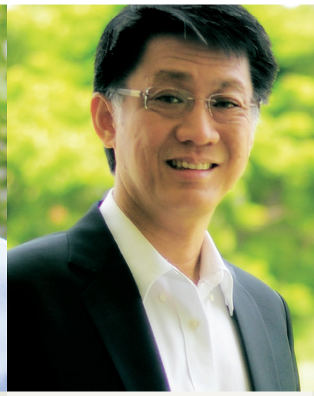
Vincent S. Lim
Senior Vice President,
Chief Financial Officer, Director

Board of Directors

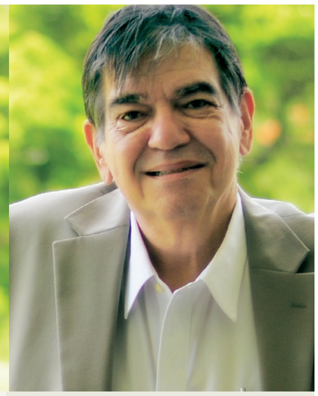
Elena S. Lim
Chair Emeritus, Director

Joseph A. Lim
Founder, Director

Beda T. Mañalac
Vice President, Director



Quintin Chua
Director



Luis Zabaljauregui
Director

Senior Executives

Jaime Alcantara, President, My Solid Technologies & Devices Corp. (MyPhone); Cecilia De Castro, General Manager, Solid Video Corporation; Rogerick Fermin, President, SolidGroup Technologies Corp. (MyHouse); Abbe Daza, General Manager, Omni Solid Services Inc.; Mel Santos General Manager, Casa Bocobo Hotel Inc./Hotel Management; Joji Tan, General Manager, Solid Electronics Corporation

Corporate Officers

Lita Joaquin, Vice President & Treasurer
Mellina Corpuz, Vice President & Chief Accounting Officer;
Josephine Santiago, Chief Information Officer;
Ericson Salvador, Senior Audit Manager
Atty. Roberto San Jose, Corporate Secretary;
Atty. Ana Maria Katigbak - Lim, Asst. Corporate Secretary

SOLID GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **Solid Group Inc. and Subsidiaries**, is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, in accordance with Philippine Financial Reporting Standards (PFRS), including the List of Supplementary Information filed separately from the basic consolidated financial statements.

Management's responsibility on the consolidated financial statements 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 the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

SUSAN L. TAN	**DAVID S. LIM**	**VINCENT S. LIM**
Chairman	President & Chief Executive Officer	SVP & Chief Financial Officer
Passport No. EB0123180	Passport No. EB4305124	Passport No. EB5665582
Date/Place Issued:	Date/Place Issued:	Date/Place Issued:
April 20, 2010, Manila	December 20, 2011, Manila	June 15, 2012, Manila

Signed this 25 APR 2013 day of April, 2013

SUBSCRIBED AND SWORN to before me this 25 day of APR 2013, affiants exhibiting to me their passport with details shown above.

Doc No. 312;
Page No. 64;
Book No. 33;
Series of 2013

ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Until December 31, 2013
Appt. No. M-136 Makati City
IBP #905610-Pasig City-11/09/12
PTR #3671504-MAKATI-01/02/13
TIN # 212-965-989
S.C. Roll No. 28757
#250 Sen. Gil Puyat Ave., San Lorenzo Village,
Makati City

Punongbayan & Araullo
An instinct for growth™

Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 886 5511
F +63 2 886 5506
www.punongbayan-araullo.com

The Board of Directors and Stockholders
Solid Group Inc and Subsidiaries
2285 Don Chino Roces Avenue Extension
Makati City

We have audited the accompanying consolidated financial statements of Solid Group Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and the summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Managements is responsible for the preparation and the 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 fraud or error.

Auditor's 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 consolidated financial position of Solid Group Inc. and Subsidiaries as at December 31, 2012 and 2011, and their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Mailene Sigue-Bisnar
Partner

CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 3671451, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug 8, 2015)
Firm No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg No. 0002 (until Dec 31, 2015)

April 8, 2013

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2012	2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	**P 3,019,984,213**	P 1,720,748,062
Trade and other receivables - net	7	**1,287,469,305**	1,137,152,304
Advances to related parties	26	**21,633,388**	128,543,399
Financial assets at fair value through profit or loss	8	**-**	70,272,991
Available-for-sale financial assets - net	9	**-**	51,994,367
Merchandise inventories and supplies - net	10	**391,862,888**	564,543,065
Real estate inventories - net	11	**2,011,065,441**	1,675,780,772
Other current assets	14	**252,161,359**	267,196,925
Total Current Assets		**6,984,176,594**	**5,616,231,885**
NON-CURRENT ASSETS			
Trade and other receivables	7	**630,458,102**	669,885,531
Available-for-sale financial assets - net	9	**9,076,527**	7,881,527
Property, plant and equipment - net	12	**1,048,407,834**	1,386,934,809
Investment property - net	13	**4,017,441,106**	3,864,333,786
Retirement benefit asset	22	**73,164,772**	79,281,451
Deferred tax assets - net	23	**63,135,755**	69,982,489
Other non-current assets - net	14	**22,231,704**	22,151,072
Total Non-current Assets		**5,863,915,800**	**6,100,450,665**
TOTAL ASSETS		**P 12,848,092,394**	**P 11,716,682,550**

	Notes	2012	2011
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	15	P 571,666,922	P 779,398,755
Trade and other payables	16	628,902,651	592,432,973
Customers' deposits	11	881,899,665	686,313,646
Advances from related parties	26	11,629,819	107,495,231
Estimated liability for land and land development costs	11	68,304,647	68,304,647
Income tax payable		65,207,807	43,387,647
Total Current Liabilities		2,227,611,511	2,277,332,899
NON-CURRENT LIABILITIES			
Refundable deposits - net	17	16,045,396	15,611,010
Retirement benefit obligation	22	12,582,159	6,111,141
Deferred tax liabilities - net	23	920,063,448	861,145,243
Total Non-current Liabilities		948,691,003	882,867,394
Total Liabilities		3,176,302,514	3,160,200,293
EQUITY			
Equity attributable to the Parent Company's stockholders			
Capital stock	24	2,030,975,000	2,030,975,000
Additional paid-in capital		4,641,701,922	4,641,701,922
Treasury shares - at cost	24	(115,614,380)	(115,614,380)
Revaluation reserves	24	(46,319,482)	(29,242,370)
Retained earnings	24	2,758,300,997	1,623,289,267
Total equity attributable to the Parent Company's stockholders		9,269,044,057	8,151,109,439
Non-controlling interests		402,745,823	405,372,818
Total Equity		9,671,789,880	8,556,482,257
TOTAL LIABILITIES AND EQUITY		P 12,848,092,394	P 11,716,682,550

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
REVENUES	2			
Sale of goods		**P 3,959,978,189**	P 3,135,018,332	P 1,622,862,107
Rendering of services		**630,331,311**	682,884,837	694,808,001
Rentals		**136,716,722**	157,741,960	121,663,078
Sale of real estate		**98,968,685**	126,087,655	207,355,479
Interests	21	**64,387,678**	47,757,624	63,089,091
		4,890,382,585	**4,149,490,408**	**2,709,777,756**
COST OF SALES, SERVICES, REAL ESTATE SALES AND RENTALS				
Cost of sales	18	**3,092,129,708**	2,524,843,718	1,225,420,110
Cost of services	18	**488,402,762**	499,294,869	460,191,618
Cost of real estate sales	20	**45,917,227**	95,886,118	151,396,685
Cost of rentals	18	**35,382,941**	39,880,748	38,569,193
		3,661,832,638	**3,159,905,453**	**1,875,577,606**
GROSS PROFIT		**1,228,549,947**	**989,584,955**	**834,200,150**
OTHER OPERATING EXPENSES (INCOME)				
Selling and distribution costs	20	**361,066,027**	278,372,598	227,552,333
General and administrative expenses	20	**343,002,874**	366,950,584	281,046,941
Gain on sale of assets	27	**(267,133,735)**	-	-
Other operating income - net	19	**(553,926,007)**	(232,773,017)	(87,379,618)
		(116,990,841)	**412,550,165**	**421,219,656**
OPERATING PROFIT		**1,345,540,788**	**577,034,790**	**412,980,494**
OTHER INCOME (CHARGES)				
Finance income	21	**163,702,479**	64,476,707	38,921,553
Finance costs	21	**(49,088,095)**	(89,426,503)	(88,223,148)
Other gains	19	**57,651,877**	21,439,128	2,736,192
		172,266,261	**(3,510,668)**	**(46,565,403)**
PROFIT BEFORE TAX		**1,517,807,049**	**573,524,122**	**366,415,091**
TAX EXPENSE	23	**276,164,794**	139,364,314	122,651,703
PROFIT FROM CONTINUING OPERATIONS		**1,241,642,255**	**434,159,808**	**243,763,388**
LOSS FROM DISCONTINUED OPERATIONS - Net of Tax	5	-	(3,863,823)	(17,060,653)
NET PROFIT FOR THE YEAR		**P 1,241,642,255**	**P 430,295,985**	**P 226,702,735**
Profit for the year attributable to the:				
Parent Company's stockholders		**P 1,244,304,250**	P 439,437,428	P 229,346,310
Non-controlling interests		**(2,661,995)**	(9,141,443)	(2,643,575)
		P 1,241,642,255	**P 430,295,985**	**P 226,702,735**
Earnings per share attributable to the Parent Company's stockholders - basic and diluted	25	**P 0.68**	**P 0.24**	**P 0.13**

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
NET PROFIT FOR THE YEAR		**P 1,241,642,255**	P 430,295,985	P 226,702,735
OTHER COMPREHENSIVE INCOME (LOSS)				
Reclassification adjustments for losses recognized in profit or loss		**12,145,053**	12,804,822	49,498,034
Fair value gains (losses) on available-for-sale financial assets, net of taxes	9	**(1,153,830)**	(11,064,606)	14,474,181
Currency exchange differences on translating balances of foreign operations	2	**(28,033,335)**	12,497,965	(5,799,030)
		(17,042,112)	**14,238,181**	**58,173,185**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 1,224,600,143**	**P 444,534,166**	**P 284,875,920**
Total comprehensive income (loss) for the year attributable to:				
Parent Company's stockholders		**P 1,227,227,138**	P 453,675,609	P 287,519,495
Non-controlling interests		**(2,626,995)**	(9,141,443)	(2,643,575)
		P 1,224,600,143	**P 444,534,166**	**P 284,875,920**

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax from continuing operations		**P 1,517,807,049**	P 573,524,122	P 366,415,091
Loss before tax from discontinued operations	5	-	(3,514,984)	(16,445,538)
Profit before tax		**1,517,807,049**	570,009,138	349,969,553
Adjustments for:				
Reversal of impairment losses on property, plant and equipment - net	19	**(350,000,000)**	-	-
Gain on sale of assets	28	**(267,133,735)**	(1,721,437)	(6,646,929)
Fair value gains on investment property - net	19	**(149,569,182)**	(191,644,597)	(27,648,081)
Interest income		**(147,707,834)**	(84,885,381)	(86,478,277)
Reversal of impairment losses on trade and other receivables	7, 21	**(75,708,696)**	(17,014,146)	(11,104,219)
Reversal of allowance for inventory obsolescence	10	**(65,257,144)**	(27,304,279)	(19,184,724)
Depreciation and amortization	12	**46,467,220**	78,173,250	75,588,976
Gain on derecognition of liabilities	19	**(25,117,698)**	-	-
Impairment losses on trade and other receivables	7	**12,767,663**	21,145,641	9,266,502
Unrealized foreign currency losses (gains) - net		**14,111,262**	1,723,603	1,119,803
Interest expense	21	**6,726,796**	8,203,376	10,530,521
Loss on inventory obsolescence	10	**3,009,207**	34,790,640	59,288,554
Interest amortization on refundable deposits	17	**1,431,460**	614,019	864,519
Reversal of impairment losses on available-for-sale (AFS) financial assets	21	**(990,643)**	-	-
Gain on sale of investment property		-	(17,802,607)	-
Fair value loss on financial assets at fair value through profit or loss (FVTPL)	21	-	5,909,803	-
Impairment losses on AFS financial assets	9	-	18,995,887	33,657,338
Gain on disposal of non-current assets held-for-sale	5	-	-	(452,503)
Operating profit before working capital changes		**520,835,725**	399,192,910	388,771,033
Increase in trade and other receivables		**(65,084,488)**	(279,274,483)	(349,009,034)
Decrease in advances to related parties		**106,910,011**	72,650,008	303,135,008
Decrease (increase) in financial assets at FVTPL		**70,272,991**	(76,182,794)	-
Decrease in AFS financial assets		**34,747,898**	86,079,080	187,609,047
Decrease (increase) in merchandise inventories and supplies		**210,494,038**	(179,320,182)	(349,372,147)
Increase in real estate inventories		**(335,284,669)**	(347,777,942)	(281,121,792)
Increase in other current assets		**(130,156,483)**	(96,146,196)	(47,045,684)
Decrease (increase) in retirement benefit asset		**6,116,679**	(4,363,496)	(28,981,993)
Decrease (increase) in other non-current assets		**1,534,754**	2,427,596	(9,494,057)
Increase in trade and other payables		**61,587,376**	178,804,517	120,058,602
Increase in customers' deposits		**195,586,019**	657,278,552	-
Decrease in advances from related parties		**(95,865,412)**	(61,416,380)	(32,528,309)
Increase (decrease) in refundable deposits		**(997,074)**	(255,543)	3,291,167
Increase in retirement benefit obligation		**6,471,018**	2,989,548	1,636,997
Cash generated from (used in) operations		**587,168,383**	354,685,195	(93,051,163)
Interest received		**64,387,678**	47,757,624	63,089,091
Cash paid for income taxes		**(43,387,647)**	(44,020,603)	(12,316,993)
Net Cash From (Used in) Operating Activities		**608,168,414**	358,422,216	(42,279,065)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of of assets		**1,094,445,648**	4,352,549	1,421,223
Acquisitions of property, plant and equipment	12	**(143,682,133)**	(99,184,297)	(56,800,567)
Interest received		**83,320,157**	37,127,757	23,389,186
Additions to investment property	13	**(5,153,524)**	(6,927,455)	(1,352,695)
Proceeds from disposal of investment property	13	**-**	26,873,607	-
Proceeds from disposal of non-current assets held for sale		**-**	-	9,690,330
Net Cash From (Used in) Investing Activities		**1,028,930,148**	(37,757,839)	(23,652,523)
Balance forwarded		**P 1,637,098,562**	P 320,664,377	(P 65,931,588)

	Note	2012	2011	2010
Balance brought forward		**P 1,637,098,562**	P 320,664,377	(P 65,931,588)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net repayments for interest-bearing loans	15	**(207,731,833)**	(614,156,996)	-
Dividends paid		**(109,292,520)**	-	-
Interest paid		**(6,726,796)**	(8,203,376)	(10,530,521)
Net proceeds from interest-bearing loans	15	**-**	404,053,192	434,554,235
Net Cash From (Used in) Financing Activities		**(323,751,149)**	(218,307,180)	424,023,714
Effect of Currency Rate Changes on Cash and Cash Equivalents		**(14,111,262)**	(1,723,603)	(1,119,803)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,299,236,151**	100,633,594	356,972,323
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,720,748,062**	1,620,114,468	1,263,142,145
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 3,019,984,213**	P 1,720,748,062	P 1,620,114,468

Supplemental Information on Non-cash Investing Activities

In 2012, SMC transferred land with carrying amount of P1.6 million as of December 31, 2012, previously classified as Investment Property to Other Non-current Assets (see Note 13).

