COVER SHEET

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the calendar year ended **December 31, 2012**

2. SEC Identification Number **PW-343**

3. BIR Tax Identification No. **121-145-650-000**

4. Exact name of registrant as specified in its charter **LT Group, Inc.**

5. **Philippines** 6. (SEC Use Only)

Province, Country or other jurisdiction of incorporation or organization

Industry Classification Code:

7. **11th Floor Unit 3 Bench Tower, 30th St. corner Rizal drive Crescent Park West 5 Bonifacio Global City Taguig City** **1634**

Address of principal office Postal Code

8. **(632) 817-8710**

Registrant's telephone number, including area code

9. **Tanduay Holdings, Inc., 7th Floor Allied Bank Center, 6754 Ayala Avenue Makati City 1200**

Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common shares, P1.00 par value	**8,981,388,889**

11. Are any or all of these securities listed on a Stock Exchange?

Yes [✓] No [ ]

Philippine Stock Exchange **Common Stock - 3,981,388,889 shares**

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [✓] No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [✓] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant
₱ 12,510,985,002 as of December 31, 2012

14. Not applicable

DOCUMENTS INCORPORATED BY REFERENCE

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

LT Group, Inc. (LTG) formerly known as Tanduay Holdings, Inc., (THI), was originally incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 27, 1937 under the name "The Manila Wine Merchants, Inc.". LTG's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. The Philippine SEC approved the change of name to "Asian Pacific Equity Corporation" on September 22, 1995 and change of its primary purpose to that of a holding company.

On August 24, 1999, the stockholders approved the increase in capital stock from One Billion Pesos to Five Billion Pesos with a par value of one peso per share. This was approved by the Securities and Exchange Commission on November 10, 1999 together with the change in LTG's corporate name from "Asian Pacific Equity Corporation" to "Tanduay Holdings, Inc."

Three Billion shares were issued by the Company for the acquisition in 1999 of Twin Ace Holdings Corp. now known as Tanduay Distillers, Inc. (TDI). An agreement to subscribe was executed between Tangent Holdings Corporation (THC), the sole shareholder of TDI, and LTG in exchange for 600,000,000 shares in TDI. This share swap resulted in LTG wholly owning TDI.

On June 30, 2005, TDI acquired controlling interests in Asian Alcohol Corporation (AAC) and Absolut Distillers, Incorporated (ADI), formerly known as Absolut Chemicals, Inc. (ACI). AAC and ADI are domestic corporations registered with the Philippine Securities and Exchange Commission (SEC) which are the suppliers of TDI's alcohol requirements.

In December 2006, TDI converted certain advances to AAC and ADI amounting to ₱200 million and ₱185 million, respectively, into equity in the subsidiaries thereby resulting in the increase in ownership by TDI over AAC and ADI to 93% and 96% respectively. In October 2007, the Philippine SEC approved ADI's equity restructuring. On the other hand, the increase in authorized capital stock of AAC was approved on January 10, 2008. In June 2008, TDI bought additional shares in AAC amounting to ₱150 million, which increased TDI's ownership from 93% to 95%. For purposes of consolidation as of December 31, 2011, TDI's ownership over AAC and ADI was 95% and 96% respectively.

In December 2011, the Company undertook a capital raising exercise to complete the financing of the capital expenditure requirements of its subsidiary, TDI and the latter's subsidiaries, ADI and AAC and to improve operational efficiencies and rationalize operations. This involved a sale of 398,138,889 existing the Company shares owned by THC at an offer price of ₱ 4.22 per share, for total gross proceeds of ₱ 1,680.1 million which THC re-invested the proceeds into the Company.

After a series of restructuring activities in 2012, the Company was able to consolidate certain businesses of the controlling stockholder to LTG. The current portfolio comprises interests in the following companies:

- **Tobacco**—the Company conducts its tobacco business through its 82.3% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC, a company formed in 2010 as a result of business combination between Philip Morris Philippines Manufacturing, Inc. (PMPMI) and FTC. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with an estimated 90.7% market share by volume in the year 2012 and has a diversified portfolio of brands across all consumer segments, including *Fortune, Hope, Marlboro* and *Philip Morris*.

- **Beverage**—the Company conducts its beverage business through its 99.9%-owned subsidiary, Asia Brewery, Inc. (ABI). ABI is one of the Philippines' leading producers of non-alcoholic and alcoholic beverages, such as energy drinks, beer, alcopop, bottled water and soymilk, and has leading market positions across four of these five main categories. ABI is also a major producer of packaging materials (including glass bottles).
- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the second-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 28.7% share of the Philippine spirits market in 2012.
- **Property Development**—the Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc. resulting to an effective ownership of 99.3% in Eton Properties Philippines, Inc. (ETON). Eton has a diverse portfolio of property development projects in various areas throughout the Philippines, primarily in Metro Manila and surrounding areas, and access to the large land bank of the Tan Companies. Eton's project portfolio mainly comprises residential real estate projects (including large-scale township projects), but Eton also develops and leases out commercial properties for retail, office and BPO tenants.

Description of Subsidiaries

Distilled Spirits

Tanduay Distillers, Inc. (TDI)

TDI was incorporated in the Philippines on May 10, 1988 and is primarily engaged in, operates, conducts, and maintains the business of manufacturing, compounding, bottling, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail, such finished goods as rhum, spirit beverages, liquor products, and any and all equipment, materials, supplies used and/or employed in or related to the manufacture of such finished goods.

The following companies are majority owned by TDI:

- **Asian Alcohol Corporation (AAC) – 95%**
  AAC is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on September 27, 1973. The company is primarily involved in the manufacture of refined and/or denatured alcohol and in the production of fodder yeast, and to market, sell, distribute, and generally deal in any or all of such liquids or products.
- **Absolut Distillers, Inc. (ADI) – 96%**
  ADI was incorporated in the Philippines on September 14, 1990, to engage in, operate, conduct and maintain the business of manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in chemicals including alcohol and molasses, at wholesale and retail and any and all equipment, materials, supplies used or employed in or related to the manufacture of such finished products.

Tanduay Brands International, Inc. (TBI)

On May 06, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI's products in the export market. TBI has not yet started commercial operations as of December 31, 2012.

Beverage

Asia Brewery, Inc. (ABI)

ABI. was incorporated in the Philippines on March 28, 1979. The company is primarily engaged in the business of manufacturing, selling, importing, exporting and assembly of all kinds of products, supplies, dies, tools, appliances, plants and machineries.

The following companies are 100%-owned by ABI:

- **Interbev Philippines, Inc. (IPI)**
  IPI was incorporated in the Philippines on April 28, 2003. Its primary business is the production and distribution of *Cobra*, *100 Plus* and *Virgin Cola*.
- **Waterich Resources Corporation (WRC)**
  WRC was incorporated in the Philippines on September 25, 1997. Its primary business is the sourcing, production and distribution of *Absolute Pure Distilled Drinking Water* and *Summit Water*.
- **Packageworld, Inc. (PWI)**
  PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the production and distribution of packaging materials for alcoholic and non-alcoholic beverages and bottled water.
- **Agua Vida Systems, Inc. (AVSI)**
  AVSI was incorporated in the Philippines on August 15, 1994. Its primary business is the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.

Tobacco

Fortune Tobacco Corporation (FTC)

FTC was incorporated in the Philippines on April 29, 1965. The Company is organized primarily to engage in cigarette manufacturing, selling, importing and exporting. FTC achieved market success early on and was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the *Fortune*, *Champion* and *Hope* menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco business in the Philippines.

Property Development

Saturn Holdings, Inc. (Saturn)

Saturn Holdings, Inc. was incorporated in the Philippines on February 18, 1997. The Company's primary purpose is to engage in the purchase, retention, possession or in any other manner to acquire shares of stock, franchise, patents, bonds, mortgages, obligations, debts or credits of any person or entity legally constituted within or outside the Philippines and to issue shares of stocks, bonds, or other obligations for the payment of articles or properties acquired by the corporation or for other legal consideration, all to the extent permitted by law.

Paramount Landequities, Inc. (Paramount)

Paramount was incorporated in the Philippines on July 25, 1988. Its primary purpose is a real estate development company.

Eton Properties Philippines, Inc. (ETON)

Eton was incorporated and registered in the Philippines on April 2, 1971 under the name "Balabac Oil Exploration & Drilling Co., Inc." to engage in oil exploration and mineral development projects in the Philippines. On May 12, 1988, Eton's registration and licensing as a listed company was approved by the SEC.

The following companies are 100%-owned by ETON:

- **Belton Communities, Inc. (BCI)**
  BCI was incorporated and registered with the SEC on November 5, 2007 and engaged in real estate development.
- **Eton City, Inc. (ECI)**
  ECI was incorporated and registered with the SEC on October 8, 2008 and engaged in real estate development.
- **FirstHomes, Inc. (FHI)**

On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly-owned subsidiary of Eton and engaged in real estate development.

- **Eton Properties Management Corporation (EPMC)**
  EPMC was incorporated and registered with the SEC on September 29, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, house, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has not yet started its operations as of December 31, 2012.

Products

Distilled Spirits

Rum Products

1. Tanduay Five Years Fine Dark Rhum
2. Tanduay Rhum 65 Fine Dark Rhum ("Rhum 65")
3. Tanduay E.S.Q. Fine Dark Rhum ("E.S.Q.")
4. Tanduay White Premium Rhum
5. Tanduay Superior Dark Rhum
6. Tanduay Rum 1854
7. T5 Light
8. Tanduay Extra Strong Rhum
9. Boracay Rhum
10. Tanduay Five Years Light Rum
11. Tanduay Cocktails

Gin Products

1. London Gin
2. Gin Kapitan

Brandy Products

1. Barcelona Brandy

Vodka Products

1. Cossack Vodka Red
2. Cossack Vodka Blue
3. Mardi Gras Vodka Schnapps

Whiskey Products

1. Embassy Whiskey

Beverage

Energy Drinks

1. Cobra

Beer

1. Colt 45 Malt Liquor
2. Beer na Beer
3. Manila Beer
4. Manila Beer Light
5. Coors Original
6. Coors Light
7. Asahi Super Dry

Alcopop

1. Tanduay Ice

Bottled Water

1. Absolute Pure Distilled Drinking Water
2. Summit Water

Others

1. Vitamilk
2. 100 Plus

3. Virgin Cola
4. Coco Fresh Coconut Water
5. Creamy Delight Yogurt

Commercial Glass

Tobacco

FTC has no products in the market but its associate, PMFTC has the following cigarette products:

1. Fortune
2. Marlboro
3. Champion
4. Hope
5. Philip Morris
6. More
7. Jackpot
8. Others include Bowling Gold, Miller, Stork, Boss, Plaza, Mark, Westpoint, Winter, L&M, Next, Peak, Ice, Evergreen, Forum, Maverick, Liberty and Baron

Property Development

Recently Completed Developments:

1. Eton Baypark Manila
2. Eton Parkview Greenbelt
3. Eton Emerald Lofts
4. Eton Residences Greenbelt
5. One Archers Place
6. Belton Place
7. Riverbend

Ongoing Developments:

1. South Lake Village
2. West Wing Residences at North Belton Communities
3. West Wing Residences at Eton City
4. The Manors
5. 8 Adriatico
6. 68 Roces
7. Eton Tower Makati
8. West Wing Villas
9. TierraBela
10. One Centris Place
11. West Wing Tropics
12. First Homes Makati
13. Aurora Heights Residences

Distribution method of the products

Distilled Spirits

As of December 31, 2012, TDI served more than 130,000 points of sale throughout the Philippines through nine exclusive distributors, who in turn may work with a large number of sub-distributors.
TDI has generally maintained good business relationships with its distributors since 1988. As of December 31, 2012, TDI's distributors operated 44 sales offices and 51 warehouses located throughout the Philippines and TDI employs in-house sales staff who provide general administrative support to TDI's distributors. TDI's products are transported from production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Beverage
ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. As of December 31, 2012, ABI's exclusive distributors have a network of 49 sales offices and 73 depots**.** This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

Tobacco
FTC has no selling activities anymore in 2012. PMFTC however, distribute to approximately 210,000 points of sale throughout the Philippines. PMFTC segments its distribution into two separate channels:

(i) key accounts—including hypermarkets and supermarkets, tobacconists, convenience stores and gasoline stations; and
(ii) general trade—including sari-sari stores, market stalls, kiosks and eateries.

Property Development
Eton believes its active marketing and sales efforts have allowed it to successfully launch a total of 47 distinctive projects in the Philippines in its first five years of operations in the Philippines. Eton's local and international marketing and distribution network consists of a 903-strong sales force, including 500 in-house domestic sales representatives, 237 domestic brokers, and 166 international brokers.

Status of any publicly-announced new product or services

Distilled Spirits
In the first quarter of 2012, TDI unveiled another new product, the TANDUAY COCKTAILS, ready-to-serve, premixed cocktails with four variants: Mojito, Margarita, Strawberry Daiquiri, and Blue Maitai. All are rum-based and at 30 proof alcohol. In 2012, this product accounts 0.01% of total sales.

Beverage
In 2012, various products both alcoholic and non-alchoholic were introduced to the market:
Alcoholic:
1. Tanduay Ice Light Alcomix Peach-launched in September
2. Tanduay Ice Light Alcomix Pomelo -launched in September
3. Tanduay Ice Light Alcomix Yellow Paradise -launched in September
4. Asahi Super Dry- launched in October

Non-Alcoholic:
1. Creamy Delight Yogurt- launched in April
2. Pacific Sun Coco Fresh- launched in November

There were no publicly-announced new products in the Tobacco and Property Development segments.

Competitive business condition/position in the industry

Distilled Spirits
TDI competes in the highly competitive Philippine spirits industry which is dominated by rum, gin and brandy manufacturers. More than 99% of the Philippine distilled spirits market by sales volume is divided between TDI, GSMI and EDI. According to data from Nielsen, as of December 31, 2012, TDI is the undisputed market leader in the rum sub-sector, GSMI is the market leader in the gin sub-sector and EDI is the market leader in the brandy sub-sector. TDI and GSMI each also maintain a diversified portfolio of alcoholic beverages, ranging from rum, gin, brandy and mixed drinks, while EDI's product portfolio is more limited.

According to Nielsen, rum accounted for 28% of total distilled spirits sales in the Philippines in 2012. In the early 1990s, the Philippine spirit industry was dominated by gin and rum and the main spirits

brands were *Ginebra San Miguel* and *Tanduay Rhum*. However, brandy consumption in the Philippines has steadily increased and in 2012 it became the largest single spirits category with an approximate 42% market share, ahead of rum, with an approximate market share of 28%, according to data from Nielsen.

Internationally-produced rum and other spirits such as vodka and scotch whiskey are significantly more expensive than domestically-produced spirits and generally are not comparable in terms of price to locally-produced spirits.

Beverage

ABI competes against leading Philippine and international beverage brands across all of its product categories. Its main competitors for each product category include the following:

- Energy drinks—ABI competes with Pepsico's *Sting* energy drink, Coca-Cola's *Samurai* energy drink, *Extra Joss*, *Lipovitan* and others;
- Beer—ABI competes mainly with *San Miguel Beer, San Mig Light, Red Horse Beer*, *San Miguel Premium* and *Gold Eagle Beer*, all of which are brands of the San Miguel Corporation;
- Isotonic/Sports drinks—ABI's main competitors are *Gatorade, Powerade* and *Pocari Sweat*;
- Bottled water—ABI's main competitors are Philippine Spring Water's *Nature's Spring* and Coca-Cola's *VIVA!* Mineral water and *Wilkins*, among others;
- Alcopop—ABI's competitors include *Antonov*, *Vodka Ice* and *Infinit*; and
- Soymilk—ABI competes with *Vitasoy*, *Lactasoy* and *Soyfresh*.

Tobacco

Competition in the tobacco industry is usually among leading Philippine and international cigarette brands across all product categories. PMFTC's primary competitors are JTI, which offers a number of well-known international brands such as *Winston, Camel* and *Mild Seven* and BAT, which offers international brands such as *Lucky Strike,* and Mighty Corporation, which offers a portfolio of Philippine brands including *Mighty* and *Marvel*.

Property Development

The Philippine real estate development industry is highly competitive. With respect to township developments in Metro Manila and high rise condominiums, Eton's major competitors are Ayala, DMCI, Megaworld, Filinvest Land, Inc., Vista Land, SM Development Corporation, Century Properties, Robinsons and Anchor Land, among others. Eton believes that it is a strong competitor in the mid- and high-end market due to the quality of its products and the materials used in construction and finishing. In addition, Eton believes that the prime location of its developments allow it to effectively compete in the market. Furthermore, leveraging on the highly-recognized brand name of the Eton Properties Group in the region, Eton also believes that its association with the Lucio Tan Group of Companies allows it to reach a wide network of potential customers, including the lucrative overseas-based investor market.

Raw Materials and Principal Suppliers

Distilled Spirits

- **Distilled Alcohol**
  Distilled alcohol, which is derived from cane molasses, is the most important raw material in rum and other TDI products. TDI procures a majority of its distilled alcohol requirements from its subsidiaries ADI and, prior to the suspension of its operations in 2009, AAC. It procures the rest from other third party suppliers. AAC and ADI sell substantially all of the distilled spirits they produce to TDI. AAC and ADI source their molasses from domestic sugar mills and traders based on contractual relationships with these third-party suppliers. The temporary

shutdown of AAC's operations increased TDI's importation of distilled alcohol from India, Indonesia, Pakistan and South Africa.

- **Sugar**
  Sugar is added to distilled alcohol to enhance taste and aroma. TDI's main suppliers for sugar are Victorias as well as other suppliers, such as All Asian Countertrade Inc.

- **Water**
  All of TDI's demineralized water for blending is procured from water utility firms and from deep wells located on provincial plants. Each of TDI's plants has its own water storage and demineralization facilities.

- **Flavoring Agents**
  TDI adds essences and other flavoring agents to its products to attain the desired color, flavor and aroma as well as to reinforce the natural quality of rum as derived from molasses and ageing in oak barrels. TDI's major suppliers of flavoring agents comprise large international suppliers.

- **Packaging Materials**
  Aside from the main ingredients in distilled spirits production, the other primary raw materials used in TDI's operations include bottles, caps and labels. TDI does not maintain any purchase contracts with any supplier for these materials; rather purchases are made through purchase orders on a per need basis from various Philippine and international sources. In particular, the majority of TDI's new bottles are supplied by ABI, and various local suppliers provide the bulk of TDI's caps, and Papercon Philippines and Able Printing Press provide the majority of TDI's labels.

  In addition, TDI maintains a network of secondhand bottle dealers across the Philippines. These dealers retrieve used bottles in the market and resell them to TDI. Approximately 60% of bottles used for TDI products in the year ended December 31, 2012 were secondhand bottles. The cost of secondhand bottles, including cleaning costs, is significantly lower than the cost of purchasing new bottles.

Beverage

ABI's energy drinks consist of a base of flavor concentrate, which is diluted with water and sweetened with sugar. Carbon dioxide is then added to provide carbonation. ABI's energy drink concentrates are sourced primarily from well-known international suppliers. Sugar is procured from third-party and related party local suppliers including Victorias, generally under supply contracts of up to one year. ABI also purchases carbon dioxide and other additives from local producers. Water is sourced from sources near ABI's production plants.

The main raw materials for ABI's beer products include water, barley, hops and yeast. Water is the primary ingredient in ABI's brewing processes, and ABI places great emphasis on its water quality. Water is sourced primarily from sites near ABI's brewery and undergoes several purifying steps to ensure it meets ABI's standards. Barley, hops and yeast are sourced primarily from suppliers located in the United States, Europe and China.

ABI manufactures the majority of the bottles used for its beverage products. These are manufactured at ABI's Cabuyao plant in Laguna. Bottling and packaging materials, including closures, aluminum and corrugated cartons are produced by ABI's subsidiary, Packageworld, which purchases any required raw materials from multiple suppliers in the Philippines and internationally.

Tobacco

- Tobacco: The most important raw material in cigarette is the tobacco. Before February 25, 2010 FTC bought tobacco locally from the farmers of Vigan and Mindoro and from various local dealers. However, after February 25, FTC no longer manufactures various cigarette brands as the operations were transferred to PMFTC. FTC manufactured cigarettes only for JTI Phils. to honor the Contract Manufacturing Agreement (CMA) which ended last Dec. 31, 2012.

  The company obtained tobacco from JT International SA and JTI Phils. in 2012 and 2011.

- Sugar: This is added as necessary to enhance the taste of cigarettes.

  The company purchased sugar from Hermano Oil Manufacturing and Sugar Corp and Pilipinas Kao, Inc.

- Packing Materials such as cartons, closure, labels, foils, polyfilms, tear tape, tipping paper and shipping case were sourced from JT International SA, Tann Phils, Amcor Tobacco, DTM Print and Label, Goldever Printing and Malinta Corrugated Boxes.

- Flavoring Agents are added to attain the desired taste of various brands of cigarettes. The primary source of flavors was JT International SA.

There are no long-term purchase commitments as purchases are made through purchase orders on a per need basis from a list of accredited suppliers.

With the expiration of the CMA between FTC and JTI Phils., the Company no longer buys raw materials.

Property Development

The Company has a wide network of suppliers, both local and foreign. Eton's development and construction work for projects is primarily supervised by its Project Management Department. Site development and construction work for Eton's projects is contracted out to various independent contractors. Eton retains relationships with over 10 independent contractors. Eton is not and does not expect to be dependent on any single or a limited number of suppliers or contractors. Typically, Eton enters into fixed-priced contracts with its contractors, with the cost of materials included as part of the contract price. Site development work typically requires six to 12 months depending on the scale and size of the project, while building construction spans 24 to 36 months.

Dependence on one or two major customers

Distilled Spirits

TDI's major customers comprise its principal distributors, who in turn distribute TDI products to retail points of sale such as supermarket and restaurant chains, wholesalers and individual outlets such as supermarkets, restaurants, sari-sari stores and small neighborhood restaurants known as "carinderias." TDI believes that its distributors have access to and long-standing relationships with all major retailers in the Philippines.

Beverage

ABI has stable relationships with its 13 exclusive major distributors and its financial well being is not dependent on only one or two major customers.

Tobacco
FTC sold its remaining inventory to JTI in 2012, on the other hand, PMFTC directly sells its products primarily to local wholesalers, which then sell products on to retailers or directly to adult consumers. These wholesalers are typically family-owned and operated local stores, such as sari-sari stores, that are also a source of goods for smaller traditional retailers such as kiosks, eateries and sidewalk vendors. Such stores and vendors often sell cigarettes to adult consumers by the stick as opposed to selling by the pack. Due to their presence across a wide network of localities and their financial capacity, these wholesalers offer a means for manufacturers such as PMFTC to reach a large number of retailers and customers without having to sell to each individual point of sale.

Property Development
Eton maintains a main sales and marketing office in Allied Bank Center, Ayala Ave, Makati. It has ongoing collaborations with various international selling partners from Singapore, the Middle East and Europe in response to the growing demand of its international clients, notably OFWs, expatriate Filipinos and other overseas buyers.

International sales and marketing, which primarily target overseas Filipinos, are handled by Eton's in-house international sales division based in Manila. In addition, Eton maintains marketing agreements with accredited brokers based in the Philippines to sell Eton projects.

Transactions with and/or dependence on related parties

The Company has various transactions with its subsidiaries and associates and other related parties. These are enumerated in detail in Note 18 of the Notes to Consolidated Financial Statements on pages 138-141.

Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts

Distilled Spirits
All product names, devices and logos used by TDI are registered with or are covered by a pending Application for Registration with the Intellectual Property Office of the Philippines. TDI also has an existing agreement with London Birmingham Distillers Ltd. for the use of *Barcelona Brandy* and *London Gin* brands.

Beverage
ABI has caused the registration with the Philippine Intellectual Property Office ("IPO") of a variety of marks including "Asia Brewery, Inc.," the ABI logo, "*Cobra Energy Drink*," "*100 Plus*," "*Colt 45*," "*Beer na Beer*," "*Tanduay Ice*," "*Manila Beer*" and "*Manila Beer Light*," "*Absolute Pure Distilled Drinking Water*," "*Summit Water*" and "*Creamy Delight*." These exclusive distribution licenses are registered with the IPO and the equivalent regulatory agencies in various other countries.

Tobacco
Under the terms of the business combination, each of FTC and PMPMI transferred the intellectual property rights to their local brands to PMFTC. PMI has licensed its international trademarks to PMFTC for so long as the business combination remains subsisting, for which PMFTC makes regular royalty payments.

Property Development
Eton has intellectual property rights on the use of the various trademark and names for its development projects. Most of Eton's projects and their respective project names have been issued a Certificate of Registration by the IPO. Eton believes that its trademark and the names of its development projects play a significant role in its effort to create brand recall and strengthen its position in the real estate industry. Eton has applications pending for intellectual property rights relating to its various development projects. Several applications have already been processed but await the release of the

Certificate of Registration from the IPO. Eton does not believe that its business is dependent on any individual patent, trademark, copyright or other intellectual property.

Need for any government approval of principal products

Distilled Spirits
The approval of the Bureau of Food & Drugs and Bureau of Internal Revenue is required before manufacturing a new product. In addition, all new products must be registered with the BIR prior to production.

Beverage
The approval of the Food and Drug Administration is required and product registration requirements for new products. All products must be registered with the BIR.

Tobacco
The company files to the BIR its Manufacturer's declaration for the production of its products.

Property Development
The company complies with all government agencies in securing license to sell, development permits, ECC and all other mandated requirements of the industry.

Effect of existing or probable governmental regulations on the business

Distilled Spirits
TDI is subject to extensive regulatory requirements with respect to the production, distribution, marketing, advertising and labeling of alcohol products both in the Philippines and overseas. TDI is subject to laws and rules including those promulgated by the FDA, the BIR, local government regulations and others.

TDI's products are subject to excise taxes levied on alcohol producers by the Government. On December 20, 2012, R.A. 10351 was enacted, restructuring the imposable excise tax on alcohol products in the country. R.A. 10351 increases taxes on distilled spirits and unifies the tax system for local and imported products. The new tax system includes a tax based on volume and a specific tax based on the net retail price (ad valorem). Generally taxes on TDI's products are likely to greatly increase in the coming years. There can be no guarantee that the increased taxes will be able to be passed on by TDI to its consumers, which may result in lower demand for its products and have an adverse effect on TDI's business, financial condition and results of operations.

