PHINMA

EMPOWERING THE FILIPINO

2011 Annual Report

The PHINMA GROUP'S MISSION is to help build our Nation through competitive and well-managed business enterprises that enable Filipinos to attain a better quality of life. With effective management as our distinctive edge, we aim to give Filipinos improved access to the essentials of a dignified life.

We will focus our ongoing enterprises and seek new opportunities in pursuit of our Mission. We will build not only affordable and decent homes, but also wholesome communities in urban areas. We will offer not only affordable high quality education, but also a brighter future for globally competitive Filipino professionals and workers. We will explore opportunities in the energy sector to offer not only reliable and affordable power, but also more productive lives – particularly to communities in greatest need. We will offer attractive investment opportunities and sound investment advice to encourage capital formation. We will aggressively seek opportunities primarily in the services sector that will allow us to address the basic needs of our society, while being globally competitive and generating attractive stakeholder values.

In pursuit of our Mission, we look to our tradition, our experience, our reputation and, above all, our people, as the principal factors that will enable us to achieve our lofty goals. We believe that a well-qualified and competitively compensated work force, treated with trust and respect, will be a highly motivated and productive partner in the pursuit of our goals. We shall continue to conduct ourselves according to the highest ideals of competence, patriotism, integrity and professionalism. The PHINMA Group believes that the process of self-improvement and innovation, and the quest for excellence, are never-ending tasks.

The PHINMA Group shall forge strategic alliances with partners who share our values and concerns and who can provide capital, expertise, technology, market access and other strategic elements. As a general rule, the PHINMA Group shall invest in enterprises to the extent needed to support a continuing and meaningful management role.

In focusing on providing for the basic needs of the Filipino through well-managed enterprises, the PHINMA Group shall demonstrate that private business can mutually serve the aspirations of shareholders and the needs of society.

FINANCIAL HIGHLIGHTS

(Amounts in thousands except ratios and earnings per share)

	2011	2010	2009
INCOME AND DIVIDENDS			
Revenues	3,953,505	3,773,732	3,725,836
Net Income Attributable to PHN Equity Holders	81,018	475,846	447,370
Cash Dividend	103,095	103,095	103,095
Cash Dividend per share	0.40	0.40	0.40
FINANCIAL POSITION			
Current Assets	3,649,310	4,099,603	2,954,873
Total Assets	9,668,207	9,696,714	9,023,323
Current Liabilities	1,388,111	1,202,941	1,207,934
Non-current Liabilities	1,102,520	1,193,083	1,049,023
Equity Attributable to PHN Equity Holders	6,516,908	6,538,737	6,140,057
PER SHARE			
Earnings	0.31	1.85	1.74
Book Value of Common Shares	25.29	25.37	23.82
FINANCIAL RATIOS			
Current Ratio	2.63	3.41	2.45
Debt to Equity Ratio	0.35	0.33	0.33

AT A GLANCE

EDUCATION

Phinma Corporation, through the ***Phinma Education Network (PEN)***, seeks to provide a better future for thousands of students by offering quality education at affordable rates. PEN comprises four schools namely ***Araullo University (AU)***, ***Cagayan de Oro College (COC)***, ***University of Pangasinan (UPang)*** and ***University of Iloilo (UI)***, providing basic, secondary and tertiary education to approximately 26,000 students.

PEN continues to work towards transforming the PEN schools into truly national class institutions, while remaining accessible to its students.

Ownership by Phinma Corporation:

Araullo University	78.6%
Cagayan de Oro College	74.4%
University of Pangasinan	69.8%
University of Iloilo	69.9%

HIGHLIGHTS

- Income of the four schools of PEN increased to P131.3 million in 2011 from P125.4 million in 2010.
- In 2011, 100% of AU's examinees passed the CPA board examination.
- In COC, one criminology student and one mechanical engineering student placed in the Top 10 in the 2011 board examinations.
- One student of UI placed in the Top 5 nationwide in the 2011 nursing licensure examination.
- Over 4,400 students of PEN enrolled under the Phinma Scholarship program.

HOUSING

Phinma Property Holdings Corporation (Phinma Properties) is the leading developer of affordable medium- and high-rise residential condominiums in Manila. The company makes life better not only by providing decent and value-for-money homes, but also by contributing to the upliftment of lives in its host communities through its various Corporate Social Responsibility (CSR) projects.

Ownership by Phinma Corporation:
35.4%

HIGHLIGHTS

- Posted net income of P70.9 million in 2011, lower than net income of P134 million the previous year, due to a challenging home loan financing environment on the heels of the Globe Asiatique controversy.
- Launched the AsiA Enclaves project in Alabang in May 2011.
- Raised P1.0 billion in funds from a corporate note issuance to be used for land acquisition for future projects.
- Explored alternative revenue lines and entered into an urban relocation project with the Quezon City local government for the delivery of close to 1,000 low-cost housing units.

STEEL PRODUCTS

Union Galvasteel Corporation (UGC) is a leading manufacturer of pre-painted galvanized iron roofing products and other steel products, such as steel decking, frames, and insulated panels used for cold storage and other facilities.

UGC has galvanizing and painting facilities in Calamba, Laguna and has an extensive nationwide distribution network, composed of several roll-forming plants and warehouses located in key cities throughout the country.