SOLID GROUP INC. AND SUBSIDIARIES

Consolidated statements of changes in equity for the years ended December 31, 2012, 2011 and 2010 (Amount in Philippine Pesos)

	Notes	Attributable to the Parent Company's Stockholders: Capital Stock	Additional Paid-in Capital	Treasury Shares - at Cost	Revaluation Reserves	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2012		P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 29,242,370)	P 1,623,289,267	P 8,151,109,439	P 405,372,818	P 8,556,482,257
Transactions between owners:									
Dividends declared	24	-	-	-	-	(109,292,520)	(109,292,520)	-	(109,292,520)
Net loss for the year attributable to non-controlling interests		-	-	-	-	-	-	(2,661,995)	(2,661,995)
Other comprehensive income		-	-	-	-	-	-	35,000	35,000
		-	-	-	-	(109,292,520)	(109,292,520)	(2,626,995)	(111,919,515)
Total comprehensive income attributable to the Parent Company's stockholders:									
Net profit		-	-	-	-	1,244,304,250	1,244,304,250	-	1,244,304,250
Other comprehensive income	2, 9	-	-	-	(17,077,112)	-	(17,077,112)	-	(17,077,112)
		-	-	-	(17,077,112)	1,244,304,250	1,227,227,138	-	1,227,227,138
Balance at December 31, 2012	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 46,319,482)	P 2,758,300,997	P 9,269,044,057	P 402,745,823	P 9,671,789,880
Balance at January 1, 2011		P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 43,480,551)	P 1,183,851,839	P 7,697,433,830	P 414,514,261	P 8,111,948,091
Transaction between owners - Net loss for the year attributable to non-controlling interests		-	-	-	-	-	-	(9,141,443)	(9,141,443)
Total comprehensive income attributable to the Parent Company's stockholders:									
Net profit		-	-	-	-	439,437,428	439,437,428	-	439,437,428
Other comprehensive income	2, 9	-	-	-	14,238,181	-	14,238,181	-	14,238,181
		-	-	-	14,238,181	439,437,428	453,675,609	-	453,675,609
Balance at December 31, 2011	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 29,242,370)	P 1,623,289,267	P 8,151,109,439	P 405,372,818	P 8,556,482,257
Balance at January 1, 2010	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 101,653,736)	P 954,505,529	P 7,409,914,335	P 417,157,836	P 7,827,072,171
Transaction between owners - Net loss for the year attributable to non-controlling interests		-	-	-	-	-	-	(2,643,575)	(2,643,575)
Total comprehensive income attributable to the Parent Company's stockholders:									
Net profit		-	-	-	-	229,346,310	229,346,310	-	229,346,310
Other comprehensive income	2	-	-	-	58,173,185	-	58,173,185	-	58,173,185
		-	-	-	58,173,185	229,346,310	287,519,495	-	287,519,495
Balance at December 31, 2010	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 43,480,551)	P 1,183,851,839	P 7,697,433,830	P 414,514,261	P 8,111,948,091

For notes to the Consolidated Financial Statements, please refer to the enclosed CD

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

Solid Group Inc. (SGI or the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1933. The Parent Company currently conducts business as an investment holding company. On September 4, 1996, SGI listed its shares in the Philippine Stock Exchange (PSE).

The Parent Company holds ownership interests in the following subsidiaries (the Parent Company and the Subsidiaries are collectively referred to as "the Group"):

	Percentage of Ownership				
Subsidiaries	**2012**	2011	2010	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	100	(a)	Investment company
Kita Corporation (Kita)	**100**	100	100		Real estate and manufacturing of injected plastics
Solid Broadband Corporation (SBC)	**100**	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Group Technologies Corporation (SGTC)	**100**	100	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	**100**	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	**100**	100	100		Repair services for audio and video products and mobile phones
Solid Corporation (SC)	**-**	100	100	(k)	Real estate
Solid Manila Corporation (SMC)	**100**	100	100	(k)	Real estate
Casa Bocobo Hotel, Inc. (CBHI)	**100**	100	100	(e)	Real estate
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	**100**	100	100	(c), (g)	Real estate
Mytel Mobility Solutions, Inc. (Mytel)	**-**	100	100	(j), (m)	Sale of mobile phones
My Solid Technologies & Devices Corporation (My Solid)	**100**	100	100	(i), (m)	Sale of mobile phones
Omni Logistics Corporation (OLC)	**-**	100	100	(l)	Logistics and assembly of consumer electronics products
Omni Solid Services, Inc. (OSSI) [formerly Solid Laguna Corporation (SLC)]	**100**	100	100	(l)	Logistics and assembly of consumer electronics products
Skyworld Corporation (Skyworld)	**75**	75	75	(c), (e)	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	(b), (c)	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	**51**	51	51	(h)	Real estate
Starworld Corporation (Starworld)	**50**	50	50	(e), (f)	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	50	(b), (d)	Real estate

Notes:

(a) Incorporated and domiciled in the British Virgin Islands
(b) Indirectly owned through SC
(c) Pre-operating or non-operating
(d) LIIP is 22.5% owned by SC and 37.5% owned by Interstar
(e) Indirectly owned through SMC
(f) Starworld is 20% owned by SMC and 40% owned by Skyworld
(g) Indirectly owned through Precos
(h) Indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China (PRC)
(i) Incorporated in 2009 and started commercial operations in January 2010
(j) Acquired in 2010
(k) Merged; with SMC as the surviving company, effective January 1, 2012
(l) Merged; with SLC as the surviving company, effective January 1, 2012. On March 19, 2012, the Securities and Exchange Commission (SEC) approved the change in corporate name of SLC to OSSI.
(m) Merged; with My Solid as the surviving company, effective June 1, 2012

SBC holds a provisional authority, granted by the National Telecommunications Commission (NTC), to use its legislative franchise under Republic Act (RA) No. 9116, *An Act Granting Solid Broadband Corporation a Franchise to Construct, Install, Establish, Operate and Maintain Telecommunications Systems throughout the Philippines* (see Note 27.3).

SMFI is subject to the rules and regulations provided under RA No.8556, *The Financing Company Act of 1998*.

SGTC was incorporated to engage in the development and implementation of information and communications technology systems and applications. On February 22, 2011, the Board of Directors (BOD) and stockholders of SGTC approved the amendment of SGTC's articles of incorporation to change the Company's primary purpose. This amendment was approved by the SEC on March 22, 2011 and starting this date, SGTC's primary purpose is to engage in, operate, conduct and maintain business of designing, manufacturing, installing, importing, exporting, marketing, distributing or otherwise dealing in at wholesale and retail prefabricated modular house and office units.

1.2 Status of Operations and Mergers

(a) Sale of SBC's Assets

In a special meeting held on May 11, 2012, the BOD of SBC approved the sale, assignment, transfer and conveyance of the assets, contracts and licenses of SBC to a third party. The assets identified to be included in the sale are SBC's property and equipment, a significant portion of its trade receivables and inventories, as well as contracts, permits and licenses that are used in carrying out its operations. Such sale transaction was consummated in 2012. Consequently, SBC's ownership on the identified assets, related contracts and licenses directly attributable to the Company's operations has been transferred to the third party (see Note 27.3).

(b) Mergers of Certain Subsidiaries

On December 26, 2011 and January 10, 2012, the SEC approved the mergers of SC and SMC; OLC and OSSI; respectively, whereby SMC and OSSI will be the surviving entities. Both mergers became effective on January 1, 2012; hence, starting that date, SC started to operate under the corporate name of SMC and OLC under the corporate name of OSSI (see Note 1.1).

On May 28, 2012, SEC approved the merger of Mytel and My Solid, wherein My Solid would be the surviving entity. The merger became effective on June 1, 2012 (see Note 1.1).

The Group expects that these mergers will result in efficiency in operations and management of the surviving entities, which will ultimately result positively in the overall financial performance of the Group.

(c) Phasing-out of Manufacturing Business and Related Services of Certain Subsidiaries

On November 23, 2009, the Parent Company's management disclosed to the public its plan of phasing-out its unprofitable manufacturing business and related services, which include the plastic injection molding parts operations of Kita and SLC, with the expectation that this will positively impact the overall financial performance of the Group. Kita and SLC have ceased their plastic injection manufacturing business as of December 31, 2010 (see Note 5).

1.3 Other Corporate Information

The registered offices and principal places of business of the Parent Company and its subsidiaries, except those listed below, are located at 2285 Don Chino Roces Avenue Extension, Makati City. The registered offices and principal places of business of the other subsidiaries are as follows:

BRL	-	2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	-	Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC.
My Solid and SGTC	-	2000 East Service Road Bicutan, Parañaque City

1.4 Approval for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2012 (including the comparatives for the years ended December 31, 2011 and 2010) were authorized for issue by the Parent Company's BOD on April 8, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies in the succeeding pages.

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income in two statements: a Consolidated Statement of Income and a Consolidated Statement of Comprehensive Income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Parent Company's functional currency, which is the currency of the primary economic environment in which the Parent Company operates.

2.2 *Adoption of New and Amended PFRS*

(a) Effective in 2012 that are Relevant to the Group

In 2012, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for its consolidated financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Tax: Recovery of Underlying Assets

Discussed below are the effects on the consolidated financial statements of the new and amended standards and interpretations.

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Group's disclosures in its financial statements.

(ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretations Committee, 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring deferred tax on depreciable asset that are measured using revaluation model in PAS 16, *Property, Plant and Equipment*, should always be assumed on a sale basis of the asset. The amendment has no significant impact on the Group's consolidated financial statements because the Group's investment properties that are measured at fair value are taxable with the same rate regardless of whether these assets will be sold or used in operation.

(b) Effective in 2012 that is not Relevant to the Group

PFRS 1, *First-time Adoption of PFRS,* was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Group's consolidated financial statements.

(c) Effective Subsequent to 2012 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company's management expects that this will change the current presentation of items in other comprehensive income [i.e., unrealized fair value gains and losses on Available-for-Sale (AFS) financial assets].

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Currently, the Group is using the corridor approach and its unrecognized actuarial losses and gains as of December 31, 2012 amounting to P25.2 million and P15.1 million (see Note 22.2), respectively, will be retrospectively recognized as loss in other comprehensive income in 2013.

(iii) Consolidation Standards (effective from January 1, 2013)

The Group is currently reviewing the impact of the following consolidation standards on its consolidated financial statements in time for their adoption in 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 11, *Joint Arrangements*. This standard provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. This standard replaces the three categories under PAS 31, mainly, jointly controlled entities, jointly controlled operations and jointly controlled assets, with two new categories – joint operations and joint ventures. Moreover, this also eliminates the option of using proportionate consolidation for joint ventures.

- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

- PAS 28 (Revised), *Investments in Associates and Joint Ventures*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11.

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in International Financial Reporting Standard (IFRS) 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

(iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32, and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on its consolidated financial statements.

(v) PFRS 13, *Fair Value Measurements* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

(vi) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and Philippine SEC after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at completion upon or after delivery. The Group is currently evaluating the impact of this interpretation on its consolidated financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines but does not expect it to have an impact on the Group's consolidated financial statements as it currently accounts for its real estate transactions using the full accrual method.

(vii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(viii) PFRS 9, *Financial Instruments: Clarification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, do not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the Group's consolidated financial statements and is committed to conduct a comprehensive study of the potential impact of this standard in the last quarter of 2014 before its adoption in 2015 to assess the impact of all changes.

(ix) 2009-2011 Annual Improvements to PFRS. Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

  If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

  Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

  If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.

(c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

2.3 Basis of Consolidation

The Parent Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.1, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

The Parent Company accounts for its investments in subsidiaries and non-controlling interest (NCI) as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Group obtains control, direct or indirect, until such time that such control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any NCI in the acquiree. The consideration transferred for the acquisition of a subsidiary are the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's net assets.

Goodwill (positive) represents the excess of acquisition cost over the Parent's share in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Negative goodwill represents the excess of Parent Company's share in the fair value of identifiable net assets of the subsidiary at date of acquisition over acquisition cost.

On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial statement at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

(b) Transactions with NCI

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI interests result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

Currently, the Group's financial assets are categorized as follows:

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to suppliers), Advances to Related Parties and Refundable Deposits (presented as part of Other Current Assets) in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(b) *Financial Asset at FVTPL*

This category includes financial assets that are either classified as held-for-trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(c) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the AFS Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the end of reporting period. The Group's financial assets include country club shares, golf club shares, listed equity securities, and corporate bonds.

All AFS financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserve account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented in the consolidated statement of income line item Finance Income and Finance Costs, respectively.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the end of reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the rights to receive cash flows from the financial instruments expire or when substantially all of the risks and rewards of ownership have been transferred.

2.6 Merchandise Inventories and Supplies

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition is determined as follows:

(a) *Raw materials, service parts, supplies and others* – on a moving average method. The cost of raw materials, service parts, supplies and others include all costs directly attributable to the acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

(b) *Merchandise and finished goods, and work-in-process* – on a moving average method; cost includes direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity.

Net realizable value of finished goods and work-in-process inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of raw materials, service parts, supplies and others is the current replacement cost.

2.7 Real Estate Inventories

Real estate inventories consist of the following:

(a) *Land and Land Development Costs*

Land and land development costs includes the acquisition cost of raw land intended for future development and sale, including other costs and expenses incurred to effect the transfer of property title are included in this account.

(b) *Property Development Costs*

Property development costs include the cost of land used as a building site for a condominium project and the accumulated costs incurred in developing and constructing the property for sale.

Land and land development costs and property development costs are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.8 Other Assets

Other assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

2.9 Property, Plant and Equipment

Property, plant and equipment, except land, are carried at acquisition cost or construction cost less subsequent depreciation, amortization and any impairment losses. Land held for use in production or administration is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10 to 25 years
Test, communication and other equipment	5 to 20 years
Cable system equipment	2 to 20 years
Machinery and equipment	5 to 10 years
Transportation equipment	5 years
Computer system	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Tools and equipment	2 to 3 years

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 to 15 years or the term of the lease, whichever is shorter.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

2.10 Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under the fair value model. It is revalued annually and is included in the statement of financial position at its market value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property.

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains (losses) on investment property under Other Operating Income in the consolidated statement of income.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the profit or loss in the year of retirement or disposal.

For tax purposes, investment property is carried at cost less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the assets ranging from 11 to 25 years.

2.11 Financial Liabilities

Financial liabilities, which include Interest-bearing Loans, Trade and Other Payables [excluding Output Value-Added Tax (VAT) and other tax-related payables, Advances from Customers, Reserve for Warranty Costs and Unearned Subscription Income], Advances from Related Parties and Refundable Deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

Interest-bearing loans are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and Other Payables, Advances from Related Parties and Refundable Deposits with maturities beyond one year are initially recognized at their fair value and subsequently measured at amortized cost, using the effective interest method, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.13 Business Combination

Business acquisitions are accounted for using the acquisition method of accounting.

The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the consolidated financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated financial position at their fair values, which are also used as the bases for the subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.14 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.15 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding VAT and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured, it is probable that the economic benefits will flow to the Group, and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Rendering of services* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.

(b) *Sale of goods (other than sale of real estate)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

For sales involving multiple element arrangements, customers pay the bundle amount, which includes the LCD television and the internet and/or cable subscriptions. Total selling price is allocated among and/or between the items included in the bundle based on the relative fair values of the separately identifiable components.