TDI's existing and future operations are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on storage, handling, employee exposure to hazardous substances and other aspects of the operations of these facilities and businesses. TDI has incurred and expects to continue to incur operating costs to comply with such laws and regulations. The discharge of hazardous substances or other pollutants into the air, soil or water may cause TDI to be held liable to third parties, the Philippine government or to local government units with jurisdiction over the areas where TDI's facilities are located. TDI may be required to incur costs to remedy any damage caused by such discharges or pay fines or other penalties for non-compliance.

If TDI is unable to substantially comply with all material laws and regulations, or if TDI is subjected to more stringent regulations with respect to its alcohol and liquor products, it could have a material adverse effect on TDI's business and financial condition.

Beverage

Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. In particular, governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Any of these and other legal or regulatory changes could materially and adversely affect ABI's financial condition and results of operations.

Beer and other alcoholic beverages, including ABI's alcopop products such as Tanduay Ice, are subject to an excise tax in addition to value added taxes ("VAT"). Any increases in excise taxes or VAT may reduce overall consumption of ABI's products.

There can be no guarantee that the increased taxes will be able to be passed on by ABI to its consumers, which may result in lower demand for its products and have an adverse effect on ABI's business, financial condition and results of operations.

Tobacco

On December 19, 2012, the President signed R.A. 10351 into law which modifies the applicable excise tax rates on alcohol and tobacco products, including cigarettes effective January 1, 2013.

During the first year of R.A. 10351's implementation, high-priced cigarettes will be taxed at a rate of P25.00 per pack and low-priced cigarettes will be taxed at P12.00 per pack. In the second year, the rates will be increased to P27.00 and P17.00 per pack, respectively. In 2015, the high priced cigarettes will be taxed at P28.00 per pack and the low-priced cigarettes will be taxed at P21.00 per pack. Said rates will increase in 2016 to P29.00 and P25.00 per pack, respectively. In 2017, a unitary tax rate of P30.00 per pack will be implemented. In 2018 and every year thereafter, R.A. 10351 will impose a 4% excise tax rate increase.

Property Development

The Philippines' property development industry is highly regulated. The development of condominium projects, subdivision and other residential projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits. In addition, projects that are to be located on agricultural land must get clearance from the DAR so that the land can be reclassified as non-agricultural land and, in certain cases, tenants occupying agricultural land may have to be relocated at Eton's expense. Presidential Decree No. 957, as amended, ("P.D. 957"), Republic Act No. 4726, as amended, ("R.A. 4726"), Republic Act No. 6552 ("the Maceda Law") and *Batas Pambansa Blg.* 220 ("B.P. 220") are the principal statutes which regulate the development and sale of real property as part of a condominium project or subdivision. P.D. 957, R.A. 4726 and B.P. 220 cover subdivision projects for residential, commercial, industrial and recreational purposes and condominium projects for residential or commercial purposes. The Maceda Law deals with the sale of property on installment. The Housing and Land Use Regulatory Board ("HLURB") is the administrative agency of the Government which enforces these statutes.

All condominium and subdivision development plans are also required to be filed with and approved by the LGU with jurisdiction over the area where the project is located.

In addition, developers, owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of condominium units, subdivision lots and housing units. Project permits and any license to sell may be suspended, cancelled or revoked by HLURB based on its own findings or upon complaint from an interested party and there can be no assurance that Eton, its subsidiaries, associates or partners will in all circumstances, receive the requisite approvals, permits or licenses or that such permits, approvals or licenses will not be cancelled or suspended. Any of the foregoing circumstances or events could affect Eton's ability to complete projects on time, within budget or at all, and could materially and adversely affect Eton's business, financial condition and results of operations.

Research and development activities

The research and development activities of the Group for the past three years did not amount to a significant percentage of revenues.

Costs and effects of compliance with environmental laws

Distilled Spirits

TDI regards occupational health and safety as one of its most important corporate and social responsibilities and it is TDI's corporate policy to comply with existing environmental laws and regulations. TDI maintains various environmental protection systems which have been favorably cited by the environmental regulators. Since TDI's operations are subject to a broad range of health, safety and environmental laws and regulations, TDI convenes a quarterly strategic meeting among its department leaders to review, discuss and develop goals surrounding health, safety and environmental compliance and awareness.

Environmental Management Facilities

TDI places critical importance on environmental protection. To further this aim, TDI invests in facilities which it believes will reduce the impact of its operations on the environment, as well as reduce its operating costs. On November 22, 2012, the Federation of Philippine Industries named Tanduay as the most outstanding company in the Philippines in relation to its optimum use and recycling of resources.

Bottle Recycling

A major component of TDI's operations is the retrieval of secondhand bottles and the reuse of these bottles in TDI's production process. The cost of a used bottle, including washing costs, is approximately 50% less than the cost of a new bottle. Apart from the reduced cost, TDI also benefits from the reduced waste produced from reusing bottles, as a bottle can be reused on average three to four times. TDI relies on a nationwide network of junk shops throughout the Philippines for purchasing second hand bottles. Repurchasing bottles also helps TDI to market its products, as customers can sell their bottles after consuming the contents. TDI has also invested in automated bottle washing facilities in all its bottling plants.

Bottling Plants

TDI has invested significant resources installing wastewater treatment facilities in all its bottling plants that screen, collect and neutralize all wastes from the bottling process before these are discharged. The wastes generally emanate from the bottle washing process that uses certain chemicals to thoroughly clean the bottles. Philippine regulatory agencies such as the DENR and Laguna Lake Development Authority ("LLDA") conduct annual inspections of TDI's wastewater treatment process. TDI plants in Manila and Laguna have been given satisfactory "Blue" ratings by the LLDA while the Negros plant has been granted a five year discharge permit by the DENR.

Distillation Plants

TDI's wastewater is lodged in lagoons where it undergoes a treatment process to minimize adverse effects on the environment. Treated wastewater, along with other distillery wastes, is also usable as liquid fertilizer.

AAC and ADI have methane recovery systems that prevent emissions of harmful gases into the atmosphere and utilize the methane as biogas fuel for the distillation process. ADI's system was implemented in a joint venture with Mitsubishi Corp. of Japan and is registered with the U.N. sponsored Clean Development Mechanism ("CDM") Program. ADI, in a joint venture with Mitsubishi Corporation of Japan, installed a high-rate thermophilic anaerobic digester and lagoon system that will capture methane from the distillation process and use it for a plant's power requirements. This system will enable ADI to reduce its power expense by approximately 50% of current consumption levels. The project with Mitsubishi is being undertaken under the CDM Project of the 1997 Kyoto Protocol

("the Protocol")—a UN sponsored program that aims to reduce the emissions into the atmosphere of harmful gases like methane which emissions are the primary cause of global warming. Under the Protocol, developed countries are mandated to reduce their carbon emission levels by 2012. As an alternative compliance mechanism, developed countries may invest in CDM projects in developing countries like the Philippines. Mitsubishi provided the funding for the project in exchange for certified emission reduction credits to be generated from the project, which are part of the alternative compliance mechanisms under the Protocol. As a result of its programs aimed at environmental protection, ADI was awarded the Presidential Certificate of Recognition in 2010 for exemplary environmental undertakings. In addition, ADI received the 2011 International Green Apple Environment Award from the Green Organization in London for its CDM project and its agro recycling of distillery effluent.

Beverage

ABI regards occupational health and safety as one of its important corporate and social responsibilities. ABI's policy is to comply with existing environmental laws and regulations. ABI has made significant investments in its physical facilities to comply with its environmental policy, including investments in environmental protection systems, such as wastewater treatment which have been cited favorably by environmental regulators. Since ABI's operations are subject to a broad range of safety, health and environmental laws and regulations, ABI convenes a quarterly strategic program among its department leaders to review, discuss and develop goals surrounding healthy, safety and environmental compliance and awareness. ABI has also appointed a safety compliance officer for its operations and facilities, who is shared with TDI.

Tobacco

Since FTC's operations have been transferred to PMFTC, PMFTC's goal is to manufacture quality products while recognizing performance in environmental, health and safety ("EHS") as an integral part of the business. Therefore PMFTC is committed to reduce the environmental impact of its activities and promote the sustainability of the environment (upon which it depends), to prevent occupational injuries and illnesses in the workplace by addressing any foreseeable hazards while improving and protecting its physical assets, and to comply with all laws and regulations related to EHS.

PMFTC has continuously allocated significant investment in EHS improvements and upgrades in its Batangas factory, Marikina facilities and tobacco threshing plant in Ilocos province. Rigorous monitoring and reporting systems are put in place in parallel to training to all employees, resulting in the successful certification by SGS S.A. of the Batangas factory as compliant in accordance with ISO 9000 (Quality), ISO 14000 (Environment), OSHA 18000 (Occupational Health) since 2007.

Property Development

The Company's development plans provide for full compliance with environmental safety and protection in accordance with law. The Company provides the necessary sewage systems and ecological enhancements such as open space landscaping with greenery.

Human Resources and Labor Matters

LTG has 11 administrative and 4 regular monthly employees as of December 31, 2012. The total workforce of the Group is as follows:

Distilled Spirits	1,797
Beverage	1,536
Tobacco	59
Property development	326
Total	3,718

Distilled Spirits

As of December 31, 2012, TDI employed a total of 430 employees inclusive of 226 regular monthly employees and 204 regular daily employees. AAC employed a total of 16 persons as of December 31, 2012, including 9 regular monthly employees and 7 regular daily employees. ADI employed a total of 71 persons, 58 of whom are regular monthly employees and 13 are daily employees.

In addition, TDI also has about 1,280 outsourced laborers working in its facilities, mostly as manual laborers. TDI contracts with third party manpower and services firms for the supply of this labor.

Except for those employees of TDI's Cagayan de Oro Plant, all regular daily employees of TDI's plants have separately formed labor unions. TDI is party to three collective bargaining agreements. TDI believes that its relations with both its unionized and non-unionized employees are good, and there have been no major labor stoppages in the last 20 years. TDI's Manila and Laguna plants have collective bargaining agreements with their respective unions until 2014. The Manila plant however was decommissioned on April 1, 2013. TDI's Negros plant concluded its own collective bargaining agreement with its union in June 2012, with the agreement to be effective until 2015.

Beverage

As of December 31, 2012, ABI and its subsidiaries employed approximately 1,536 people, of which approximately 71% were employed in manufacturing and logistics, 3% were in sales and distribution operations, 22% were in general and administrative functions and 4% were in marketing. In addition, ABI and its subsidiaries generally employ a number of outsourced laborers in its businesses, mostly as manual laborers; typically, ABI contracts with third party manpower and services firms for the supply of these additional laborers.

ABI is party to a collective bargaining agreement for its employees at its Cabuyao plant. The CBA was signed on February 2, 2010, which is effective from November 2009 to October 2012. The Company is still in the process of negotiating the new CBA.

ABI believes that its relations with both its unionized and non-unionized employees are good. ABI has not experienced any work stoppages due to industrial disputes since 1999.

Tobacco

FTC has 59 regular monthly employees as of December 31, 2012. Effective Jan. 1, 2012 FTC no longer have daily (regular or casual) employees because of the business combination of FTC and PMPMI on Feb. 25, 2010. The operations of FTC and the manufacturing of cigarettes were all transferred to PMFTC, the new company. As a result employees of FTC were terminated through a redundancy program which started on Oct. 16, 2010 up to Dec. 31, 2011. The last CBA of FTC was signed in 2010. The CBA agreement was effective for 3 years beginning July 1, 2010 up to June 30, 2013. As of today the agreement is no longer effective.

Property Development

Eton has over the year increased it workforce to match its growing manpower needs. As of December 31, 2012, Eton had 326 employees, including 52 project management employees, 67 employees in marketing and business development, as well as 31 sales support personnel, 65 property managements and 111 other employees. As of December 31, 2012, Eton also had a 903-strong sales force, consisting of 500 inhouse domestic sales representatives, 237 domestic brokers and 166 international brokers. Eton enters three-month contracts with members of its sales force.

Eton's employees are not represented by any labor union and therefore, Eton has no collective bargaining agreement with its employees. Eton's Human Resources Department believes it has maintained an open door policy whereby employees may take up concerns directly with human resources.

Major risk/s and Procedures Being Taken to Address the Risks

Distilled Spirits

Market / Competitor Risk
TDI's core consumer base for its products are lower-income consumers TDI classifies to be in the "standard" and "economy" markets, with monthly income levels of up to P10,000 and P100,000, respectively. According to the 2006 Philippine National Statistics Coordination Board ("NSCB") Family Expenditure Survey and a 2009 Usage, Attitude and Image Survey conducted by the Philippine Survey Research Council, this consumer base comprises approximately 80% of the Philippine population and likewise accounts for approximately 90% of liquor consumption. The preferences of these consumers change for various reasons driven largely by demographics, social trends in leisure activities and health effects. Entrants of new competitive and substitute products to address these customers' preferences may adversely affect the business prospects of TDI if it does not adapt or respond to these changes.

In addition, the market of TDI is highly sensitive to price changes given the purchasing power and disposable income of their customers. Any adverse change in the economic environment of the Philippines may affect the purchasing power of the consumers and adversely affect TDI's financial position and performance.

TDI responds to customer preferences by continuing to monitor market trends and consumer needs to identify potential opportunities. Its existing product portfolio covers all major liquor category and price range enabling it to respond quickly to any change in consumer preference. Development of new products and brands is continuously being undertaken to address the current and emerging requirements of the customers.

Raw Material Supply Risk
The main raw materials that TDI uses for the production of its beverage products, such as molasses, distilled alcohol, sugar and flavoring agents, are commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. A shortage in the local supply of molasses and the volatility in its price may adversely affect the operations and financial performance of TDI.

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports raw materials in the event that the local supply is not sufficient or the prices are not favorable.

Credit Risk
TDI relies on nine exclusive distributors for the sales of its liquor products. Any disruption or deterioration in the credit worthiness of these distributors may adversely affect their ability to satisfy their obligations to TDI.

The operations and financial condition of distributors are monitored daily and directly supervised by TDI's sales and marketing group. Credit dealings with these distributors for the past twenty years have been generally satisfactory and TDI does not expect any deterioration in credit worthiness. The eleven distributors also a have a wide range of retail outlets and there are no significant concentration of risk with any counterparty.

Trademark Infringement Risk
TDI's image and sales may be affected by counterfeit products with inferior quality. Its new product development efforts may also be hampered by the unavailability of certain desired brand names. TDI safeguards its brand names, trademarks and other intellectual property rights by registering them with the Intellectual Property Office in the Philippines and in all countries where it sells or plans to sell its

products. Brand names for future development are also being registered in advance of use to ensure that these are available once TDI decides to use them. Except for companies belonging to LT Group, TDI also does not license any third party to use its brand names and trademarks.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps is also seen as a major deterrent to counterfeiting.

Regulatory Risk
TDI is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labeling both in the Philippines and in the countries where it distributes its products. Specifically in the Philippines, these include the Bureau of Food and Drugs, Department of Environment and Natural Resources, Bureau of Internal Revenue and Intellectual Property Office.

Decisions and changes in the legal and regulatory environment in the domestic market and in the countries in which it operates or seeks to operate could limit its business activities or increase its operating costs. The government may impose regulations such as increases in sales or specific taxes which may materially and adversely affect TDI's operations and financial performance.

To address regulatory risks like the imposition of higher excise taxes, TDI would employ an increase in its selling prices and make efforts to reduce costs. Other regulatory risks are managed through close monitoring and coordination with the regulatory agencies on the application and renewal of permits. TDI closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. TDI is a member of the Distilled Spirits Association of the Philippines which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk
The operation of TDI's existing and future plants are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, employee exposure to hazardous substances and other aspects of the operations of these facilities and businesses. TDI has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. The discharge of hazardous substances or other pollutants into the air, soil or water may cause TDI to be liable to third parties, the Philippine government or to the local government units with jurisdiction over the areas where TDI's facilities are located. TDI may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

There is no assurance that TDI will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Clean-up and remediation costs of the sites in which its facilities are located and related litigation could materially and adversely affect TDI's cash flow, results of operations and financial condition.

It is the policy of TDI to comply with existing environmental laws and regulations. A major portion of its investment in physical facilities was allocated to environmental protection systems which have been favorably cited as compliant by the environmental regulators.

Counterfeiting risk
TDI's success is partly driven by the public's perception of its various brands. Any fault in the processing or manufacturing, either deliberately or accidentally, of the products may give rise to product liability claims. These claims may adversely affect the reputation and the financial performance of TDI.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps also helps prevent counterfeiting. All brand names, devices, marks and logos are registered in the Philippines and foreign markets.

The Quality Program of TDI ensures that its people and physical processes strictly comply with prescribed product and process standards. It has a Customer Complaint System that gathers, analyzes and corrects all defects noted in the products. Employees are directed to be observant of any defects in company products on display in sales outlets and buy the items with defects and surrender these to TDI for reprocessing.

Beverage

Market / Competitor Risk
The substantial majority of ABI's customers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. Accordingly, the market for beverages such as energy drinks, beer and other ABI products in the Philippines is price elastic. If ABI raises the prices of its products, sales volumes will likely decline, and the decline may not offset the increase in prices, which may result in a lower level of net sales.

The ability of ABI to successfully launch new products and maintain demand for its existing products depends on the acceptance of these products by consumers, as well as the purchasing power of consumers. Consumer preferences may shift because of a variety of reasons, including changes in demographic and social trends or changes in leisure activity patterns.

To address such risks, ABI expects younger consumers to be a key driver of ABI's demand and growth, notably for energy drinks and alcopop. ABI plans to focus its product development and marketing efforts in these segments on such consumers. ABI intends to use marketing channels such as social media to improve product communication with its target customers.

In addition, ABI has the most diverse beverage portfolio in the Philippines and is one of the few beverage companies in the Philippines with a well-established and leading presence across multiple segments in the beverage industry. ABI believes that its ability to offer a strong portfolio of brands across multiple categories is a key competitive advantage and allows for significant leverage over its distributors.

Raw Material Supply Risk
The manufacture of ABI's products depend on raw materials that ABI sources from third parties, including sugar and other critical raw materials such as hops and barley, which are primarily sourced from abroad. These raw materials are subject to price volatility caused by changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

ABI addresses this risk by actively monitoring the availability and prices of raw materials. ABI may also shift to alternative raw materials used in the production of its products.

Regulatory Risk
Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. Governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Also, any increases in excise taxes or VAT may reduce overall consumption and demand of ABI's products, as consumers prioritized basic necessities in view of higher living costs.

ABI would employ an increase in its selling prices and make efforts to reduce costs to address such risks. Close monitoring and coordination with the regulatory agencies on the application and renewal of permits are implementing so as to manage other regulatory risks.

Safety, health and environmental laws risk
Various environmental laws and regulations govern the operations of ABI including the management of solid wastes, water and air quality, toxic substances and hazardous wastes at ABI's breweries. Non-compliance with the legal requirements or violations of prescribed standards and limits under these laws could expose ABI to potential liabilities, including both administrative penalties in the form of fines and criminal liability Violations of environmental laws could also result in the suspension and/or revocation of permits or licenses held by ABI or required suspension or closure of operations.

Strict compliance with environmental laws and regulations will be implemented by ABI to address the risk.

Tobacco
The tobacco or cigarette industry generally has the following risks:

Market / Competitor Risk
PMFTC competes primarily on the basis of product quality, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and price. Although PMFTC has historically been able to maintain its leadership position in the Philippine tobacco market, the Company believes that the market landscape is constantly evolving, and market players can gain or lose market share very quickly. The competitive environment and PMFTC's competitive position can be significantly influenced by erosion of consumer confidence, competitors' introduction of lower-priced products or innovative products, as well as product regulation that diminishes the ability to differentiate tobacco products.

To address the risk, PMFTC employs improvement in product penetration and distribution channels that will further strengthen its leadership position in the Philippine cigarette market. In addition, PMFTC will continue to focus on consumer research to assess adult consumer insight, trends, behavior and preferences in order to develop marketing campaigns that improve customer engagement. The continued integration of FTC and PMPMI will also help in further improvements in sales productivity and efficiency. A unified sales force for all products under PMFTC's control would allow it to more effectively drive product penetration and sales.

Regulatory Risk
Tax regimes, including excise taxes, sales taxes and import duties, can disproportionately affect the retail price of manufactured cigarettes versus other tobacco products. The Company believes that general increases in cigarette taxes are expected to continue to have an adverse impact on PMFTC's sales of cigarettes, due to a possible decline in the overall sales volume of its products or a shift in adult consumer preferences from manufactured cigarettes to other tobacco products, from purchases of high-end tobacco products to low-end products, from purchases of local tobacco products to legal cross-border purchases of lower priced products, or to purchases of illicit products, whether counterfeit or deemed contraband items.

PMFTC closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. PMFTC is a member of the Philippine Tobacco Institute which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk
PMFTC's existing and future operations are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on storage, handling, employee exposure to hazardous substances and other aspects of the operations of PMFTC's facilities. Failure to properly manage the environmental risks and the operational, health and safety laws and regulations to which PMFTC is subject could also have a negative impact on its reputation.

It is the policy of the company to comply with existing environmental laws and regulations. PMFTC expects to incur operating costs to comply with such laws and regulations. PMFTC has continuously allocated significant investment in environmental, health and safety improvements and upgrades.

Property Development

Competitor risk
The Philippine real estate development industry is highly competitive with respect to township developments in Metro Manila and high rise condominiums.

Eton believes that it is a strong competitor in the mid- and high-end market due to the quality of its products and the materials used in construction and finishing. In addition, Eton believes that the prime location of its developments allow it to effectively compete in the market. On the other hand, Eton has access, through its own holdings and the holdings of its affiliates, to the most extensive land bank among its competitors in the Philippines, comprising properties strategically located in the prime areas of Metro Manila and its periphery.

Market risk
A portion of the demand for Eton's properties is expected to come from OFWs, expatriate Filipinos and former Filipino residents who have returned to the Philippines ("Balikbayans"), which exposes Eton to risks relating to the performance of the economies of the countries where these potential customers are based.

Eton has grouped the development of its residential projects around three brands targeted across three main customer segments: the Eton brand, which caters to the high-end segment; the Belton brand aimed at middle-income customers, and the First Homes brand for customers in the affordable market segment. Eton believes that this clear branding strategy allows it to focus its marketing efforts and resources around each of the three brands efficiently, while providing the flexibility to adapt to changing demand and supply conditions in each segment.

Regulatory risks
Eton operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines. The development of condominium projects, subdivision and other residential projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits.

Eton closely monitors all government regulatory requirements and institute measures to strictly comply with them.

Credit risks
Eton is exposed to risks associated with its in-house financing activities, including the risk of customer default, and it may not be able to sustain its in-house financing program. In cases where Eton provides in-house financing, it charges customers interest rates that are substantially higher than comparable rates for bank financing and which also provide for upward adjustments to the interest charged if bank financing rates also move upward. As a result, and particularly during periods when interest rates are relatively high, Eton faces the risk that a greater number of customers who utilize Eton's in-house financing facilities will default on their payment obligations, which would require Eton to incur expenses, such as those relating to sales cancellations, foreclosures and eviction of occupants.

Eton intends to leverage its ties with PNB and Allied Bank by developing financial solutions for its real estate customers. In particular, Eton believes these partnerships with PNB and Allied Bank will allow Eton to more quickly and efficiently present financing solutions to its customers and to streamline the loan application process for end-buyers of its properties.

Financial risks
Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on Eton's and its customers' ability to obtain financing. Higher interest rates make it more expensive for Eton to borrow funds to finance ongoing projects or to obtain financing for new projects. In addition, Eton's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by the BSP on bank lending. These could materially and adversely affect Eton's business, financial condition and results of operations.

In order to reduce its earnings volatility and diversify its revenue streams, Eton has targeted to derive approximately 30-35% of its revenue from recurring sources within the next five years, primarily through rentals from its BPO properties and retail malls. Eton believes this will complement Eton's overall growth strategy by providing recurring cash flows to support its development capital expenditure requirements and driving demand for its master-planned community residential offerings.

Item 2. Properties

Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by TDI		
Quiapo, Manila*	26,587	Office/Plant
Makati City	72	Investment/Condo
Talisay, Neg. Occ.	3,813	Bottle Storage
Davao City	3,000	Investment
Owned by AAC		
Pulupandan, Neg. Occ.	119,082	Distillation Plant
San Mateo, Rizal	11,401	Investment
Talisay, Batangas	139,299	Investment
Tanza, Cavite	67,507	Investment
Owned by ADI		
Ayala Ave., Makati	89.395	Investment/Condo
Lian, Batangas	91,722	Distillation Plant

* Effective 1 April 2013, TDI's Manila production facility was decommissioned to reduce costs. TDI believes that its current and anticipated future production requirements can be met through its other remaining facilities, which utilize more modern production technologies and processes. TDI expects the Manila facility to serve as a backup plant and may temporarily reopen the plant as needed. In the meantime, TDI intends to renovate part of the facility to serve as a museum showcasing its products and distilled spirits production methods.

The following are the leased properties of TDI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Laguna	Production Plant	162,439	1,905,586	2012
Sucat	Warehouse	41,162	420,482	2012
Pinamucan, Batangas	Land rental	18,522	350,000	2013

Calaca, Batangas	Tank rental		493,155	2012
Bacolod, Neg. Occ.	Warehouse	14,833	459,271	2013
Murcia, Neg. Occ.	Production Plant	29,583	336,000	2013
El Salvador, Mis. Or.	Production Plant	108,843	81,312	2012
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2021
	Totals	**425,382**	**4,095,806**	

Except for the Distillation Plant in Lian Batangas, all lease contracts have a term of one year, renewable at the end of the lease term.

The plant and equipment are located at the following areas:

Location	**Condition**
Quiapo plant	In good condition
Cabuyao plant	In good condition
Bacolod plant	In good condition
El Salvador plant	In good condition

AAC has its distillery plant at Pulupandan, Negros Occidental and owns the buildings, machinery and equipment and other structures in it. AAC has alcohol and molasses storage facilities at Pulupandan, Cebu and North Harbor, Manila. Office furniture and fixtures and office equipment are located in Bacolod, Pulupandan and Manila. Land owned by AAC are located in Pulupandan and Cebu. The Plant and equipment located in Negros plant and the storage facilities are all in good condition.

ADI on the other hand owns a distillery plant in Lian, Batangas. All transportation equipment owned by ADI are in good condition. There are no mortgage or lien or encumbrance over the properties and there are no limitations as to its ownership and usage.