Ownership by Phinma Corporation:
98.4%

HIGHLIGHTS

- Sales grew by 4% mainly due to the growing acceptance of the Company's polyurethane insulated roofing materials.
- Posted net income of P107.9 million in 2011, lower than income of P202 million in 2010 excluding extraordinary income, due to dampened market demand from delays in programmed government spending as well as increased competition from imports under the liberalized tariff scheme.
- Broadened product offering by serving requirements for heavy gauges and steel frame building systems.
- Despite the challenging environment, UGC maintained its leadership in the prepainted roofing industry due to its strategic distribution network.

ENERGY

Phinma Corporation, through its affiliates ***Trans-Asia Oil and Energy Development Corporation (TA Oil)*** and ***Trans-Asia Power Generation Corporation (TA Power)***, is committed to provide sustainable and reliable supply of power to its customers.

Ownership by Phinma Corporation:
27.0%

HIGHLIGHTS

- Consolidated net income surged from P14.7 million in 2010 to P408.2 million in 2011.
- TA Oil's 3.4 MW bunker-fired Power Plant began supplying power to the WESM in the Visayas, in addition to providing reliable power to the island of Guimaras.
- Signed a long term agreement to supply the electricity requirements of Holcim Philippines and signed contracts with electricity cooperatives in Batangas, Sorsogon, and Quezon for the supply of power to its customers.
- Ramped up its access to generating capacity and entered into an energy purchase agreement covering the SEM Calaca Plant in Batangas.
- Joined forces with the Ayala group to form South Luzon Thermal Energy Corporation (SLTEC), the vehicle for a 135 MW coal-fired power plant.

BUSINESS PROCESS OUTSOURCING

Toon City is a domestic business process outsourcing (BPO) company which specializes in providing 2-D animation services for major film studios abroad. Toon City is 95% owned by One Animate Ltd. (OAL); the latter was acquired by Phinma Corporation in 2008.

Fuld & Company Inc.(Fuld) is a global consulting firm based in Cambridge, Massachusetts specializing in using competitive intelligence to improve strategy and operations. ***Business Backoffice Inc. (BBI),*** now ***Fuld & Company (Philippines), Inc.***, is a domestic firm providing business intelligence research services. Phinma Corporation acquired Fuld and BBI in June and July 2011, respectively, and integrated BBI's services under the Fuld brand in January 2012.

Ownership by Phinma Corporation:

One Animate Ltd.	80%
Fuld	85%
Business Backoffice Inc.	85%

HIGHLIGHTS

- OAL booked revenues of US$3.3 million on projects including Looney Tunes, Voltron Force, Geronimo Stilton, and Henry & Me.
- Due to the economic slowdown as well as additional costs from complex Computer Generated Imagery (CGI) work, OAL posted a net loss of P97.1 million. In addition, Phinma Corporation elected to book a non-cash provision of P166.4 million for goodwill impairment.
- OAL is exploring new revenue sources, improving production efficiency, and conducting training in CGI to enhance capabilities.
- The acquisition of both Fuld US and Fuld Philippines will be accretive, with synergies expected as Fuld US continues to provide business research services with additional support and a wider geographic reach through Fuld Philippines.

HOTELS

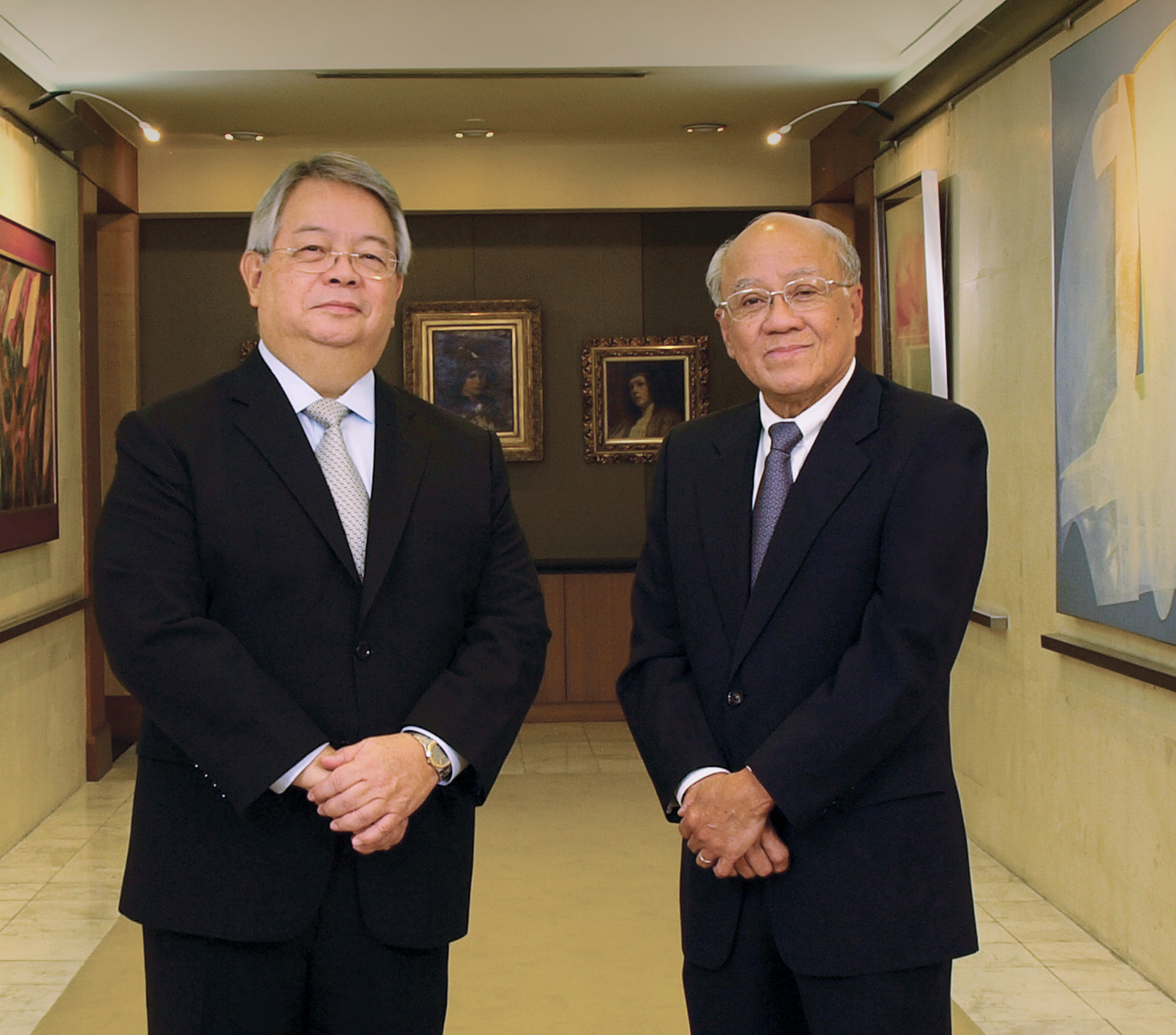
Phinma Corporation has also made it its mission to provide quality hotel services at value rates. In 2009, Phinma Corporation invested in preferred shares of ***Coral Way City Hotel Corporation (Coral Way***), owner of ***Microtel Mall of Asia (Microtel MOA)*** and a subsidiary of ***Microtel Development Corporation (Microtel)***. Microtel MOA is part of the international Microtel group with more than 300 properties worldwide.