The recognition criteria for each of these components are described as follows:

- *Sale of LCD television* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully in the consolidated statement of income as part of Sale of Goods.

- *Rendering of services and other income from internet subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

- *Other income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

(c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the lease term (see Note 2.16).

(d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony). Effective April 2009, network support fees is recorded at a fixed amount of P1.25 million per month.

(e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks: or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

Subsequent cancellations of prior years' real estate sales are deducted from revenues and costs of real estate sold in the year in which such cancellations are made.

If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statements of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate property sold before 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, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the consolidated statement of financial position.

(f) *Interest income on loans receivables* – Revenue is recognized when earned using effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) *Commission income (shown as part of Rendering of Services)* – Revenue is recognized on an accrual basis computed based on a certain percentage of sales.

(h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.

(i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.

(j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the consolidated statement of income upon consumption of the goods and/or utilization of the service or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20), on an accrual basis.

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes 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.

2.17 Foreign Currency Transactions and Translation

(a) *Transactions and Balances*

The accounting records of the Group, except BRL and Fil-Dragon, are maintained in Philippine peso. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income as part of income or loss from operations.

(b) Translation of Financial Statements of Foreign Subsidiaries

The operating results and financial position of BRL and Fil-Dragon, which are measured using the United States (U.S.) dollar and Chinese yuan renminbi (RMB), respectively, their respective functional currencies, are translated to Philippine peso, the Group's functional currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each profit or loss account are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investments in BRL and Fil-Dragon are recognized in other comprehensive income and taken to equity under Revaluation Reserves. When a foreign operation is partially disposed of or sold, such exchange differences are reclassified in the consolidated statement of income as part of the gain or loss on sale of the investment.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar and Chinese yuan RMB amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.18 Impairment of Non-financial Assets

The Group's property, plant and equipment and other non-financial assets are subject to impairment testing. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements.

Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.19 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for post-employment defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(b) Defined Contribution Plans

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(d) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.20 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.21 Income Taxes

Tax expense recognized in the consolidated statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated statement of income.

Deferred tax is provided, using the liability method on temporary differences, at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

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

2.22 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group, (b) associates; and, (c) individuals owning directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.23 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the initial issuance of capital stock and equity adjustments on mergers and acquisitions of entities under common control in previous years. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related profit tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise the cumulative translation adjustments and fair value gains (losses) on AFS financial assets.

Retained earnings, the restricted portion of which is not available for dividend declaration, represent all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income.

2.24 Earnings per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding.

2.25 Events After the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets were impaired as of December 31, 2012 and 2011. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Impairment losses recognized on AFS financial assets are disclosed in Note 9.

(b) Determining 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 the inventories. Net realizable value 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. Net realizable value 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.

The carrying amounts of the real estate inventories is disclosed in Note 11.

(c) Costing of Merchandise Inventories and Supplies

The Group's inventory costing policies and procedures were based on a careful evaluation of present circumstances and facts affecting production operations. A review of the benchmarks set by management necessary for the determination of inventory costs and allocation is performed regularly. Actual data are compared to the related benchmarks and critical judgment is exercised to assess the reasonableness of the costing policies and procedures which are currently in place and to make the necessary revisions in light of current conditions.

(d) Distinction Between Investment Property and Owner-managed Properties

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the properties but also to other assets used in the production or supply process.

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

(e) Fair Value Measurement of Investment Property

The Group's investment property composed of parcels of land and buildings and improvements are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties.

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on investment property are disclosed in Note 13.

(f) Distinction Between Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management judgment, such leases were determined to be operating leases.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.14 and the disclosures on relevant provisions and contingencies are presented in Note 28.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the 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:

(a) Impairment of Trade and Other Receivables

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7.

(b) Fair Value Measurement of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 8 and 9, respectively.

(c) Determining Net Realizable Value of Merchandise Inventories and Supplies

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipment and accessories (see Note 10). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

(d) Estimating Useful Lives of Property, Plant and Equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 12. Based on management's assessment as at December 31, 2012, and 2011, no change in the estimated useful lives of property, plant and equipment during those years occurred. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determining Net Realizable Value of Properties Under Development

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

(f) Determining Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to five years, as of December 31, 2012 and 2011 is disclosed in Note 23.2.

(g) Impairment of Non-financial Assets

The Group's policy on estimating the impairment of non-financial assets is discussed in Note 2.18. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on other non-financial assets in 2012, 2011 and 2010.

(h) Estimating Liability for Land and Land Development Costs

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of December 31, 2012 and 2011 is disclosed in Note 11.

(i) *Estimating Reserve for Warranty Costs*

The Group offers a one-year warranty for each consumer electronic product sold. Management estimates the related provision for future warranty costs based on a certain percentage of sales, as determined based on historical warranty claim information as well as recent trends that might suggest that past cost information may differ from expectations. Warranty costs also include the actual cost of materials used in repairing the electronic products.

Provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are discussed on Note 16.

(j) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22.2 and include, among others, discount rates, expected return on plan assets and salary increase rates. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of estimated present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation are presented in Note 22.2.

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Broadband services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure;

(b) Related support services segment is engaged in the business of rendering after sales service operations as the recognized authorized Service Network for products of a third party and in manufacturing plastic injection molding parts (see Notes 1.2 and 5);

(c) Real estate segment is involved in the leasing and development and sale of industrial and other real estate properties;

(d) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones and LCD televisions, and prefabricated modular houses; and,

(e) Investing, financing and others segment is presently engaged in the business of fund investments, automotive and consumer financing and credit extension.

Segment accounting policies are the same as the policies described in Note 2.4.

4.2 Segment Assets and Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

4.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments, which are eliminated in the consolidation.

The following tables present certain assets and liability information regarding business segments as of December 31, 2012, 2011 and 2010 and the related revenue and profit information for the years then ended (in thousands).

	Broadband Services	Related Support Services	Real Estate	Distribution	Investing, Financing and Others	Total
2012						
SEGMENT RESULTS						
Sales to external customers	P 247,416	P 344,984	P 258,611	P 3,956,743	P 82,629	P 4,890,383
Intersegment sales	51	38,926	14,200	6,300	1,813	61,290
Total revenues	247,467	383,910	272,811	3,963,043	84,442	4,951,673
Cost of sales, services and rentals	205,968	268,954	106,973	3,094,531	-	3,676,426
Other operating expense	42,375	81,831	117,873	496,634	45,191	783,904
Operating profit	(876)	33,125	47,965	371,878	39,251	491,343
Finance income	112,427	6,006	39,531	2,389	3,349	163,702
Finance costs	(1,359)	(4,228)	(5,169)	(22,742)	(15,591)	(49,089)
Other gains – net	644,488	4,541	228,820	5,292	28,708	911,849
Profit before tax	754,680	39,444	311,147	356,817	55,717	1,517,805
Tax expense	60,823	4,713	93,545	105,069	11,916	276,066
Profit – continuing operation	693,857	34,731	217,602	251,748	43,801	1,241,739
Loss – discontinued operation	-	-	-	-	-	-
Net profit for the year	**P 693,857**	**P 34,731**	**P 217,602**	**P 251,748**	**P 43,801**	**P 1,241,739**
SEGMENT ASSETS AND LIABILITIES						
Total assets	**P 800,191**	**P 569,479**	**P 7,373,405**	**P 1,866,902**	**P 9,780,530**	**P 20,390,507**
Total liabilities	**P 15,843**	**P 120,935**	**P 3,961,994**	**P 1,246,501**	**P 431,724**	**P 5,776,997**
OTHER SEGMENT INFORMATION						
Capital expenditures	P 27,605	P 26,761	P 84,602	P 9,234	P 317	P 148,519
Depreciation and amortization	20,492	9,645	11,768	4,162	642	46,709
Impairment losses	-	3,087	-	9,414	267	12,768
Other non-cash expenses	123	904	1,431	1,982	-	4,440

	Broadband Services	Related Support Services	Real Estate	Distribution	Investing, Financing and Others	Total
2011						
SEGMENT RESULTS						
Sales to external customers	P 375,330	P 340,653	P 261,951	P 3,122,839	P 48,717	P 4,149,490
Intersegment sales	2,047	32,977	33,148	7,657	21,432	97,261
Total revenues	377,377	373,630	295,099	3,130,496	70,149	4,246,751
Cost of sales, services and rentals	258,234	247,843	162,802	2,530,457	-	3,199,336
Other operating expense	59,380	98,721	113,664	421,751	44,538	738,054
Operating profit	59,763	27,066	18,633	178,288	25,611	309,361
Finance income	2,387	19,612	43,300	17,449	-	82,748
Finance costs	(17,033)	(4,625)	(761)	(8,622)	(34,568)	(65,609)
Other gains – net	4,649	14,902	226,519	3,462	22,688	272,220
Profit before tax	49,766	56,955	287,691	190,577	13,731	598,720
Tax expense	(8,168)	(6,256)	(88,903)	(31,142)	(4,895)	(139,364)
Profit – continuing operation	41,598	50,699	198,788	159,435	8,836	459,356
Loss – discontinued operation	-	(3,864)	-	-	-	(3,864)
Net profit for the year	P 41,598	P 46,835	P 198,788	P 159,435	P 8,836	P 455,492
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 667,320	P 815,191	P 6,959,481	P 2,202,425	P 8,683,126	P 19,327,543
Total liabilities	P 567,828	P 680,818	P 3,392,086	P 1,790,326	P 606,576	P 7,046,634
OTHER SEGMENT INFORMATION						
Capital expenditures	P 65,999	P 12,704	P 17,787	P 7,559	P 1,400	P 105,449
Depreciation and amortization	54,854	9,873	9,515	2,688	397	77,327
Impairment losses	16,168	-	-	3,430	-	19,598
Other non-cash expenses	-	28,255	1,238	48,582	735	78,810

	Broadband Services	Related Support Services	Real Estate	Distribution	Investing, Financing and Others	Total
2010						
SEGMENT RESULTS						
Sales to external customers	P 390,869	P 305,540	P 332,299	P 1,616,784	P 64,286	P 2,709,778
Intersegment sales	-	5,471	34,133	28,321	15,386	83,311
Total revenues	390,869	311,011	366,432	1,645,105	79,672	2,793,089
Cost of sales, services and rentals	260,188	226,555	211,763	1,219,577	-	1,918,083
Other operating expense	38,697	20,929	92,545	316,101	23,046	491,318
Operating profit	91,984	63,527	62,124	109,427	56,626	383,688
Finance income	4,333	7,924	22,858	2,713	9,057	46,885
Finance costs	(2,625)	(1,194)	(10,138)	(13,984)	(57,458)	(85,399)
Other gains (losses) – net	-	-	18,292	21	(2,330)	15,983
Profit before tax	93,692	70,257	93,136	98,177	5,895	361,157
Tax expense	(21,457)	(12,842)	(27,112)	(52,142)	(9,098)	(122,651)
Profit – continuing operation	72,235	57,415	66,024	46,035	(3,203)	238,506
Loss – discontinued operation	-	(17,061)	-	-	-	(17,061)
Net profit (loss) for the year	P 72,235	P 40,354	P 66,024	P 46,035	(P 3,203)	P 221,445
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 762,404	P 830,225	P 6,345,462	P 1,787,307	P 8,145,375	P 17,870,773
Total liabilities	P 211,242	P 215,015	P 2,340,528	P 1,562,209	P 642,037	P 4,971,031
OTHER SEGMENT INFORMATION						
Capital expenditures	P 42,427	P 7,701	P 4,053	P 2,037	P 393	P 56,611
Depreciation and amortization	49,307	11,553	5,351	9,826	155	76,192
Impairment losses	32,015	-	-	10,909	-	42,924
Other non-cash expenses	-	-	(5,631)	-	-	(5,631)

The total segment balances presented for the Group's operating segments reconciled to the Group's consolidated balances as presented in the consolidated financial statements are as follows (in thousands):

	Segment Totals	Intercompany Accounts	Consolidated Balances
2012			
Revenues	P 4,951,673	(P 61,290)	P 4,890,383
Net profit for the year	1,241,739	(97)	1,241,642
Total assets	20,390,507	(7,542,415)	12,848,092
Total liabilities	5,776,997	(2,600,694)	3,176,303
Other segment information:			
Capital expenditures	148,519	317	148,836
Depreciation and amortization	46,709	(242)	46,467
Impairment losses	12,768	-	12,768
Other non-cash expenses	4,440	-	4,440
2011			
Revenues	P 4,246,751	(P 97,261)	P 4,149,490
Net profit for the year	455,492	(25,196)	430,296
Total assets	19,327,543	(7,610,860)	11,716,683
Total liabilities	7,046,634	(3,886,434)	3,160,200
Other segment information:			
Capital expenditures	105,449	663	106,112
Depreciation and amortization	77,327	846	78,173
Impairment losses	19,598	20,544	40,142
Other non-cash expenses	78,810	(35,852)	42,958
2010			
Revenues	P 2,793,089	(P 83,311)	P 2,709,778
Net profit for the year	221,445	5,258	226,703
Total assets	17,870,773	(7,228,327)	10,642,446
Total liabilities	4,971,031	(2,440,533)	2,530,498
Other segment information:			
Capital expenditures	56,611	190	56,801
Depreciation and amortization	76,192	(603)	75,589
Impairment losses	42,924	-	42,924
Other non-cash expenses	(5,631)	-	(5,631)

5. DISCONTINUED OPERATIONS

As mentioned in Note 1.2, Kita and SLC (now OSSI – see Note 1.1) ceased the operations of their plastic injection manufacturing business as of December 31, 2010. Termination benefits paid to employees who accepted voluntary redundancy amounted to P0.8 million in 2011 and P1.1 million in 2010 (see Note 22.1). The results of operations of the discontinued operations of the Group pertaining to the plastic injection manufacturing division are presented in the 2011 and 2010 consolidated statements of income under the Loss from Discontinued Operations account. There were no revenues generated and costs and expenses incurred in 2012 from the Group's discontinued operations.

Machinery and equipment related to the discontinued operations of Kita are still presented as part of Property, Plant and Equipment account as of December 31, 2010 as the assets' carrying values as of that date are not material (see Note 12). Machinery and equipment relating to the discontinued operations of Kita with total cost amounting to P25.2 million and a total carrying value of P0.2 were sold in 2011 at P1.5 million and fully-depreciated machinery and equipment with total cost of P25.1 million was sold in 2010. In 2010, fully depreciated machinery and equipment with a total cost amounting to P25.1 million were sold. The resulting gains from the disposals are presented as part of Miscellaneous under Other Operating Income in the consolidated statements of income (see Note 19).

In prior years, certain machinery and equipment of SLC (now OSSI – see Note 1.1) with total carrying amounts of P12.1 million are classified as Non-current Assets Held for Sale. These were subsequently sold to third parties for P9.7 million in June 2010. At the time of sale, the assets had a carrying value of P9.2 million. The resulting gain related to the sale of these assets is presented as part of Miscellaneous under Other Operating Income in the 2010 consolidated statement of income (see Note 19).

The analysis of the revenue, expenses and tax expense of the discontinued operations for the years ended December 31, 2011 and 2010 are shown below.