Beverage

ABI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by ABI		
Pasong Tamo, Makati City	10,000	Investment property
Bacoor, Cavite	459	Investment property
Cabuyao, Laguna	302	Investment property
Camarines Norte	3,215	Investment property
Owned by IPI		
Toril, Davao City	75,734	Production Plant

The following are the leased properties of ABI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by ABI				
Ayala, Makati City	Head Office	1,677	747,495	Mar 3 2011 to Mar 2 2014
Cabuyao, Laguna	Production Plant	3,000,891	1,500,000.	Apr 2010 to Mar 2013
El Salvador, Mis. Or.*	Production Plant	1,088,133	-0-	N/A

Leased by IPI				
San Fernando, Pampanga	Production Plant	85,000	600,000	Jan 1 2012 to Dec 31, 2014
	Totals	**4,090,072**	**2,847,495**	

*All lease contracts are renewable at the end of the lease term except for El Salvador, Misamis Oriental Plant, which pays Real Property Tax (RPT) instead of monthly rentals

The plant and equipment are located at the following areas:

Location	**Condition**
Cabuyao plant	In good condition
El Salvador plant	In good condition
Davao plant	In good condition
Pampanga plant	In good condition

Tobacco

The following comprises properties of FTC:

LOCATION	Area (sq.m)	Present Use
Brgy. Punta,Calamba, Laguna	49,701	Investment
Balagtas, Int.Malate, Manila	496	Investment
Brgy. Niugan, Cabuyao, Laguna	469,758	Investment
Dna. Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,626	Investment
Dna. Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,118	Investment
Concepcion, Marikina	313	Investment
Tagdalit St., Brgy.Manresa, Q.C.	5,165	Warehouse Bldg.
Mandaue City	1,025	Investment
Baybay, Roxas City	2,396	Investment
Baybay, Roxas City	80	Investment
Filinvest Homes, Pagsanjan Cainta, Rizal	474	Investment
Marikina Greenheights, Brgy. Nangka	225	Investment
Antipolo, Rizal	400	Investment
Bo. Mayamot, Antipolo, Rizal	311	Investment

The following are the leased properties of FTC:

LOCATION	Present use	Monthly Rental	Lease Expiry Date
Brgy. Kapitolyo, Pasig	Office use	100,000.00	12/31/14
Brgy. Fortune, Marikina	Warehouse	150,000.00	10/31/13

All properties are in good condition and are not covered by any existing mortagages, liens or encumbrances.

Property Development

The Company's investment properties consist of:

Description	Location
Buildings	*Eton Cyberpod Corinthian, Ortigas Ctr., Pasig City*;* *Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City.*
Office condominium unit	*6th Floor, Sagittarius Condominium, H. V. dela Costa Street, Salcedo Village, Makati City*
Residential unit	*Ocean Villa, Ternate, Cavite*
Land	*Ternate, Cavite;* *Cor. Quezon Avenue and EDSA, Diliman, Quezon City ;* *Brgy. Malitlit, Sta. Rosa City, Laguna*

The above properties are owned by the Company. These properties are in good condition and are not covered by any existing mortgage, liens or encumbrances.

*Land under lease arrangement.

The Company's real estate properties consist of :

ETON PROPERTIES PHILIPPINES, INC.

Eton Baypark Manila	*Corner Roxas Boulevard and Kalaw Street, Manila City*
Eton Parkview Greenbelt	*Gamboa St., Greenbelt, Makati City*
Eton Residences Greenbelt	*Legaspi St., Greenbelt, Makati City*
Eton Emerald Lofts	*Corner of Emerald Avenue, Sapphire and Garnet Streets, Ortigas Center, Pasig City*
One Archer's Place	*Taft Avenue beside De La Salle University, Manila City*
68 Roces	*Don Alejandro Roces Avenue, Quezon City*
Belton Place	*Yakal St., Makati City*
8 Adriatico	*Pedro Gil corner Bocobo Extension, Manila City*
Eton Tower Makati	*Corner Dela Rosa and V.A. Rufino Streets (formerly Herrera Street) in Legazpi Village, Makati City*
Westwing Tropics	*S. Francisco St. corner Quirino Highway, Novaliches, Quezon City*
One Centris Place	*Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City*
First Homes Makati	*Pasong Tamo cor. Malugay St., Makati City*

BELTON COMMUNITIES, INC.

NBC Manors	*Quirino Highway, Quezon City*
West Wing Residences @ Eton City	*Eton City, Sta. Rosa, Laguna*
West Wing Residences @ NBC	*Quirino Highway, Quezon City*
West Wing Villas @ NBC	*Quirino Highway, Quezon City*

FIRST HOMES INC.

Aurora Heights Residences	*Loyola Heights, Quezon City*

ETON CITY INC.

South Lake Village	*Sta. Rosa, Laguna*
Riverbend	*Sta. Rosa, Laguna*
Riverbend 2 - Tierra Bella	*Sta. Rosa, Laguna*
Village Walk	*Sta. Rosa, Laguna*

With the exception of One Archers Place, Eton Residences Greenbelt, One Centris Place and Aurora Heights where the Company is both land owner and developer, the above properties are under joint venture arrangement with the Company as the project developer. These properties are in good condition and are not covered by any material existing mortgage, liens or encumbrances.

The Company's property and equipment, which consists of transportation equipment, furniture, fixtures and equipment, and leasehold improvements, are mainly used in operations and are located in the main office in Allied Bank Center, 6754 Ayala Avenue, Makati City.

Properties intended to be acquired in the next twelve (12) months

Various real estate properties with the following locations are intended to be purchased in the next twelve (12) months. These will be funded from a combination of internally generated funds and borrowings.

1. Barangay San Francisco Del Monte, Quezon City (₱185 million)
2. Legaspi Village, Makati City (₱203 million)
3. Barangay San Antonio, Makati City (₱619 million)
4. Contiguous lots in Sta. Rosa, Laguna (₱1.5 billion)
5. Padre Faura, Ermita Manila (₱93 million)
6. Novaliches, Quezon City (₱515 million)
7. Emerald Avenue, Ortigas (₱170 million)
8. Quintin Paredes St., Binondo, Manila (₱213.1 million)

Item 3. Legal Proceedings

Distilled Spirits

In the ordinary course of business, TDI is a party to various legal actions that it believes are routine and incidental to the operation of its business. In the opinion of TDI's management, the outcome and potential liability of these aforementioned legal actions are not likely to have a materially adverse effect on TDI's business, financial condition and results of operations.

Legal actions that may have a materially adverse effect on TDI's business, financial condition and results of operations include a P100 million civil infringement suit filed by GSMI, a cease and desist order filed by the DENR against AAC and a realty tax assessment from the Provincial Assessor of Negros Occidental.

- **GSMI Litigation**

On August 15, 2003, GSMI filed a trademark infringement lawsuit with the Regional Trial Court ("RTC") of Mandaluyong City, challenging TDI's launch of *Ginebra Kapitan* (now called "*Gin Kapitan*"), a gin product which allegedly has a "confusing similarity" with GSMI's principal gin product. GSMI obtained a temporary restraining order ("TRO") preventing TDI from using the *Ginebra Kapitan* name. The TRO was nullified with finality by the Supreme Court of the Philippines (the "Supreme Court") in November 2009 and TDI was allowed to continue to use the brand name *Ginebra Kapitan*. The Supreme Court ruled that there was no basis for the issuance of an injunction restraining TDI from using *Ginebra Kapitan* as a trademark for its gin products. The IPO also ruled in

favor of TDI by declaring that GSMI could not claim ownership over the Ginebra name, as it was generic in nature.

On July 31, 2012, the RTC of Mandaluyong City dismissed the charges of infringement and unfair competition against TDI. The court also sustained TDI's position that Ginebra is a generic name, free for all to use. The RTC also sustained TDI's claim that there is no confusing similarity between GSMI's *Ginebra San Miguel* brand and TDI's *Ginebra Kapitan* brand. GSMI's motion for reconsideration of the decision was denied.

- **DENR Administrative Proceedings**

On July 22, 2008, the DENR issued a cease and desist order against AAC upon the request of the Pollution Adjudication Board ("PAB") for failure to meet environmental standards. AAC immediately filed and was granted a temporary lifting order in exchange for agreeing to implement immediate and long-term remedial measures. Despite AAC's implementation of remedial measures, the residents and local government of Pulupandan, where AAC's distillation plant is located, protested against AAC operations and at one point took measures to barricade access to the plant. AAC temporarily suspended operations in June 2009 when an essential water pipeline was damaged allegedly during a road improvement project by the local government. AAC obtained a renewal for its temporary lifting order from the PAB and as a result AAC was able to obtain a permit from the Pulupandan local government to fix its damaged water pipeline. Further, AAC has removed and transferred its new distillery columns, which were to be used for its previous expansion plans, to ADI's plant in Batangas where expansion will now instead be pursued. As of the date of this Offering Circular, while there is nothing that would prevent AAC from operating its distillation plant, AAC is currently evaluating whether or not to recommence operations.

- **Realty Tax Assessments**

On August 25, 2010, AAC received a Notice of Assessment from the Provincial Assessor of Negros Occidental representing deficiency realty taxes for the period from 1997 to 2009 totaling P263.7 million. AAC formally protested the assessment on multiple grounds. As of December 31, 2012, the case remains pending.

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 31, 2012, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Tobacco

- **Sandiganbayan case against Tan Companies**

On June 6, 2011, a motion was submitted by the Government seeking to include PMFTC and its directors/officers as additional defendants in the forfeiture case pending before the Sandiganbayan against Mr. Lucio C. Tan, FTC, et al. since 1987. The Government claims that by transferring the assets owned by FTC to PMFTC as a result of the business combination, the FTC assets have been removed beyond the reach of the Government and the court. The Sandiganbayan denied this motion with finality on August 2011, ruling that they are not necessary or indispensable parties under the law. In a decision in June 2012, the Sandiganbayan also dismissed the forfeiture case against all the defendants for failure of the Government to prove that the assets that formed the subject of the case were ill-gotten wealth. The Government's motion for reconsideration was likewise denied in September 2012. The Government is currently appealing this decision to the Supreme Court.

Property Development

Eton is involved in litigation in the normal course of its business, and it believes none of these litigations, if resolved unfavorably, would have a material adverse effect on its operations.

Item 4. Submission of Matters to a Vote of Security Holders

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters.

1. Market Information

The principal market for the registrant's common equity is the Philippine Stock Exchange.

STOCK PRICES

	CLOSE	HIGH	LOW
2010			
1st Quarter	2.59	2.95	2.36
2nd Quarter	2.36	2.91	1.56
3rd Quarter	2.60	3.35	2.34
4th Quarter	3.00	3.20	2.52
2011			
1st Quarter	3.10	4.00	2.80
2nd Quarter	4.80	5.46	3.00
3rd Quarter	4.02	5.30	4.01
4th Quarter	4.40	5.15	3.30
2012			
1st Quarter	3.85	4.37	3.85
2nd Quarter	4.50	4.65	3.70
3rd Quarter	12.30	14.66	4.25
4th Quarter	13.38	13.90	11.34
2013			
April 8, 2013*	19.48	19.60	18.44

*Latest practicable trading date

2. Holders

The number of shareholders of record as of December 31, 2012 was 533. Common shares outstanding as of December 31, 2012 were 8,981,388,889. The top 20 stockholders as of December 31, 2012 are as follows:

Stockholders' Name	No. of Common Shares Held	% to Total
Tangent Holdings, Corp.	8,046,318,193	89.5888
PNB Securities, Inc.	690,808,200	7.6916
Government Service Insurance System	30,524,000	0.3399

Maybank ATR Kin Eng Securities, Inc.	26,686,861	0.2971
Pan Asia Securities Corp.	20,628,800	0.2297
The Hongkong & Shanghai Banking Corp. Ltd.	12,792,600	0.1424
Tower Securities, Inc.	12,489,100	0.1391
Col Financial Group, Inc.	10,180,234	0.1133
Asiasec Equities, Inc.	7,485,350	0.0833
Summit Securities, Inc.	7,299,450	0.0813
S.B. Equities, Inc.	7,216,292	0.0803
Abacus Securities Corp.	6,823,721	0.0760
Citibank N.A.	6,246,000	0.0695
RCBC Securities, Inc.	5,399,600	0.0601
All Seasons Realty Corp.	4,974,794	0.0554
United Coconut Planters Life Assurance Corp.	4,780,000	0.0532
BDO Securities Corp.	4,539,700	0.0505
BPI Securities Corp.	3,664,829	0.0408
PCCI Securities Brokers Corp.	3,180,300	0.0354
A & A Securities, Inc.	3,108,810	0.0346

***** LTG has no preferred shares.

3. Dividends

a.) Dividend declarations

On February 23, 2010 the Board of Directors of LTG declared a 10% stock dividends amounting to ₱ 325.8 million. On May 05, 2010 the stockholders of the Company authorized the declaration of the said stock dividends for all stockholders of record as of June 2, 2010 to be paid not later than June 29, 2010.

On March 22, 2011, the Board of Directors of LTG approved the declaration and distribution of cash dividends of ₱ 0.115 to all of its stockholders of record as of April 6, 2011. This was paid on April 28, 2011.

On December 20, 2011, the Board of Directors of LTG met and approved the declaration and distribution of cash dividends of ₱ 0.20 to all stockholders of record of the Company as of January 5, 2012 which was paid on February 1, 2012.

b.) Restrictions that limit the ability to pay dividends on common equity or that are likely to happen in the future.

a. "To declare dividends out of the surplus profits when such profit shall, in the opinion of the directors, warrant the same." (par. 3, Article V (Duties of directors, Amended By-Laws).

b. " In lieu of closing the stock transfer book of the Corporation, The Board of Directors may fix in advance an appropriate date consistent with the relevant regulations as may have been issued by the Securities and Exchange Commission and/or the Philippine Stock Exchange, preceding the date of any annual or special meeting of the stockholders or the date for the allotment or rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining the consent of stockholders for any purpose, as record date for the determination of the stockholders entitled to vote, to notice at any such meeting and adjournment thereof, or to any such allotment of rights, or to give such consent, as the case may be notwithstanding any transfer of any stock on the books of the Corporation after such record date fixed as aforesaid, provided, however, that for purposes of declaring dividends, The Board of Directors may fix in advance a date to be determined in accordance with law, for the payment or distribution of such dividend as a

record date for the determination of stockholders entitled to such dividend."(par C, Article XIX(Transfer of Stock, Amended By-Laws).

4. Recent Sales of Unregistered Securities (For the Past Three Years)

There was no recorded sale of unregistered securities during the past three years.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements as at December 31, 2012, 2011 and 2010 included in this report.

The business combinations in 2012 involving LTG and ABI and Subsidiaries, FTC, Saturn, and Paramount and Subsidiaries (collectively referred to as "Acquired Subsidiaries"), all belonging to the Controlling Shareholders and under common control, were accounted for using pooling of interest method. Accordingly, LTG recognized the net assets of the acquired subsidiaries equivalent to their carrying values. Comparatives were restated to include the balances and transactions as if the subsidiaries had been acquired at the beginning of the earliest period presented.

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2012	2011
Revenue	₱30,568	₱32,688
Cost of Sales	22,729	23,837
Equity in Net Earnings of an Associate	6,499	4,118
Operating Expenses	4,876	5,218
Operating Income	9,463	7,751
Other income-net	215	(186)
Income Before Income Tax	9,677	7,565
Total Net Income	8,740	6,668
Net Income Attributable to Equity Holders of the Parent Company	7,513	5,818

2012 vs 2011

LTG posted a double-digit growth in net income attributable to equity holders this year, increasing by 29.1% to ₱7.5 billion in 2012 from ₱5.8 billion in 2011. This can be attributable mainly to the significant increase in operating income by 22.1% coming from the equity in net earnings of PMFTC which LTG owns through FTC.

Consolidated revenues declined by 6.5% from ₱32.7 billion in 2011 to ₱30.6 billion in 2012. The decrease was due mainly to the decrease in revenues of the tobacco and property development segments by 11.2% and 48.3%, respectively. The decline in tobacco revenues is due mainly to the termination in 2011 of the transitional services agreement under which FTC received fees for providing employee and other administrative services to PMFTC. Eton's revenue decline was due to delays in the construction of some projects as a result of design changes and delay in securing necessary permits. Revenues of the beverage segment increased by 1.6% on account of improved sales

of energy drinks and bottled water while distilled spirits increased by 4.4% on account of increase in sales volume by 5.6%.

LTG's consolidated cost of sales decreased by 4.7% from ₱23.8 billion in 2011 to ₱22.7 billion in 2012. The decline resulted primarily from lower cost of sales in the beverage and property development segments which decreased by 2.9% and 49.2%, respectively, offset by the increase in tobacco cost of sales by 25.3% and 4.6% in distilled spirits. Gross profit rate slightly decreased from 27.1% in 2011 to 25.6% in 2012.

Consolidated operating expenses decreased by 6.6% from ₱5.2 billion in 2011 to ₱4.9 billion in 2012. This is on account of lower selling costs mainly attributable to the beverage group which decreased by 9.4% due to reductions in promotional expenses and freight and handling charges, and property development which is significantly lower by 34.7% due to lower sales. Although general and administrative expenses remain steady at ₱2.1 billion, significant movements were seen in the tobacco segment which decreased by 47.8% due to the retrenchment program as part of the business combination which reduced costs associated with salaries and wages. This was offset by the increase in general and administrative expenses by the beverage segment of 32.5% on account of higher taxes, depreciation and personnel costs and the property development's 16.4% increase on account of higher repairs and maintenance, outside services and business taxes.

Other income-net significantly improved to ₱214.5 million in 2012 from a loss of ₱186.1 million in 2011 on account of higher finance income by 67%, attributable mainly to higher interest income on bank deposits and interest- bearing contracts receivables. Other income in 2012 consisted of a tax refund received from the BIR. Finance cost increased by 4.7% to ₱605.2 million in 2012 mainly due to increase in interest payments on unsecured term loans. Foreign exchange losses increased substantially from ₱1.4 million in 2011 to ₱108.1 million in 2012, reflecting the loss in the value of US dollar denominated receivables of FTC due to the appreciation of the Philippine Peso.

SEGMENT OPERATIONS

Distilled Spirits

Net sales of the distilled spirits segment grew from ₱12.2 billion in 2011 to ₱12.7 billion in 2012, posting a 4.2% increase. This growth is in line with the Philippine economy's GDP growth of 6.6% in 2012, which was partly driven by the 5.1% increase in household consumption of alcoholic beverages and tobacco. While sales volume of the distilled spirits increased by 6%, average selling price dipped by 2% as products with lower selling prices such as the new 55 proof Tanduay Light increased their share in the product mix. Tanduay Rhum Five Years, which accounted for approximately 76% of TDI's consolidated revenue, decreased by 4% but this was offset by the additional revenue brought in by Tanduay Light which is showing high market potential.

Cost of sales grew by 4.6% from ₱9.5 billion in 2011 to ₱9.9 billion in 2012, driven by the higher sales volume. The segment maintained its gross profit at 23%.

Operating expenses remained steady at ₱1.2 billion in 2012, representing 9.3% of revenues. Finance income grew by 603.0% from ₱1.0 million in 2011 to ₱6.7 million in 2012.

The segment net income was about the same level at ₱1.02 billion for 2012 and 2011.

Beverage

The beverage sector's net sales grew from ₱11.9 billion in 2011 to ₱12.2 billion in 2012, showing a 2.1% improvement. Main contributors of this increase were the improved sales of energy drinks and bottled water by 11.3% and 10.1%, respectively. Cobra maintained its status as the segment's flagship product and continued to gain more share in the product mix. Beer was still the second biggest contributor in the segments' sales, followed by water.

Cost of sales declined by 3%, from ₱10 billion in 2011 to ₱9.7 billion in 2012. The decrease resulted from the lower prices of sugar used in the production of energy drinks and other carbonated soft drinks. Gross profit margin improved to 28.1% in 2012 from 24.7% in 2011.

General and administrative expenses increased by 32.5% from ₱555.3 million in 2011 to ₱735.7 million in 2012. Main drivers of this change were the increase in salaries and wages and documentary stamp taxes paid by Asia Brewery on the acquisition of subsidiaries. Selling expenses decreased by 9.4% to ₱1.8 billion with decline in depreciation, freight and handling, and promotions as major causes. Total operating cost remains at ₱2.6 billion.

Finance cost was lower in 2012 due to lower borrowings while higher finance income was posted due to a high interest income on its time deposit. Income tax grew due to growth in revenues.

All these factors have helped the beverage segment to continue its year-on-year 3-digit growth with an increase of 217.6% from ₱246.5 million in 2011 to ₱782.8 million in 2012.

Tobacco

Sale of goods and service income compose the tobacco segment's revenue. Sale of goods went up by 56.8% from ₱1.9 billion in 2011 to ₱3.0 billion in 2012. This increase is attributable to the sale of all remaining finished goods to JTI in December 2012 as well as the impact of higher average selling price. The 2011 revenue of the tobacco segment included service income of ₱1.5 billion under the Transitional Service Agreement where FTC rendered management services to PMFTC such as procurement, marketing, sales and merchandising, human resource, financial and administrative, legal and information systems services. No service income was recorded in 2012 since the Transitional Service Agreement was terminated in mid 2011. This in turn caused the 2012 revenue of the segment to decrease by 11.2%.

The tobacco segment posted higher cost of sales, from ₱2.2 billion in 2011 to ₱2.8 billion in 2012, resulting from the higher sales volumes as well as the increase in purchase cost and manufacturing overhead. Gross profit rate declined to 6.9% in 2012 from 34.0% in 2011 due to the increase in overhead cost in 2012.

Operating expenses decreased to₱273.8 million in 2012 from ₱554.7 million in 2011. The major cause of the 50.6% decline is the downsizing of FTC's operations and transfer of majority of its domestic business operations to PMFTC.

The increase in equity in net earnings of an associate from ₱4.1 billion to ₱6.5 billion contributed to the increase in net income by 47.0%.

Property development

Revenues from the property segment decreased by 48.3% from ₱5.2 billion in 2011 to ₱2.7 billion in 2012. This was on account of delays in the construction of some projects due to changes in design to include additional amenities as well as one-off delays in securing government permits.

The decline in cost of sales by 49.2% from ₱3.6 billion in 2011 to ₱1.8 billion in 2012 was also attributable to the decrease in sales.

A 16.4% increase in general and administrative expenses from ₱426.2 million in 2011 to ₱496.0 million in 2012 resulted primarily from an increase in organizational overhead, which includes an acquisition of an enterprise planning software aimed at streamlining Eton's business processes. Also included in the overhead cost is the increase in employee headcount, outside services, business taxes and repairs & maintenance expenses for completed but not yet turned over projects.

Finance income increased by 33.1% from ₱40.7 million in 2011 to ₱54.2 million in 2012. This growth mainly came from the contracts receivables of Eton. Finance cost went up mainly due to the additional

loans obtained by the company. Marketing fee and commission income were received by Eton in 2011. No income of these types was received by the company in 2012 causing other income to drop by 47.7% to ₱73.0 million.

All the aforementioned contributed to the decline in the property segment's net income.

2011 vs 2010

(In millions)	2011	2010
Revenue	₱32,688	₱40,311
Cost of Sales	23,837	30,635
Equity in Net Earnings of an Associate	4,118	(1,338)
Operating Expenses	5,218	5,236
Other income-net	(186)	4,494
Operating Income	7,751	3,102
Income Before Income Tax	7,565	7,596
Total Net Income	6,668	6,989
Net Income Attributable to Equity Holders of the Parent Company	5,818	5,969

Result of Operations

Consolidated revenues declined by 18.9% from ₱40.3 billion in 2010 to ₱32.7 billion in 2011. This is on account of the 75.2% decrease in the tobacco segment's revenues as a result of the transfer of FTC's domestic operations to PMFTC. The 2010 revenues of the tobacco segment included two months sales from FTC's regular operations before the business combination with PMPMI. Property development, beverage and distilled spirits showed improved revenues of 16.7%, 8.7% and 7.2%, respectively. Property development revenues increased from ₱4.5 billion in 2010 to ₱5.2 billion in 2011 mainly on account of Eton's growth in residential and investment projects sales. Beverage segment revenues increased from ₱11.0 billion in 2010 to ₱11.9 billion in 2011 primarily as a result of the increase in revenues of ABI's energy drinks, alcopop, bottled water and commercial glass. The increase in revenues of distilled spirits is mainly attributable to the increase in average price and was accompanied by the slight increase in the segment's sales volume.

LTG's consolidated cost of sales decreased by 22.2% from ₱30.6 billion in 2010 to ₱23.8 billion in 2011. The decline resulted primarily from the lower sales of the tobacco segment on account of the transfer of its operations to PMFTC. The distilled spirits, beverage and property development segments have all increased their cost of sales in light of the increase in revenues. Gross profit rate improved from 24.0% in 2010 to 27.1% in 2011.

Equity in net earnings of an associate increased to ₱4.1 billion in 2011 from a loss of ₱1.3 billion in 2010. The 2010 figure includes the ₱2.0 billion outright loss recognized from the valuation of assets contributed to the business combination between FTC and PMPMI. The 2011 equity in net earnings of an associate includes the amortization of the deferred gain pertaining to the transfer of assets of FTC to PMFTC in 2010.

LTG maintained its consolidated operating expenses to ₱5.2 billion in both 2011 and 2010. Selling expenses grew by 5.8% to ₱3.1 billion in 2011, driven by the increased selling expenses in the beverage, distilled spirits and property development segments. General and administrative expenses declined by 8.0% to ₱2.1 billion in 2011 on account of the significant decrease in the tobacco segments' general and administrative expenses as a result of the transfer of FTC's domestic business to PMFTC, offsetting the increase in the Group's other segments.

Other income-net in 2010 consist of the one-time ₱5.1 billion gain, on account of the business combination between FTC and PMPMI. Without such gain, other income increased by 16.0% from ₱ 233.9 million in 2010 to ₱271.4 million in 2011. This was mainly due to TDI's 2011 recognition of ₱ 176.9 million from recovery from insurance claims for the properties that were destroyed by a fire that broke out at TDI's Cabuyao Plant in 2010.

The overall impact of the given analysis above led to the slight decrease in LTG's net income attributable to equity holders by 2.5% from ₱6.0 billion in 2010 to ₱5.8 billion in 2011.

Distilled Spirits

An increase of 7.2% from ₱11.4 billion in 2010 to ₱12.2 billion in 2011 was posted by the distilled spirits segment. The main driver for this growth is the 7% increase in average selling prices coupled with a 1.4% increase in sales volume.