Investment by Phinma Corporation:
P66.2 million

HIGHLIGHTS

- The 150-room Microtel MOA commenced commercial operations in September 2010
- Achieved an occupancy rate of 77% in 2011, its first full year of operation
- Realized revenues of P155.2 million and posted net income of P11.2 million

"WE REAFFIRM OUR COMMITMENT TOWARD BUILDING THE NATION BY ADDRESSING NOT ONLY THE NEED FOR RELIABLE AND RENEWABLE POWER BUT ALSO THE NEED FOR QUALITY EDUCATION AND HOUSING, THROUGH PROFITABLE BUSINESS ENTERPRISES."



Dear Shareholders,

The year 2011 was a year of challenges in the face of a slowdown in the world economy from continued uncertainty in the US, Europe, and the Middle East. Closer to home, a series of typhoons and delays in implementation of our government's infrastructure programs also impacted the construction industry. Amidst this difficult business environment, your Company's consolidated revenue for 2011 amounted to P3.9 billion, only a modest 3% increase over the P3.8 billion posted in 2010. Consolidated net income decreased to P57.5 million from net income of P254.0 million excluding one-off gains in 2010. Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) for the year amounted to P 596 million.

2011 Highlights

Union Galvasteel Corporation (UGC), our subsidiary engaged in steel roofing, posted a decline in net income, from P202 million excluding extraordinary gains in 2010 to P107.9 million in 2011. This decrease is attributed to a slowdown in the construction industry from a series of typhoons, as well as delays in government infrastructure spending. Despite these challenges, the company maintained its leadership in the pre-painted roofing industry, and is poised for a recovery as the government accelerates implementation of its Public Private Partnership (PPP) programs and as the nation rebuilds in the face of the natural calamities of 2011.

During the year, income of the four schools under the Phinma Education Network (PEN) amounted to P131.3 million, an increase of 5% compared to P125.4 million in 2010. Total enrollment increased to 25,964 students, a 2% increase over the previous year. In 2011, the schools improved facilities and continued to perform well in terms of graduate examination passing rates.

In 2011, One Animate Limited posted a net loss of P97.1 million due to delayed projects from clients and production and cost challenges as the company took on more complex Computer Generated Imagery (CGI) work. One Animate has since instituted measures to better manage client relationships and improve CGI capabilities to control costs and margins. Despite these measures, your Company has nonetheless taken a conservative stance and has elected to book in 2011 a non-cash provision for impairment of goodwill in the amount of P166.4 million.

During the year, equity in net earnings of affiliates increased from P59.4 million in 2010 to P137.7 million in 2011 due to the strong performance of our energy business. Trans-Asia Oil and Energy Development Corporation (TA Oil) delivered stellar results, with consolidated net income surging from P14.7 million in 2010 to P408.2 million in 2011. TA Oil continued its active participation in the Wholesale Electricity Supply Market (WESM), ramping up access to generation capacity to reduce its vulnerability to volatilities in the market. During the year, TA Oil entered into a fifty-fifty joint venture with Ayala Corporation's AC Energy Holdings Corporation to undertake the construction and operation of a modern 135 MW coal-fired power plant in Calaca, Batangas.

Phinma Property Holdings Corporation (Phinma Properties), faced with industry-wide challenges such as more conservative loan value appraisals and longer loan approval cycles from the Home Development Mutual Fund (HDMF), posted a decrease in income from operations from P134 million in 2010 to P70.9 million in 2011. The difficulties notwithstanding, Phinma Properties launched its ASiA Enclaves project in Alabang and entered into a development agreement with the Quezon City local government for a 1,000-unit urban relocation program.

While equity in net earnings of Phinma Properties decreased from P47.5 million in 2010 to P25.0 million in 2011, equity in net earnings of AB Capital and Investment Corporation increased from P5.3 million in 2010 to P 7.5 million in 2011.