	Notes	2011	2010
Sale of goods		P 4,047,684	P 19,912,861
Cost of sales	18.1	(14,307,547)	(31,736,150)
Gross loss		(10,259,863)	(11,823,289)
Other operating income (expenses):			
General and administrative expenses	20	(385,540)	(9,271,158)
Selling and distribution costs	20	(671,435)	(413,308)
Other operating income	19	8,353,416	2,823,829
		7,296,441	(6,860,637)
Other income (charges):			
Finance income	21.1	84,448	2,891,714
Finance costs	21.2	(636,010)	(653,326)
		(551,562)	2,238,388
Loss before tax		(3,514,984)	(16,445,538)
Tax expense	23.2	(348,839)	(615,115)
Loss from discontinued operations		(P 3,863,823)	(P 17,060,653)

The net cash flows attributable to the operating, investing, and financing activities of continuing and discontinued operations for the years ended December 31, 2011 and 2010 are shown below.

	2011		
	Continuing	Discontinued	Total
Net Cash From Operating Activities	P 354,066,628	P 4,355,587	P 358,422,215
Net Cash From (Used in) Investing Activities	(38,042,351)	284,513	(37,757,838)
Net Cash Used in Financing Activities	(211,230,466)	(7,076,714)	(218,307,180)
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	(1,723,719)	116	(1,723,603)
Net increase (decrease) in Cash and Cash Equivalents	103,070,092	(2,436,498)	100,633,594
Cash and cash equivalents at beginning of year	1,618,111,420	2,003,048	1,620,114,468
Cash and cash equivalents at end of year	P 1,721,181,512	(P 433,450)	P 1,720,748,062

	2010		
	Continuing	Discontinued	Total
Net Cash From (Used in) Operating Activities	(P 64,190,106)	P 21,911,041	(P 42,279,065)
Net Cash From (Used in) Investing Activities	(26,686,111)	3,033,588	(23,652,523)
Net Cash From (Used in) Financing Activities	444,169,750	(20,146,036)	424,023,714
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	(1,119,803)	-	(1,119,803)
Net increase in Cash and Cash equivalents	352,173,030	4,798,593	356,972,323
Cash and cash equivalents at beginning of year	1,248,783,034	14,359,111	1,263,142,145
Cash and cash equivalents at end of year	P 1,600,956,764	P 19,157,704	P 1,620,114,468

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2012	2011
Cash on hand and in bank	**P 274,888,192**	P 396,965,149
Short-term placements	**2,745,096,021**	1,323,782,913
	P3,019,984,213	P 1,720,748,062

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 90 days and earn annual effective interest ranging from 0.8% to 4.7% in 2012 and 0.5% to 6.0% in 2011.

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2012	2011
Current:			
Trade receivables	27.2	**P 980,564,213**	P 759,929,905
Advances to suppliers	26.6	**223,559,332**	277,211,254
Loans receivables	26.4, 26.7	**45,836,453**	64,831,149
Due from related parties	26.1, 26.6	**2,734,223**	75,770,473
Other receivables		**66,287,945**	76,425,196
		1,318,982,166	1,254,167,977
Allowance for impairment		**(31,512,861)**	(117,015,673)
		1,287,469,305	1,137,152,304
Non-current:			
Trade receivables		**26,168,353**	47,852,284
Loans receivables	26.4, 26.7	**145,381,293**	151,801,578
Cash surrender value of investment in life insurance	14	**458,908,456**	470,231,669
		630,458,102	669,885,531
		P1,917,927,407	P 1,807,037,835

Trade receivables include amounts due from the Group's real estate buyers arising from the sale of industrial lots and condominium units. The title to the real estate properties remain with the Group until such time that the Group fully collects its receivables from the real estate buyers. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.8% to 18.0% depending on the terms of payment.

Advances to suppliers mainly pertain to the advance payments received by Solid Trading Limited (STL) for My Solid's future purchase of inventories (see Note 26.6), various contractors for the construction of ZTC's Tri Towers (see Note 11) and various suppliers for CBHI's acquisition of supplies.

Interest rates on loans receivables range from 5.0% to 30.0% in 2012 and 2011. Certain finance receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 26.4).

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 19.1). The difference between the initial cash surrender value and the premiums paid amounting to P1.2 million in 2012 and P5.3 million in 2011 represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 14).

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 15).

Other receivables consist primarily of unsecured, noninterest-bearing cash advances made to the ZTC's Unit Owners' Association for expenses incurred by the Unit Owners, interest receivable, rental receivable and income tax recoverable.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables, which are mostly due from small business customers, were found to be impaired, hence, adequate amount of allowance for impairment has been recognized.

A reconciliation of the allowance for impairment at beginning and end of 2012 and 2011 is shown below.

	Note	**2012**	2011
Balance at beginning of year		**P 117,015,673**	P 129,657,216
Impairment losses during the year	21.2	**12,767,663**	21,145,641
Reversals of impairment losses	21.1	**(75,708,696)**	(17,014,146)
Write-off of receivables previously provided with allowance		**(22,561,779)**	(16,773,038)
Balance at end of year		**P 31,512,861**	P 117,015,673

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 30.1).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2011, BRL acquired additional investments which are classified as financial assets at FVTPL upon initial recognition, while Fil-Dragon's investments are primarily held for trading. In 2012, BRL and Fil-Dragon disposed of all of their investments classified as financial assets at FVTPL.

The carrying amounts of financial assets at FVTPL as of December 31, 2011 are presented as follows:

Designated as at FVTPL	P 63,846,668
Held-for-trading	6,426,323
	P 70,272,991

This account consists of the following financial assets as of December 31, 2011:

Debt securities	P 60,382,332
Equity securities	9,890,659
	P 70,272,991

Debt securities pertain to investments in corporate bonds with interest rates ranging from 5.3% to 12.0% in 2011. On the other hand, equity securities pertain to shares of entities listed in China, Hong Kong and the United States. The fair values of financial assets presented above have been determined directly by reference to published prices quoted in active markets.

In 2011, the Group recognized the decline in value of financial assets at FVTPL of P5.9 million. The loss is presented as part of Finance Costs in the 2011 consolidated statement of income (see Note 21.2).

The disposals of financial assets at FVTPL resulted to a gain of P8.6 million in 2012 which is presented as part of Gain from sale of financial assets – net shown under Finance Income in the 2012 consolidated statement of income (see Note 21.1). There were no disposals of financial assets at FVTPL in 2011.

As of December 31, 2011, BRL's foreign debt securities are used as collateral for interest-bearing loans obtained by BRL (see Note 15).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	2012	2011
Current:		
Investments in foreign currency-denominated bonds	**P 52,237,573**	P 60,204,848
Allowance for impairment	**(52,237,573)**	(52,653,225)
	-	51,994,367
Non-current:		
Club shares	**10,292,400**	8,832,400
Equity securities	**8,580,000**	8,580,000
Others	**634,127**	1,474,118
	19,506,527	18,886,518
Allowance for impairment	**(10,430,000)**	(11,004,991)
	9,076,527	7,881,527
	P 9,076,527	P 59,875,894

A reconciliation of the allowance for impairment at the beginning and end of 2012 and 2011 is show below.

	Note	**2012**	2011
Balance at beginning of year		**P 63,658,216**	P 44,662,329
Provision (reversal) of impairment losses	21.1, 21.2	**(990,643)**	18,995,887
Balance at end of year		**P 62,667,573**	P 63,658,216

A reconciliation of the carrying amounts of AFS financial assets is shown below.

	Notes	2012	2011
Balance at beginning of year		**P 59,875,894**	P 150,712,680
Disposals		**(50,636,180)**	(60,776,293)
Reversal (provision) of impairment loss during the year	21.1, 21.2	**990,643**	(18,995,887)
Fair value losses – net	24.3	**(1,153,830)**	(11,064,606)
Balance at end of year		**P 9,076,527**	P 59,875,894

Investments in foreign currency-denominated bonds were used as collateral for the interest-bearing loans of BRL (see Note 15).

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005 on which the Parent Company received a formal notice of the expiry of the JVA on April 11, 2005. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of these events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, in 2005, the Parent Company reclassified its remaining investment in shares of stock of SPI with total cost of P8.6 million to AFS Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of December 31, 2012 and 2011.

Impairment losses recognized on the Group's AFS Financial Assets are presented as part of Finance Costs in the 2011 and 2010 consolidated statements of income (see Note 21.2).

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of December 31, 2012, 2011 and 2010 have been determined directly by reference to published prices in active markets (see Note 30).

10. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 18.1).

	2012	2011
Merchandise and finished goods	**P 406,495,008**	P 621,292,896
Raw materials	**362,856**	362,856
Service parts, supplies and others	**26,589,434**	46,719,660
	433,447,298	668,375,412
Allowance for inventory obsolescence	**(41,584,410)**	(103,832,347)
Balance at end of year	**P 391,862,888**	P 564,543,065

The movements in allowance for inventory obsolescence are as follows:

	Note	2012	2011
Balance at beginning of year		**P 103,832,347**	P 89,909,514
Reversal of allowance for inventory obsolescence	18.1	**(65,257,144)**	(7,486,361)
Loss on inventory obsolescence	18.1	**3,009,207**	34,790,640
Write-off of inventory previously provided with allowance		**-**	(13,381,446)
		P 41,584,410	P 103,832,347

In 2012, SBC reversed the allowance for obsolescence on materials and supplies inventories obsolescence amounting to P13.3 million following the sale of those inventories to a third party (see Note 1.2). The gain on reversal of allowance for inventory obsolescence is separately recorded as part of Other Gains under Other Income in the 2012 consolidated statement of income (see Notes 19.2 and 27.3).

SLC and Kita's inventory write-down with no previous allowance for inventory obsolescence amounted to P1.7 million and P7.6 million in 2011, respectively, and is presented as Loss on inventory obsolescence on discontinued operations under Cost of Sales in the 2011 consolidated statement of income (see Note 18.1).

The Group has not entered into any purchase commitment in the acquisition of its merchandise inventories and supplies in 2012 and 2011.

11. REAL ESTATE INVENTORIES

This account is composed of:

	2012	2011
Land and land development costs:		
Land	**P 9,725,593**	P 36,112,467
Land development costs	**17,695,475**	17,883,041
	27,421,068	53,995,508
Allowance for impairment	**(2,022,800)**	(2,022,800)
	25,398,268	51,972,708
Property development costs – Construction in progress and development costs	**1,985,667,173**	1,623,808,064
	P 2,011,065,441	P 1,675,780,772

Land and land development costs pertain to cost of land and related improvements, held by Starworld and LIIP, which are held for sale. Property development costs pertain to cost of land used as a building site and the accumulated construction costs of the condominium building project being developed by ZTC and Fil-Dragon which are also for sale.

Borrowing costs incurred from loans availed by Fil-Dragon were capitalized as part of its Property development costs. Borrowing cost incurred in 2012 and 2011 relating to these loans amounted to RMB5.0 million (P32.9 million) and RMB1.5 million (P9.7 million) respectively, and are capitalized as part of Real Estate Inventories (see Notes 15 and 26.8).

The allowance for impairment recognized in 2005 pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized since then.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As of December 31, 2012, lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 was completed in completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2012.

In addition, the balances of Property Development Costs as of December 31, 2012 and 2011 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon (see Note 28.7). The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Customer deposits received as of December 31, 2012 and 2011 amounting to P840.1 million and P686.3 million, respectively, are shown as part of Customers' Deposits in the consolidated statements of financial position.

Fil-Dragon's right to use the land, included as part of the Property Development Costs account, with a carrying amount of RMB15.2 million (P103.3 million) as of December 31, 2010, was pledged as collateral for interest-bearing loans obtained by Fil-Dragon in 2009. The interest-bearing loans were paid in full in 2011 (see Note 15).

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2012 and 2011 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 28.4).

12. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at the beginning and end of 2012 and 2011 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2012												
Cost	P 897,854,682	P 38,195,726	P 29,916,266	p 136,048,761	P 83,554,950	P -	P 8,525,595	P 7,003,937	P 50,148,179	P 24,551,023	P 57,155,448	P 1,332,954,567
Accumulated depreciation and amortization	-	(24,749,504)	(14,305,764)	(116,881,738)	(62,694,698)	-	(6,717,422)	(5,694,879)	(33,536,071)	(19,966,657)	-	(284,546,733)
Net carrying amount	**P 897,854,682**	**P 13,446,222**	**P 15,610,502**	**P 19,167,023**	**P 20,860,252**	**P -**	**P 1,808,173**	**P 1,309,058**	**P 16,612,108**	**P 4,584,366**	**P 57,155,448**	**P 1,048,407,834**
December 31, 2011												
Cost	P 897,854,682	P 107,157,571	P 30,124,265	P 132,342,425	P 94,388,131	P 1,337,286,751	P 153,787,380	P 68,446,028	P 56,557,182	P 25,169,630	P -	P 2,903,114,045
Accumulated depreciation and amortization	-	(64,546,364)	(24,762,932)	(115,711,989)	(76,436,056)	(621,928,012)	(96,970,837)	(65,369,216)	(45,470,846)	(19,982,984)	-	(1,131,179,236)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 7,611,207	P 5,361,333	P 16,630,436	P 17,952,075	P 365,358,739	P 56,816,543	P 3,076,812	P 11,086,336	P 5,186,646	P -	P 1,386,934,809
January 1, 2011												
Cost	P 897,854,682	P 227,896,093	P 54,731,671	P 126,509,662	P 86,920,710	P 1,281,118,081	P 145,693,981	P 66,396,464	P 46,690,676	P 18,292,269	P 1,090,679	P 2,953,194,968
Accumulated depreciation and amortization	-	(153,016,433)	(48,742,034)	(109,698,115)	(70,628,188)	(578,531,307)	(88,187,124)	(63,558,745)	(42,916,185)	(16,047,865)	-	(1,171,325,996)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 39,879,660	P 5,989,637	P 16,811,547	P 16,292,522	P 352,586,774	P 57,506,857	P 2,837,719	P 3,774,491	P 2,244,404	P 1,090,679	P 1,396,868,972

A reconciliation of the carrying amounts at the beginning and end of 2012 and 2011 of property, plant and equipment is shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2012, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 7,611,207	P 5,361,333	P 16,630,436	P 17,952,075	P 365,358,739	P 56,816,543	P 3,076,812	P 11,086,336	P 5,186,646	P -	1,386,934,809
Additions	-	6,321,232	12,903,587	14,677,574	12,142,765	27,343,618	1,023,283	574,747	7,734,842	723,925	60,236,560	143,682,133
Reclassification	-	-	(538,936)	-	-	-	538,936	-	2,346,898	734,214	(3,081,112)	-
Disposals	-	-	-	(1,382,405)	(3,803,270)	(726,059,448)	(52,820,340)	(1,291,636)	(384,789)	-	-	(785,741,888)
Reversal of impairment loss	-	-	-	-	-	350,000,000	-	-	-	-	-	350,000,000
Depreciation and amortization charges for the year	-	(486,217)	(2,115,482)	(10,758,582)	(5,431,318)	(16,642,909)	(3,750,249)	(1,050,865)	(4,171,179)	(2,060,419)		(46,467,220)
Balance at December 31, 2012 net of accumulated depreciation, amortization and impairment loss	**P 897,854,682**	**P 13,446,222**	**P 15,610,502**	**P 19,167,023**	**P 20,860,252**	P -	**P 1,808,173**	**P 1,309,058**	**P 16,612,108**	**P 4,584,366**	**P 57,155,448**	**P 1,048,407,834**
Balance at January 1, 2011, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 39,879,660	P 5,989,637	P 16,811,547	P 16,292,522	P 352,586,774	P 57,506,857	P 2,837,719	P 3,774,491	P 2,244,404	P 1,090,679	P 1,396,868,972
Additions	-	-	608,599	9,247,361	10,489,417	56,168,670	8,343,400	2,026,701	8,818,446	3,481,703	-	99,184,297
Reclassification	-	(30,319,357)	-	-	-	-	-	-	1,043,912	1,039,567	(1,090,679)	(29,326,557)
Disposals	-	-	(152,380)	(17,678)	(1,448,595)	-	-	-	-	-	-	(1,618,653)
Depreciation and amortization charges for the year	-	(1,949,096)	(1,084,523)	(9,410,794)	(7,381,269)	(43,396,705)	(9,033,714)	(1,787,608)	(2,550,513)	(1,579,028)	-	(78,173,250)
Balance at December 31, 2011 net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 7,611,207	P 5,361,333	P 16,630,436	P 17,952,075	P 365,358,739	P 56,816,543	P 3,076,812	P 11,086,336	P 5,186,646	P -	P 1,386,934,809

In 2012, construction in progress pertains to the ongoing construction of a hotel of SMC to be named Green Sun Hotel. Also, the costs incurred for the acquisition of furniture and fixtures and machinery and equipment which are not yet available for use and the on-going improvements are recorded as construction in progress.