Cost of sales increased by 7.0% mainly on account of higher prices of raw materials, brand new bottles and higher fuel costs. Gross profit ratio is 23.5%.

Operating expenses of the segment grew by 3.8% due to 20.4% higher selling expenses. This is on account of massive advertising campaigns on new products like Boracay Rum and the Five Year's promotional rock band concert tours which culminated with a very successful rockfest that awed an audience of 80,000 fans in October 2011. General and administrative expenses decreased by 8.8% as last year's figure included higher depreciation provision on the assets of Asian Alcohol, bank charges as a result of the pre-termination of Tanduay's syndicated loan and the issuance of the ₱5 billion retail bonds.

Other charges-net significantly improved to ₱223.1 million in 2011 from a loss of ₱225.5 million in 2010. This was mainly due to lower finance costs by 11% and the ₱186 million insurance recovery in 2011 from the fire loss recorded in 2010 amounting to ₱228.6 million. The company recognized royalty income from Asia Brewery Inc. for the use of the brand name "Tanduay" in 2011. The increase in income tax is in line with revenue growth as well as revaluation increment on property, plant and equipment resulting from the appraisal done in 2011.

The segment's profit increased by 65.7% from ₱613.8 million in 2010 to ₱1,017.0 million in 2011, another milestone for the segment as it reaches the ₱1 billion bracket in terms of net income for the first time.

Beverage

The beverage segment's revenue increased from ₱11.0 billion in 2010 to ₱12.0 billion in 2011, generating an 8.7% growth. Asia Brewery's alcopop, Tanduay Ice, made the biggest movement, gaining by 421.9% and increasing its share in the sales mix from 1.5% to 7.2%. Commercial bottles also made a 3-digit percentage increase of 107.4%. Cobra, composing 33.5% of total sales, grew by 2.3%. Although beer sales have declined, it still held 26.5% of the segments' revenues.

Cost of sales for the beverage segment grew by 5.7% from ₱9.4 billion in 2010 to ₱10 billion in 2011 on account of the increase in revenues. Gross profit margin improved from 21.3% to 24.7%.

There was a 13.5% increase in total operating cost, with selling expenses increasing from ₱1.8 billion in 2010 to ₱2.0 billion in 2011 and general and administrative expenses increasing from ₱434.4 million in 2010 to ₱555.0 million in 2011. Major factors for the movement in selling expenses were the increase in depreciation expense, freight and handling costs as well as royalty fees paid to Tanduay for the use of its name.

Interest income declined from ₱1.7 million in 2010 to ₱1.5 million in 2011 while interest expense increased from ₱139 million in 2010 to ₱150.1 million in 2011.

Segment profit grew by a significant 133.7% from ₱105.4million in 2010 to ₱246.5 million in 2011.

Tobacco

Revenues of the tobacco segment decreased by 75.2% from ₱13.5 billion in 2010 to ₱3.4 billion in 2011. This decrease is attributable to the transfer of the segments' operations to PMFTC on February 25, 2010. Thereafter, FTC was only manufacturing and selling cigarettes to JTI. Included in the 2011 revenues is income of ₱1.5 billion for rendering services to PMFTC under the Transitional Services Agreement and cancellation fee received from PMFTC for early termination of the TSA.

In line with the decline in revenues, cost of sales dropped by 78.4% from ₱10.2 billion in 2010 to ₱2.2 billion in 2011.

Decrease of 56.3% from ₱1,269.3 million in 2010 to ₱554.7 million in 2011 in operating expenses is generally attributable to the downsizing of operations and retrenchment of a significant number of employees.

Other income declined by 98.6%, reflecting the one-time gain from investment in associate that was recognized in 2010 and nil in 2011. The income tax decrease is in line with the drop in the segment's sales.

Segment profit dipped by 15.0% from ₱5.5 billion in 2010 to ₱4.7 billion in 2011, reflecting the changes stated above.

Property development

The property segment recognized total revenues of ₱5.2 billion in 2011, or 16.7% increase from ₱4.5 billion in 2010. Majority of the revenues came from Eton's sale of its projects namely Eton Baypark Manila, One Archer's Place-East, One Archer's Place-West, Belton Place, Emerald Loft, Eton Parkview Greenbelt and Eton Residences Greenbelt. The segment's leasing operation from Eton Cyberpod-Corinthian and Eton Cyberpod-Centris also increased in 2011.

Cost of sales increased by 13.8%, from ₱3.2 billion in 2010 to ₱3.6 billion in 2011, which is in line with the segments' increase in revenues.

Selling expenses increased by 25.2% from ₱377.4 million in 2010 to ₱472.3 million in 2011 on account of the increase in commissions and sales incentive - a result of the increase in sales - and marketing expenses. Administrative expenses jumped by 136.9% from ₱180 million in 2010 to ₱426.2 million in 2011, driven primarily by increase in payroll related expenses, professional and consultancy fees and outside services.

There was a 19.0% decline in finance costs, mainly caused by the segment's payment of a loan as well as capitalization of its interest on loans payable as part of investment properties and real estate inventories. Interest income dropped by 52.2%, representing the 2010 recognition of a non-recurring gain from sale of AFS financial asset and a sale transaction of PNB property to SM Development through the group, acting as agent. Taxes and licenses increased as a result of the increase in sales.

The segment registered a 0.2% increase from ₱731.6 million in 2010 to ₱733.3 million in 2011.

Financial Condition

2012

LTG's consolidated total assets for the period ended December 31, 2012 amounted to ₱97.6 billion, an increase of 30.5% from last years' same period of ₱74.8 billion. The significant growth can be

attributable to the increase in total current assets by 57.6% from 34.4 billion in 2011 to ₱54.2 billion in 2012 and the increase in noncurrent assets by 7.4% from ₱40.4billion in 2011 to ₱43.4 billion in 2012.

All segments posted higher current assets, with tobacco and property development having the highest growth of 41.1% and 52.7% respectively. Cash and cash equivalents grew by 72.4% from ₱5.2 billion in 2011 to ₱8.9 billion in 2012. This is on account of the ₱5 billion cash infused by the Company's parent, Tangent Holdings Corporation and dividends received by FTC from PMFTC during the year.

Receivables went up by 23.9% from ₱9 billion in 2011 to ₱11.1 million in 2012 mainly on account of the distilled spirits segment which increased by 75.5%. This is due to the significant increase in sales in December 2012 due to the anticipated price increase in January 2013 to cover the increase in excise taxes. Property development and beverage segments' receivables have declined while the tobacco segment increased by 32.8% on account of related party transactions. Due from related parties grew by 131.2% from ₱8.9 billion in 2011 to ₱20.5 billion in 2012 as part of the Company's restructuring in 2012.

Inventories went up by 22.8% to ₱11 billion in 2012 from ₱8.9 billion in 2011 which is mainly attributable to the property development segment which increased its condominium and residential units for sale by 181.5% on account of lower sales. Alcohol inventory decreased by 15.9%. Tobacco inventory declined by 67.3% resulting from the downsizing of its operations. Beverage inventory increased by 6.3%.

Noncurrent assets grew by 7.4%, mainly due to the increase in investments in associate and joint venture from ₱11.6 billion in 2011 to ₱13.9 billion in 2012. This 20% growth came from the movements in FTC's investment in PMFTC.

The available-for-sale financial assets increased significantly by 173.5% due to changes in the fair value of quoted equity shares and additional government debt securities

Investment properties increased by 9.2% due to additional land acquired during the period by FTC. Net retirement plan assets also increased by 13.8% on account of FTC's excess retirement funds.

Consolidated liabilities grew by 29.1% from ₱34.9 billion in 2011 to ₱45 billion in 2012 The Company's total current liabilities amounted to ₱35.8 billion in 2012 or an increase of 44%. The main contributor of this growth is the 110.5% growth in the current portion of debt due to related parties as part of the Company's restructuring. Customers' Deposits also increased by 50% as these can be applied only against the corresponding contracts receivables based on percentage of completion. Short-term debt and accounts payable and other liabilities decreased by 22.5% and 16.5%, respectively on account of various payments made during the year

Non-current liabilities declined by 7.4%, mainly due to increase in current portion of the long-term debts and 10.4% drop in deferred income tax liabilities.

Total equity increased by 17.1% from ₱39.9 billion in 2011 to ₱52.6 billion in 2012. Main drivers for this growth were the 13.9% and 11.1% increase in capital stock and retained earnings, respectively. Capital stock increased by ₱5.4 billion from ₱3.6 billion in 2011 to ₱9.0 billion in 2012 mainly due to the increased ownership of Tangent in the Company by subscribing to additional 5,398,138,889 shares on May 2, 2012 and July 27,2012 . The increase in retained earnings was due mainly to the favorable performance of most of the Company's subsidiaries during the period.

2011

LTG's consolidated total assets for the period ended December 31, 2011 amounted to ₱74.8 billion in 2011 or an increase of 17.4% from ₱63.7 billion in 2010. Major movements in the current assets are increase in cash and cash equivalents by 48.5%, due from related parties by 25.8%, other current

assets by 21.4%, and decrease in receivables by 8.0%. Additional money market placements were the major cause in the movement in cash and cash equivalents as well as the 2-tranche Placing and Subscription Transaction that LT Group, then Tanduay Holdings, exercised. The related party balances are mostly non-interest bearing. Other current assets increased mainly due to increase in the creditable withholding tax of Eton and Fortune Tobacco as well as Eton's prepaid commission.

Total noncurrent assets increased by 23.3% from ₱32.8 billion in 2010 to ₱40.4 billion on account of increased investment in associate and joint ventures by 15.5% (which came from the Group's investment in PMFTC), property, plant and equipment by 20.8% and investment properties by 5.6%. The growth in property, plant and equipment can be attributed to the various construction projects of Tanduay during the year such as the Batangas alcohol depot, improvements in the Laguna plant and the expansion in Negros plant.

Consolidated total liabilities amounted to ₱34.9 billion in 2011 or an increase of 5.8% from 2010's ₱ 33.0 billion. While there was a 6.3% decline in LT Group's noncurrent assets that were primarily due to FTC's payment of retirement benefits to its retrenched employees, it was offset by the 11.5% growth in the Group's total current liabilities. Reasons for this movement in current liabilities are Tanduay's short-term loan availment of ₱250 million during 2011, Eton's increased accrued expenses, Asia Brewery's increased dues to affiliates as well as income tax payable and increase in current portion of the Group's long-term debts.

Significant changes in equity were caused by the increased value of LT Group's land, buildings, machinery and equipment, addition of net income of LT Group's subsidiaries in retained earnings, increase in fair value of available-for-sale financial assets and increase in net income attributable to non-controlling interests.

KEY PERFORMANCE INDICATORS

LTG uses the following major performance measures. The analyses are based on comparisons and measurements on financial data of the current period against the same period of the previous year. The discussion on the computed key performance indicators can be found in the "Results of Operations" in the MD&A above.

1.) **Gross Profit Ratio**

Gross profit ratio in 2012 was 25.6% versus 27.1% in 2011.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2012 amounted to ₱7.5 billion; higher by 29.1% from last year's ₱5.8 billion. Ratio of net income to equity is 14.3% in 2012 and 14.6% in 2011.

3.) **Current Ratio**

Current Ratio for 2012 is 1.52:1 while last year's was 1.38:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2012 is 0.86:1 as compared to last year's 0.87:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2012 is ₱0.85 and ₱0.68 in 2011.

The manner by which LTG calculates the indicators above is as follows:

Gross profit rate – Gross profit/Net sales
Return on Equity – Net Income Attributable to Equity Holders of the LTG/Stockholders equity
Current Ratio – Current assets/Current liabilities
Debt-to-equity ratio – Total liabilities/Total equity
Earnings per share – Net income attributable to holders of the parent company/weighted average number of shares

OTHER MATTERS

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

Except for the above transactions, there are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.

(ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.

(iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period**.**

(iv) The Group has on-going and planned capital expenditure projects as follows:

Distilled Spirits

Expansion of Absolut Distillers
In September 2012, TDI increased ADI's capacity of 75,000 liters of ethyl alcohol per day to 175,000 liters per day with the addition of new distillation columns, expected to be fully operational by the second quarter of 2013. The project also includes the construction of an alcohol ageing plant with a capacity of 30,000 barrels. The upgrades will provide TDI with more high grade alcohol to be used in the production of new products for Luzon and export markets. The upgrades will also eliminate third party costs relating to the conversion of low grade alcohol to high grade alcohol and ensure a steady supply of high grade alcohol.

Expansion of Negros Plant
TDI has embarked on an additional expansion consisting of the construction of a finished goods and raw materials warehouse, and a new bottle sorting facility, all of which are expected to be completed in 2014.

TDI is currently contemplating possible other options for the plant, including shifting to production of ethanol or leasing the plant to a third party. The rehabilitation of the AAC Plant is currently under evaluation.

Beverage

In December, 2012, ABI commissioned a Polyethylene Terephthalate (PET) bottling plant at its Cagayan de Oro complex which is capable of producing both bottled water and carbonated softdrinks at a rated capacity of 15,000 bottles per hour. The fully integrated plant includes a water distillation facility to produce Absolute distilled water and a blow moulding equipment to produce all the PET bottle requirements of the plant. The new facility will be used to serve the growing demand for bottled water and carbonated softdrinks (CSD) in PET in the Mindanao and Visayas area and will result in substantial FTH savings.

The Company undertook major capex projects for its glass manufacturing and beer production facilities in order to improve production efficiencies. In 2012, construction was also started for a new Head Office building at the Cabuyao complex which when completed in 2013 will house the majority of administrative and support staff currently located in Allied Banking Center, Makati.

In 2012, investments were made in returnable containers to both replace fully depreciated bottles/crates and to support increasing sales of Cobra Energy Drinks, Beer and alcopop drinks.

(v) Aside from the impact on the new law, R.A. 10351, which modifies the applicable excise tax rates on alcohol and tobacco products including cigarettes effective January 1, 2013, the company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.

(vi) There are no significant elements of income or loss that did not arose from the Company's continuing operations.

(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended December 31, 2012 and 2011:

1. Cash and cash equivalents – H- 72%
2. Receivables-net – H- 24%
3. Due from related parties – H- 131%; V- 9%
4. Inventories – H- 23%
5. Other current assets – H- 10%
6. Receivables-net of current portion – H- (57%)
7. Available-for-sale financial assets – H- 173%
8. Investment in associate and joint venture – H- 20%
9. Investment Properties – H- 9%
10. Net retirement plan assets – H- 14%
11. Deferred tax assets-net – H- 11%
12. Short term debts – H- 23%

13. Accounts payable and other liabilities –H- (17%); V- (5%)
14. Income tax payable – H- 68%
15. Customer's deposit – H- 51%
16. Current portion of long-term debt – H- 80%
17. Due to related parties-current – H- 111%; V- 8%
18. Long-term debt – H- (10%)
19. Accrued retirement benefits – H- 20%
20. Deferred tax liabilities–net – H- (10%)
21. Other noncurrent liabilities– H- 971%
22. Capital stock – H- 151%
23. Capital in excess of par – H- (100%)
24. Deposit for future subscription – H- (100%)
25. Other comprehensive income – H- (6%)
26. Other equity reserves – H- (83%)
27. Retained earnings – H- 35%
28. Shares held by a subsidiary – H- (100%)
29. Minority interest – H- 26%
30. Revenues– H- (6%)
31. Cost of goods sold – H- (5%)
32. Gross profit – H- (11%)
33. Selling expenses – H- (11%)
34. Finance cost – H- 5%
35. Finance income – H- 67%
36. Foreign exchange losses – H- 7373%
37. Others-net – H- 167%
38. Net income – H- 28%; V- 9%

The causes for these material changes in the balance sheet and income statement accounts are all explained in the Management's Discussion and Analysis (MDA) – Results of Operations and Financial Condition above.

(viii) There are no seasonal aspects that have a material effect on the financial condition or results of operations of LTG.

A. Information on Independent Accountant and other Related Matters

(1) External Audit Fees and Services

a.) Audit and Audit-Related Fees

1. The audit of the Group's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2012 and 2011.

LT Group, Inc.
Yr. 2012- ₱ 1,400,000
Yr. 2011- ₱ 220,000

Tanduay Brands International, Inc.
Yr. 2012- ₱ 55,000
Yr. 2011- ₱ 55,000

Distilled Spirits
Yr. 2012- ₱ 2,610,000
Yr. 2011- ₱ 2,930,000

Beverage

Yr. 2012- ₱ 4,375,000
Yr. 2011- ₱ 4,935,000

Tobacco

Yr. 2012- ₱ 600,000
Yr. 2011- ₱ 250,000

Property Development

Yr. 2012- ₱ 2,020,000
Yr. 2011- ₱ 1,590,000

2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrants' financial statements:

none

b.) Tax Fees

none

c.) All Other Fees

Yr. 2012

The distilled spirits segment incurred ₱ 990,000 during the year 2012 for its quarterly review of financial statements.

Yr. 2011

The beverage segment incurred additional ₱ 700,000 during the year 2011 for its extension of audit of financial statements.

d.) The audit committee's approval policies and procedures for the above services:

Upon recommendation and approval of the audit committee, the appointment of the external auditor is being confirmed in the annual stockholders' meeting. On the other hand, financial statements should be approved by the Board of Directors before these are released**.**

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 66) are filed as part of this Form 17-A (pages 66 to 184)

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2012 or during any subsequent interim period.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

1. Directors

Name	Age	Citizenship	Business Experience/Other Directorship within the Last five (5) years	Position/Term of Office/Period Served
Lucio C. Tan	78	Filipino	Chairman of Philippine Airlines, Inc., Asia Brewery Inc., **Eton Properties Philippines, Inc.**, Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp., **PAL Holdings, Inc.**, **Tanduay Distillers**, Inc., Tanduay Brands International, Inc., The Charter House, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Manufacturing Services & Trade Corp., REM Development Corp., Foremost Farms, Inc., Basic Holdings Corp., Dominium Realty & Construction Corp., Shareholdings, Inc., Sipalay Trading Corp. and Fortune Tobacco International Corp.; Director of **Philippine National Bank**, majority stockholder of **Allied Banking Corp.**, and Century Park Hotel	Chairman/ 1Year/ 2 July 1999 to present
Carmen K. Tan	70	Filipino	Director of Asia Brewery, Inc., The Charter House, Inc., Dominium Realty & Construction Corp., Eton City, Inc., Foremost Farms, Inc., Fortune Tobacco Corp., Fortune Tobacco International Corp., Himmel Industries, Inc., Lucky Travel Corp., Manufacturing Services & Trade Corp., Progressive Farms, Inc., REM Development Corp., PMFTC Inc., Shareholdings, Inc., and Sipalay Trading Corp.	Director/ 1 Year/ 05 May 2010 to present
Harry C. Tan	67	Filipino	Vice Chairman of **Eton Properties Philippines, Inc.**, Eton City, Inc., Belton Communities, Inc., Pan Asia Securities, Inc., Lucky Travel Corp., and Air Philippines Corporation; Managing Director of The Charter House, Inc.; Director/Chairman for Tobacco Board of Fortune Tobacco Corp., Director/President of Century Park Hotel, and Landcom Realty	Vice Chairman; Nomination and Compensation Committee Chairman/ 1 Year/ 27 May 2009 to present (Director since 28 May 2008)

			Corp., Director of **Allied Banking Corp.**, Asia Brewery Inc., Basic Holdings Corp., Philippine Airlines Inc., **PAL Holdings, Inc.**, Foremost Farms, Inc., Himmel Industries, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Manufacturing Services & Trade Corp., PMFTC Inc., REM Development Corp., Grandspan Development Corp., Dominium Realty & Construction Corp., Fortune Tobacco International Corp., Shareholdings, Inc., Sipalay Trading Corp., Tanduay Brands International, Inc., and **Tanduay Distillers, Inc.**	
Michael G. Tan	47	Filipino	Director/Chief Operating Officer of Asia Brewery, Inc., Director of **Allied Banking Corporation**, AlliedBankers Insurance Corp., Air Philippines Corp., **Eton Properties Philippines, Inc.**, PMFTC Inc., Grandway Konstruct, Inc., Lucky Travel Corp., Philippine Airlines, Inc., Philippine Airlines Foundation, Inc., **PAL Holdings, Inc.,** Tanduay Brands International, Inc., Absolut Distillers, Inc., Eton City, Inc., and Shareholdings, Inc.	Director/President; Audit Committee Member; Nomination and Compensation Committee Member/ 1 Year/ 05 May 2010 to present (Director since 21 February 2003)
Lucio K. Tan, Jr.	46	Filipino	Director/President of Tanduay Distillers, Inc., Director/EVP of Fortune Tobacco Corp.; Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., **Philippine National Bank**, **PAL Holdings, Inc.**, **Eton Properties Philippines, Inc., MacroAsia Corporation**, PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Tanduay Brands International, Inc, Asian Alcohol Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., REM Development Corporation, Grandspan Development Corporation, Dominium Realty & Construction Corp., Manufacturing Services & Trade Corp., Fortune Tobacco International Corp., and Shareholdings, Inc.	Director; Audit Committee Member; Nomination and Compensation Committee Member/ 1 Year/ 21 February 2003 to present
Wilson T. Young	56	Filipino	Director/Chief Operating Officer of **Tanduay Distillers, Inc.**;	Director; Audit Committee Member/

			Director/President of Tanduay Brands International, Inc.; Chief Operating Officer of Asian Alcohol Corp., Absolut Distillers, Inc.; Director of **Eton Properties Philippines, Inc.**, and Flor De Caña Shipping, Inc.; Chairman of **Victorias Milling Co., Inc.**; Vice Chairman of the Board of Trustees of UERM Medical Center, Board of Trustees Member of the University of the East, and Chief Operating Officer of Total Bulk Corp.	1 Year/ 31 March 1999 to present Served as Managing Director/Deputy CEO from 05 May 2010 to 31 July 2012
Juanita Tan Lee	70	Filipino	Director of **Eton Properties Philippines, Inc.**, **PAL Holdings, Inc.**, Air Philippines Corp.; Director/ Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Dominium Realty and Construction Corp., and Shareholdings, Inc.; Corporate Secretary of Asian Alcohol Corp., Absolut Distillers, Inc., The Charter House, Inc., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco Int'l Corp., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., Manufacturing Services & Trade Corp., Marcuenco Realty & Development Corp., PMFTC Inc., Progressive Farms, Inc., REM Development Corp., **Tanduay Distillers, Inc.**, Tanduay Brands International Inc., Tobacco Recyclers Corp., Total Bulk Corp., Zebra Holdings, Inc.; Assistant Corporate Secretary of Basic Holdings Corp.	Director; Nomination and Compensation Committee Member/ 1 Year/ 02 May 2012 to present Assistant Corporate Secretary/ 1 Year/ 13 September 2000 to 17 September 2012
Antonino L. Alindogan, Jr.	74	Filipino	Chairman of An-Cor Holdings, Inc.; Chairman/President of Landrum Holdings, Inc.; Independent Director of Phil. Airlines, Inc., **Eton Properties Philippines, Inc.**, **Rizal Commercial Banking Corp.**, **PAL Holdings, Inc.**, **House of Investments, Inc.**, Great Life Financial Assurance Corp., and Bankard Inc.; Former President of C55, Inc.; Former Chairman of the Board of Directors of Development Bank of the Philippines (DBP)**;** Former Consultant for Microfinance of DBP; Former Member of the Monetary Board of Bangko Sentral ng Pilipinas	Independent Director; Audit Committee Chairman/ 1 year/ 31 July 2012 to present

Wilfrido E. Sanchez	76	Filipino	Tax Counsel of Quiason Makalintal Barot Torres Ibarra & Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., House of Investments, JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., **Rizal Commercial Banking Corporation**, Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Rubina Corp.	Independent Director; Audit Committee Member; Nomination and Compensation Committee Member/ 1 year/ 31 July 2012 to present
Florencia G. Tarriela	66	Filipino	Chairman of **Philippine National Bank**, PNB Global Remittance & Financial Co., HK Ltd.; Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; Columnist of Manila Bulletin	Independent Director; Audit Committee Member/ 1 year/ 9 August 2012 to present
Peter P. Ong	65	Filipino	Independent Director of **Tanduay Distillers, Inc.**; Former Director of Air Philippines Corp.; and Consultant of PDM Philippine Industries Inc.;	Independent Director/ 1 Year/ 8 October 2001 to present
Domingo T. Chua	71	Filipino	Former Chairman of **Allied Banking Corp.**, Air Philippines Corporation and PNB Securities, Inc.; Former Vice Chairman of PNB General Insurers Co., Inc.; Former Managing Director/Treasurer of Himmel Industries, Inc.; Former Director/Treasurer of Dominium Realty & Construction Corp., Asia Brewery, Inc., Manufacturing Services & Trade Corp., Grandspan Development Corp., Foremost Farms, Inc., The Charter House, Inc., Progressive Farms, Inc., Fortune Tobacco Corp., Fortune Tobacco International Corp., Lucky Travel Corp., Tanduay Brands International, Inc., Absolut Distillers, Inc., Asian Alcohol Corp., Eton City, Inc., Belton Communities, Inc., and FirstHomes, Inc.; Former Director of Pan Asia Securities Corp., Allied Commercial	Director/Treasurer; Nomination and Compensation Committee Member/ 1 Year/ 27 May 2009 to 31 July 2012

			Bank, Allied Bankers Insurance Corp., Maranaw Hotels & Resort Corp., Eurotiles Industrial Corp., **Eton Properties Philippines, Inc.**, **PAL Holdings, Inc.**, PNB Life Insurance Inc. and Director of **Philippine National Bank**	
Andres C. Co	59	Filipino	Senior Vice President – Sales and Marketing of **Tanduay Distillers, Inc.** and Tanduay Brands International, Inc.	Director/ 1 Year/ 21 February 2003 to 31 July 2012
Carlos R. Alindada	76	Filipino	Independent Director of **Tanduay Distillers, Inc.**, Citibank Savings, Inc., East West Banking Corporation, and Bahay Pari Solidaritas Fund,; Former Commissioner of the Energy Regulatory Commission; Former Chairman of the Reporting Standards Council; Former Member of the Rehabilitation Receiver Team of Philippine Airlines, Inc.; Former Chairman of the Board of Trustees of SGV Foundation, Former Trustee of Philippine Business for Social Progress	Independent Director; Audit Committee Chairman/ 1 Year/ 12 April 2005 to 09 August 2012