In June 2011, in search for opportunities in the high value-added services sector, the Company increased its Business Process Outsourcing portfolio through the acquisition of Fuld & Company, Inc., a Cambridge, Massachusetts-based global consulting firm and a leader in the field of competitive intelligence. The Company also acquired in 2011 Business Backoffice, Inc. (now Fuld & Company (Philippines), Inc.), a knowledge process outsourcing (KPO) firm. The acquisition of these companies will be accretive, with synergies expected as Fuld continues to provide competitive business research services, with additional support and a wider geographic reach through Fuld Philippines, Inc.

Phinma Corporation ended 2011 with a strong balance sheet, with total assets of P9.7 billion and a current ratio and debt-to-equity ratio of 2.6 : 1 and 0.35: 1 respectively. Your Company has funds of P1.6 billion available for investment, should attractive opportunities become available.

Despite the modest income for 2011, given the consolidated EBITDA of P 596 million, your Board has deemed it appropriate to maintain its cash dividends at the same level of P0.40 per share, payable on April 26, 2012.

Even in the face of challenges, your Company remains committed toward its customers, suppliers, employees, and the public. Although 2011 was a year of external difficulties and internal growth pains, we maintain our conviction that doing good is good business. Through good business, we build the nation, address the aspirations of our stakeholders, and improve the lives of Filipinos - providing quality education, reliable and renewable power, and attractive homes, all at affordable costs.

2012 Outlook

Although we expect concerns in the US, Europe and the Middle East to continue to dampen the world economy, we look forward to a more optimistic domestic environment. The Philippine stock market again reached new highs in early 2012, evidencing renewed investor trust in the country. Interest rates are expected to remain soft in the year, encouraging local investment and consumer confidence. The Company looks forward to the Philippine Government's acceleration of its Public Private Partnership infrastructure program to spur the domestic economy toward a target GDP growth of 5%.

WE MAINTAIN OUR CONVICTION THAT DOING GOOD IS GOOD BUSINESS. THROUGH GOOD BUSINESS, WE BUILD THE NATION, ADDRESS THE ASPIRATIONS OF OUR STAKEHOLDERS, AND IMPROVE THE LIVES OF FILIPINOS.

This year is also a year of recovery from natural calamity, and we hope to actively participate in rebuilding the housing needs of the nation. We anticipate improvements in our roofing, housing, and education businesses, and fully anticipate stronger operating performance from our energy group to boost our bottomline. We look forward to taking up full year income from Fuld US and Fuld Philippines - both on their first full year of operations since acquisition - and expect One Animate Limited to post modest income, as it expands its current pipeline and improves production efficiencies.

For the near-term, we continue to be particularly optimistic about the energy sector and are exploring further investment in power projects. Together with the Ayala Group's AC Energy Holdings Corporation, TA Oil is already considering another 135 MW power plant, the second phase of its ongoing 135 MW power project with the Ayala Group. TA Oil is also eyeing a proposed 135 MW power project in North Mindanao and intends to participate in a planned second phase of a 20 MW geothermal facility through Maibarara Geothermal Inc., a 25%-owned affiliate of TA Oil.

We reaffirm our commitment toward building the nation by addressing not only the need for reliable and renewable power but also the need for quality education and housing, through profitable business enterprises.

In closing, we would like to express our gratitude once again to our directors, management team, and employees who are our partners in achieving our goals, and most of all to our shareholders who have shown continuous support for us, in both good times and in times of challenge, as we improve the lives of our fellow countrymen.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
President

EDUCATION

Phinma Corporation, through the Phinma Education Network (PEN), seeks to provide a better future for thousands of students by offering quality education at affordable rates. PEN comprises four schools namely Araullo University (AU), Cagayan de Oro College (COC), University of Pangasinan (UPang) and University of Iloilo (UI), providing basic, secondary and tertiary education to approximately 26,000 students.

PEN has strived to make its schools among the most affordable private institutions in their respective areas, with tuition fees ranging from P15,000 to P20,000 per semester. To keep tuition fees reasonably priced, the schools continue to manage costs and streamline operations. As a result, the ratio of non-teaching employees to faculty today averages at an efficient level of about 1:3. To provide education to even more students, the PEN schools introduced the PHINMA Scholarship program, which offers fifty percent scholarship on tuition and fees to those in financial need. In 2011, over 4,400 students enrolled under this program.

For the school year 2011, overall PEN enrollment grew by two percent to 25,964. During the year, income of the four schools under the Phinma Education Network (PEN) amounted to P131.3 million, an increase of five percent compared to P125.4 million in 2010.

The schools continue to perform well and are continuously improving their programs and facilities. In AU, 100% of accountancy examinees passed both board exams in 2011. In addition, the school was the top school among private schools in Cabanatuan in both its criminology and nursing programs in terms of passing average for fresh graduates.