Also in 2012, SBC reversed the allowance for impairment provided against its cable system, following the sale of its assets used in business operations (see Note 1.3). The reversal amounted to P350.0 million and is presented as part of Other Operating Income in the 2012 consolidated statement of income (see Note 19.1).

No additional impairment losses were recognized in 2012, 2011 and 2010 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2012, the fair values of the Group's land and building and improvements amounted to P203.5 million.

The amount of depreciation and amortization computed on property, plant and equipment is presented as follows:

	Notes	**2012**	2011	2010
Cost of services	18.2	**P 29,405,353**	P 63,913,859	P 61,817,018
Cost of rentals		**3,428,898**	4,119,796	-
General and administrative expenses		**13,632,969**	9,439,774	10,438,234
Discontinued operations		**-**	699,821	3,333,724
	20	**P 46,467,220**	P 78,173,250	P 75,588,976

There were no restrictions on titles and items of property, plant and equipment since there were no items of property, plant and equipment pledged as security as of December 31, 2012 and 2011.

Fully depreciated property, plant and equipment still in use in the Group's operations amounted to P109.9 million and P106.4 million as of December 31, 2012 and 2011, respectively.

13. INVESTMENT PROPERTY

The Group's investment property, which are accounted for under the fair value method, consists mainly of land and improvements, and buildings and improvements under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income. Direct costs such as real property taxes, repairs and maintenance and utilities are presented as part of Cost of Rentals in the consolidated statements of income (see Note 18.3).

The fair values of the Group's investment property as of December 31, 2012, 2011 and 2010 were determined based on appraisal reports dated February 5, 2013, February 29, 2012 and January 4, 2011, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers.

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position can be summarized as follows as of December 31:

	Land and Improvements	Buildings and Improvements	Total
2012:			
Balance at beginning of year	P 3,047,677,774	P 816,656,012	P 3,864,333,786
Fair value gains (losses) on investment property – net	242,054,661	(92,485,479)	149,569,182
Additions	-	5,153,524	5,153,524
Reclassification	(1,615,386)	-	(1,615,386)
Balance at end of year	**P 3,288,117,049**	**P 729,324,057**	**P 4,017,441,106**
2011:			
Balance at beginning of year	P 2,885,328,774	P 761,189,863	P 3,646,518,637
Fair value gains on investment property	171,420,000	20,224,597	191,644,597
Additions	-	6,927,455	6,927,455
Disposals	(9,071,000)	-	(9,071,000)
Reclassification	-	28,314,097	28,314,097
Balance at end of year	P 3,047,677,774	P 816,656,012	P 3,864,333,786

Certain real estate properties owned by SMC are subject to litigations brought up by third parties against the subsidiary (see Notes 14 and 28.3).

In 2012, the Company transferred land in Pamaldan City with carrying amount of P1.6 million as of December 31, 2012 to Other Non-current Assets.

In 2010, SMC entered into a contract to sell three parcels of land to a customer under an installment sales scheme. The contract price of the land amounting to P30.0 million, inclusive of VAT, is payable within 29 months. SMC recorded the collections from customer in 2010 as Advances from customers as part of Trade and Other Payables in the 2010 consolidated statement of financial position. In 2011, the land was transferred and the corresponding gain was recognized. The carrying value of the land on the date of disposal is P9.1 million. Consequently, the Group recognized gain amounting to P17.8 million, which is presented as part of Other Gains in the 2011 consolidated statement of income (see Note 19.2).

14. OTHER ASSETS

The composition of these accounts as of December 31 is shown below.

	Notes	2012	2011
Current:			
Input VAT - net		**P 73,056,951**	P 92,707,110
Creditable withholding taxes		**50,378,018**	71,855,887
Prepaid business taxes		**61,116,160**	45,676,769
Other prepayments		**16,103,292**	18,321,656
Advances to suppliers and contractors		**33,632,728**	27,879,694
Refundable deposits		**10,988,982**	3,368,991
Restricted cash		**5,141,100**	5,092,329
Others		**1,744,128**	2,294,489
		252,161,359	267,196,925
Non-current:			
Refundable deposits - net		**10,765,679**	9,836,045
Prepaid insurance	7	**1,225,956**	5,294,251
Land under litigation	28.3	**4,935,606**	3,258,220
Investment in shares		**1,375,290**	1,303,591
Cash bond		**568,234**	568,234
Others		**3,360,939**	1,890,731
		22,231,704	22,151,072
		P 274,393,063	P 289,347,997

Restricted cash pertains to bank deposits pledged by Fil-Dragon as security in favor of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties. Such charges would be released when the certificates for housing ownership are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates. Other prepayments consist mainly of prepaid insurance and rent.

15. INTEREST-BEARING LOANS

Short-term interest-bearing loans and borrowings as of December 31, 2012 and 2011 are broken down as follows:

	2012			2011		
	USD	**RMB**	**PHP**	USD	RMB	PHP
BRL	**$ 5,155,223**	**¥ -**	**P 212,353,946**	$ 8,544,563	¥ -	P 375,345,563
Fil-Dragon	**-**	**54,396,030**	**359,312,976**	-	58,143,006	404,053,192
	$ 5,155,223	**¥ 54,396,030**	**P 571,666,922**	$ 8,544,563	¥ 58,143,006	P 779,398,755

The Group's short-term interest-bearing loans as of December 31, 2012 and 2011 amounting to P571.7 million and P779.4 million, respectively, are denominated in U.S. Dollar and Chinese yuan renminbi, and are currently due within 12 months after the end of reporting period; hence classified as part of the Group's current liabilities in the consolidated statements of financial position.

Information relating to significant loan transaction of the Group are as follows:

(a) Loans of BRL

The loans of BRL are secured by investment in cash surrender value of investment in life insurance (see Note 7). The loans were also secured by the outstanding investments in foreign currency-denominated bonds as of December 31, 2011 (see Notes 8 and 9). The loans bear interest at prevailing market rates per annum ranging from 2.0% to 2.3% in 2012 and 2011. Interest expense arising from these loans amounted to P6.0 million and P8.0 million in 2012 and 2011, respectively, and is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2).

In 2012, BRL extended the terms of various loans it obtained from Bank of Singapore. The loans are extended for one year up to June 30, 2013.

(b) 2011 Loans of Fil-Dragon

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan renminbi from companies that are owned by Solid Company Limited (SCL), a shareholder owning 19% of the total shares of Fil-Dragon. Outstanding balance from the loan amounted to RMB54.4 million (P359.3 million) and RMB58.1 million (P404.1 million) as of December 31, 2012 and 2011, respectively. The loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2012 and 2011. Borrowing cost incurred in 2012 and 2011 relating to these loans amounted to RMB5.0 million (P32.9 million) and RMB1.5 million (P9.7 million) respectively, and are capitalized as part of Real Estate Inventories (see Notes 11 and 26.8).

(c) 2009 Loans of Fil-Dragon

In 2009, Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the PRC amounting to RMB92.9 million (P615.7 million). The loans were secured by Fil-Dragon's property development cost amounting to RMB15.2 million (P103.3 million) as of December 31, 2010. The loan was paid in full in 2011. Total borrowing costs incurred from these interest-bearing loans amounted RMB6.4 million (P43.2 million) in 2011 were capitalized as part of Real Estate Inventories at capitalization rates ranging from 6% to 10% (see Note 11).

Further, certain related parties of the Group entered into a guarantee contract with the creditor bank whereby the related parties guarantee that the principal amount and related interests will be paid as the payments fall due (see Note 26.9). None of the companies under the Group, including the Parent Company, are included in the guarantee contract.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 30.1). As of December 31, 2012, the Group is not subjected to any covenants relating to the above loans.

16. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2012	2011
Trade payables	26.6	**P 335,534,348**	P 304,917,931
Output VAT		**48,843,309**	37,328,219
Accrued dealers' incentives		**24,375,822**	12,364,027
Collection due to STL	26.6	**18,706,344**	2,331,894
Unearned subscription income		**18,143,581**	9,167,511
Rental payable		**17,671,797**	17,354,928
Refundable deposits	17	**16,181,595**	24,769,241
Retention payable		**16,061,269**	4,872,185
Reserve for warranty costs		**14,545,332**	18,354,383
Accrued municipal taxes		**14,357,151**	8,673,969
Advances from customers		**9,542,619**	22,623,706
Deferred output VAT		**1,505,635**	3,032,367
Other accrued expenses		**58,423,762**	88,287,531
Other payables		**35,010,087**	38,355,081
		P 628,902,651	P 592,432,973

Reserve for warranty costs pertains to amounts recognized by My Solid, SVC and SBC for expected warranty claims on products sold based on their past experience of the level of repairs and returns. In addition, provision for warranty claims also includes the amounts recognized by OSSI for expected warranty claims on consumer electronic products sold by a certain company owned by the Group's majority stockholders.

In 2012, SMC derecognized certain accrued expenses and other payables which were acquired by SMC from the merger with SC (see Note 1.2). Management believes that the possibility of cash outflows is remote since the purpose for which the liability was recognized no longer exists. The Gain on Derecognition of Liabilities amounting to P25.1 million is presented under Other Income Gains in the 2012 consolidated statement of income (see Note 19.2).

In October 2011, the obligation to provide warranties was transferred by My Solid to Mytel when the latter was handed over the ownership of the brand and consequently became importer of the inventories from Mytel's supplier. As a result, Mytel derecognized the outstanding balance of provision for warranty claims from previous year amounting to P10.8 million. The income arising from the derecognition of this liability is presented as part of Reversal of warranty provision under Other Operating Income in the 2011 consolidated statement of income (see Note 19.1). My Solid and Mytel have merged in 2012 (see Note 1.2).

The changes in the Reserve for Warranty Costs account are as follows:

	Notes	2012	2011
Balance at beginning of year		**P 18,354,383**	P 23,359,511
Additional provision for warranty claims during the year	20	**41,465,997**	45,072,286
Actual warranty claims during the year		**(36,118,916)**	(38,173,009)
Reversals during the year	19.1	**(9,156,132)**	(11,904,405)
		P 14,545,332	P 18,354,383

Other accrued expenses include accrued rentals, accrued outside services, accrued salaries and other operating expenses. Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid tax obligations.

The carrying amounts of trade and other payables recognized in the consolidated statements of financial position are considered to be a reasonable approximation of their fair value (see Note 30.1).

17. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P16.0 million and P15.6 million as at December 31, 2012 and 2011, respectively. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 7.22% to 15.77% at the inception of the lease terms. The interest expense recognized amounting to P1.4 million in 2012, P0.6 million in 2011 and P0.9 million in 2010 is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2). The non-current refundable deposits is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

18. COST OF SALES, SERVICES AND RENTALS

18.1 Cost of Sales

The details of this account are shown below.

	Notes	**2012**	2011	2010
Merchandise and finished goods at beginning of year	10	**P 621,292,896**	P 412,507,056	P 62,462,687
Net purchases of merchandise during the year	20, 26.6 26.2	**2,925,915,239**	2,700,622,823	1,582,453,911
Cost of goods manufactured:				
Raw materials at beginning of year	10	**362,856**	10,757,863	20,252,525
Work- in-process at beginning of year	10	**-**	2,256,191	1,665,047
Net purchases of raw materials during the year		**-**	3,811,972	6,759,772
Direct labor		**-**	1,715,564	3,709,810
Manufacturing overhead			1,831,269	16,613,479
Raw materials at end of year	10	**(362,856)**	(362,856)	(10,757,863)
Work-in-process at end of year		**-**	-	(2,256,191)
		-	20,010,003	35,986,579
Goods available for sale		**3,547,208,135**	3,133,139,882	1,680,903,177
Merchandise and finished goods at end of year	10	**(406,495,008)**	(621,292,896)	(412,507,056)
Net provision (reversal) on inventory obsolescence	10	**(48,583,419)**	27,304,279	(11,239,861)
	20	**P 3,092,129,708**	P 2,539,151,265	P 1,257,156,260

The allocation of cost of sales between continuing and discontinued operations is shown below.

	Note	2012	2011	2010
Continuing operations	20	**P 3,092,129,708**	P 2,524,843,718	P 1,225,420,110
Discontinued operations	5, 10	**-**	14,307,547	31,736,150
		P 3,092,129,708	P 2,539,151,265	P 1,257,156,260

18.2 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services:

	Notes	2012	2011	2010
Materials, supplies and other consumables		**P 94,017,131**	P 90,295,728	P 73,058,882
Salaries and employee benefits		**80,725,659**	92,304,067	91,449,097
Service fees	20	**59,347,325**	-	-
Subcontracting services		**48,254,650**	30,841,268	18,674,615
Rentals	28.2	**36,602,623**	29,463,835	42,954,302
Communication, light and water		**33,262,444**	50,503,338	47,309,256
Depreciation and amortization	12	**29,405,353**	63,913,859	61,817,018
Transponder rental and leased line		**27,803,313**	46,122,992	49,380,862
Outside services		**24,560,909**	37,481,054	33,384,542
Transportation and travel		**18,032,263**	18,442,548	12,640,691
Repairs and maintenance		**10,731,747**	19,949,027	4,567,611
Cable services		**3,901,463**	6,696,429	6,696,429
Others		**21,757,882**	13,280,724	18,258,313
	20	**P 488,402,762**	P 499,294,869	P 460,191,618

18.3 Cost of Rentals

The details of this account are as follows:

	Notes	2012	2011	2010
Taxes and licenses	13	**P 9,835,266**	P 9,571,471	P 7,706,287
Rentals		**8,043,416**	10,040,302	10,990,367
Outside services		**7,397,150**	5,856,501	9,728,407
Repairs and maintenance	13	**3,461,720**	3,487,349	3,488,634
Salaries and employee benefits		**1,194,501**	1,144,438	1,011,864
Utilities and communication	13	**-**	3,324,709	4,565,515
Others		**5,450,888**	6,455,978	1,078,119
	20	**P 35,382,941**	P 39,880,748	P 38,569,193

Other cost of rentals primarily consists of depreciation expense, supplies and transportation and travel expenses.

19. OTHER INCOME

19.1 Other Operating Income

The breakdown of this account is as follows:

	Notes	2012	2011	2010
Reversal of impairment losses on property and equipment	12	**P 350,000,000**	P -	P -
Fair value gains on investment property	13	**149,569,182**	191,644,597	27,648,081
Increase in cash surrender value of investment in life insurance	7	**18,365,563**	19,110,728	17,678,362
Reversal of warranty provision	16	**9,156,132**	11,904,405	3,126,950
Gain on insurance settlement		**353,338**	55,000	4,694,715
Miscellaneous	5	**26,481,792**	18,411,703	37,055,339
		P 553,926,007	P 241,126,433	P 90,203,447

The allocation of other operating income between continuing and discontinued operations is shown below.