2. Executive Officers

Name/Position	**Age**	Citizenship	**Current Affiliations and Business Experiences in the last 5 years**	**Term of Office/ Period Served**
Lucio C. Tan/ Chairman	78	Filipino	See above	1 Year/ 2 July 1999 to present
Harry C. Tan/ Vice Chairman/ Treasurer	67	Filipino	See above	1 Year/ 27 May 2009 to present/ 31 July 2012 to present
Michael G. Tan/ President	47	Filipino	See above	1 Year/ 05 May 2010 to present
Ma. Cecilia L. Pesayco/ Corporate Secretary	60	Filipino	Corporate Secretary of Allied Savings Bank, **Eton Properties Philippines, Inc.**, Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., and East Silverlane Realty and Development Corp.; Assistant Corporate Secretary of **PAL Holdings, Inc.** and Air Philippines Corp.; Former Corporate Secretary of Allied Banking Corp.	1 Year/ 31 March 1998 to present
Jose Gabriel D. Olives/ Chief Financial	66	Filipino	Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines,	1 Year/ 9 August 2012 to present

Officer			Inc., and Former Chief Finance Officer of Asia Brewery, Inc.	
Nestor C. Mendones/ Deputy Chief Financial Officer	57	Filipino	Senior Vice President-Finance and Chief Finance Officer of **Tanduay Distillers, Inc.**: Former Chief Finance Officer of LT Group, Inc. (formerly Tanduay Holdings, Inc.)	1 Year/ 9 August 2012 to present
Erolyne C. Go/ Assistant Corporate Secretary	33	Filipino	Corporate Secretary of PNB Life Insurance, Inc.; Assistant Corporate Secretary of **Eton Properties Philippines, Inc.**	1 Year/ 17 September 2012 to present

Independent Directors and their qualifications:

1. Antonino L. Alindogan, Jr., 74, and was elected as Independent Director since July 31, 2012.

   Term of office – 1 year
   Period served – 8 months

   Educational attainment:
   Bachelor of Science in Commerce major in Accounting, De La Salle College (Magna Cum Laude)
   Certified Public Accountant

   Positions held in the last 5 years:
   - Landrum Holdings, Inc. – Chairman
   - An-Cor Holdings, Inc. – Chairman
   - Great Life Financial Assurance Corp. – Independent Director
   - Bankard Inc. – Independent Director
   - Rizal Commercial Banking Corp. – Independent Director
   - Eton Properties Philippines, Inc. – Independent Director
   - PAL Holdings, Inc. – Independent Director
   - Philippine Airlines, Inc. – Independent Director
   - House of Investments, Inc. – Independent Director

2. Wilfrido E. Sanchez, 76, Filipino, and was elected as an Independent Director since July 31, 2012.

   Term of office – 1 year
   Period served – 8 months

   Educational attainment:
   Bachelor of Arts, Ateneo de Manila University
   Bachelor of Laws, Ateneo de Manila University
   Master of Laws, Yale Law School

   Positions held in the last 5 years:
   - Quiason Makalintal Barot Torres & Ibarra Law Offices – Tax Counsel
   - Adventure International Tours, Inc. – Director
   - Amon Trading Corp. – Director
   - Center for Leadership and Change, Inc. – Director
   - EEI Corporation – Director
   - House of Investments, Inc. – Director

- JVR Foundation, Inc. – Director
- Kawasaki Motor Corp. – Director
- Magellan Capital Holdings Corp. – Director
- PETNET, Inc. – Director
- PETPLANS, Inc. – Director
- Rizal Commercial Banking Corp. – Director
- Transnational Diversified Corp. – Director
- Transnational Financial Services, Inc. - Director
- Universal Robina Corp. – Independent Director

3. Florencia G. Tarriela, 66, Filipino, and was elected as Independent Director since August 9, 2012.

Term of office – 1 year
Period served – 7 months

Educational Attainment:

BSBA major in Economics, University of the Philippines
Master of Arts in Economics, University of California, Los Angeles (UCLA), USA (topped the Master's Comprehensive Exams and completed the M.A. Degree with an "A" average in three Quarters)

Positions held in the last 5 years:

- Philippine National Bank – Chairman
- PNB Global Remittance & Financial Co., HK Ltd. – Chairman
- Manila Bulletin - "Business Options" – Columnist
- Foundation for Filipino Entrepreneurship, Inc. (FFEI) – Trustee
- Summer Institute of Linguistics – Adviser
- Tulay sa Pagunlad, Inc. – Director
- Bank Administration Institute of the Philippines – Life Sustaining Member
- Financial Executive Institute – Life Sustaining Member

4. Peter P. Ong, 65, Filipino, and was elected as an Independent Director since October 8, 2001.

Term of office – 1 year
Period served – 1 year

Educational attainment:

Bachelor of Science Major in Management, University of the East

Positions held in the last 5 years:

- PDM Philippine Industries Inc. – Consultant and Former Sales Director
- Tanduay Distillers, Inc. – Independent Director
- Air Philippines Corporation – Director
- Luna RioLand Holdings – Former Director
- Kimberly Clark Philippines, Inc. – Former Industrial Product Sales Director

The Independent Directors are duly qualified and suffer from no disqualification under Section 11(5) of the Code of Corporate Governance. Independent director refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having any relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment (SEC Memorandum Circular No. 2, Code of

Corporate Governance).

2. Significant Employees

While all of the employees of the Group are valued for their contribution to the Group, none are expected to contribute significantly more than any of the others.

3. Family Relationship

Mr. Lucio C. Tan, Chairman, is the brother of Mr. Harry C. Tan. He is also the father of Mr. Lucio K. Tan, Jr. and Mr. Michael G. Tan. Ms. Carmen K. Tan is the wife of Mr. Lucio C. Tan and the mother of Mr. Lucio K. Tan, Jr. Mr. Domingo T. Chua is the brother-in-law of Mr. Lucio C. Tan and Mr. Harry C. Tan.

4. Involvement in Certain Legal Proceedings during the past 5 years

The Directors and Executive Officers of LTG are not involved in any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

The following compensation was given to officers and directors for the reporting year.

Summary Compensation Table

Annual Compensation

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2013 (Estimate)	6,975,650	587,565	2,392,500
	2012	6,341,500	534,150	2,175,000
	2011**	8,520,000	710,000	1,915,000
All other officers and directors as a group unnamed	2013 (Estimate)	7,469,000	770,000	3,399,000
	2012	6,790,000	700,000	3,090,000
	2011	3,720,000	310,000	3,295,000

* Others – includes per diem of directors

** The top four most highly compensated executive officers included the Managing Director of LTG.

The following constitute LTG's four (4) most highly compensated executive officers (on a

consolidated basis):

1. Mr. Lucio C. Tan is the Chairman of the Board of Directors and Chief Executive Officer (CEO).
2. Mr. Michael Tan is the President.
3. Mr. Nestor C. Mendones is the Deputy Chief Finance Officer.
4. Atty. Ma. Cecilia Pesayco is the Corporate Secretary.

a) Standard Arrangements – The Directors of LTG receive a Director's allowance of P30,000.00 a month and a per diem of P25,000.00 for every board meeting and P15,000.00 for every committee meeting attended. Other than the stated allowance and the per diem of the Directors, there are no other standard arrangements to which the Directors of LTG are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.

b) Other Arrangements – None

c) Employment contract or compensatory plan or arrangement – None

Warrants and Options Outstanding: Repricing

a.) There are no outstanding warrants or options held by LTG's CEO, the named executive officers, and all officers and directors as a group.

b.) This is not applicable since there are no outstanding warrants or options held by LTG's CEO, executive officers and all officers and directors as a group.

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2012.

1. Security Ownership of Certain Record and Beneficial Owners of more than 5%

Title of Class	Name and Address of Record Owner and relationship with Issuer	Name of Beneficial Ownership and relationship with Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation *SMI Compound* *C. Raymundo Ave.,* *Maybunga, Pasig City* *Controlling Stockholder*	-ditto-	Filipino	8,046,318,193/ Record Owner	89.59%

2. Security Ownership of Management

Title of Class	Name of Beneficial owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Beneficial Ownership
Common	Lucio C. Tan	2,200 R (direct)	Filipino	Nil

Common	Harry C. Tan	3,300 R (direct)	Filipino	Nil
Common	Wilson T. Young	2,200 R (direct)	Filipino	Nil
Common	Michael G. Tan	1,100 R (direct)	Filipino	Nil
Common	Carmen K. Tan	2,200 R (direct)	Filipino	Nil
Common	Lucio K. Tan Jr.	1,100 R (direct)	Filipino	Nil
Common	Wilfrido E. Sanchez	1,000 R (direct)	Filipino	Nil
Common	Florencia G. Tarriela	1,000 R (direct)	Filipino	Nil
Common	Peter P. Ong	1,100 R (direct)	Filipino	Nil
Common	Antonino Alindogan Jr.	1,000 R (direct)	Filipino	Nil
Common	Ma. Cecilia L. Pesayco	2,200 R (direct)	Filipino	Nil
Common	Juanita Tan Lee	1,100 R (direct)	Filipino	Nil
N/A	Nestor C. Mendones	None N/A	Filipino	N/A
N/A	Susan T. Lee	None N/A	Filipino	N/A

Security ownership of all directors and officers as a group unnamed is 19,500 representing 0% of LTG's total outstanding capital stock.

*There are no additional shares which the listed beneficial and record owners has the right to acquire within 30 days from any warrants, options, rights and conversion privileges or similar obligations or otherwise.

The Board of Directors of THC listed below have the right to vote or direct the voting or disposition of LTG's shares held by THC:

		No of Shares Held in THC	Total Par Value
1.	PNB Trust Banking Group	3,600,000,000	P 3,600,000,000.00
2.	High Able Investment Ltd.	265,650,875	265,650,875.00
3.	Make Perfect Ltd.	278,299,515	278,299,515.00
4.	Top Trade Resources Ltd.	865,494,125	865,494,125.00
5.	Lucio C. Tan	23,999,996	23,999,996.00
6.	Harry C. Tan	1	1.00
7.	Carmen K. Tan	1	1.00
8.	Lucio K. Tan Jr.	1	1.00
9.	Michael G. Tan	1	1.00

Each of the above named shareholders is entitled to vote only to the extent of the number of shares registered in his/her name.

3. Voting Trust Holders of 5% or more

There are no voting trust holders of 5% or more of the common shares.

4. Changes in Control

None

Item 12. Certain Relationships and Related Transactions

In addition to Note 18 of the Notes to the Consolidated Financial Statements on pages 97 to 99 the following are additional relevant related party disclosures:

(1) The Group's noted related parties are Allied Banking Corporation (ABC), Philippine National Bank (PNB), Victorias Milling Co., Inc. (VMC), PMFTC, Inc. (PMFTC) and Tangent Holdings Corporation (THC). Transactions with these related parties are necessary in the normal course of the Group's business. Though substantial in amount, they are still under normal trade practice. There are no special risks or contingencies since the usual business risks like problem in quality, failure to deliver when needed and price of product, which is dependent on the cost efficiency of suppliers.

a.) Business purpose of the arrangements:

We do business with related parties to avoid the risk of material shortages, unfair pricing and stronger ties, which is based on trust and confidence. There is also better coordination with the suppliers on the quality, production scheduling and pricing considerations.

b.) Identification of the related parties transaction business and nature of the relationship:

1. ABC – investments/loans/services
2. PNB – bank deposits
3. THC – advances
4. VMC – supplier of sugar and molasses
5. PMFTC – management services

c.) Transaction prices are based on terms that are no less favorable than those arranged with third parties.

d.) Transactions have been fairly evaluated since we adhere to industry standards and practices.

e.) There are no other on going contractual or other commitments as a result of the arrangements. There are no long term supplier's contract. The Group can source out from outside suppliers if they are more favorable.

(2) Not applicable – there are no parties that fall outside the definition "related parties" with whom the Group or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis**.**

The effects of the related party transactions on the financial statements have been identified in Note 18 of the Notes to Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE

ITEM 13. Corporate Governance

A. The evaluation system established by LTG to measure or determine the level of compliance of the Board of Directors and top-level management with its Manual of Corporate Governance.

The Compliance Officer is currently in charge of evaluating the level of compliance of the Board of Directors and top-level management of LTG. The implementation of the Corporate Governance Scorecard allows LTG to properly evaluate compliance to the Manual.

B. Measures being undertaken by LTG to fully comply with the adopted leading practices on good corporate governance.

Some of the measures undertaken by LTG to fully comply with the adopted leading practices on good corporate governance are the following:

1. Computerization
2. Creation of budget system
3. Various information campaigns.
4. Attending seminars for Corporate Directors
5. Strengthen the oversight of the Audit Committee on the work process of the Company
6. Amendment of the Manual on Corporate Governance as of March 2011 in compliance with the Revised Code of Corporate Governance of the Securities and Exchange Commission (SEC) (Series of 2009).
7. Amendment of the Audit Committee Charter as of September 2012 in compliance with Memorandum Circular No. 4, Series 2012 of the Securities and Exchange Commission

C. Any deviation from LTG's Manual of Corporate Governance. It shall include a disclosure of the name and position of the person(s) involved, and the sanctions imposed on said individual.

LTG has established a procedure that imposes corresponding penalties in dealing with cases of non-compliance with the Corporate Governance Manual.

D. Any plan to improve corporate governance of LTG.

LTG will evaluate and monitor its Manual on Corporate Governance to ensure compliance with leading principles and practices on corporate governance. Further, LTG continues to improve its Corporate Governance when appropriate and warranted, in its best judgment.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

a. Exhibits - see accompanying Index to Exhibits (page 133)

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

b. Reports on SEC Form 17-C

SEC Form 17-C (Current Reports), which has been filed during the year, is no longer filed as part of the exhibits.

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(FOR THE PERIOD OF JULY 2012 TO DECEMBER 2012)

Date of Report	Subject Matter Disclosed
July 27, 2012	On July 27, 2012, the Corporation held a Special Stockholders' Meeting and approved the following matters: 1. Increase in the authorized capital stock of the Corporation from Php5,000,000,000.00 divided into 5,000,000,000 shares with a par value of Php1.00 per share to Php25,000,000,000.00 divided into 25,000,000,000 shares with a par value of Php1.00 per share; 2. Amendment of Article VII of the Articles of Incorporation to reflect the increase in the Corporation's authorized capital stock; 3. Issuance of 5,000,000,000 shares to the controlling stockholder, Tangent Holdings Corporation (Tangent), in support of the increase in authorized capital stock; and 4. Waiver of Rights/Public offering in relation to the 5,000,000,000 shares to be issued to Tangent
July 31, 2012	On July 30, 2012, the Corporation requested the Philippine Stock Exchange (PSE) for a trading suspension of the shares of LT Group, Inc. (formerly Tanduay Holdings, Inc.) shares for a period of one (1) day only on July 31, 2012. The request was made due to material matters to be discussed at the Corporation's Board meeting to be held on July 31, 2012. On July 31, 2012, the Corporation's Board of Directors convened and approved the following: 1. Amendment of the Corporation's Articles of Incorporation and By-Laws to reflect the change in the corporate name to LT GROUP, INC.; 2. Investment in the following companies: a. Asia Brewery, Inc. (ABI) – The acquisition of at least 90% of ABI b. Fortune Tobacco Corp. (FTC) – The acquisition of at least 83% of FTC c. Eton Properties Philippines, Inc. (Eton) – The transfer to the Corporation of 98.1% holdings of the Lucio Tan group in Eton d. Philippine Airlines, Inc. (PAL) – The transfer to the Corporation of 49.84% holdings of the Lucio Tan group in PAL e. Air Philippines Corp. (AirPhil) – The transfer to the Corporation of 50.97% holdings of the Lucio Tan group in AirPhil. f. Philippine National Bank (PNB) – The acquisition of 34.79% of PNB g. Allied Banking Corp. (ABC) - The acquisition of 27.62% of ABC. The Corporation will use the proceeds of the 5,000,000,000 investment of Tangent Holdings Corp. to finance the abovementioned investments. These acquisitions are expected to be completed before the end of September 2012. 3. Amendment of the corporate By-Laws to provide for a "non-compete" clause which shall disqualify business competitors from becoming director/s and/or officer/s of the Corporation;

	4. Management was further directed to study and recommend measures to enable compliance with the Minimum Public Ownership Requirement of the PSE resulting from the additional investment of 5,000,000,000 shares made by Tangent 5. Calling of a Special Stockholders' Meeting to convene on September 18, 2012 for the purpose of securing shareholder approvals to the amendments to the articles of incorporation of the Corporation and for other purposes as may be necessary in connection with the above disclosures; 6. Acceptance of the resignations of Mr. Domingo Chua as Director and Treasurer and Mr. Andres Co as Director. Mr. Co will continue to act as the Senior Vice President for Sales and Marketing of Tanduay Distillers, Inc.; and 7. Election of Messrs. Wilfrido E. Sanchez and Antonino Alindogan, Jr. as Independent Directors of the Corporation to replace Mr. Chua and Mr. Co. The Board thereafter elected Mr. Harry Tan as Treasurer.
August 9, 2012	On August 9, 2012, the Corporation's Board of Directors met and approved the following: 1. Acceptance of the resignation of Mr. Carlos R. Alindada as independent director; 2. Election of Ms. Florencia G. Tarriela as director to fill up the resulting vacancy in the Board; 3. Creation of the Risk Committee and a Corporate Governance Committee and the reorganization of the Committees of the Board of Directors; 4. Appointment of the following officers: Ma. Cecilia Pesayco – Corporate Secretary and Chief Compliance Officer Jose Gabriel Olives – Chief Financial Officer Nestor Mendones – Deputy Financial Officer Erwin Go – Chief Legal Officer 5. Amendment of the Secondary Purposes set forth in Article II of the articles of incorporation, which shall be submitted for approval by the stockholders at the special stockholders' meeting scheduled on September 18, 2012; 6. Further amendment of the corporate By-Laws; 7. Undertaking an equity placement in the international capital market to be conducted as follows: a. Placing Tranche shall consist of the sale by Tangent to institutional investors of up to, but not exceeding, 3,000,000,000 shares of the Corporation registered in Tangent's name at a price to be determined b. Subscription Tranche shall consist of the subsequent subscription by Tangent, using the proceeds of the Placing Tranche, to such number of new shares of the Corporation in an amount not exceeding the number of shares sold during the Placing Tranche at a subscription price equivalent to the placing price. Such subscription price may be adjusted to account for the expenses of the Placing and Subscription Transaction. The shares subject of the Subscription Tranche shall thereafter be listed with the PSE, subject to compliance with the requirements thereof.
August 15, 2012	On August 14, 2012, ABI filed with the Securities and Exchange Commission a 10-1 Report for the issuance of 800,000,000 common shares from its authorized but unissued capital stock in favor of the

	Corporation. The said subscription constitutes only a portion of the P1.8Billion total cash investment of the Corporation in ABI. On August 15, 2012, the Board of Directors met and agreed to move the Special Stockholders' Meeting original schedule on September 18, 2012 to September 24, 2012 at 10:00 a.m. at the Kachina Room, Century Park Hotel, Malate, Manila.
September 3, 2012	The submission of the unaudited interim combined financial statements of the Corporation as of and for the six months ended June 30, 2012 upon completion of the investment transactions earlier disclosed.
September 12, 2012	The filing of the Corporation's application for increase in authorized capital stock from Php5,000,000,000.00 divided into 5,000,000,000 common shares with a par value of Php1.00 to Php25,000,000,000.00 divided into 25,000,000,000 common shares with a par value of Php1.00 per share with the Securities and Exchange Commission on September 10, 2012.
September 24, 2012	On September 24, 2012, the stockholders approved the following matters during the Special Stockholders' Meeting: 1. Amendment of the Corporation's Articles of Incorporation to reflect the change in corporate name to LT Group, Inc.; 2. Amendment of Article II of the Articles of Incorporation to replace the outdated clauses in the Secondary Purposes with standard secondary purposes more in line with the business purposes applicable to the holding company; 3. The 2-tranche Placing and Subscription Transaction involving: a. Placing Tranche - the sale by Tangent Holdings Corporation (Tangent), a controlling stockholder of the Corporation, of up to, but not exceeding Three Billion (3,000,000,000) common shares of the Corporation registered in its name to investors by way of a follow-on offering at a placing price to be determined at a book building exercise to be hereafter conducted; and b. Subscription Tranche - the subsequent subscription by Tangent, using the proceeds of the Placing Tranche (net of expenses incurred in the Placing Tranche), to new shares of the Corporation in an amount equivalent to the number of shares sold during the Placing Tranche at an issue price equivalent to the placing price. The total number of shares subject of the Placing Tranche shall be determined based on investor demand as determined through a book building exercise, provided the same shall not exceed Three Billion (3,000,000,000) shares and the total number of Subscription Shares shall not exceed the shares sold in the Placing Tranche. The Board of Directors was granted authority to determine such other terms and conditions of the Transaction as may be most beneficial to the Corporation, including (but not limited to) the timing of the same and the total funds to be raised therefrom. Further, the Subscription shares shall be listed with the Philippine Stock Exchange. 4. Waiver of the conduct of a rights or public offering of the Subscription Shares to be issued to Tangent pursuant to the

	Corporation's Placement and Subscription Transaction; and 5. Appointment of UBS Investments Philippines, Inc. as Financial Adviser and Sole Bookrunner for the contemplated equity offering.
September 25, 2012	Further to our disclosure dated 31 July 2012 regarding the proposed transfer to the Corporation of the 98.1% holdings of the Lucio Tan group of companies in Eton Properties Philippines, Inc., please be advised that after further negotiations, the parties have agreed that in lieu of the acquisition of 100% of the outstanding capital stock of Paramount LandEquities, Inc. ("Paramount") and Saturn Holdings, Inc. ("Saturn"), the transfer of control in Paramount and Saturn to the Corporation shall be effected by way of issuance to the Corporation of new Paramount and Saturn shares out of an increase in the respective authorized capital stocks of the said companies. In connection with the foregoing, we wish to further advise as follows: 1. Saturn filed on 25 September 2012 with the Securities and Exchange Commission ("SEC") its application for increase in authorized capital stock from Ten Million Pesos (PhP10,000,000.00) divided into Ten Million (10,000,000) common shares with a par value of One Peso (PhP1.00) per share to Five Hundred Million Pesos (PhP500,000,000.00) divided into Five Hundred Million (500,000,000) common shares with a par value of One Peso (PhP1.00) per share; 2. Out of the foregoing increase, Four Hundred Ninety Million (490,000,000) common shares with a par value of One Peso (PhP1.00) per share have been subscribed by the Company; 3. The Corporation's subscription was paid in full by way of conversion into equity of a portion of the Company's advances to Saturn to the extent of Four Hundred Ninety Million Pesos (PhP490,000,000.00). 4. Upon SEC approval of Saturn's application for increase in capital, the Corporation shall become the controlling shareholder of Saturn, holding 98.99% of Saturn's outstanding capital.
September 26, 2012	Further to our disclosure dated 31 July 2012 regarding investment by the Company in companies held under common control by the Lucio Tan group of companies, we wish to report developments thereon as follows: 1. Fortune Tobacco Corporation The Company subscribed to Three Hundred Forty Six Million Four Hundred Eighty Nine Thousand Eight Hundred Twenty Eight (346,489,828) new shares of Fortune Tobacco with a par value of One Peso (P1.00) per share. The said shares shall be issued by Fortune Tobacco from out of its authorized but unissued capital. In this regard, Fortune Tobacco filed today, 26 September 2012, SEC Form 10.1. With the foregoing subscription, which was fully paid in cash by the Company in the amount of Three Hundred Forty Six Million Four Hundred Eighty Nine Thousand Eight Hundred Twenty Eight Pesos (P346,489,828), the Company now has a 49.5% interest in Fortune Tobacco. 2. Asia Brewery, Inc.

	The Company subscribed to an additional One Billion (1,000,000,000) common shares of Asia Brewery with a par value of One Peso (P1.00) per share to be issued from out of an increase in capital by Asia Brewery. The said subscription was fully paid in cash by the Company. In this regard, Asia Brewery filed today, 26 September 2012, its application for increase in authorized capital stock with the SEC. Upon SEC approval of Asia Brewery's application for increase in capital, the Company shall become the controlling shareholder of Asia Brewery, holding 90% of Asia Brewery's outstanding capital. 3. Paramount LandEquities, Inc. The Company subscribed to One Billion Three Hundred Fifty Million Eight Hundred Nineteen Thousand Four Hundred Eighty Seven (1,350,819,487) common shares of Paramount. The said shares have a par value of One Peso (PhP1.00) per share and will be issued to the Company out of an increase in Paramount's authorized capital stock. The foregoing subscription was paid in full by way of conversion into equity of the Company's advances to Paramount amounting to One Billion Three Hundred Fifty Million Eight Hundred Nineteen Thousand Four Hundred Eighty Seven Pesos (PhP1,350,819,487.00). In order to accommodate the Company's investment, Paramount filed today, 26 September 2012, its application for increase in authorized capital stock with the SEC. Upon SEC approval of Paramount's application for increase in capital, the Company shall become the controlling shareholder of Paramount, holding 98.18% of Paramount's outstanding capital.
September 27, 2012	Please be informed that during the Audit Committee Meeting held on September 27, 2012, the Committee approved the amendment of the Company's Audit Committee to comply with SEC Memorandum Circular No. 4, Series of 2012 – Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed on the Exchange. Further, the Company shall conduct an assessment of the Committee's performance, based on the abovementioned guidelines, at the end of the year. The results of the said assessment shall be submitted to the Commission by January 2013. * * * * * * * * * * The Corporation filed on September 27, 2012 with the Securities and Exchange Commission its application for amendment of its Articles of Incorporation and By-Laws. The amendments to the Articles of Incorporation pertain to the following: 1. Article I – To reflect the change in the name of the Corporation from Tanduay Holdings, Inc. to LT GROUP, INC.; and 2. Article II – To delete outdated provisions referring to the former business of the Corporation and to replace the same with such

	powers as may be desirable or necessary in line with the expanded investment activities of the Corporation The amendments to the By-Laws pertain to the following: 1. Article I - To reflect a board of eleven (11) directors consistent with the latest Amended Articles of Incorporation. 2. Section 1, Article II - To include a non-compete clause which disqualifies any person engaged in any commercial venture or undertaking which is in competition with the business of the Corporation from being elected as a member of the Board of Directors or officer of the Corporation. 3. Section 3, Article II - To amend the definition of an "Independent Director" to include such other definition as the law or the Securities and Exchange Commission may hereafter prescribe. 4. Section 4, Article II - To amend the qualifications of an "Independent Director" to include such other qualifications as the law or the Securities and Exchange Commission may hereafter prescribe. 5. Section 5, Article II - To amend the grounds for disqualification of an "Independent Director" to include such other grounds for disqualification as the law or the Securities and Exchange Commission may hereafter prescribe. 6. Section 6, Article II - To amend the procedure for nomination of an "Independent Director". With the foregoing and the report yesterday regarding applications pending with the SEC, the Corporation expects to complete most of its investments in companies held under common control by the Lucio Tan group of companies before the end of October 2012, and not by the end of September 2012 as earlier disclosed. Investment by the Corporation in Philippine National Bank and Allied Banking Corporation, however, are subject to foreign regulatory approvals wherever either bank operates branch offices. This being the case, completion of investment into said banks may take longer than anticipated.
October 2, 2012	October 1, 2012 Further to our disclosures dated 31 July 2012 and 26 September 2012 regarding the proposed acquisition by the Company of at least 83% interest in Fortune Tobacco Corporation, please be advised that: 1. The Company subscribed to an additional One Billion Three Hundred Million (1,300,000,000) common shares of Fortune Tobacco with a par value of One Peso (P1.00) per share to be issued from out of an increase in capital by Fortune Tobacco. The said subscription was fully paid in cash by the Company. 2. Fortune Tobacco filed on 28 September 2012 its application for increase in authorized capital stock with the Securities and Exchange Commission ("SEC"). 3. Upon SEC approval of Fortune Tobacco's application for increase in capital, the Company shall become the controlling shareholder of Fortune Tobacco, holding 82.32% of Fortune Tobacco's outstanding capital.