UPang has completed the renovation of its Arts and Sciences building. The school continues to perform well in terms of passing rates for graduates of its

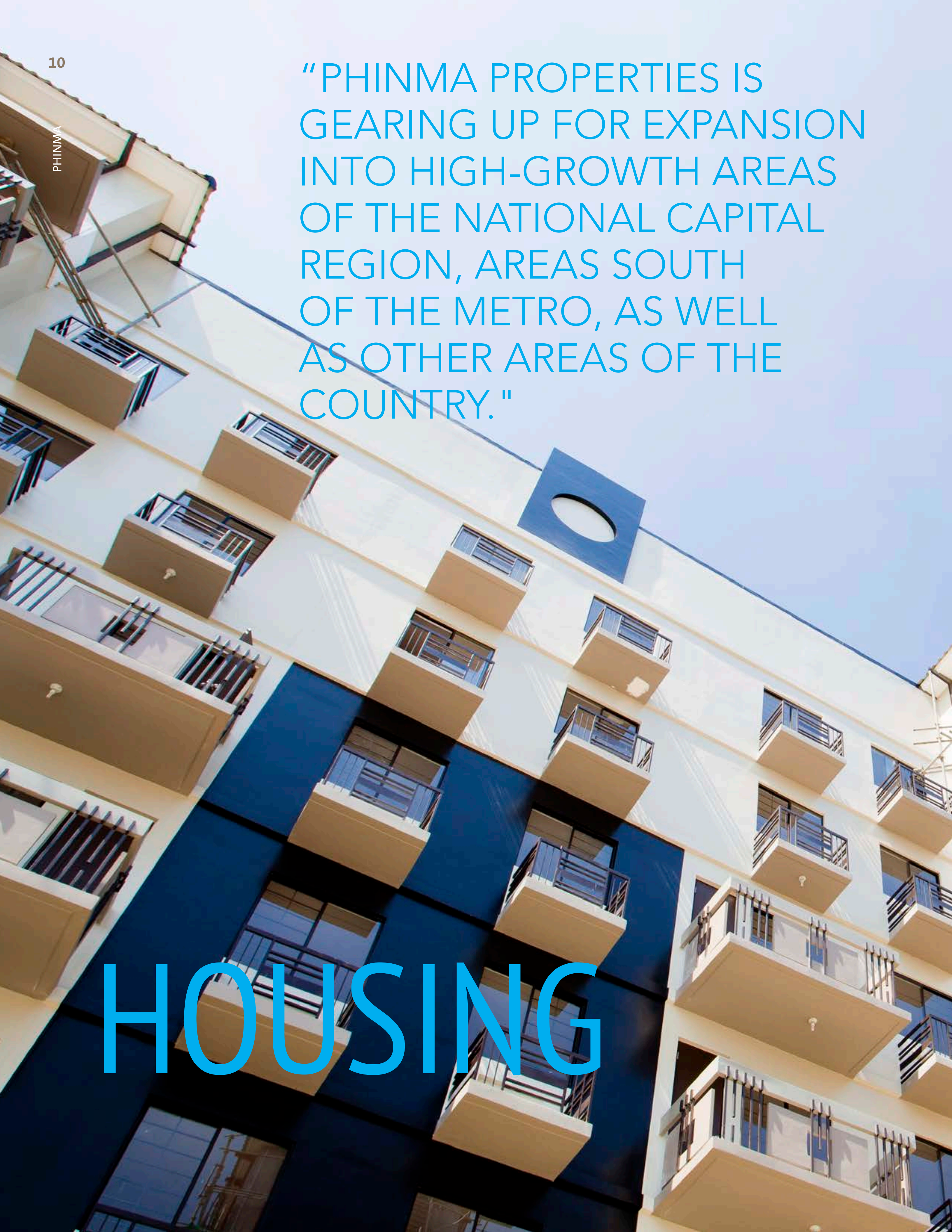
nursing, medical technology and law programs, and has instituted policies and standards in its board courses to further enhance the quality of its graduates.

COC's Criminology department has been recognized by the Commission on Higher Education as a Center of Development for demonstrating institutional leadership and high standards in the areas of instruction and research. In 2011, one criminology student and one mechanical engineering student placed in the Top 10 in the nationwide board exams. In 2011, COC made headway in further improving the teaching performance of faculty through intensive training, seminars and workshops.

UI continues to develop its programs, with a March 2011 nursing graduate placing in the Top 5 in the nationwide licensure exam in December. In March 2012, UI's marine engineering course received its ISO 9001:2008 certification.

For 2012, PEN schools have targeted upgrading in various areas including advanced course offerings, faculty development, education materials, both academic and sports facilities, and graduate placement, all in support of its mission of delivering quality education to all students.

"THE PHINMA EDUCATION NETWORK HAS STRIVED TO MAKE ITS SCHOOLS AMONG THE MOST AFFORDABLE PRIVATE INSTITUTIONS IN THEIR RESPECTIVE AREAS."



"PHINMA PROPERTIES IS GEARING UP FOR EXPANSION INTO HIGH-GROWTH AREAS OF THE NATIONAL CAPITAL REGION, AREAS SOUTH OF THE METRO, AS WELL AS OTHER AREAS OF THE COUNTRY."

HOUSING

Phinma Property Holdings Corporation (Phinma Properties), a 35% owned affiliate of the Company, is a leading developer of affordable medium- and high-rise condominium units in Metro Manila.

The tightening of policies and procedures by the Home Development Mutual Fund (HDMF) on the heels of the Globe Asiatique controversy resulted in conservative loan value appraisals and extended conversion cycles from loan application to approval. The Fukushima earthquake in March 2011 and subsequent reviews of building codes and metrics for structural integrity contributed further procedural delays, despite the fact that all of Phinma Properties' designs, which adhered to Zone 4 earthquake codes exceeding compliance requirements, were approved without retrofit.