	Note	2012	2011	2010
Continuing operations		**P 553,926,007**	P 232,773,017	P 87,379,618
Discontinued operations	5	**-**	8,353,416	2,823,829
		P 553,926,007	P 241,126,433	P 90,203,447

19.2 Other Gains

The breakdown of this account is as follows:

	Notes	2012	2011	2010
Gain on derecognition of liabilities	16	**P 25,117,698**	P -	P -
Reversal of allowance for inventory obsolescence	10	**13,334,706**	-	-
Retirement benefit income		**8,999,316**	-	171,983
Gain on disposal of property,		**7,767,563**	-	-
plant, and equipment		**1,071,310**	-	-
Gain on sale of investment property	13	**-**	17,802,607	-
Others		**1,361,274**	3,636,521	2,564,209
		P 57,651,877	P 21,439,128	P 2,736,192

All other gains pertain to continuing operations for all the years presented.

Retirement benefit income in 2012 resulted from SGI's transfers of the amount of obligation in the Group plan due to transfer of employees within the group. Also, no retirement benefit expense was recorded in 2010 as the expected return and the actuarial gain recognized in the plan assets during the year is higher than the current service and interest cost incurred.

20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2012	2011	2010
Net purchases of merchandise inventories	18.1	**P 2,925,915,239**	P 2,700,622,823	P 1,582,453,911
Salaries and employee benefits	22.1	**259,430,838**	254,151,282	231,327,047
Outside services		**194,934,604**	149,697,511	97,545,658
Advertising and promotions		**130,977,514**	132,187,080	92,776,544
Subcontracting services		**110,298,465**	86,887,735	52,116,171
Materials, supplies and other consumables		**78,028,164**	110,419,752	109,721,847
Rentals	26.3, 28.2	**60,820,460**	42,785,957	44,419,377
Service fee		**59,347,325**	-	-
Utilities and communication		**54,590,325**	72,208,053	72,260,992
Taxes and licenses		**52,113,634**	46,839,422	55,402,878
Depreciation and amortization	12	**46,467,220**	78,173,250	75,588,976
Net provision (reversal) on inventory obsolescence	18.1	**(48,770,199)**	27,304,279	(11,239,861)
Cost of real estate sold		**45,917,227**	95,886,118	151,396,685
Transportation and travel		**44,072,915**	43,880,536	29,924,036
Provision for warranty	16	**41,465,997**	45,072,286	35,696,455
Repairs and maintenance		**31,640,652**	45,966,836	28,229,042
Transponder rental and leased line		**7,070,544**	44,719,890	48,257,021
Change in merchandise, finished goods and work-in-process inventories		**168,559,419**	(206,529,649)	(338,484,611)
Miscellaneous		**103,021,196**	50,319,996	68,205,328
		P 4,365,901,539	P 3,820,593,157	P 2,425,597,496

In 2012, SBC entered into a sale agreement with a third party for the sale of SBC's assets used in operations. In connection with such agreement, SBC shall also act as a collecting agent for the existing subscribers and accordingly, remit to the third party all collection received. Service fees incurred for the remittance of the collections to the third party amounting to P59.3 million is presented as part of Cost of Services in the 2012 consolidated statement of income (see Notes 18.2 and 27.3).

Items classified under the miscellaneous account primarily consist of advertising and promotions, subcontracting services, taxes and licenses, cable services and insurance expenses incurred by the Group.

These expenses are classified in the consolidated statements of income as follows:

	Notes	2012	2011	2010
Continuing operations:				
Cost of sales	18.1	**P 3,092,129,708**	P 2,524,843,718	P 1,225,420,110
Cost of services	18.2	**488,402,762**	499,294,869	460,191,618
Cost of real estate sales		**45,917,227**	95,886,118	151,396,685
Cost of rentals	18.3	**35,382,941**	39,880,748	38,569,193
General and administrative expenses		**343,002,874**	366,950,584	281,046,941
Selling and distribution costs		**361,066,027**	278,372,598	227,552,333
		4,365,901,539	3,805,228,635	2,384,176,880
Discontinued operations:				
Cost of sales	18.1	**-**	14,307,547	31,736,150
General and administrative expenses	5	**-**	385,540	9,271,158
Selling and distribution costs	5	**-**	671,435	413,308
		-	15,364,522	41,420,616
		P 4,365,901,539	P 3,820,593,157	P 2,425,597,496

21. OTHER INCOME (CHARGES)

21.1 Finance Income

This account consists of the following:

	Notes	2012	2011	2010
Reversal of impairment losses on trade and other receivables	7	**P 75,708,696**	P 17,014,146	P 11,104,219
Interest income from banks	6	**56,862,020**	28,088,868	23,389,186
Interest income from financing		**26,458,136**	11,990,898	5,041,854
Gain on sale of financial assets - net	8	**2,095,315**	-	-
Reversal of impairment losses on AFS financial assets	9	**990,643**	-	-
Foreign currency gains – net		**827,155**	5,624,590	1,372,689
Others		**760,514**	1,842,653	905,319
		P 163,702,479	P 64,561,155	P 41,813,267

The allocation of finance income between continuing and discontinued operations is shown below.

	Note	2012	2011	2010
Continuing operations		**P 163,702,479**	P 64,476,707	P 38,921,553
Discontinued operations	5	-	84,448	2,891,714
		P 163,702,479	P 64,561,155	P 41,813,267

Interest income earned by SGI, SMFI, BRL, Starworld, and Interstar from cash and cash equivalents amounting to P64.4 million in 2012, P47.8 million in 2011 and P63.1 million in 2010 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

21.2 Finance Costs

This account consists of the following:

	Notes	2012	2011	2010
Foreign currency losses		**P 22,738,154**	P 33,124,222	P 28,649,430
Impairment losses on trade and other receivables	7	**12,767,663**	21,145,641	9,266,502
Interest expense arising from interest–bearing loans	15	**6,726,796**	8,203,376	10,530,521
Interest amortization on refundable deposits	17	**1,431,460**	614,109	864,519
Impairment losses on AFS financial assets	9	**-**	18,995,887	33,657,338
Fair value loss on FVTPL	8	**-**	5,909,803	-
Others		**5,424,022**	797,455	4,601,512
		P 49,088,095	P 90,062,513	P 88,876,474

The allocation of finance costs between continuing and discontinued operations is shown below.

	Note	2012	2011	2010
Continuing operations		**P 49,088,095**	P 89,426,503	P 88,223,148
Discontinued operations	5	**-**	636,010	653,326
		P 49,088,095	P 90,062,513	P 88,876,474

22. EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 20 and 26.10).

	Note	2012	2011	2010
Short-term benefits		**P 250,773,629**	P 249,752,464	P 225,608,349
Post-employment benefit	22.2	**7,188,899**	3,634,033	4,594,191
Termination benefits		**1,468,310**	764,785	1,124,507
		P 259,430,838	P 254,151,282	P 231,327,047

22.2 Post-employment Benefit

The Group maintains a tax-qualified, fully-funded and noncontributory post-employment defined benefit plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions.

The amounts of total retirement benefit asset of SGI and certain subsidiaries that have retirement benefit asset recognized in the consolidated statements of financial position are determined as follows:

	2012	2011
Fair value of plan assets	**P 195,334,214**	P 198,950,272
Present value of the obligation	**96,955,783**	104,569,041
Excess of plan assets	**98,378,431**	94,381,231
Unrecognized actuarial losses	**(25,213,659)**	(15,099,780)
	P 73,164,772	P 79,281,451

The amounts of retirement benefit obligation of certain subsidiaries that have retirement benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	2012	2011
Fair value of plan assets	**P 14,080,141**	P 52,742,927
Present value of the obligation	**29,632,031**	48,704,204
Excess (deficiency) of plan assets	**(15,551,890)**	4,038,723
Unrecognized actuarial gains	**(2,969,731)**	(10,149,864)
Retirement benefit obligation	**P 12,582,159**	P 6,111,141

Presented below are the overall historical information related to the present value of the retirement benefit obligation, fair value of plan assets and net excess in the plan of the Group.

	2012	2011	2010	2009	2008
Fair value of plan assets	**P 209,414,355**	P 251,693,199	P 239,409,688	P 210,694,669	P 163,517,091
Present value of the obligation	**126,587,814**	153,273,245	91,208,751	71,624,495	74,604,282
Excess in the plan	**P 82,826,541**	P 98,419,954	P 148,200,937	P 139,070,174	P 88,912,809

Experience adjustments arising on plan assets amounted to P5.4 in 2012, P5.3 in 2011 and P6.2 million in 2010. Experience adjustments on plan liabilities amounted to P1.1 million in 2012, P7.2 million in 2011 and P5.9 million in 2010.

The overall movements in the fair value of plan assets of the Group are presented below.

	2012	2011
Balance at beginning of year	**P 251,693,199**	P 239,409,688
Effect of curtailment	**(53,322,778)**	-
Contributions paid into the plan	**659,116**	4,976,389
Benefits paid by the plan	**(1,597,216)**	(1,840,988)
Expected return on plan assets	**15,869,634**	12,604,518
Actuarial losses	**(3,887,600)**	(3,456,408)
Balance at end of year	**P 209,414,355**	P 251,693,199

The overall movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	2012	2011
Balance at beginning of year	**P 153,273,245**	P 91,208,751
Effect of curtailment	**(43,907,143)**	-
Transfers	**-**	1,267,732
Current service and interest costs	**24,297,471**	20,067,558
Benefits paid	**(1,597,216)**	(1,840,988)
Actuarial (gains) losses	**(5,478,543)**	42,570,192
Balance at end of year	**P 126,587,814**	P 153,273,245

Actual returns on plan assets amounted to P12.0 million, P9.15 million and P25.7 million in 2012, 2011 and 2010, respectively. The Group expects to contribute a total of P17.6 million to the post-employment defined benefit plan in 2012.

The plan assets consist of the following as of December 31:

	2012	2011
Government securities	**P 197,407,650**	P 234,845,476
Mutual and trust funds	**12,006,705**	16,847,723
	P 209,414,355	P 251,693,199

The amount of post-employment benefit expense recognized in the consolidated statements of income is as follows:

	2012	2011
Current service cost	**P 17,610,274**	P 13,004,057
Interest cost	**6,687,197**	7,063,501
Expected return on plan assets	**(15,869,634)**	(12,604,518)
Net actuarial gains (loss) recognized during the year	**(1,237,938)**	(3,829,007)
	P 7,188,899	P 3,634,033

For determination of the post-employment benefit obligation, the following actuarial assumptions were used:

	2012	2011	2010
Discount rates	**4% - 6%**	6% - 7%	8% - 9%
Expected rate of return on plan assets	**5%**	8%	6%
Expected rate of salary increases	**9%**	10%	9%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of employees before retirement at the age of 60 is 21 years for both males and females.

The overall expected long-term rate of return on assets is ranges from 6% to 8%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

In 2011 and prior years, SBC maintained a wholly funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees. As a result of the sale its business, SBC ceased operations immediately thereafter and requested the release of the remaining balance in the trust fund account under the multi-employer retirement plan. The retirement plan assets were withdrawn in 2012 since all of the employees were terminated during such year. Accordingly, SBC's plan assets had a nil balance as of December 31, 2012.

23. TAXES

23.1 Registration with Economic Zone Authorities and Fil-Dragon Taxation

(a) Registration with Clark Development Corporation (CDC)

Kita, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes.* As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% Regular Corporate Income Tax (RCIT) tax rate is applied to income coming from sources other than Kita's registered activities.

(b) Registration with Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

(c) Fil-Dragon Taxation

Pursuant to the relevant law and regulations in the PRC, the Fil-Dragon is subject to PRC corporate income tax of 25% on the estimated assessable profit for the year. No provision has been provided in the consolidated financial statements as the Fil-Dragon did not generate any assessable profits in 2012, 2011 and 2010.

23.2 Current and Deferred Taxes

The components of tax expense as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	2012	2011	2010
Consolidated statements of income			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 190,483,882**	P 105,566,741	P 91,903,929
Final taxes at 20% and 7.5%	**17,657,651**	9,686,979	8,917,838
Preferential taxes at 5%	**2,035,898**	1,165,853	2,718,628
Minimum corporate income tax (MCIT) at 2%	**222,424**	784,751	4,269,350
	210,399,855	117,204,324	107,809,745
Deferred tax expense relating to origination and reversal of temporary differences	**65,764,939**	22,508,829	15,457,073
	P 276,164,794	P 139,713,153	P 123,266,818
Consolidated statements of comprehensive income – Deferred tax income on changes in fair value of AFS financial assets (see Note 24.3)	**(P 300,000)**	(P 1,458,000)	(P 1,110,000)

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statements of income is shown below.

	2012	2011	2010
Tax on pretax profit at 30%	**P 455,342,115**	P 172,057,237	P 109,924,527
Adjustment for income subject to lower tax rates	**(13,388,166)**	(6,615,150)	(17,302,712)
Tax effects of:			
Benefit from previously unrecognized net operating loss carry-over (NOLCO) MCIT and other temporary differences	**(142,098,292)**	(26,314,832)	(47,588,087)
Excess of optional standard deduction (OSD) over itemized deduction	**(27,893,962)**	-	-
Nontaxable income	**(2,640,899)**	(11,209,655)	(5,563,691)
Derecognized and unrecognized deductible temporary differences	**3,233,154**	7,975,800	4,004,029
Nondeductible expenses and losses	**2,513,046**	5,437,096	9,597,237
Unrecognized deferred taxes from NOLCO and MCIT	**567,373**	1,430,215	4,060,303
Income (loss) of foreign subsidiary not subject to taxes	**(547,491)**	9,739,812	62,238,190
Reversal of previously recognized DTL	**-**	(11,409,417)	-
Loss on non-recoverable foreign currency losses	**-**	-	958,240
Unrecognized benefit from write-off of receivables	**-**	-	3,735
Others	**1,77,916**	(1,377,953)	2,935,047
	P 276,164,794	P 139,713,153	P 123,266,818

The allocation of the tax expense relating to profit or loss from continuing and discontinued operations in 2012 is shown below:

	Note	**2012**	2011	2010
Continuing operations		**P 276,164,794**	P 139,364,314	P 122,651,703
Discontinued operations	5	**-**	348,839	615,115
		P 276,164,794	P 139,713,153	P 123,266,818

The net deferred tax assets of the Parent Company and subsidiaries having a net deferred tax asset position as of December 31 relate to the following:

	2012	2011
Deferred tax assets:		
Fair value adjustments on investment property	**P 23,831,400**	P 23,831,400
Accrued municipal taxes	**14,721,085**	9,026,376
Allowance for inventory obsolescence	**11,462,608**	20,630,203
Allowance for impairment on trade and other receivables	**6,483,910**	3,776,335
Retirement benefit obligation	**3,066,967**	6,094,079
Unrealized foreign currency loss – net	**2,982,141**	165,867
Provision for warranty	**2,181,337**	7,288,866
Unamortized pre-operating expenses	**54,271**	112,648
Unamortized past service costs	**-**	1,156,422
Deferred tax liability – Retirement benefit asset	**(1,647,964)**	(2,099,707)
Deferred tax assets – net	**P 63,135,755**	P 69,982,489