	* * * * * * * * * * October 2, 2012 Further to our disclosure dated 27 September 2012 regarding the Company's application for the amendment of the Company's Articles of Incorporation and By-Laws for purposes of changing the corporate name to LT Group Inc., please be advised that we received today the approved Certificate of Filing of Amended Articles of Incorporation and Certificate of Filing of Amended By-Laws, both dated 28 September 2012, duly issued by the Securities and Exchange Commission.
October 9, 2012	October 8, 2012 Further to our disclosure dated 10 September 2012 regarding the Company's application for increase in authorized capital stock from Five Billion Pesos (P5,000,000,000.00) divided into Five Billion (5,000,000,000) common shares with a par value of One Peso (P1.00) per share to Twenty Five Billion Pesos (P25,000,000,000.00) divided into Twenty Five Billion (25,000,000,000) common shares with a par value of One Peso (P1.00) per share, we advise you of our receipt today of the Certificate of Increase in Authorized Capital Stock dated 28 September 2012, duly issued by the Securities and Exchange Commission. * * * * * * * * * * October 9, 2012 Further to our disclosure dated 8 October 2012 regarding the receipt of the Certificate of Approval of Increase in Authorized Capital Stock dated 28 September 2012, we are pleased to furnish the Exchange with the Company's Amended Articles of Incorporation reflecting the increase in authorized capital stock from Five Billion Pesos (P5,000,000,000.00) divided into Five Billion (5,000,000,000) common shares with a par value of One Peso (P1.00) per share to Twenty Five Billion Pesos (P25,000,000,000.00) divided into Twenty Five Billion (25,000,000,000) common shares with a par value of One Peso (P1.00) per share.
October 17, 2012	Further to our disclosures dated 25 September 2012, 26 September 2012 and 1 October 2012 regarding the Company's subscription to shares of stocks of Saturn Holdings, Inc., Asia Brewery, Inc., Paramount LandEquities, Inc. and Fortune Tobacco Corporation in support of the respective applications for increase in authorized capital stock of the said companies, please be advised that the said applications for increase in authorized capital stock were approved by the Securities and Exchange Commission (the "Commission") on 10 October 2012. In view of the said approval, the Company became the controlling shareholder of the following companies: ▪ Saturn Holdings, Inc. - 98.99% ▪ Asia Brewery, Inc. - 90% ▪ Paramount LandEquities, Inc. - 98.18% ▪ Fortune Tobacco Corporation - 82.32%

	* * * * * Reference to the issuance of additional Five Billion (5,000,000,000) common shares to Tangent Holdings Corporation, please be informed that the Company's Total Issued and Outstanding Shares increased from Three Billion Nine Hundred Eighty One Million Three Hundred Eighty Eight Thousand Eight Hundred Eighty Nine (3,981,388,889) common shares to Eight Billion Nine Hundred Eighty One Million Three Hundred Eighty Eight Thousand Eight Hundred Eighty Nine (8,981,388,889).
October 30, 2012	In connection with the Company's earlier disclosures on investments in companies held under the common control by the Lucio Tan Group of Companies, the Board of Directors in the meeting held on October 30, 2012 approved the further acquisition of up to 100% equity interest in the following companies: 1. Fortune Tobacco Corporation 2. Asia Brewery, Inc. 3. Paramount LandEquities, Inc. 4. Saturn Holdings, Inc. The acquisition of the additional shares from the above-named companies will be paid from the proceeds of the five billion share subscription that was recently approved and completed. The Board likewise approved the deferment of the acquisition of the airline business. Further, we attach herewith for the appreciation of the investing public the unaudited interim combined financial statements of the Company as of and for the nine months ended September 30, 2012 upon completion of the investment transactions earlier disclosed.
October 31, 2012	Further to our disclosure dated 30 October 2012 in relation to the Company's proposed acquisition of up to 100% equity interest in Paramount LandEquities, Inc. ("Paramount") and Saturn Holdings, Inc. ("Saturn"), please be advised that the Company entered into Deeds of Sale of Shares dated 30 October 2012 with the minority stockholders of Paramount and Saturn for the purchase of the remaining issued and outstanding shares of the said companies. Pursuant to the foregoing acquisitions, Paramount and Saturn became wholly-owned subsidiaries of the Company, with the Company holding 100% of the respective issued and outstanding capital stocks of the said companies.
December 4, 2012	Please be informed that at the meeting held on 4 December 2012, the Board of Directors of LT Group, Inc. (formerly, "Tanduay Holdings, Inc.") approved the following matters: 1. The purchase of additional shares in Asia Brewery, Inc. from the other stockholders thereof thereby increasing the Corporation's interest in said company to 99.99%, upon completion of the said purchase transaction; and 2. The acquisition from its controlling stockholder, Tangent Holdings Corporation, of certain receivables in the total amount of Nine

	Billion Nine Hundred Six Million Eight Hundred Ninety Four Thousand One Hundred Two (P9,906,894,102.00). Said acquisition has resulted to increasing the debt liability of the Corporation by the same amount.
December 14, 2012	We advise you of the disposition by our majority shareholder, Tangent Holdings Corporation, of 508,544,100 shares out of its 8,554,862.293 shares in LTG. Consequently, the Company's public float increased from 4.7% to 10.4%.

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on April 8, 2013.

By:

Lucio C. Tan
Principal Executive Officer

Nestor C. Mendones
Deputy Chief Financial Officer

Michael G. Tan
Principal Operating Officer

Susan T. Lee
Principal Accounting Officer

Jose Gabriel D. Olives
Principal Financial Officer

Ma. Cecilia L. Pesayco
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 0 8 2013 day of _____ 2013 affiants exhibiting to me their Passport numbers, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	EB1465663	11/26/2010	Manila, Philippines
Michael G. Tan	EA0000186	9/25/2009	Manila, Philippines
Jose Gabriel D. Olives	XX3984629	6/19/2009	Manila, Philippines
Nestor C. Mendones	XX5338790	1/22/2010	Manila, Philippines
Ma. Cecilia L. Pesayco	EB4720800	2/16/2012	Manila, Philippines
Susan T. Lee	EB1787129	1/14/2011	Manila, Philippines

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Page No. 32
Book No. II
Series of 2013

CHRISTINE R. SANTOS
Notary Public until 31 December 2013
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 5676476, Makati, 10 January 2013
IBP No. 911822, Makati, 4 January 2013
Roll No. 60447, Commission No. 474

TANDUAY HOLDINGS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

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* These schedules which are required by part IV(e) of SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Consolidated Financial Statements.

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of LT Group, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements for each of the three years in the period ended December 31, 2012, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Signed under oath by the following:

Dr. Lucio C. Tan
Chairman and Chief Executive Officer

Michael G. Tan
President

Jose Gabriel D. Olives
Chief Finance Officer

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI)

BEFORE ME, personally appeared the following persons on **April 8, 2013**

Name	Passport No.	Date Issue	Place of Issue
Lucio C. Tan	EB1465663	11/26/2010	Manila, Philippines
Michael G. Tan	EA0000186	9/25/2009	Manila, Philippines
Jose Gabriel D. Olives	XX3984629	6/19/2009	Manila, Philippines

Known to me and to me known to be the same persons who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed for the use and purpose hereinabove set forth.

This instrument consisting of two (2) pages, including this whereon the acknowledgement is written, has been signed by the party on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of APR 0 8 2013 2013 at Makati City Philippines

ADRIANNE MARIE C. ALAZAS
Notary Public until 31 December 2013
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 3678698, Makati, 10 January 2013
IBP No. 911819, Makati, 4 January 2013
Roll No. 58449, Commission No. 445

Doc. No. 70
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LT Group, Inc.
[Formerly Tanduay Holdings, Inc. (a Subsidiary of Tangent Holdings Corporation)]
and Subsidiaries

Consolidated Financial Statements
December 31, 2012, 2011 and 2010

COVER SHEET

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SEC Registration Number

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C	o	r	p	o	r	a	t	i	o	n	)	]	A	N	D		S	U	B	S	I	D	I	A	R	I	E	S				

(Company's Full Name)

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C	r	e	s	c	e	n	t		P	a	r	k		W	e	s	t		5		B	o	n	i	f	a	c	i	o				
G	l	o	b	a	l		C	i	t	y	,		T	a	g	u	i	g		C	i	t	y										

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

Jose Gabriel D. Olives

(Contact Person)

(632) 817-8710

(Company Telephone Number)

1	2		3	1
Month			*Day*	

(Calendar Year)

A	A	C	F	S

(Form Type)

0	5		0	4
Month			*Day*	

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

SEC

Dept. Requiring this Doc.

Not Applicable

Amended /Section

Total Amount of Borrowings

408

Total No. of Stockholders

Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number	LCU
Document ID	Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
LT Group, Inc.
11th Floor, Unit 3 Bench Tower
30th St. corner Rizal Drive Crescent Park West 5
Bonifacio Global City, Taguig

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

A member firm of Ernst & Young Global Limited

Opinion

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

SYCIP GORRES VELAYO & CO.

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

March 4, 2013

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Years Ended December 31		
	2012	2011 (As Restated - Note 30)	2010 (As Restated - Note 30)
REVENUE (Notes 4 and 20)			
Distilled spirits	**₱12,719,679**	₱12,208,165	₱11,392,465
Beverage	**12,188,007**	11,938,021	10,978,463
Tobacco (Notes 1 and 10)	**2,974,897**	3,350,002	13,489,911
Property development	**2,685,795**	5,191,651	4,450,076
	30,568,378	32,687,839	40,310,915
COST OF SALES (Notes 4 and 20)	**22,728,862**	23,837,420	30,634,710
GROSS INCOME	**7,839,516**	8,850,419	9,676,205
EQUITY IN NET EARNINGS (LOSS) OF AN ASSOCIATE (Note 10)	**6,498,972**	4,117,904	(1,338,254)
	14,338,488	12,968,323	8,337,951
OPERATING EXPENSES			
Selling expenses (Note 21)	**2,731,566**	3,073,983	2,906,668
General and administrative expenses (Note 22)	**2,144,172**	2,143,590	2,329,590
	4,875,738	5,217,573	5,236,258
OPERATING INCOME	**9,462,750**	7,750,750	3,101,693
OTHER INCOME (CHARGES)			
Finance costs (Notes 17 and 18)	**(605,199)**	(578,118)	(973,693)
Finance income (Notes 5, 6, 9 and 18)	**203,430**	122,079	184,902
Foreign exchange losses	**(108,053)**	(1,446)	(28,704)
Others - net (Note 23)	**724,353**	271,377	5,311,540
	214,531	(186,108)	4,494,045
INCOME BEFORE INCOME TAX	**9,677,281**	7,564,642	7,595,738
PROVISION FOR INCOME TAX (Note 24)			
Current	**1,158,598**	753,616	784,816
Deferred	**(221,407)**	143,426	(178,473)
	937,191	897,042	606,343
NET INCOME	**₱8,740,090**	₱6,667,600	₱6,989,395
Net Income Attributable To:			
Equity holders of the parent company	**₱7,513,430**	₱5,817,867	₱5,968,839
Non-controlling interests	**1,226,660**	849,733	1,020,556
	₱8,740,090	₱6,667,600	₱6,989,395
Basic/Diluted Earnings Per Share (Note 26)	**₱0.85**	₱0.68	₱0.70

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company (Notes 1, 11, 25 and 30)												
				Other Comprehensive Income									
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Revaluation Increment on Property, Plant and Equipment (Note 11)	Revaluation Increment on Property, Plant and Equipment Transferred to an Associate (Notes 2, 10 and 25)	Net Changes in Fair value of AFS Financial Assets (Note 9)	Total Other Comprehensive Income (Loss)	Other Equity Reserves	Retained Earnings	Shares Held by a Subsidiary	Total	Non-Controlling Interests (Notes 1 and 25)	Total
BALANCES AT DECEMBER 31, 2009, AS PREVIOUSLY REPORTED	**₱3,257,500**	**₱–**	**₱–**	**₱566,303**	**₱–**	**₱8,115**	**₱574,418**	**₱151,811**	**₱1,612,180**	**₱–**	**₱5,595,909**	**₱126,843**	**₱5,722,752**
Effect of restatements (Note 30)				5,535,467	–	39,773	5,575,240	1,384,589	8,520,928	(150,889)	15,329,868	2,693,203	18,023,071
BALANCES AT DECEMBER 31, 2009, AS RESTATED	**3,257,500**	–	–	**6,101,770**	–	**47,888**	**6,149,658**	**1,536,400**	**10,133,108**	**(150,889)**	**20,925,777**	**2,820,046**	**₱23,745,823**
Net income for the year, as restated	–	–	–	–	–	–	–	–	5,968,839	–	5,968,839	1,020,556	6,989,395
Other comprehensive income (loss), as restated	–	–	–	5,187	–	(6,510)	(1,323)	–	–	–	(1,323)	1,564	241
Total comprehensive income (loss) for the year, as restated	–	–	–	5,187	–	(6,510)	(1,323)	–	5,968,839	–	5,967,516	1,022,120	6,989,636
Transfer of revaluation increment of property, plant and equipment to associate, as restated	–	–	–	(3,770,644)	1,871,371	–	(1,899,273)	–	1,899,273	–	–	–	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal, as restated	–	–	–	(207,929)	(251,745)	–	(459,674)	–	459,674	–	–	–	–
Stock dividend	325,750	–	–	–	–	–	–	–	(325,750)	–	–	–	–
BALANCES AT DECEMBER 31, 2010, AS RESTATED	**₱3,583,250**	**₱–**	**₱–**	**₱2,128,384**	**₱1,619,626**	**₱41,378**	**₱3,789,388**	**₱1,536,400**	**₱18,135,144**	**(₱150,889)**	**₱26,893,293**	**₱3,842,166**	**₱30,735,459**
BALANCES AT DECEMBER 31, 2010, AS PREVIOUSLY REPORTED	**₱3,583,250**	**₱–**	**₱–**	**₱525,165**	**₱–**	**₱13,520**	**₱538,685**	**₱151,811**	**₱1,975,689**	**₱–**	**₱6,249,435**	**₱129,585**	**₱6,379,020**
Effect of restatements (Note 30)	–	–	–	1,603,219	1,619,626	27,858	3,250,703	1,384,589	16,159,455	(150,889)	20,643,858	3,712,581	24,356,439
BALANCES AT DECEMBER 31, 2010, AS RESTATED	**3,583,250**	–	–	**2,128,384**	**1,619,626**	**41,378**	**3,789,388**	**1,536,400**	**18,135,144**	**(150,889)**	**26,893,293**	**3,842,166**	**30,735,459**
Net income for the year, as restated	–	–	–	–	–	–	–	–	5,817,867	–	5,817,867	849,733	6,667,600
Other comprehensive income, as restated	–	–	–	1,991,357	–	2,275	1,993,632	–	–	–	1,993,632	9,091	2,002,723
Total comprehensive income for the year, as restated	–	–	–	1,991,357	–	2,275	1,993,632	–	5,817,867	–	7,811,499	858,824	8,670,323
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal, as restated	–	–	–	(202,744)	(246,171)	–	(448,915)	–	448,915	–	–	–	–
Deposit for future stock subscription	–	–	1,680,146	–	–	–	–	–	–	–	1,680,146	–	1,680,146
Stock issue cost	–	–	(40,745)	–	–	–	–	–	–	–	(40,745)	–	(40,745)
Acquisition of non-controlling interest	–	–	–	–	–	–	–	56,121	–	–	56,121	(56,121)	–
Cash dividend (Note 25)	–	–	–	–	–	–	–	–	(1,104,637)	–	(1,104,637)	–	(1,104,637)
BALANCES AT DECEMBER 31, 2011, AS RESTATED	**₱3,583,250**	**₱–**	**₱1,639,401**	**₱3,916,997**	**₱1,373,455**	**₱43,653**	**₱5,334,105**	**₱1,592,521**	**₱23,297,289**	**(₱150,889)**	**₱35,295,677**	**₱4,644,869**	**₱39,940,546**
BALANCES AT DECEMBER 31, 2011, AS PREVIOUSLY REPORTED	**₱3,583,250**	**₱–**	**₱1,639,401**	**₱1,128,401**	**₱–**	**₱13,975**	**₱1,142,376**	**₱151,811**	**₱1,963,608**	**₱–**	**₱8,480,446**	**₱138,364**	**₱8,618,810**
Effect of restatements (Note 31)	–	–	–	2,788,596	1,373,455	29,678	4,191,729	1,440,710	21,333,681	(150,889)	26,815,231	4,506,505	31,321,736
BALANCES AT DECEMBER 31, 2011, AS RESTATED (Carried Forward)	**3,583,250**	**–**	**1,639,401**	**3,916,997**	**1,373,455**	**43,653**	**5,334,105**	**1,592,521**	**23,297,289**	**(150,889)**	**35,295,677**	**4,644,869**	**39,940,546**

	Attributable to Equity Holders of the Parent Company (Notes 1, 11, 25 and 30)												
				Other Comprehensive Income									
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Revaluation Increment on Property, Plant and Equipment (Note 11)	Revaluation Increment on Property, Plant and Equipment Transferred to an Associate (Notes 2, 10 and 25)	Net Changes in Fair value of AFS Financial Assets (Note 9)	Total Other Comprehensive Income (Loss)	Other Equity Reserves	Retained Earnings	Shares Held by a Subsidiary	Total	Non-Controlling Interests (Notes 1 and 25)	Total
BALANCES AT DECEMBER 31, 2011, AS RESTATED (Brought Forward)	**₱3,583,250**	**₱–**	**₱1,639,401**	**₱3,916,997**	**₱1,373,455**	**₱43,653**	**₱5,334,105**	**₱1,592,521**	**₱23,297,289**	**(₱150,889)**	**₱35,295,677**	**₱4,644,869**	**₱39,940,546**
Net income for the year	–	–	–	–	–	–	–	–	7,513,430	–	7,513,430	1,226,660	8,740,090
Other comprehensive income	–	–	–	–	–	186,115	186,115	–	–	–	186,115	4,549	190,664
Total comprehensive income for the year	–	–	–	–	–	186,115	186,115	–	7,513,430	–	7,699,545	1,231,209	8,930,754
Issuance of capital stock	5,398,139	1,241,262	(1,639,401)	–	–	–	–	–	–	–	5,000,000	–	5,000,000
Stock issue cost	–	(67,490)	–	–	–	–	–	–	–	–	(67,490)	–	(67,490)
Acquisition of shares of subsidiaries from the Controlling Shareholders	–	–	–	–	–	–	–	(1,537,845)	–	–	(1,537,845)	–	(1,537,845)
Sale of the parent company's shares held by a subsidiary (Note 25)	–	–	–	–	–	–	–	193,212	–	150,889	344,101	–	344,101
Acquisition of non-controlling interest	–	–	–	–	–	–	–	22,528	–	–	22,528	(22,528)	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	(281,041)	(246,171)	–	(527,212)	–	527,212	–	–	–	–
BALANCES AT DECEMBER 31, 2012	**₱8,981,389**	**₱1,173,772**	**₱–**	**₱3,635,956**	**₱1,127,284**	**₱229,768**	**₱4,993,008**	**₱270,416**	**₱31,337,931**	**₱–**	**₱46,756,516**	**₱5,853,550**	**₱52,610,066**

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC.
[Formerly Tanduay Holdings, Inc.
(a Subsidiary of Tangent Holdings Corporation)]
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2012	2011 (As Restated)	2010 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱9,677,281**	₱7,564,642	₱7,595,738
Adjustments for:			
Depreciation and amortization (Notes 11, 12 and 13)	**2,328,634**	2,210,611	2,093,593
Provision for (reversal of):			
Impairment loss on property, plant and equipment (Notes 11 and 23)	**(5,108)**	179,929	(2,259)
Contingencies (Note 22)	**93,098**	103,359	184,750
Recovery from insurance claims (Note 23)	**–**	(186,033)	–
Gain on disposal of:			
Property and equipment	**(1,699)**	(3,556)	–
AFS financial assets (Notes 9 and 23)	**–**	–	(42,536)
Business (Notes 10 and 23)	**–**	–	(5,077,578)
Equity in net loss (earnings) of an associate (Note 10)	**(6,498,972)**	(4,117,904)	1,338,254
Finance costs (Notes 17 and 18)	**605,199**	578,118	973,693
Finance income (Notes 5 and 6)	**(203,430)**	(122,079)	(184,902)
Unrealized foreign exchange loss (gain) - net	**74,609**	(51,139)	3,586
Movements in retirement plan assets and benefits liability	**(57,864)**	(2,148,406)	(17,151)
Operating income before changes in working capital	**6,011,748**	4,007,542	6,865,188
Decrease (increase) in:			
Receivables - net	**(927,612)**	(1,067,178)	1,482,440
Inventories	**(2,033,127)**	(302,357)	(1,321,748)
Other current assets	**(335,466)**	(295,571)	(3,923,520)
Other noncurrent assets	**(48,710)**	(412,950)	16,103
Increase (decrease) in:			
Accounts payable and other liabilities	**(1,626,011)**	675,443	477,136
Customers' deposits	**881,608**	(87,109)	(243,145)
Other noncurrent liabilities	**1,888,935**	(78,625)	99,719
Cash generated from operations	**3,811,365**	2,439,195	3,452,173
Dividends received (Notes 10 and 23)	**4,176,977**	3,491,605	841,290
Interest received	**175,852**	145,750	116,295
Income taxes paid, including creditable withholding and final taxes	**(984,293)**	(856,544)	(1,182,584)
Net cash from operating activities	**7,179,901**	5,220,006	3,227,174
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
AFS financial assets (Note 9)	**(280,772)**	–	–
Investment in PMFTC (Note 10)	**–**	–	(33,090)
Investment in joint venture (Note 10)	**(20,091)**	–	–
Property, plant and equipment (Note 11)	**(3,325,409)**	(3,052,960)	(2,972,624)
Investment properties (Note 12)	**(1,020,544)**	(561,463)	(730,112)
Software (Note 13)	**(11,177)**	(26,850)	(16,171)
Advances granted to affiliates (Note 18)	**(1,750,819)**	(2,272,998)	(2,708,093)
Proceeds from disposal of:			
AFS financial assets (Note 9)	**–**	–	230,653
Property and equipment (Note 11)	**346,341**	279,034	329,249
Proceeds from recovery from insurance claims (Note 23)	**–**	186,033	–
Net cash used in investing activities	**(6,062,471)**	(5,449,204)	(5,900,188)

(Forward)

	Years Ended December 31		
	2012	2011 (As Restated)	2010 (As Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments (payments) of short-term debts (Notes 16 and 18)	**(₱544,000)**	₱238,000	₱26,000
Proceeds from:			
Issuance of shares (Notes 1, 25 and 30)	**5,000,000**	–	–
Sale of parent company shares held by a subsidiary (Note 25)	**344,101**	–	–
Availments of long-term debts (Notes 16 and 18)	**837,353**	1,294,143	7,475,266
Advances from affiliates (Note 18)	**–**	–	1,002,502
Payments of:			
Long-term debts (Note 16)	**(290,583)**	(679,181)	(6,080,260)
Advances from affiliates (Note 18)	**(2,030,961)**	(35,880)	–
Finance costs (Notes 17 and 18)	**(607,326)**	(544,480)	(1,058,745)
Stock issue costs (Notes 1 and 25)	**(67,490)**	(40,745)	–
Dividends (Note 25)	**–**	(3,265)	–
Deposit for future stock subscription (Note 25)	**–**	1,680,146	–
Net cash from financing activities	**2,641,094**	1,908,738	1,364,763
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(18,809)**	8,414	(22,383)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,739,715**	1,687,954	(1,330,634)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,166,645**	3,478,691	4,809,325
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱8,906,360**	₱5,166,645	₱3,478,691

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information

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

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

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

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

Capital Raising of LTG

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

The capital raising exercise is intended to fund LTG's expansion of its distilled spirits segment's plant capacity, increase in operational efficiency and rationalization of operations, and at the same time offer the investing public the opportunity to participate in LTG's growth. In December 2011, Tangent sold the said shares, thereby reducing its ownership interest in LTG from 97% to 86%. In accordance with the Subscription Tranche, Tangent agreed to subscribe to 398,138,889 new common shares from LTG's unissued capital stock for a total consideration of ₱1,639.4 million (presented as "Deposit for future stock subscription" as of December 31, 2011 in the equity section of the consolidated balance sheets). On May 2, 2012, LTG's BOD and stockholders approved the conversion of the deposit for future stock subscription into issued common shares of LTG, which resulted to an increased ownership of Tangent in LTG, from 86% to 87% as of that date.