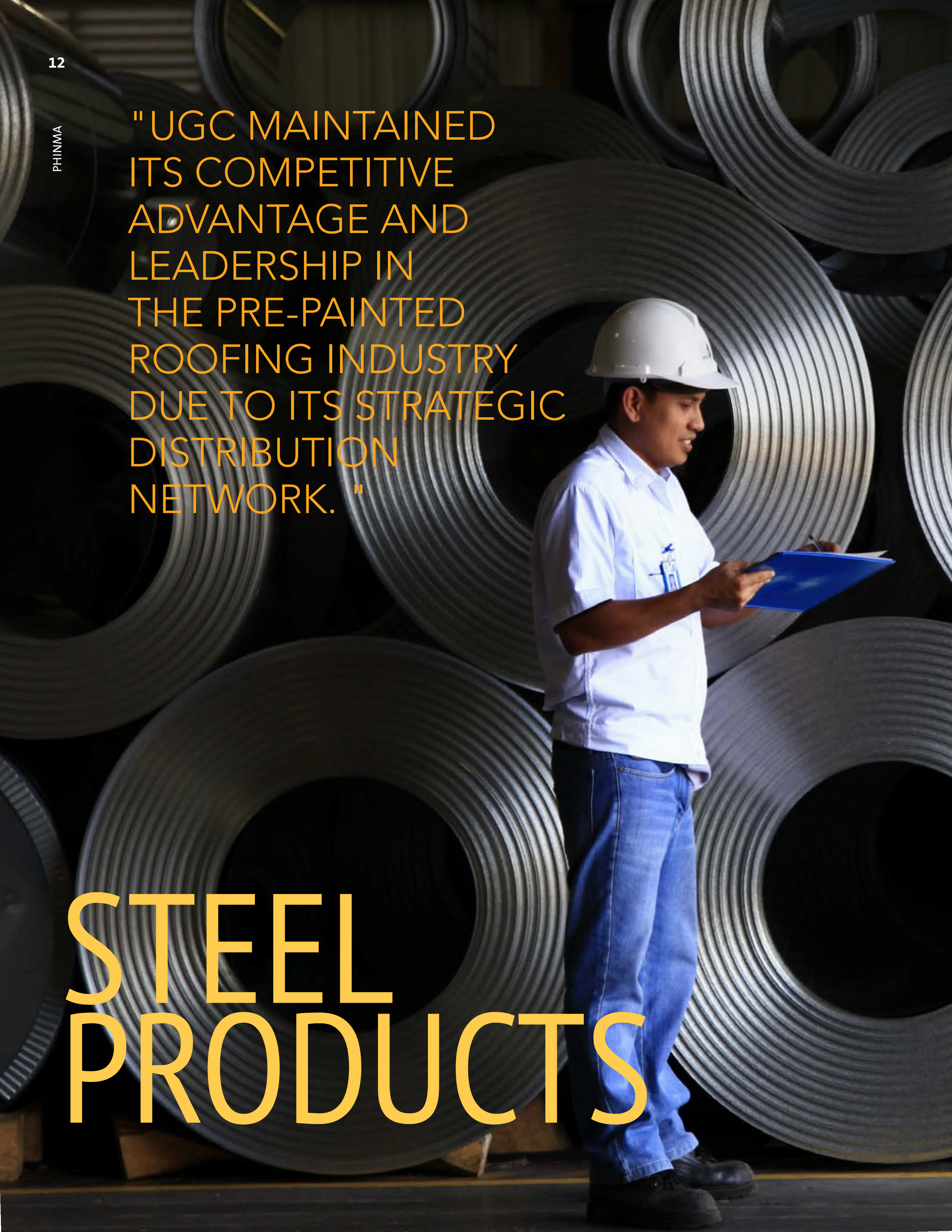
Despite these challenges, Phinma Properties launched one project in May of 2011. ASiA Enclaves Alabang marked the entry of Phinma Properties into the upper mid-affordable market, and a return to the south after the success of Fountain Breeze on Sucat Road. Although the project experienced a slow start due partly to the conservative stance of the HDMF, sales have since progressed and are now on track.

Nevertheless, Phinma Properties saw the delays as an opportunity to venture into an alternative revenue stream. Leveraging on its engineering efficiency, the company took part in urban renewal programs to unlock previously inaccessible land values. In the last quarter of 2011, the company entered into a development agreement with the Quezon City local government for an urban relocation project, Bistekville II, involving the delivery of close to 1,000 low-cost housing units, the first of its kind in Metro Manila. There is a growing opportunity for the company to duplicate this model for similar projects with other government institutions.

In 2011, Phinma Properties posted operating income of P70.9 million, lower than the P134 million net income posted in 2010. During the year, Phinma Properties raised P1.0 billion via the issuance of corporate notes through partnerships with several financial institutions. This substantially increased total assets to P2.6 billion by end 2011 from P2.0 billion in 2010. The new funds are earmarked for land and technology acquisitions to support the company's development plans.

For 2012, Phinma Properties looks forward to the launch of three new projects located in the south and east of Manila. Coupled with the ASiA Enclaves Alabang development, these projects will bring the company's inventory to 2,000 units ready for turnover by the end of the year. The company also plans to form a research and development team to further improve engineering efficiency and build up its sales network in each area of operation. With the recovery of loan value appraisals by the HDMF, these factors present Phinma Properties with a more positive outlook for 2012.

Moving forward, Phinma Properties is gearing up for expansion into high-growth areas of the National Capital Region, areas south of the Metro, as well as other areas of the country. With funds in place and a more aggressive stance on property acquisition, PPHC is developing its pipeline for the coming years.