The net deferred tax liabilities of the other subsidiaries which have a net deferred tax liability position as of December 31 relate to the following:

	2012	2011
Deferred tax assets:		
Provision for warranty claims	**P 2,012,749**	P -
Unamortized past service costs	**1,657,651**	675,055
Allowance for impairment on trade and other receivables	**688,083**	7,500,210
Deferred rent expense – PAS 17	**408,033**	609,324
Allowance for inventory obsolescence	**324,678**	-
Retirement benefit obligation	**314,196**	-
Unearned rent income	**257,395**	-
Deferred tax liabilities:		
Fair value gains on investment property	**(772,747,918)**	(722,756,790)
Accumulated depreciation on investment property	**(132,666,733)**	(129,743,498)
Retirement benefit asset	**(19,947,117)**	(14,115,622)
Deferred rent income – PAS 17	**(213,056)**	(3,523,866)
Changes in fair value of AFS	**(132,000)**	246,000
Unrealized foreign currency gains	**(19,409)**	(36,056)
Deferred tax liabilities – net	**(P 920,063,448)**	(P 861,145,243)

The components of net deferred tax expense (income) reported in the consolidated statements of income are as follows:

	2012	2011	2010
Fair value gains on investment property	**P 49,991,128**	P 54,506,870	P 8,472,450
Allowance for inventory obsolescence	**14,668,089**	(19,956,486)	(445,274)
Accumulated depreciation on investment property	**6,337,868**	6,651,556	7,859,993
Accrued municipal taxes	**(5,694,710)**	(6,702,344)	(2,324,032)
Allowance for impairment on trade and other receivables	**3,395,556**	(2,896,526)	993,245
Reserve for warranty costs	**3,169,076**	(1,214,422)	(744,120)
Unrealized foreign currency losses - net	**(2,749,471)**	(677,951)	(18,750)
Deferred rent expense – PAS 17	**(2,627,509)**	34,412	(1,352,937)
Benefits from previously unrecognized MCIT	**(1,812,952)**	(47,888)	-
Retirement benefit obligation	**1,577,061**	(5,830,938)	1,971,288
Deferred rent income – PAS 17	**(556,364)**	(1,752,527)	(376,861)
Unamortized past service costs	**173,828**	344,910	138,036
Unearned rent income	**(165,041)**		
Unamortized pre-operating expenses	**58,380**	50,163	54,271
Change in fair value of AFS	**-**	-	1,122,000
NOLCO	**-**	-	107,764
	P 65,764,939	P 22,508,829	P 15,457,073

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS Financial Assets.

The movements in the Group's NOLCO and MCIT are as follows:

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2012	P 15,862,462	P -	P -	P -	P 15,862,462	2015
2011	31,305,517	-	5,501,441	-	25,804,076	2014
2010	3,283,221	2,008,326	331,953	-	942,942	2013
2009	29,179,579	15,006,564	7,473,992	6,699,023	-	2012
	P 79,630,779	P 17,014,890	P 13,307,386	P 6,699,023	P 42,609,480	
MCIT:						
2012	P 222,424	P	P	P	P 222,424	2015
2011	832,637	-	611,343	-	221,294	2014
2010	4,774,835	-	1,368,240	-	3,406,595	2013
2009	719,699	18,000	594,109	107,590	-	2012
	P 6,549,595	P 18,000	P 2,573,692	P 107,590	P 3,846,578	

Fil-Dragon has incurred tax losses amounting to P22.8 million (RMB3.5 million), P32.5 million (RMB4.8 million), P28.2 million (RMB4.2 million) in 2012, 2011, and 2010 respectively. Similar to NOLCO, these tax losses can be applied to future taxable income. However, these tax losses expire within five years from the year such tax losses were incurred.

The NOLCO, MCIT and other deductible temporary differences as of December 31 for which the related deferred tax assets have not been recognized by certain entities in the Group are shown below.

	2012		2011		2010	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
NOLCO	**P 41,220,143**	**P 12,366,043**	P 41,027,061	P 12,308,118	P 44,866,357	P 13,459,907
Allowance for impairment of financial assets classified as loans and receivables	**22,555,186**	**6,766,555**	113,897,224	34,169,167	120,021,728	36,006,518
Unrealized foreign currency loss	**12,211,081**	**3,663,324**	1,606,837	482,051	22,322,126	6,696,638
Allowance for impairment loss on AFS financial assets	**5,060,000**	**1,518,000**	5,420,000	1,626,000	5,420,000	1,626,000
MCIT	**3,679,121**	**3,679,121**	5,545,272	5,545,272	5,911,763	5,911,763
Unearned income	**1,170,000**	**351,000**	4,920,000	1,476,000	-	-
Retirement benefit obligation	**1,001,270**	**300,381**	875,601	262,680	(10,207,044)	(3,062,114)
Allowance for inventory obsolescence	**362,856**	**108,857**	15,504,733	4,651,420	29,729,592	8,918,877
Accumulated impairment losses on property, plant, and equipment	**-**	**-**	350,000,000	105,000,000	350,000,000	105,000,000
Fair value loss in investment property	**-**	**-**	10,167,900	3,050,370	6,586,000	1,975,800
Unamortized past service cost			976,947	293,084	1,496,952	449,086
Other accrued expenses	**-**	**-**	-	-	7,119,287	2,135,786
Accrued municipal taxes	**-**	**-**	-	-	10,607,331	3,182,199
Day-one gain	**-**	**-**	-	-	(372,906)	(111,872)
Amortization of pre-operating expenses	**-**	**-**	-	-	(5,135)	(1,541)
	P 87,259,657	**P 28,753,281**	P 549,941,575	P 168,864,162	P 593,496,051	P 182,187,047

In 2012, 2011 and 2010, except for SBC, the Group opted to claim itemized deductions in computing for its income tax due. SBC used OSD in computing for its income tax due in 2012.

24. EQUITY

24.1 Capital Stock

The Group has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value.

On June 18, 1996, the SEC issued an Order approving the Registration Statement covering the securities which comprised the Parent Company's entire authorized capital stock. On September 4, 1996, the Parent Company's shares were listed in the PSE and the trading of offer shares commenced. The Parent Company offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares are composed of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of December 31, 2012, the Company has issued shares of 2,030,975,000 (with P1 par value), of which, 392,472,704 shares are held by the public. There are 4,482 holders of the listed shares which closed at P1.98 per share on December 31, 2012.

24.2 Retained Earnings

On October 12, 2012, the BOD approved the declaration of cash dividends of P0.06 per share or totaling to P109.3 million, payable to stockholders of record as of October 31, 2012. The cash dividends were paid on November 28, 2012.

Retained earnings is restricted in the amount of P115.6 million in 2012 and 2011, equivalent to the 209,433,000 shares held in treasury.

24.3 Revaluation Reserves

The components of this account and its movements are as follows:

	Notes	**2012**	2011	2010
Cumulative translation adjustments:				
Balance at beginning of year		**P 77,477,390**	P 64,979,425	P 70,778,455
Currency differences on translating financial statements of foreign operations	2	**(28,103,335)**	12,497,965	(5,799,030)
		49,374,055	77,477,390	64,979,425
Fair value losses on AFS financial assets:				
Balance at beginning of year		**(106,719,760)**	(108,459,976)	(172,432,191)
Reclassification adjustments for losses recognized in profit or loss		**12,145,053**	12,804,822	49,498,034
Fair value gains (losses) – net	9	**(853,830)**	(9,606,606)	15,584,181
Deferred tax income on changes in fair value of AFS financial assets	23.2	**(300,000)**	(1,458,000)	(1,110,000)
		(95,728,537)	(106,719,760)	(108,459,976)
Other comprehensive income attributable to non-controlling interest		**35,000**	-	-
Balance at end of the year		**(P 46,319,482)**	(P 29,242,370)	(P 43,480,551)

25. EARNINGS PER SHARE

Basic and diluted EPS for profit attributable to the Parent Company's stockholders are computed as follows:

	2012	2011	2010
Net profit for the year attributable to the Parent Company's stockholders	**P 1,244,304,250**	P 439,437,428	P 229,346,310
Divided by weighted average shares outstanding:			
Number of shares issued	**2,030,975,000**	2,030,975,000	2,030,975,000
Treasury shares	**(209,433,000)**	(209,433,000)	(209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
EPS – basic and diluted	**P 0.68**	P 0.24	P 0.13

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2012, 2011 and 2010, hence, diluted EPS is equal to the basic EPS.

26. RELATED PARTY TRANSACTIONS

The Group's related parties include other companies owned by the Group's majority stockholders and the Group's key management personnel.

		2012		2011	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Receivable (Payable)**	Amount of Transaction	Outstanding Receivable (Payable)
Related Parties Under Common Ownership:					
Use of cable infrastructure	26.1	**P 81,656,142**	**P -**	P 228,608,036	P 71,595,493
Management services	26.1	**1,500,000**	**-**	1,200,000	-
Purchase of parts	26.2	**87,557,687**	**(6,412,755)**	107,849,402	(4,072,024)
Lease of real property	26.3	**1,905,820**	**274,060**	485,592	-
Granting of business loans	26.4	**-**	**67,560,199**	-	84,625,060
Interest income	26.4, 26.7	**12,045,070**	**9,565,856**	5,196,900	6,430,356
Advances to	26.5	**(106,324,516)**	**22,218,883**	(72,650,008)	128,543,399
Advances from	26.5	**(95,931,619)**	**11,563,612**	(61,416,380)	107,495,231
Collection of receivables	26.6	**19,627,454**	**(18,756,177)**	109,898	(2,331,894)
Commissions	26.6	**1,730,242**	**1,730,242**	2,498,762	1,132,958
Advances for equipment	26.6	**20,063**	**(3,090,785)**	3,070,522	(3,070,522)
Purchase of mobile phones	26.6	**2,816,688,776**	**121,141,047**	2,582,212,621	219,422,589
Advances to suppliers	26.6	**(8,668,237)**	**210,754,352**	2,928,899	219,422,589
Sale of mobile phones	26.6	**-**	**-**	1,778,608	3,042,022
Granting of loans	26.7	**-**	**104,354,742**	-	111,286,053
Availment of loans	26.8	**(44,740,216)**	**359,312,976**	404,053,192	404,053,192
Interest expense	26.8	**32,874,588**	**3,436,432**	9,714,529	1,253,629

The Group's outstanding receivables from and payables to related parties arising from the transactions summarized in the preceding page are unsecured, noninterest-bearing, payable in cash, unguaranteed, and due within 12 months from the end of the reporting period except for the following:

	Note	Condition	Term
Business loans	26.4	interest-bearing and secured	long-term and short-term
Granting of loans	26.7	interest-bearing	short-term
Availment of loans	26.8	interest-bearing and secured	short-term

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial, Inc. and AV Value Holdings Corporation.

None of the Group's outstanding receivables from related parties are impaired.

26.1 Sale of Goods and Rendering of Services

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 100% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. The outstanding receivable arising from these transactions amounted to P71.6 million as of December 31, 2011 (nil in 2012) and is presented as part of Due from related parties under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7). As of December 31, 2012, however, SBC has sold a significant portion of its assets used in its operations to a third party (see Note 27.3).

The Parent Company provides general management advisory services to CPD Access Corporation (CPD), a company owned by SGI's majority stockholders. In consideration for such services, the Parent Company receives management fees on a monthly basis as determined based on a management contract mutually agreed upon by both parties.

26.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P87.6 million in 2012, P107.8 million in 2011 and P85.9 million in 2010 are recorded as part of Cost of Services (see Note 18.1). The outstanding balance from the above transactions amounted to net advances of P6.4 million and payable of P4.1 million as of December 31, 2012 and 2011, respectively.

26.3 Lease of Real Property

SMC leases out certain land and buildings to Avid. Also, SE Corp. leases out its office space to CPD and Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income. Uncollected billings, on the other hand, form part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

26.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 9.0% in 2012 and 7.5% to 8.0% in 2011. Total interests earned from these loans amounted to P6.3 million in 2012, P7.6 million in 2011 and P10.2 million in 2010, and is presented as part of Interest Income under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from business loans as of December 31, 2012 and 2011 are as follows:

	2012	2011
Avid	**P 27,000,000**	P 37,121,075
AA Export and Import Corp. (AA Export)	**8,304,380**	9,720,117
AA Marine Development Corp. (AA Marine)	**8,329,955**	9,761,015
Philippine Prawn, Inc. (PPI)	**7,975,288**	9,340,951
Baybayan Farm, Inc. (BFI)	**7,975,288**	9,340,951
Kawayan Farm, Inc. (KFI)	**7,975,288**	9,340,951
	P 67,560,199	P 84,625,060

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans. Total principal repayments received on the loans amounted to P4.0 million in 2011. There was no principal repayment on these loans in 2012.

The business loan pertaining to AA Export is secured by its own shares of stock which are owned by a related party.

In a prior year, the SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment to this loan amounted of P10.1 million, P2.8 million and P6.0 million were made in 2012, 2011 and 2010, respectively. This loan is payable on demand.

Total interests earned from these loans is presented as part of the Interest Income on Loans and Receivables account in the consolidated statements of income.

Section 9 (d) of RA No. 8556 states that the total credit that a financing Company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth. Since the net worth of the Company decreased in 2011, the balance of business loan extended to Avid as of December 31, 2011 exceeded thirty percent (30%) of the company's net worth which is not in accordance with Section 9 (d) of RA No. 8556. In 2012, the Company has not extended credits to any debtor which exceeded such threshold.

26.5 Advances to and from Related Parties

Certain subsidiaries of the Group grants to and obtains unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances arising from these transactions amounting to P21.6 million and P11.6 million as of December 31, 2012 and P128.5 million and P107.5 million as of December 31, 2011 are presented as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position.

In 2012, the Advances to Related Parties had net repayments of P106.3 million while Advances from Related Parties had net repayments of P95.9 million.

No impairment losses were recognized on the Advances to Related Parties as management has assessed that the total amounts is fully collectible.

26.6 Transactions with STL

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P1.7 million in 2012, P2.5 million in 2011 and P5.6 million in 2010 is presented as part of Rendering of Services in the consolidated statements of income. SVC also advances funds to STL to pay foreign suppliers. The outstanding receivable from STL amounted to P1.7 million and P1.1 million as of December 31, 2012 and 2011, respectively, and is shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

SVC also collects the receivables related to the sales of STL which are payable immediately upon receipt. Total collections made in behalf of STL in 2012 and 2011 amounted to P19.6 million and P0.2 million, respectively. Total obligations arising from this transaction as of December 31, 2012 and 2011 amounting to P18.8 million and P2.3 million, respectively, is presented as part of Non-trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

SVC also purchases materials and inventories from a foreign supplier, the payment of which is being made by STL on behalf of the Company. Total advances received related to this transaction amounted to P0.02 million in 2012 and P3.1 million in 2011. Outstanding balance arising from this transaction amounting to P3.1 million as of December 31, 2012 and 2011 is presented as part of Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

My Solid purchases mobile phones from STL. Total purchases amounted to P2.8 billion in 2012, P2.6 billion in 2011 and P898.3 million in 2010 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 18.1). Outstanding liabilities relating to these purchases amounted to P121.1 million as of December 31, 2012 and P219.4 million as of December 31, 2011 and is shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

My Solid also made advance payments to STL for its future purchase of mobile phones. The outstanding advances amount to P210.8 million and P219.4 million as of December 31, 2012 and 2011 respectively, and is presented as part of Advances to supplier under Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

In 2011 and 2010, Mytel (now My Solid – see Note 1.2) sold mobile phone inventories to STL. The outstanding receivables arising from these sales transactions are shown as part of Due from related parties under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

26.7 Transactions with Solid Company Limited (SCL)

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to SCL, a related party owned by the Parent Company's majority stockholders, amounting to P120.8 million which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year. Also in 2012, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

The loan amounting to P104.4 million and P111.3 million as of December 31, 2012 and 2011, respectively, is presented as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7). Total interests earned from these loans amounted to P5.8 million in 2012, P5.2 million in 2011 and P4.6 million in 2010, and is presented as part of Interest Income under the Revenues account in the consolidated statements of income.