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

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

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

Corporate Restructuring

Consolidation of Businesses under LTG

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

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

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

   On May 24, 2012, ABI's BOD approved the subscription to 400,000,000 shares of Interbev Philippines, Inc. (Interbev) at ₱1.00 par value per share by way of conversion of ABI

advances to equity investment in Interbev. On the same date, ABI's BOD approved the acquisition of 125,000,000 shares of Packageworld, Inc. (Packageworld) at ₱1.00 par value per share through cash infusion. Effective June 29, 2012, upon approval by the Philippine SEC of Interbev's and Packageworld's application for the increase in capital stock, ABI became a stockholder of Interbev and Packageworld with 80.0% and 33.3% ownership interests, respectively. On June 24, 2012 and July 19, 2012, ABI's BOD approved the resolutions to buy out 100.0% of the outstanding shares of Waterich Resources Corporation (Waterich) and the remaining ownership interests in Interbev and Packageworld owned by the Controlling Shareholders, respectively. To effect the buyout transactions, ABI and the Controlling Shareholders executed the deeds of sale of shares of Waterich on June 24, 2012 and the deeds of assignment of ABI's advances to Packageworld and Interbev on July 25, 2012. Thus, Waterich, Interbev and Packageworld became wholly-owned subsidiaries of ABI.

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

b. Acquisition of Fortune Tobacco Corporation (FTC)

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

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

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

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

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

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

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

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

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

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

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

The business combinations in 2012 involving LTG and ABI and Subsidiaries, FTC, Saturn, and Paramount and Subsidiaries (collectively referred to as "Acquired Subsidiaries"), all belonging to the Controlling Shareholders and under common control, were accounted for using pooling of interest method. Accordingly, LTG recognized the net assets of the acquired subsidiaries equivalent to their carrying values. Comparatives were restated to include the balances and transactions as if the subsidiaries had been acquired at the beginning of the earliest period presented. The difference between the consideration paid (or liability incurred) and the combined equities of the acquired subsidiaries amounting to ₱3.5 million is reflected within the Group's equity and presented as part of "Other equity reserves" as of December 31, 2012 as if the companies had always been combined (see Note 25).

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

The following transactions happened subsequent to December 31, 2012:

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

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

In February 2013, LTG acquired Donfar Management Ltd., Fast Return Enterprises Ltd., Fragile Touch Investments Ltd., Mavelstone International Ltd., Uttermost Success Ltd., True Success Profits Ltd., and Key Landmark Investments Ltd. which hold a total of 22.72% in the merged PNB. Further, in various dates in February 2013, Merit Holdings & Equities Corp., Ivory Holdings Corp., Leadway Holdings, Inc., Dunmore Development Corp., Multiple Star Holdings Corp., Kenrock Holdings Corporation, Caravan Holdings Corporation and Solar Holdings Corp., companies which hold interests in the merged PNB, filed their applications for increase in authorized capital stock with the SEC, to accommodate LTG's investment. In various dates in February 2013, SEC approved their applications with the SEC. As of February 28, 2013, LTG has an effective ownership over the merged PNB of 36.1%. As of March 4, 2013, LTG is currently obtaining the requisite regulatory approval to increase its stake in PNB up to the maximum allowable limit of 60%.

b. Acquisition of FTC's noncontrolling interest

In February 2013, to effect the LTG's acquisition of up to 100% equity interest in FTC, LTG acquired the shares of certain noncontrolling shareholders equivalent to 0.34% interest in FTC thereby increasing LTG's direct ownership interest in FTC from 82.32% to 82.66%; acquired the subscription rights to 453,500,000 shares of Shareholdings, which is equivalent to 90.7% ownership interest in Shareholdings thereby increasing LTG's effective ownership in FTC to 98.36%; and subscribed to 1,500,000,000 shares out of the unissued capital stock of Shareholdings thereby increasing its total direct and indirect equity interest in FTC from 98.36% to 99.58%.

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

Authorization for Issue of the Consolidated Financial Statements

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

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

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

Basis of Consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)*, require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance (see Note 6).

- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendment)*, clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is

depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred income tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

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

Significant Accounting Policies

Investments in Associate and Joint Venture

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

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

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

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

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

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

The Group recognizes financial asset or financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial recognition and classification of financial instruments

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

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

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

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

Determination of fair value

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

Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other

than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.

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

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

AFS financial assets
AFS financial assets are non-derivative financial assets that are designated in this category or not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in other comprehensive income as "Net changes in fair value of AFS financial assets, net of deferred income tax effect". When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

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

Equity - linked free standing derivatives
A derivative is a financial instrument whose value depends on (in whole or in part) the values of one or more underlying assets or liabilities. Put options are derivative contracts which give one party the right but not the obligation, to sell to the other party the underlying asset for a fixed price

at a future date (or during a longer period ending on a future date). These are recognized as assets when the holder becomes party to the contract and are initially measured at fair value. Subsequently, these are measured at fair value, with the changes to profit or loss.

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

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

Other financial liabilities
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process. Included under this category are the accounts payable and other liabilities (excluding statutory liabilities), short and long-term debts and other financial liabilities.

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

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability was discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for

impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income under "Other income" account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group.

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

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from other comprehensive income and recognized in the consolidated statement of income.

Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition.
Following initial recognition, intangible assets are carried at cost less any accumulated

amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful/economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The Group amortizes the software costs over five years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of the reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Impairment of Noncurrent Nonfinancial Assets

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

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

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

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

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

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

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

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

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

Real estate sales
The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

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

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

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

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

Rental income
Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

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

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

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

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

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

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

Retirement Benefits Costs
Retirement benefits cost is actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the Group's retirement plan at the end of the previous reporting year

exceed 10% of the higher of the present value of defined benefits obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

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

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

Borrowing Costs

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

Leases

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

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

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

The Group as lessor

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

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

The Group as lessee

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

Foreign Currency-denominated Transaction and Translation

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

Transactions in foreign currencies are initially recorded by the combining entities in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

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

Taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.
Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable

right exists to set-off the current income tax asset against the current income tax liabilities and deferred income taxes relate to the same taxable entity and the same taxation authority.

Provisions and Contingencies

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

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

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Equity

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

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

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

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

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

available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

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

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

Dividend Distributions

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

Events after the Reporting Period

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

Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

New Accounting Standards, Amendments and Interpretations Effective Subsequent to 2012

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

Effective 2013

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation and Disclosures*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a. The gross amounts of those recognized financial assets and recognized financial liabilities;
  b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;

c. The net amounts presented in the balance sheet;
d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

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

- PAS 27, *Separate Financial Statements (as revised in 2011)*, as a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment will have no impact on the Group's financial position and performance.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities -Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact to the financial position of the Group as the Group's interest in a joint venture is currently accounted for using the equity method.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, as a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 12, *Disclosure of Interests in Other Entities*, includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The amendment affects disclosures only and has therefore no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The adoption of this new standard will not have significant impact on the Group's assets and liabilities carried at fair value.

- Amendments to PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

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

	December 31		
	2012	2011	2010
	(In Thousands)		
Increase (decrease) in:			
Consolidated Balance Sheets:			
Net retirement plan asset	**(₱108,618)**	(₱26,882)	₱–
Accrued retirement benefits	**(340,194)**	(212,912)	327,758
Deferred income tax assets	**32,645**	8,065	–
Deferred income tax liabilities	**102,058**	63,874	(98,327)
Other comprehensive income	**274,666**	(135,891)	–
Retained earnings	**(939,509)**	15,474	(244,904)
Consolidated Statements of Income:			
Net retirement benefits cost	**56,630**	(1,342,156)	22,105
Provision for income tax	**16,989**	(402,647)	6,632
Net income	**39,641**	(939,509)	15,474
Attributable to equity holders of the parent company	**39,577**	(939,579)	15,876
Attributable to non-controlling interests	**63**	70	(402)

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This standard will have no impact on the Group's financial position and performance.

- Amendments to PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*, change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance.

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

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*, clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an

accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Group expects that the adoption of this amendment will not have any impact on its financial position or performance.

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

Effective 2014

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

Effective in 2015

- PFRS 9, *Financial Instruments - Classification and Measurement*, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO

liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

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

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

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

Effectivity to be determined

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

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

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

Determination of functional currency

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

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

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

Classification of financial instruments

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

Classifications of financial instruments are further discussed in Note 27.

Revenue recognition on real estate sales

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

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

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

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

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

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment

is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

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

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

Estimates and Assumptions

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

Revenue and cost recognition on real estate sales

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

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

Measurement of NRV of consumer goods and materials and supplies inventories

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

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

Measurement of net realizable value of real estate inventories

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsel handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the

consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

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

Recognition of deferred income tax assets
The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

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

4. Segment Information

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

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

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

- Others, consist of various holding companies (LTG, Paramount and Saturn) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

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

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

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

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

Segment revenue and expenses are those directly attributable to the segment except that intersegment revenue and expense are eliminated only at the consolidated level. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

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

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

The following tables present the information about the Group's operating segments:

As of and for the year ended December 31, 2012:

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

Other financial information of the operating segments is as follows:

	Distilled Spirits	Beverage	Tobacco	Property Development	Others	Eliminations and Adjustments	Total
				(In Thousands)			
Assets:							
Current assets	**₱9,542,269**	**₱6,570,152**	**₱18,119,568**	**₱10,523,262**	**₱16,058,625**	**(₱6,593,481)**	**₱54,220,395**
Noncurrent assets	**6,560,330**	**14,855,886**	**16,558,381**	**7,231,991**	**18,827,760**	**(20,656,033)**	**43,378,315**
	₱16,102,599	**₱21,426,038**	**₱34,677,949**	**₱17,755,253**	**₱34,886,385**	**(₱27,249,514)**	**₱97,598,710**
Liabilities:							
Current liabilities	**₱2,183,662**	**₱13,387,910**	**₱862,603**	**₱8,456,795**	**₱16,508,487**	**(₱5,616,344)**	**₱35,783,113**
Noncurrent liabilities	**5,553,847**	**1,404,221**	**–**	**2,549,614**	**8,548**	**(310,699)**	**9,205,531**
	₱7,737,509	**₱14,792,131**	**₱862,603**	**₱11,006,409**	**₱16,517,035**	**(₱5,927,043)**	**₱44,988,644**
Investments in associate and joint venture	**₱–**	**₱20,091**	**₱13,886,098**	**₱–**	**₱18,548,136**	**(₱18,548,136)**	**₱13,906,189**
Additions to noncurrent assets:							
Property, plant and equipment	**1,156,277**	**2,127,633**	**867**	**40,041**	**–**	**–**	**3,324,818**
Investment properties	**–**	**–**	**500,004**	**513,040**	**–**	**–**	**1,013,044**
Short-term debts	**–**	**1,870,000**	**–**	**–**	**–**	**–**	**1,870,000**
Long-term debts	**4,968,295**	**17,996**	**–**	**3,628,284**	**–**	**–**	**8,614,575**

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

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

Other financial information of the operating segments is as follows:

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

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

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

Other financial information of the operating segments is as follows:

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

5. Cash and Cash Equivalents

	December31		January 1,
	2012	2011	2011
		(In Thousands)	
Cash on hand	**₱2,815**	₱5,715	₱3,187
Cash in banks (Note 18)	**3,873,996**	2,053,573	2,343,008
Cash equivalents (Note 18)	**5,029,549**	3,107,357	1,132,496
	₱8,906,360	₱5,166,645	₱3,478,691

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

6. Receivables

	December31		January 1,
	2012	2011	2011
		(In Thousands)	
Trade receivables:			
Consumer goods (Note 18)	**₱8,384,951**	₱6,486,698	₱7,166,369
Contracts receivables	**2,475,770**	3,866,778	1,824,889
Lease receivables (Note 29)	**46,443**	17,725	34,515
	10,907,164	10,371,201	9,025,773
Noncurrent portion of contracts receivables	**(874,290)**	(2,052,869)	–
	10,032,874	8,318,332	9,025,773
Dividend receivable (Note 10)	**366,193**	306,909	115,224
Receivables from landowners	**–**	–	350,000
Other receivables	**706,722**	344,473	253,233
	11,105,789	8,969,714	9,744,230
Less allowance for doubtful accounts	**15,498**	17,708	17,527
	₱11,090,291	₱8,952,006	₱9,726,703

Trade Receivables

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

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

Receivables from landowners

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

Other Receivables

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

Assignment of Receivables

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

Movements of Allowance for Doubtful Accounts

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

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

7. Inventories

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

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

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

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

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

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

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

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

8. Other Current Assets

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

a. Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities to which these advances pertain will be completed within the normal operating cycle.

b. CWT pertains mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWT can be applied against any income tax liability of a company in the Group to which the CWT relates.

c. Input VAT primarily arose from ongoing construction of the plant building and machineries.

d. Advances to suppliers pertain to deposits made for raw material purchases and are realized upon delivery of the related inventories. Allowance for doubtful accounts on these advances amounted to ₱590.5 million as of December 31, 2012, 2011 and 2010.

e. Prepaid commission consists of payments to agents and brokers which will be charged to the consolidated statements of income in the period in which the related revenue is recognized.

f. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.

g. Others include, among others, current portion of refundable deposits and deposits in escrow bank.

9. Available-for-Sale Financial Assets

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

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

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

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

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

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

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

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

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

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

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

10. Investments in Associate and Joint Venture

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

Investment in PMFTC

Details of investment in PMFTC are as follows:

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

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

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

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed of ₱18.5 billion by FTC, net of unrealized gain of ₱5.0 billion. The transaction was accounted for similar to a contribution in a joint venture using the Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*, where FTC recognized only that portion of the gain which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010 and shown under "Other income" in the consolidated statement of income. The portion attributable to FTC is being recognized once the related assets are realized or disposed. FTC recognized the gain amounting to ₱293.0 million in 2012 and 2011 and an outright loss of ₱2.0 billion in 2010, which are included in the "Equity in net earnings (loss) of an associate" in these periods. Further, as a result of the transfer, portion of the revaluation increment on FTC's property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings in 2010.

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

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

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

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

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

Investment in Joint Venture

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

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

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

11. **Property, Plant and Equipment**

December 31, 2012

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	**₱1,240,899**	**₱10,358,639**	**₱24,650,178**	**₱36,249,716**	**₱249,705**	**₱1,634,631**	**₱5,294,810**	**₱1,281,927**	**₱626,706**	**₱9,087,779**	**₱45,337,495**
Additions	**16,809**	**178,634**	**1,773,082**	**1,968,525**	**96,131**	**114,660**	**562,814**	**146,241**	**436,447**	**1,356,293**	**3,324,818**
Disposals, transfers and other adjustments (Notes 10 and 31)	**–**	**117,200**	**(57,738)**	**59,462**	**20,651**	**(34,024)**	**(91,539)**	**(173,103)**	**(255,428)**	**(533,443)**	**(473,981)**
Balance at end of year	**1,257,708**	**10,654,473**	**26,365,522**	**38,277,703**	**366,487**	**1,715,267**	**5,766,085**	**1,255,065**	**807,725**	**9,910,629**	**48,188,332**
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	**(34,977)**	**(5,189,954)**	**(14,752,450)**	**(19,977,381)**	**(128,488)**	**(1,190,251)**	**(3,711,045)**	**(922,355)**	**–**	**(5,952,139)**	**(25,929,520)**
Depreciation and amortization	**(8,209)**	**(378,845)**	**(896,577)**	**(1,283,631)**	**(74,079)**	**(173,101)**	**(662,190)**	**(55,450)**	**–**	**(964,820)**	**(2,248,451)**
Disposals, transfers and other adjustments (Notes 10 and 31)	**–**	**–**	**710**	**710**	**–**	**33,356**	**91,539**	**3,734**	**–**	**128,629**	**129,339**
Impairment loss (Note 23)	**–**	**5,108**	**–**	**5,108**	**–**	**–**	**–**	**–**	**–**	**–**	**5,108**
Balance at end of year	**(43,186)**	**(5,563,691)**	**(15,648,317)**	**(21,255,194)**	**(202,567)**	**(1,329,996)**	**(4,281,696)**	**(974,071)**	**–**	**(6,788,330)**	**(28,043,524)**
Net Book Value	**₱1,214,522**	**₱5,090,782**	**₱10,717,205**	**₱17,022,509**	**₱163,920**	**₱385,271**	**₱1,484,389**	**₱280,994**	**₱807,725**	**₱3,122,299**	**₱20,144,808**

December 31, 2011

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	₱1,120,272	₱5,549,916	₱18,344,157	₱25,014,345	₱227,766	₱1,489,103	₱4,864,647	₱1,186,380	₱291,649	₱8,059,545	₱33,073,890
Additions	24,294	127,867	1,452,451	1,604,612	4,082	213,765	1,756,254	111,825	388,663	2,474,589	4,079,201
Revaluation increase	96,333	4,728,082	5,373,114	10,197,529	–	–	–	–	–	–	10,197,529
Disposals, transfers and other adjustments (Notes 10 and 31)	–	(47,226)	(519,544)	(566,770)	17,857	(68,237)	(1,326,091)	(16,278)	(53,606)	(1,446,355)	(2,013,125)
Balance at end of year	1,240,899	10,358,639	24,650,178	36,249,716	249,705	1,634,631	5,294,810	1,281,927	626,706	9,087,779	45,337,495

(Forward)

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in progress	Subtotal	Total
					(In Thousands)						
Accumulated Depreciation and Impairment Losses											
Balance at beginning of year	(₱4,105)	(₱2,485,030)	(₱9,169,677)	(₱11,658,812)	(₱113,628)	(₱1,101,415)	(₱3,255,839)	(₱881,170)	₱–	(₱5,352,052)	(₱17,010,864)
Depreciation and amortization	(4,382)	(234,635)	(1,015,064)	(1,254,081)	(14,860)	(150,195)	(663,379)	(53,554)	–	(881,988)	(2,136,069)
Revaluation increase	–	(2,493,058)	(4,847,247)	(7,340,305)	–	–	–	–	–	–	(7,340,305)
Disposals, transfers and other adjustments (Notes 10 and 31)	–	58,290	279,538	337,828	–	61,359	326,091	12,369	–	399,819	737,647
Impairment loss (Note 23)	(26,490)	(35,521)	–	(62,011)	–	–	(117,918)	–	–	(117,918)	(179,929)
Balance at end of year	(34,977)	(5,189,954)	(14,752,450)	(19,977,381)	(128,488)	(1,190,251)	(3,711,045)	(922,355)	–	(5,952,139)	(25,929,520)
Net Book Value	₱1,205,922	₱5,168,685	₱9,897,728	₱16,272,335	₱121,217	₱444,380	₱1,583,765	₱359,572	₱626,706	₱3,135,640	₱19,407,975

December 31, 2010

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

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

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

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

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

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

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

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

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

Depreciation

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

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

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

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

Borrowing Costs

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

Property, Plant and Equipment Held as Collateral

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

12. Investment Properties

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

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

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

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

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

Fair Values of Investment Properties

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

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

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

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

Rent Income and Direct Operating Expenses of Investment Properties

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

Depreciation of investment properties charged to operations is as follows:

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

13. **Other Noncurrent Assets**

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

Deferred Input VAT
Deferred Input VAT arises from the acquisition of capital goods.

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

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

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

Software Costs

Movements in software costs are as follows:

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

Others

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

14. Accounts Payable and Other Liabilities

	December31		January 1,
	2012	2011	2011
		(In Thousands	
Trade payables (Note 18)	**₱2,087,622**	₱1,644,457	₱1,939,638
Accrued expenses (Note 18)	**2,726,713**	2,828,776	2,610,809
Retention payable (Note 18)	**746,373**	594,717	412,068
Deposit liability on returnable containers	**612,718**	707,851	690,376
Advances from customers	**179,788**	90,559	227,103
Nontrade payables	**548,487**	1,256,541	1,291,705
Provisions (Note 29)	**428,050**	334,952	387,435
Output value added tax	**385,519**	1,145,908	206,121
Due to government agencies	**34,236**	40,471	79,443
Dividends payable (Note 25)	**–**	652,858	–
Other payables	**56,007**	50,750	20,293
	₱7,805,513	₱9,347,840	₱7,864,991

Trade Payables

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

Accrued Expenses

Accrued expenses consist accruals for the following:

	December31		January 1,
	2012	2011	2011
Projects development costs	**₱1,665,381**	₱1,144,134	₱1,033,626
Purchase of materials and supplies	**528,509**	1,175,142	1,308,602
Commission	**210,892**	207,027	38,511
Outside services	**104,546**	56,422	9,095
Interest	**64,002**	79,277	61,827
Advertising and promotions	**30,323**	31,640	21,843
Others	**123,060**	135,134	137,305
	₱2,726,713	₱2,828,776	₱2,610,809

Retention Payable

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

Deposit Liability on Returnable Containers

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

Other Payables

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

15. Customers' Deposits

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

16. Short-term and Long-term Debts

Short-term Debts

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

Long-term Debts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17. Finance Costs and Finance Income

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

18. **Related Party Transactions**

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

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

[(1)] As of March 4, 2013, LTG has 45.03% effective ownership interest over the merged PNB (see Note 1).
[(2)] In various dates in February 2013, LTG acquired these holding companies through subscription of unissued shares of the holding companies.
[(3)] As of March 4, 2013, Shareholdings is a 97.7%-owned subsidiary of LTG thereby LTG's effective interest in FTC increased from 82.33% as of December 31, 2012 to 99.58% (see Note 1).

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

	Nature	**2012**	2011	2010
			(In Thousands)	
Parent Company	Interest income	**₱–**	₱6,193	₱24,772
	Sales	**642**	29,013	2,896,484
Associate	Professional and management fee	**–**	1,452,457	1,223,816
	Outside services	**(188,713)**	–	–

(Forward)

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

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

	Financial Statement Account	Terms and Conditions	December 31 2012	December 31 2011	January 1, 2011
				(In Thousands)	
Parent Company	Receivables - net	30 to 90 days terms; non-interest bearing	**₱–**	₱–	₱52,622
	Due from related parties	On demand; non-interest bearing except for ₱9.9 million and ₱391.2 million in 2011 and 2010, respectively, which is subject to 10% annual interest	**5,671,578**	1,901,210	2,282,487
	Due to related parties	On demand; non-interest bearing	**(9,906,894)**	–	–
Associate	Receivables - net	30 to 90 days terms; non-interest bearing	**366.418**	320,299	1,554,405
	Due from related parties	On demand; non-interest bearing	**2,772**	–	–
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	**(56,152)**	(10,481)	(124,375)
Entities Under Common Control	Cash and cash equivalents	On demand; earn rates at bank deposit rates	**3,482,195**	4,358,133	2,914,628
	Receivables - net	30 to 60 days terms; non-interest bearing	**787,096**	622,027	726,641
	Due from related parties	On demand; non-interest bearing	**13,089,802**	6,981,712	4,775,951
	Short-term debts	Payable lump sum in various dates within one yer	**(250,000)**	(1,194,000)	(1,776,000)
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**(672,850)**	(3,657,696)	(391,432)
	Obligations under finance lease	Maturing in 2011; non-interest bearing	–	–	(36,641)
	Due to related parties	On demand; non-interest bearing	**(10,596,656)**	(11,089,772)	(11,125,652)
	Long-term debts:				
	Secured	Payable in monthly installments but preterminated in 2012; bear an interest rate of 6%; subject to corporate guaranty	–	(282,500)	(352,500)
	Unsecured	Maturing in 2013 and 2014; bear interest rates of 5.18% and 6.57% in 2010 and 2011, respectively	**(2,453,500)**	(1,800,500)	(1,275,000)
Stockholders	Due from related parties	On demand; non-interest bearing	**1,776,483**	–	–

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

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

Transactions with Tangent, parent company

- In March 2011, LTG applied the advances to Tangent amounting to ₱389.7 million and interest receivable amounting to ₱58.8 million against the dividends due to Tangent. The receivable from Tangent in 2011 represents expenses paid in behalf of Tangent.

- Due to Tangent was used in connection with the purchase of the government-owned shares in PNB belonging to the Controlling Shareholders.

Transactions with Entities under Common Control

- The Group has outstanding Peso and United States (US) dollar-denominated current and savings deposits with Allied Bank and PNB.

- Short-term debts consist of peso-denominated loans with Allied Bank.

- The Company, ABI and Eton entered into an operating lease arrangement with ABC for the lease of office space while Packageworld entered into a one year renewable lease contract from Dominium Realty and Construction Corporation for the lease of land where its manufacturing facilities are located (see Note 29).

- Obligation under finance lease pertains to finance lease arrangements of ABI and Interbev, as lessees, with Allied Leasing Corporation, as lessor, for the lease of various transportation equipment (see Note 29).

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

- Several subsidiaries of the Group entered into management service agreement with Basic Holdings Corporation.

- Eton has commission income amounting to ₱27.4 million and ₱41.5 million in 2011 and 2010, respectively representing cash received from PNB for the service rendered by Eton in selling a property of PNB.

Transactions with an Associate

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

On December 30, 2010, the parties signed an addendum to the TSA for the termination of the TSA effective July 31, 2011. PMFTC paid a cancellation fee amounting to ₱772.6 million for the salaries and allowances of all employees who rendered services to PMFTC under the TSA.

Transactions with Joint Ventures

PNB and Eton signed two Joint Venture Agreements (JVA) for the development of two properties with book values of ₱1.2 billion. These two projects are among PNB's strategies in reducing its non-performing assets. The nature of the transactions is purely a joint venture undertaking where the risks and benefits are shared by both parties based on the agreed parameters. Exit mechanisms and warranties were provided in the JVA to protect the interests of both parties.