"UGC MAINTAINED ITS COMPETITIVE ADVANTAGE AND LEADERSHIP IN THE PRE-PAINTED ROOFING INDUSTRY DUE TO ITS STRATEGIC DISTRIBUTION NETWORK. "

STEEL PRODUCTS

Union Galvasteel Corporation (UGC) is the market leader in the manufacture of pre-painted galvanized roofing and other steel products, such as steel decking, frames and insulated panels used for cold storage and other facilities. The company has the largest and most diversified distribution network in the industry, with roll-forming plants and warehouses in key locations throughout the country.

2011 proved to be more challenging than expected as delays in the implementation of the Government's Public Private Partnership (PPP) programs and adverse climate conditions dampened demand and resulted in a delay of construction activity. Though demand for construction materials improved slightly, there was also increased competition due to the continuous importation of steel products under the liberalized tariff regime.

Inspite of these market conditions, UGC maintained its competitive advantage and leadership in the pre-painted roofing industry due to its strategic distribution network. Customers continued to choose UGC products and services because of the company's commitment to quality, availability, and timely delivery.

Amidst the challenges, sales volume grew modestly by 4% mainly due to the growing acceptance of the company's polyurethane insulated roofing materials. UGC also saw strong demand from the agro-industrial market for its insulated panels for cold storage facilities. In 2011, the company adopted an aggressive strategy to service the requirement for heavy gauges and steel frame building systems for the commercial and industrial sector. This broadened the company's product offering and, together with the ISO Certified Quality Management System, reinforced UGC's Customer and Technical Service Program.

UGC's Color Coating Line (CCL) operated at optimum productivity and efficiency levels. The company also pursued skills development and training for its workforce to keep up with changes in process technology, products, and demands of its consumers.

Net income for 2011 of P107.9 million was 46% lower than the P202 million income in 2010 excluding extraordinary income. UGC's financial condition at year end 2011 remained healthy, with total assets of P1.9 billion, total liabilities of P1.0 billion, and stockholders' equity of P924.7 million.

UGC looks forward to the opportunities and challenges of 2012. Although the industry continues to be very competitive, construction activity is projected to increase as the government accelerates implementation of its PPP program and as the nation rebuilds in the face of natural calamities in 2011. With its strategic distribution network and expanded product offering, UGC is well poised to take advantage of these opportunities.

"TRANS-ASIA OIL AND ENERGY DEVELOPMENT CORPORATION CONTINUED ITS COMMITMENT TO PROVIDE SUSTAINABLE AND RELIABLE POWER TO ITS CUSTOMERS."

ENERGY

Phinma Corporation, through its affiliate Trans-Asia Oil and Energy Development Corporation (TA Oil), continued its commitment to provide sustainable and reliable power to its customers.

We are pleased to report that the year 2011 was a great year for TA Oil, with the company posting a consolidated net income of P408.2 million, a substantial improvement over the modest P14.7 million net income of the prior year. As of December 31, 2011, total consolidated assets stood at P5.3 billion, total liabilities at P696.6 million and total equity at P4.6 billion.

Trans-Asia Power Generation Corporation (TA Power), a subsidiary of TA Oil, continued to provide power to major customer Holcim Philippines, Inc. (Holcim). Out of the total energy sales of 240 GWh, 90% or 217 GWh were delivered to Holcim while the remaining 10% or 23 GWh were exported to the Wholesale Electricity Spot Market (WESM).

During the year, TA Oil's 3.4 MW bunker-fired power plant began supplying power to the WESM in the Visayas, in addition to delivering reliable and stable peaking power to the island of Guimaras. A total of 3.63 GWh of power was produced, with 89.7% sold to the Guimaras cooperative and the balance of 10.3% sold on the WESM, resulting in total revenues of P61.9 million and net income from operations of P13.5 million.

In 2011, TA Oil signed a long-term contract to supply the electricity requirement of Holcim Philippines. The ongoing transfer of the 21 MW bunker power station assets of the CIP II Power Corporation (CIPP), a wholly-owned subsidiary of TA Oil, to Bacnotan, La Union will maximize its operating capacity as a merchant plant and at the same time providing reliable embedded-power to better serve the contract with Holcim.

TA Oil continued its active participation in the WESM, ramping up its access to generation capacity, to better manage trading risks and enlarge its customer base. In 2011, TA Oil entered into an energy purchase agreement covering the SEM Calaca Plant in Batangas. On the demand side, in addition to the long term contract with Holcim, TA Oil also signed contracts with electric cooperatives in Batangas, Sorsogon, and Quezon for the supply of power to their customers.

In July 2011, TA Oil joined forces with Ayala Corporation's energy arm, AC Energy Holdings Corporation, to form South Luzon Thermal Energy Corporation (SLTEC), the vehicle undertaking the construction and operation of a modern 135 MW coal-fired power plant employing the environment-friendly Atmospheric Circulating Fluidized Bed boiler technology. The project will be implemented on a 14-hectare parcel of land inside Phoenix Petro Terminal and Industrial Park in Calaca, Batangas. The project officially commenced in December 2011 and the plant is expected to start commercial operations by the third quarter of 2014.

TA Oil is now reevaluating its commitment to the development of its wind projects due to the long delays in the approval of Feed-In-Tariff (FIT) rates. The San Lorenzo Project in Guimaras was brought to the final investment-decision stage but is awaiting approval of an acceptable FIT.

"PHINMA CORPORATION ACQUIRED FULD AND COMPANY AND BUSINESS BACKOFFICE INC., REAFFIRMING THE COMPANY'S MISSION OF PROVIDING HIGH VALUE-ADDED SERVICES THAT ARE GLOBALLY COMPETITIVE."