26.8 Loan Availments

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balance from these loans amounted RMB54.4 million (P359.3 million) and RMB58.1 million (P404.1 million) as of December 31, 2012 and 2011, respectively. These loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2012 and 2011. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the 2012 and 2011 consolidated statement of financial position. Borrowing cost incurred in 2012 and 2011 relating to these loans amounted to RMB5.0 million (P32.9 million) and RMB1.5 million (P9.7 million) respectively, and are capitalized as part of Real Estate Inventories (see Notes 11 and 15).

26.9 Financial Guarantees

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) as of 2010 from a local bank in the PRC to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby it guarantees that the principal amount and related interests will be paid as the payments fall due. The guarantee contract was terminated during the year as Fil-Dragon fully paid the related obligation, which is two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 15).

26.10 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2012, 2011 and 2010 are as follows (see Note 22.1):

	2012	2011	2010
Short-term benefits	**P 26,592,346**	P 33,992,630	P 34,456,347
Post-employment benefit	**3,009,664**	-	884,848
	P 29,602,010	P 33,992,630	P 35,341,195

26.11 Transactions with the Retirement Plans

The Group has a formal retirement plan established separately for each significant subsidiary. These plans are defined benefit post-employment plan maintained for qualified employees, administered and managed by trustee banks (except for CBHI, My Solid, SGTC and ZTC which are still unfunded plans). The carrying amount and the composition of the plan assets as of December 31, 2012 and 2011 are shown in Note 21.2.

Government securities and unit investment trust fund which are included as plan assets under the fund consist of investments in corporations listed in the PSE. The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also does not have any investments in the Parent Company's shares of stock.

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 Memorandum of Understanding with SPI

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with SPI for network support for SPI and Aiwa products. Under the MOU, SPI authorized the SE Corp. to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee equivalent to a certain percentage of SPI's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by SPI. Also, SPI agrees to pay the SE Corp. network support fees equal to 1% of net sales for SPI products or P50,000 per month, whichever is higher, for Aiwa products. In the first quarter of 2009, SE Corp. and SPI agreed to lower the network support fees to 0.45% of SPI's net sales. Subsequently, SE Corp. and SPI agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

The breakdown of network support fees and in-warranty service fees amounted to P77,726,164, P56,652,858, and P43,665,418 for the years ended December 31, 2012, 2011 and 2010, respectively. Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balance arising from the transaction amounted to P14,668,136 and P3,027,479 as of December 31, 2012 and 2011, respectively and are included as part of Trade and Other Receivables in the consolidated statements of financial position (see Note 7). No network support fees and in-warranty services relate to Aiwa products in 2012, 2011, and 2010.

27.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses. Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

27.3 Sale of SBC's Assets

(a) Agreement on Sale of Assets

On May 11, 2012, SBC entered into an agreement with Sky Cable Corporation (SCC) covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC used in the operation of its television, broadcasting and broadband business [see Note 27.3 (d)].

In addition, SCC assumes to pay SBC all costs and expenses in connection with use and operation of the assets, until the Company's operation is transferred to SCC.

(b) Management Agreement

For continuity of services to subscribers, SBC and SCC agreed that the management and administration of the Assets be entrusted to SCC pending the approval of the NTC of the assignment of the Assets.

SCC, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

The Management Agreement shall remain in effect until December 31, 2013. If NTC's approval is not obtained by December 31, 2013, the terms of the Management Agreement shall be automatically renewed for two years from such date and thereafter automatically renewed for another two years from the end of term of its renewal, until the Management Agreement is terminated.

The Management Agreement shall be automatically terminated on the date NTC approves the transfer of the Assets in favor of SCC.

(c) Option Agreement

On the same date, SGI entered into an Option Agreement (the Option) with SCC to purchase its shares of stocks in the Company which option must be exercised not later than December 31, 2013. As of December 31, 2012, SCC has not exercised the option (see Note 28.8).

(d) Gain on Sale of Assets

SBC sold the Assets to SCC for a gross amount totaling to P1.1 billion. The book value of the assets sold amounted to P827.2 million resulting in the recognition of gain on sale of assets amounting to P267.1 million, which is presented as Gain on Sale of Assets in the 2012 statement of income (see Notes 6, 10 and 12).

28. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

28.1 Operating Lease Commitments – Group as Lessor

Certain subsidiaries lease various properties for a period of one to ten years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum rentals receivable under these non-cancellable operating leases as of December 31 are as follows:

	2012	2011	2010
Within one year	**P 114,423,915**	P 85,906,404	P 84,506,562
After one year but not more than five years	**198,445,354**	137,864,538	159,674,701
More than five years	**3,261,256**	806,905	865,866
	P 316,130,525	P 224,577,847	P 245,047,129

28.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2009, these leases have a remaining term of 10 years, expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	2012	2011	2010
Within one year	**P 12,490,671**	P 11,131,271	P 6,984,946
After one year but not more than five years	**47,388,054**	40,612,597	33,500,497
More than five years	**15,858,583**	25,977,359	36,195,820
	P 75,737,308	P 77,721,227	P 76,681,263

Total rental expense from these operating leases amounted to P7.4 million each in 2012, 2011 and 2010, and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 18.2 and 20).

28.3 Legal Claims

SMC is involved in a number of litigations and is subject to certain claims relating to the following, among others:

(i) a portion of land in Pililla, Rizal, with a carrying value of P3.3 million, subject to expropriation coverage under the Agrarian Reform Act; and,

(ii) a piece of land, with a carrying value of P309.0 million, subject to claims by third parties who filed court cases against SMC.

Management believes that the ultimate resolution of these cases will not materially affect the Group's consolidated financial statements.

28.4 Estimated Liability for Land and Land Development Cost

The Group has commitment of about P68.3 million as of December 31, 2012, 2011 and 2010, for the fulfillment of projects in the development and marketing of CPIP (see Note 11).

28.5 Purchase Commitments

In 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 11). The construction of Tower 1 and Tower 2 was completed in completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2012.

28.6 Possible Impact of Government Project

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the Tri Towers condominium building project might be affected by the plans of the National Government of the Philippines for the construction of the proposed 2nd Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the Tri Towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project.

28.7 Properties Under Development

Fil-Dragon has commitment of about P34.0 million (RMB5.2 million) and P184.2 million (RMB184.2 million) as of December 31, 2012 and 2011, respectively, for the construction of the Golden Hill Project.

28.8 Option Agreement

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGI'S shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2012, SCC has not exercised this option [see Note 27.3(c)].

28.9 Others

As of December 31, 2012, the Group has unused credit facilities amounting to P788.6 million.

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements because the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's risk management is coordinated with its BOD and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate continuous returns.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

29.1 Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's foreign currency denominated trade and other receivables, AFS financial assets, interest-bearing loans and trade and other payables, which are primarily denominated in U.S. dollars and Chinese yuan renminbi. The Group also holds U.S dollar-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

	2012		2011		2010	
	U.S. Dollar	**Chinese Yuan Renminbi**	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	**P 342,359,128**	**P 48,982,187**	P 476,601,716	P 75,339,059	P 429,590,753	P 129,100,783
Financial liabilities	**(512,512,383)**	**(525,912,848)**	(379,197,829)	(404,053,192)	(386,804,826)	(706,843,136)
Total net exposure	**(P 170,153,255)**	**(P 476,930,661)**	P 97,403,887	(P 328,714,133)	P 42,785,927	(P 577,742,353)

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine pesos against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	2012		2011		2010	
	Reasonably Possible Change in Rate	**Effect in Profit Before Tax**	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Reasonably Dollar	Effect in Effect in Renminbi
Php – USD	**13.83%**	**(P 23,532,195)**	16.13%	P 6,939,858	20.63%	P 8,826,737
Php – RMB	**11.52%**	**(54,942,412)**	13.18%	(43,337,150)	12.21%	(70,542,341)
		(P 78,474,607)		(P 36,397,292)		(P 61,715,604)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

29.2 Interest Rate Sensitivity

At December 31, 2012, 2011 and 2010, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/-1.54% in 2012, +/-1.17% in 2011 and +/-1.19% in 2010. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by +/-1.54%, 1.17% and 1.19% profit before tax in 2011, 2010 and 2009 would have increased by P46.4 million, P14.1 million and P13.2 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

29.3 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below:

	Notes	**2012**	2011	2010
Cash and cash equivalents	6	**P 3,019,984,213**	P 1,720,748,062	P 1,620,114,468
Trade and other receivables - net	7	**1,061,954,170**	1,807,037,835	1,531,894,847
Financial assets at FVTPL	8	**-**	70,272,991	-
AFS financial assets - net	9	**-**	51,994,367	150,712,680
Advances to related parties	26	**21,633,388**	128,543,399	201,193,407
Refundable deposits - net	14	**21,754,661**	13,205,036	12,386,030
		P 4,125,326,432	P 3,791,801,690	P 3,516,301,432

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

(a) Cash and Cash Equivalents, FVTPL and AFS Financial Assets

The credit risk for cash and cash equivalents, FVTPL and AFS financial assets in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) Trade and Other Receivables

Except for trade receivables arising from real estate sales, none of the financial assets are secured by collateral or other credit enhancements. Trade receivables are secured by industrial lots and condominium units sold to buyers and are covered by postdated checks.

Some of the unimpaired trade receivables and advances to related parties are past due at the end of the reporting period. Trade receivables and advances to related parties past due but not impaired can be shown as follows:

	2012	2011	2010
Not more than 3 months	**P 160,693,790**	P 69,088,088	P 162,017,197
More than 3 months but not more than one year	**77,870,120**	9,400,170	68,330,159
More than one year	**131,075**	66,597,236	294,468,345
	P 238,694,985	P 145,085,494	P 524,815,701

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management consider the quality of trade receivables that are not past due or impaired to be good.

29.4 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of December 31, 2012, the Group's financial liabilities have contractual maturities which are presented below.

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 571,666,922	P -
Trade and other payables	536,510,356	-
Advances from related parties	-	11,629,819
	P 1,108,177,278	**P 11,629,819**

This compares to the maturity of the Group's financial liabilities as of December 31, 2011 as follows:

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 404,053,192	P 375,345,563
Trade and other payables	552,072,387	-
Advances from related parties	-	107,495,231
	P 956,125,579	P 482,840,794

This compares to the maturity of the Group's financial liabilities as of December 31, 2010 as follows:

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 993,779,229	P -
Trade and other payables	442,663,550	-
Advances from related parties	-	168,911,611
	P 1,436,442,779	P 168,911,611

The contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of reporting period.

30. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

30.1 Comparison of Carrying Values and Fair Values

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statements of financial position are shown below.

		2012		2011		2010	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets							
Loans and receivables:							
Cash and cash equivalents	6	**P 3,019,984,213**	**P 3,019,984,213**	P 1,720,748,062	P 1,720,748,062	P 1,620,114,468	P 1,620,114,468
Trade and other receivables - net	7	**1,917,927,407**	**1,917,927,407**	1,807,037,835	1,807,037,835	1,531,894,847	1,531,894,847
Advances to related parties	26	**21,633,388**	**21,633,388**	128,543,399	128,543,399	201,193,407	201,193,407
Refundable deposits	17	**21,754,661**	**21,754,661**	13,651,421	13,651,421	12,386,030	12,386,030
Financial assets at FVTPL –							
Investments in bonds	8	**-**	**-**	70,272,991	70,272,991	-	-
Available-for-sale financial assets:	9						
Investments in bonds		**-**	**-**	51,994,367	51,994,367	138,606,153	138,606,153
Golf club shares – net		**8,442,400**	**8,442,400**	6,407,409	6,407,409	10,670,009	10,670,009
Others		**634,127**	**634,127**	1,474,118	1,474,118	1,436,518	1,436,518
		P 4,990,376,196	**P 4,990,376,196**	P 3,800,129,602	P 3,800,129,602	P 3,516,301,432	P 3,516,301,432
Financial liabilities							
At amortized cost:							
Interest-bearing loans - net	15	**P 571,666,922**	**P 571,666,922**	P 779,398,755	P 779,398,755	P 989,502,559	P 989,502,559
Trade and other payables	16	**563,429,613**	**563,429,613**	495,511,929	495,511,929	442,663,550	442,663,550
Advances from related parties	26	**11,629,819**	**11,629,819**	115,790,251	115,790,251	168,911,611	168,911,611
Refundable deposits - net	17	**32,226,991**	**32,226,991**	40,380,251	40,380,251	15,252,534	15,252,534
		P 1,178,953,045	**P 1,178,953,045**	P 1,431,081,186	P 1,431,081,186	P 1,616,330,254	P 1,616,330,254

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 31.

30.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of December 31, 2012, 2011 and 2010.

	Level 1	Level 2	Level 3	Total
December 31, 2012				
Financial assets at FVTPL	P -	P -	P -	P -
AFS financial assets	9,076,527	-	-	9,076,527
	P 9,076,527	**P -**	**P -**	**P 9,076,527**
December 31, 2011				
Financial assets at FVTPL	P 70,272,991	P -	P -	P 70,272,991
AFS financial assets	58,938,767	-	937,127	59,875,894
	P 129,211,758	P -	P 937,127	P 130,148,885
December 31, 2010				
AFS financial assets	P 149,276,174	P -	P 1,436,518	P 150,712,692

The different levels have been defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

The following is the computation of the Group's debt-to-equity ratio:

	2012	2011
Total liabilities (excluding advances from related parties)	**P 3,164,672,695**	P 3,052,705,062
Total equity	**9,671,789,880**	8,556,482,257
Debt-to-equity ratio	**0.33 : 1**	0.36 : 1

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities excluding amounts due to related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Investor Relations

Investor Inquiries
Solid Group Inc

Corporate Information Office
2285 Solid House, Chino Roces Avenue Ext.
Makati City, Philippines
Tel. No.: (632) 8431511 to 18
Email: info@solidgroup.com.ph
Website: www.solidgroup.com.ph

Auditor

Punongbayan & Araullo
20th Floor Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City, Philippines
Tel. No.: (632) 886-5511
Member of Grant Thornton ltd

Legal Counsel

Castillo Laman Tan Pantaleon & San Jose
122 Valero St. Salcedo Village
1227 Makati City, Philippines
Tel. No.: (632) 817-6791 / 810-4371
Fax No.: (632) 819-2724 / 817-5938
Email: counsel@cltpsj.com.ph

Transfer Agents

Stock Transfer Service Inc.
34th Floor, Unit D, Rufino Pacific Tower
6784 Ayala Avenue, Makati City
Tel. No.: (632) 403-2410 / 403-2412 / 403-3798
Fax No.: (632) 403-2414
Email: rdregala@stocktransfer.com.ph
bvmanuel@stocktransfer.com.ph

Solid Group Inc.

www.solidgroup.com.ph

2285 Solid House, Chino Roces Avenue Ext. Makati City, 1231