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

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

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

Costs and expenses recognized by:	Revenue and other income recognized by:	Nature	2012	2011	2010
				(In Thousands)	
ABI/Interbev	ADI/TDI	Purchase/sale of raw materials	**₱216,340**	₱174,493	₱16,442
ABI	TDI	Royalty	**–**	–	7,370
TDI	ABI	Purchase/sale of commercial bottles	**1,193,250**	1,023,780	978,688
TDI	ABI	Rent	**1,100**	–	–
TDI	LTG	Professional and management fee	**48,000**	–	–
FTC/TDI	Packageworld	Purchase/sale of packaging materials	**105,217**	134,014	180,507

Amounts owed to:	Amounts owed by:	Terms and Conditions	December 31 2012	December 31 2011	January 1, 2011
				(In Thousands)	
ABI	TDI	30 to 60 days;noninterest-bearing	**₱683,853**	₱477,696	₱309,645
Packageworld	TDI	30 to 60 days;noninterest-bearing	**54,245**	43,851	29,050
Absolut Distillers	ABI/ Interbev	30 to 60 days;noninterest-bearing	**19,608**	12,720	–
TDI	ABI/ Interbev	30 to 60 days;noninterest-bearing	**271,855**	135,573	194,308
Saturn	ABI/ LTG	On demand; noninterest-bearing	**3,230,714**	4,891,030	4,891,030
LTG	Eton/Saturn/TDI/ Paramount	On demand; noninterest-bearing	**402,704**	–	60,748

19. Retirement Benefits

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

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

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

	December 31 2012	December 31 2011	January 1, 2011
		(In Thousands)	
Net retirement plan assets:			
TDI	**₱9,214**	₱16,518	₱21,841
FTC	**1,206,389**	1,050,700	–
	₱1,215,603	₱1,067,218	₱21,841

(Forward)

	December 31		January 1,
	2012	2011	2011
		(In Thousands)	
Accrued retirement benefits:			
LTG	**₱8,543**	₱8,058	₱7,739
AAC	**16,603**	19,222	21,807
ADI	**4,388**	5,024	5,827
Eton	**23,120**	9,924	3,676
FTC	**–**	–	1,195,199
ABI	**437,630**	370,421	289,589
Interbev	**20,040**	12,614	8,120
Packageworld	**12,022**	9,416	7,663
WRC	**11,698**	8,844	6,932
	₱534,044	₱443,523	₱1,546,552

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

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

Net Retirement Plan Assets

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

	December 31		January 1,
	2012	2011	2011
		(In Thousands)	
Present value of defined benefit obligation	**₱218,398**	₱121,002	₱73,439
Fair value of plan assets	**(1,289,599)**	(1,141,284)	(75,161)
	(1,071,201)	(1,020,282)	(1,722)
Unrecognized net actuarial losses before the effect of retirement assets ceiling	**(164,242)**	(66,775)	(39,958)
Effect of retirement assets ceiling	**19,840**	19,839	19,839
	(₱1,215,603)	(₱1,067,218)	(₱21,841)

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

	December 31		January 1,
	2012	2011	2011
		(In Thousands)	
At January 1*	**₱121,002**	₱1,630,069	₱57,452
Current service cost	**10,010**	145,269	1,249
Interest cost	**7,890**	119,132	13,605
Benefits paid**	**(1,450)**	(1,778,896)	(21,232)
Unrecognized actuarial loss on defined benefits obligation	**80,946**	5,428	22,365
At December 31	**₱218,398**	₱121,002	₱73,439

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

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

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

	December 31		January 1,
	2012	2011	2011
		(In Thousands)	
At January 1*	**₱1,141,284**	₱888,840	₱88,789
Expected return on plan assets	**74,263**	57,850	8,878
Contributions to the plan**	**93,880**	2,004,809	1,304
Benefits paid**	**(1,450)**	(1,778,896)	(21,232)
Unrecognized actuarial loss on plan assets	**(18,378)**	(31,319)	(2,578)
At December 31	**₱1,289,599**	₱1,141,284	₱75,161
Actual return on plan assets	**₱55,885**	₱26,531	₱6,300

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

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

Accrued Retirement Benefits

The details of the accrued retirement benefits are as follows:

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

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

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

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

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

	December31		January 1,
	2012	2011	2011
		(In thousands)	
At January 1*	**₱61,691**	₱81,100	₱796,866
Expected return on plan assets	**3,400**	4,725	51,928
Contributions to the plan	**45,358**	6,208	236,188
Benefits paid	**(61,530)**	(29,350)	(204,176)
Actuarial gains (losses) on plan assets	**(456)**	(992)	13,973
At December 31	**₱48,463**	₱61,691	₱894,779
Actual return on plan assets	**₱2,945**	₱3,733	₱65,901

**Ending balance as of December 31, 2010 includes fair value of FTC's plan assets amounting to ₱813.7 million, which was presented under net retirement plan asset in 2011.*

Major Categories of the Consolidated Plan Assets

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

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

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

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

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

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

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

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

Amounts for the current and previous years are as follows:

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

FTC's Redundancy Program

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

20. Revenue and Cost of Sales

Revenue consists of:

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

Cost of sales consists of:

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

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

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

21. Selling Expenses

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

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

22. General and Administrative Expenses

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

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

23. Other Income (Charges) - Others

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

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

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

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

24. Income Taxes

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

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

[1] *Pertain to THI, Eton and FTC*
[2] *Pertain to AAC, ADI, PWI, TDI, ABI, IPI and WRC*
[3] *Pertain to THI, AAC, ADI, Eton, FTC, WRC and PWI*
[4] *Pertain to TDI, ABI, and IPI*
[5] *Pertain to THI, AAC, Eton, WRC and PWI*
[6] *Pertain to ADI, FTC, TDI, ABI and IPI*

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

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

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

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

d. Provision for current income tax consists of:

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

25. Equity

Capital Stock

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

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

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

b. Track record of registration:

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

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

Retained Earnings and Dividends

a. On March 22, 2011 and December 20, 2011, LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.115 per share and ₱0.20 per share or a total of ₱412.1 million and ₱716.6 million, respectively, of which ₱8.8 million and ₱15.3 million were received by a subsidiary of LTG.

b. On February 23, 2010 and May 5, 2010, LTG's BOD and stockholders, respectively, approved the declaration and distribution of stock dividends amounting to ₱325.8 million, which is equivalent to 10% of LTG's outstanding capital stock.

c. As of December 31, 2012, 2011 and 2010, retained earnings include undistributed earnings amounting to ₱30.3 billion, ₱22.8 billion and ₱17.6 billion, respectively, representing accumulated earnings of subsidiaries and equity in net earnings of associate, which are not available for dividend declaration until received in the form of dividends from the subsidiaries and associates.

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

Deposit for Future Subscription

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

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

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

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

Other Equity Reserves

Other equity reserves consist of:

	December 31		January 1,
	2012	2011	2011
		(In Thousands)	
Effect of transaction with non-controlling interest	**(₱25,943)**	₱108,277	₱52,156
Effect of sale of a subsidiary to parent company	**99,655**	99,655	99,655
Equity adjustments arising from business combination under common control (Notes 1 and 30)	**3,492**	1,384,589	1,384,589
Equity adjustments from sale of Company's shares held by a subsidiary	**193,212**	–	–
	₱270,416	₱1,592,521	₱1,536,400

Equity adjustments arising from business combination under common control amounting to ₱1,384.6 million as of December 31, 2011 and 2010 pertain to the share of the parent company in the legal capital of the acquired subsidiaries upon application of pooling of

interest method (see Note 1). In 2012, the total consideration given by LTG through payment of cash and assumption of certain liabilities in favor of the Controlling Shareholders amounted to ₱1,381.1 million, which was charged against the equity adjustments.

Shares Held by a Subsidiary

LTG has 76.5 million shares owned by Saturn amounting to ₱150.9 million and presented as "Shares Held by a Subsidiary" in the consolidated balance sheets as of December 31, 2011 and 2010. On July 25, 2012, these shares of stocks were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2012	2011	2010
		(In Thousands)	
Balance as of January 1	**₱4,644,869**	₱3,842,166	₱2,820,046
Net income attributable to non-controlling interests	**1,226,660**	849,733	1,020,556
Share in other comprehensive income:			
Net changes in fair value of AFS financial assets, net of deferred income tax effect (Note 9)	**4,549**	391	1,165
Revaluation increment on property, plant and equipment, net of deferred income tax effect (Note 11)	**–**	8,700	399
Changes in ownership interest in subsidiaries resulting in the reduction of non-controlling interests in subsidiaries	**(22,528)**	(56,121)	–
Balance as of December 31	**₱5,853,550**	₱4,644,869	₱3,842,166

26. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	2012	2011 (As Restated - Notes 1 and 30)	2010 (As Restated - Notes 1 and 30)
		(In Thousands)	
Net income attributable to equity holders of the parent company	**₱7,513,430**	₱5,817,867	₱5,968,839
Divided by weighted-average number of shares	**8,848,676**	8,583,250	8,583,250
Basic/diluted EPS for net income attributable to equity holders of the parent company	**₱0.85**	₱0.68	₱0.70

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

27. Financial Risk Management Objectives and Policies

Risk Management Strategies

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

Financial Risk Management Policy

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

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

Market risks

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

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

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2012, 2011 and 2010, changes in fair value of equity instruments held as AFS equity instruments dues to a reasonably possible change in equity interest, with all other variables held constant, will increase other comprehensive income by ₱16.8 million, ₱3.4 million and ₱3.4 million, respectively, if equity prices will increase by 5.2%. An equal change in the opposite direction would have decreased in equity by the same amount.

Foreign exchange risk

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

The Group's significant US$-denominated financial assets as of December 31 are as follows *(In thousands)*:

	December 31					
	2012		2011		January 1, 2011	
	Dollar Value	**Peso Equivalent**	Dollar Value	Peso Equivalent	Dollar Value	Peso Equivalent
	(In Thousands)					
Cash in banks and cash equivalents	**$13,344**	**₱544,702**	$12,471	₱546,749	$20,336	₱891,531
Receivables - net	**1008**	**41,147**	942	41,283	339	14,874
Due from related parties	**30,000**	**1,224,600**	30,000	1,315,200	3,272	143,453
Due to related parties	**(13,993)**	**(571,194)**	(13,993)	(613,459)	(13,993)	(613,459)

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

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

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

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

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

Interest rate risk

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

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

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

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

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

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

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

**Excluding cash on hand amounting to ₱2.8 million, ₱5.7 million and ₱3.2 million as of December 31, 2012 and 2011 and January 1, 2011, respectively.*
*** Net of allowance for doubtful accounts amounting to ₱10.0 million, ₱12.2 million and ₱12.0 million as of December 31, 2012 and 2011 and January 1,2011, respectively (see Note 6).*
**** Include dividend receivable amounting to ₱366.2million, ₱306.9 million and ₱115.2 million and net of allowance for doubtful accounts amounting to ₱5.5 million as of December 31, 2012 and 2011 and January 1, 2011.*

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

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

Credit quality per class of financial assets
"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments.

"Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

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

December 31, 2012:

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

December 31, 2011:

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

January 1, 2011:

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

Impairment assessment

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

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

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

Liquidity risk

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

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

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

December 31, 2012:

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

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

December 31, 2011:

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

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

January 1, 2011:

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

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

Financial Instruments Carried at Fair Value

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

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

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

Categories of Financial Instruments

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

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

(Forward)

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

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

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

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

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

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

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

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

28. Capital Management

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

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

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

The table below shows the leverage ratios of the Group:

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

29. Agreements, Commitments and Contingencies

Agreements

a. The Group's projects namely, Eton Cyberpod Corinthian and Eton Centris, were registered with PEZA on August 27, 2008 and September 19, 2008, respectively, as non-pioneer "ecozone developer/operator". The locations are created and designated as Information Technology Park.

b. The Group has three Board of Investment (BOI)-registered projects namely, Belton Place (BP), Eton Emerald Lofts (EEL) and One Archers Place (OAP).

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

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

Commitments

Operating lease commitments - the Group as lessor

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

The Group has security deposits and advance rentals which are presented under "Other noncurrent liabilities." Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. As of December 31, 2012 and 2011 and January 1, 2011, security deposits and advance rentals amounted to ₱65.1 million and ₱36.2 million, ₱36.6 million and ₱25.0 million, and ₱87.8 million and ₱49.3 million, respectively.

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

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

Operating lease commitments - the Group as lessee

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

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

Obligations under finance lease

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

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

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

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

Contingencies

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

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

30. Business Combination under Common Control

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

	December 31, 2011			January 1, 2011		
	As Previously Reported	**Effect of Restatements**	**As Restated**	As Previously Reported	Effect of Restatements	As Restated
			(In Thousands)			
ASSETS						
Current Assets						
Cash and cash equivalents	**₱2,498,322**	**₱2,668,323**	**₱5,166,645**	₱1,091,888	₱2,386,803	₱3,478,691
Receivables	**3,196,711**	**5,755,295**	**8,952,006**	2,312,436	7,414,267	9,726,703
Due from related parties	**–**	**8,882,922**	**8,882,922**	–	7,058,438	7,058,438
Inventories	**4,129,595**	**4,801,564**	**8,931,159**	4,060,865	4,567,937	8,628,802
Other current assets	**334,841**	**2,126,799**	**2,461,640**	412,587	1,615,852	2,028,439
Total Current Assets	**10,159,469**	**24,234,903**	**34,394,372**	7,877,776	23,043,297	30,921,073

(Forward)

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

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

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

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

	2011			2010		
	As Previously Reported	**Effect of Restatements**	**As Restated**	As Previously Reported	Effect of Restatements	As Restated
			(In Thousands)			
NET INCOME	**₱1,075,582**	**₱5,592,018**	**₱6,667,600**	₱645,276	₱6,344,119	₱6,989,395
OTHER COMPREHENSIVE INCOME						
Revaluation increment on property, plant and equipment, net of deferred income tax effect (Note 11)	**653,076**	**1,346,981**	**2,000,057**	5,586	–	5,586

(Forward)

	2011			2010		
	As Previously Reported	**Effect of Restatements**	**As Restated**	As Previously Reported	Effect of Restatements	As Restated
			(In Thousands)			
Net changes in fair value of AFS financial assets, net of deferred income tax effect (Note 9)	**₱455**	**₱2,211**	**₱2,666**	₱5,405	₱32,142	₱37,547
Unrealized gain on changes in fair value transferred to profit or loss during the year	–	–	–	–	(42,892)	(42,892)
	653,531	**1,349,192**	**2,002,723**	10,991	(10,750)	241
TOTAL COMPREHENSIVE INCOME	**1,729,113**	**6,941,210**	**8,670,323**	656,267	6,333,369	6,989,636
Total comprehensive income attributable to:						
Equity holders of the parent company	**1,720,334**	**6,091,165**	**7,811,499**	653,525	5,313,991	5,967,516
Non-controlling interests	**8,779**	**850,045**	**858,824**	2,742	1,019,378	1,022,120
	₱1,729,113	**₱6,941,210**	**₱8,670,323**	₱656,267	₱6,333,369	₱6,989,636

31. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

a. As discussed in Note 10, FTC transferred in 2010 certain assets and liabilities to PMFTC in exchange for the 49.6% ownership interest in PMFTC.

b. On December 4, 2012, LTG assumed certain receivables of Tangent from various holding companies amounting to ₱9,906.9 million, thereby increasing its payable to Tangent by the same amount.

Non-cash Financing Activities

a. In 2011, LTG applied ₱448.5 million of its dividends payable to Tangent against LTG's advances to and interest receivable from Tangent amounting to ₱389.7 million and ₱58.8 million, respectively. As of December 31, 2011, outstanding dividends payable amounted to ₱668.2 million.

b. As of December 31, 2012, 2011 and 2010, accrued interest payable amounted to ₱64.0 million ₱79.3 million and ₱61.8 million, respectively.

c. As discussed in Note 7, LTG issued, additional common shares to Tangent amounting to ₱398.1 million upon conversion of its deposit for future stock subscription of ₱1,639.4 million resulting in an increase in additional paid in capital of ₱1,241.3 million.

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
LT Group, Inc.
11th Floor, Unit 3 Bench Tower
30th St. corner Rizal Drive Crescent Park West 5
Bonifacio Global City, Taguig

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. [formerly Tanduay Holdings, Inc. (a subsidiary of Tangent Holdings Corporation)] and its subsidiaries, as at December 31, 2012 and 2011 and January 1, 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated March 4, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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

March 4, 2013

A member firm of Ernst & Young Global Limited

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2012
(in thousands)

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes		Amount shown in the balance sheet		Value based on market quotation at end of reporting period		Income received and accrued
Government debt securities							
			427,241		427,241		-
Unquoted equity share:							
Negros Golf & Country Club	1 share		420		420		-
PLDT			179		179		-
Quoted equity share:							
Manila Golf Country Club, Inc.			82,000		82,000		-
Manila Southwood			900		900		
Valley Golf Club			200		200		
Wack Wack Golf			18500		18,500		
Victorias Milling Co., Inc.	170.1 million shares	P	236,485	P	236,485	P	-

For loans and receivables, refer to the Note 27 of the Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE B. – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
DECEMBER 31, 2012
(in thousands)

Name and Designation of debtor		Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-Current		Balance at end of period
Related Party:									
Tangent Holdings Corporation	P	1,901,210	3,770,368	-	-	3,770,368	-	P	5,671,578

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2012
(in thousands)

Name and Designation of debtor		Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-Current		Balance at end of period
Tanduay Distillers, Inc.	P	3,880	46,560	(50,440)	-	-	-	P	-
Tanduay Brands Int'l, Inc.	P	543	82	-	-	625	-	P	625
Paramount Holdings	P	-	221,395	-	-	221,395	-	P	221,395
Eton Properties Phil., Inc.	P	-	150,000	-	-	150,000	-	P	150,000
Saturn Holdings	P	-	31,309	-	-	31,309	-	P	31,309
Asia Brewery, Inc.	P	5,027,224	20,549	(1,660,316)	-	3,387,457	-	P	3,387,457
Interbev Philippines, Inc.	P	12,099	122,621	-	-	134,720	-	P	134,720

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE D. – Intangible Assets – Other Assets
DECEMBER 31, 2012
(in thousands)

Description		Beginning balance		Additions at cost	Charged to cost and expenses	Disposals	Other changes additions (deductions)		Ending balance
Goodwill	P	163,735	P	-	-	-	-	P	163,735
Software	P	44,258	P	11,177	(9,336)	(561)		P	45,538

Intangibles are presented in “Other non-current assets” in the consolidated balance sheets.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE E. – Long term debts
DECEMBER 31, 2012
(in thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long term debt" in related balance sheet
1. Five year - Fixed rate bonds	P 5,000,000	-	P 4,968,295
2. Unsecured term loan and Notes payable		P 2,734,066	P 894,218
3. Obligations under finance lease		P 7,078	P 10,919

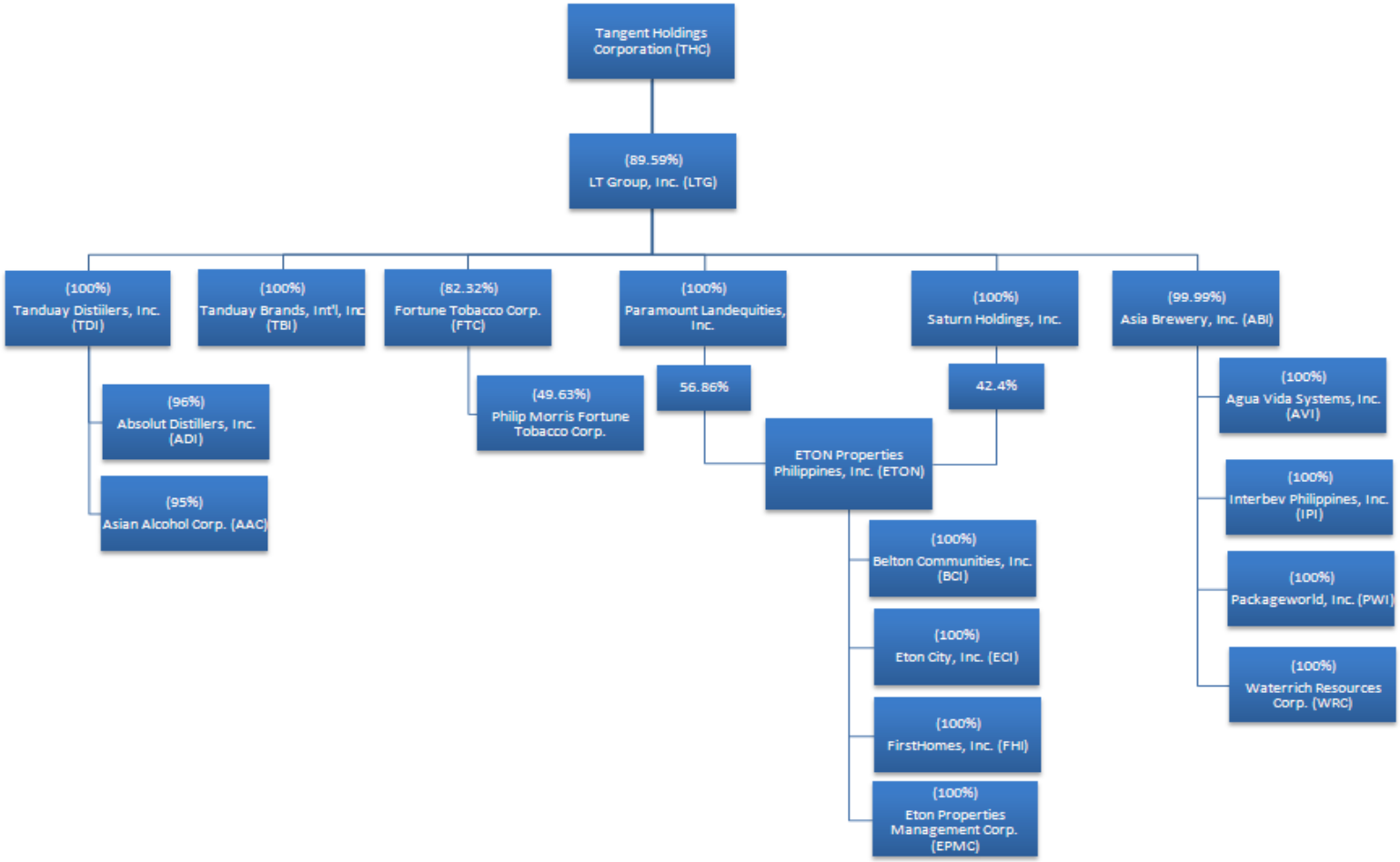
LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE H - Capital Stock
DECEMBER 31, 2012

Title of Issue	Number of Shares Authorized	Number of Shares Issued And Outstanding as Shown under Related Balance Sheet caption	Number of shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of shares Held by related Parties	Directors, Officers and Employees	Others
Common Stock	**25,000,000,000**	**8,981,388,889**	**-**	**8,046,318,193**	**19,500**	**935,051,196**

LT GROUP, INC.
SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2012

Unappropriated retained earnings, beginning	₱288,125,333
Less deferred income tax assets, beginning	(5,230,613)
Unappropriated retained earnings, as adjusted to amount available for dividend declaration, beginning	282,894,720
Add net income actually earned/realized during the year:	
Net income during the year closed to retained earnings	2,160,992
Less movement of deferred income tax assets that increased net income	2,211,482
Net loss actually earned during the year	(50,490)
Less appropriation of retained earnings during the year	–
Unappropriated retained earnings available for dividend declaration, ending	₱282,844,230

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE J – Relationships between & among the Group and its Parent
DECEMBER 31, 2012



LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE K – List of all effective Standards and Interpretations under the Philippine Financial Reporting Standards (PFRS) effective as of DECEMBER 31, 2012

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		**Adopted**	**Not Adopted**	**Not Applicable**
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		

	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments*		✓	
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities*		✓	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments*		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
PFRS 10	Consolidated Financial Statements*		✓	
PFRS 11	Joint Arrangements*		✓	
PFRS 12	Disclosure of Interests in Other Entities*		✓	
PFRS 13	Fair Value Measurement*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*	✓		
PAS 2	Inventories	✓		

** These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2012. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures*		✓	
PAS 19 (Amended)	Employee Benefits*		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements*		✓	
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures*		✓	

* *These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2012. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities*		✓	
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		

* *These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2012. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	*Interim Financial Reporting and Impairment*	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓

** These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2012. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine*		✓	

** These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2012. The Company did not early adopt these standards, interpretations and amendments.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities	✓		
	Amendment to SIC - 12: Scope of SIC 12	✓		
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	✓		
SIC-15	Operating Leases - Incentives	✓		
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE L – Index to Exhibits
SEC FORM 17-A

		Page
(1)	Publication of Notice re: Filing	*
(2)	Underwriting Agreement	*
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession	*
(4)	Articles of Incorporation and By-laws	*
(5)	Instruments Defining The Rights of Security Holders, Including Indentures	*
(6)	Opinion Re: Legality	*
(7)	Opinion Re: Tax Matters	*
(8)	Voting Trust Agreement	*
(9)	Material Contracts	*
(10)	Annual Report to Security Holders, FORM 17-Q or Quarterly Reports To Security Holders	*
(11)	Material Foreign Patents	*
(12)	Letter Re: Unaudited Interim Financial Information	*
(13)	Letter Re: Change in Certifying Accountant	*
(14)	Letter Re: Director Resignation	*
(15)	Letter Re: Change In Accounting Principles	*
(16)	Report Furnished To Security Holders	*
(17)	Other Documents Or Statements To Security Holders	*
(18)	Subsidiaries Of The Registrant	183
(19)	Published Report Regarding Matters Submitted To Vote Of Security Holders	*
(20)	Consents Of Experts and Independent Counsel	*
(21)	Power of Attorney	*
(22)	Statement Of Eligibility Of Trustee	*
(23)	Exhibits to be Filed With Bond Issues	*
(24)	Exhibits to be Filed With Stock Options Issues	*
(25)	Exhibits to be Filed by Investment Companies	*
(26)	Copy of Board of Investment Certificate in the case of Board of Investment Registered Companies	*
(27)	Authorization to Commission to Access Registrant's Bank Accounts	*
(28)	Additional Exhibits	184
(29)	Copy of the Board Resolution approving the securities offering and authorizing the filing of the registration statement	*
(30)	Duly verified resolution of the issuer's Board of Directors	*

These exhibits are either not applicable to the Group or require no answer.

EXHIBIT 18 Subsidiaries of the Registrant

LT GROUP, Inc. has the following subsidiaries as of December 31, 2012:

Distilled Spirits	Jurisdiction
1. TDI and subsidiaries	Philippines
a. Absolut Distillers, Inc.	
b. Asian Alcohol Corp	
2. Tanduay Brands Int'l, Inc.	Philippines
Beverages	
ABI and subsidiaries	Philippines
a. Agua Vida Systems, Inc.	
b. Interbev Philippines, Inc.	
c. Waterich	
d. Packageworld, Inc.	
Tobacco	
Fortune Tobacco Corp.	Philippines
Property Development	
a. Saturn	Philippines
b. Paramount	Philippines
1. Eton	Philippines
i. Belton Communities, Inc. (BCI)	
ii. Eton City, Inc. (ECI)	
iii. FirstHomes, Inc. (FHI)	

EXHIBIT 28. Additional Exhibits - Other Documents to be filed with the Consolidated Financial Statements

I. FINANCIAL SOUNDNESS INDICATORS

	2012	2011
CURRENT RATIO	1.52	1.38
DEBT-TO-EQUITY RATIO	0.86	0.87
ASSET-TO-EQUITY RATIO	1.86	1.87
INTEREST RATE COVERAGE RATIO	16.99	14.08
SOLVENCY RATIO	1.06	0.85
PROFITABILITY RATIO:		
PROFIT MARGIN	0.25	0.18
RETURN ON ASSETS	0.077	0.078
RETURN ON EQUITY	0.14	0.15