BUSINESS PROCESS OUTSOURCING

One Animate Limited (One Animate) is an 80% owned subsidiary of Phinma Corporation and is the parent company of Toon City Animation, Inc., a domestic BPO company specializing in animation services for film studios.

In 2011, One Animate booked revenues amounting to US$3.3 million, up from revenues of US$1.1 million in 2010. Projects for 2011 included Geronimo Stilton and Henry & Me, augmenting projects carried over from 2010 such as Looney Tunes and Voltron Force. One Animate was posed with several challenges in 2011. The slowdown in the world economy dampened demand from international clients and delayed production of existing contracts. One Animate also incurred additional production costs as it moved into more complex Computer Generated Imagery (CGI) work. As a result, One Animate posted a net loss of P97.1 million in 2011. Nonetheless, your Company took a conservative stance and opted to book a non-cash provision for impairment of goodwill in the amount of P166.4 million.

Moving forward, One Animate has instituted measures to better manage client relationships for first-time animation clients and is also conducting continuous staff training in CGI to enhance its capabilities on more complex work. The company is also exploring new revenue sources such as content development and pre-production services including storyboarding and layout. Moreover, the company is improving production efficiency by introducing a production tracking system and shifting from traditional 2-D animation to paperless animation. For 2012, the company looks forward to a pipeline which includes Curious George, repeat business from Universal Studios, and expects new business from major US film studios.

In 2011, reaffirming the Company's ongoing mission of providing high value-added services that are globally competitive, Phinma Corporation acquired Fuld & Company Inc. (Fuld) in June and Business Backoffice Inc. (BBI).

Fuld is a global consulting firm based in Cambridge, Massachusetts that pioneered the field of using competitive intelligence to improve strategy and operations. Since 1979, Fuld has served more than 300 of the largest companies worldwide providing customized research and analysis on markets, competitors, suppliers, and customers. The company enables clients to make more informed judgments related to mergers and acquisitions, new product introductions, market entry, tactical sales plans, distribution channels, cost reduction programs, restructuring, supply chain management, employee recruitment and retention, and a variety of other critical business decisions. Fuld's well-known strategic gaming workshops help clients improve their market positions by evaluating the implications of strategic decisions and anticipate market and competitive responses.

BBI is a Philippine-based firm that provides business intelligence research services for consulting firms and corporations worldwide. Established in 2002, BBI has since worked on over 400 research projects across multiple industries and markets worldwide, providing phone-based intelligence collection and analysis on critical business issues for top management. Originally operating under the Global Business Research Support brand, BBI was rebranded as Fuld & Company (Philippines), Inc. following the company's integration under Fuld & Company in January 2012.

The combined US and Philippine operations will allow Fuld & Company to truly serve a global client base with flexible and a broad array of service offerings, including ongoing competitive monitoring. An important element of this growth strategy is the building of a strong Philippine backoffice, which is expected to employ hundreds of Filipinos in the years ahead.

HOTELS

In 2009, Phinma Corporation invested P66.2 million in preferred shares of Coral Way City Hotel Corporation (Coral Way), a subsidiary of Microtel Development Corporation. These preferred shares are convertible to common shares and bear cumulative dividends at a rate of 10%.

Microtel is an international chain of hotels under Wyndham Hotel Group with more than 300 properties worldwide. In the Philippines, Microtel has eleven (11) properties in key regional hubs and resort locations such as Baguio, Batangas, Boracay, Cabanatuan, Cavite, Davao, Mall of Asia in Pasay, Puerto Princesa and Tarlac and will soon open properties in Libis, Quezon City and General Santos City. Microtel pioneered the no-frills hotel concept in the Philippines that target the mid-market. Its approach is back-to-basics: offer consistently clean, comfortable and secure accommodations at value rates.

Coral Way owns the 150-room Microtel Mall of Asia which commenced full commercial operations in September 2010. Strategically situated near SMX Convention Center and SM Mall of Asia, Microtel Mall of Asia caters to local and international travelers, on business or leisure trips. In 2011, about 68% of the hotel guests were leisure travelers while the rest were corporate bookings and attendees of conventions, meetings and events in the area.

On its first full year of operations, Microtel Mall of Asia achieved an occupancy rate of 77% and revenues of P155.2 million in 2011. Gross operating profit was P67.2 million and net income was P11.2 million.

Moving forward in 2012, Microtel Mall of Asia will continue to aggressively tap corporate clients and sustain production from the leisure market through promotions and strategic alliances. It will also utilize web-based sales and marketing tools to strengthen Internet presence and generate more online bookings.

"MICROTEL MALL OF ASIA WILL CONTINUE TO AGGRESSIVELY TAP CORPORATE CLIENTS AND SUSTAIN PRODUCTION FROM THE LEISURE MARKET THROUGH PROMOTIONS AND STRATEGIC ALLIANCES."

BOARD OF DIRECTORS

Oscar J. Hilado
CHAIRMAN

Oscar J. Hilado has been Chairman of the Board of the Company since 2003. He is also Chairman of the Board of Phinma, Inc. Holcim Philippines, Inc., Trans-Asia Oil and Energy Development Corporation, Phinma Property Holdings Corporation, and Union Galvasteel Corporation. Mr. Hilado is also a director of A. Soriano Corporation, First Philippine Holdings Corporation, Manila Cordage Corporation, Beacon Property Ventures, Inc., Pueblo de Oro Development Corporation, United Pulp and Paper Co., Inc. and Seven Seas Resorts and Leisure, Inc. He has been a Director of the Company since 1969 and is also the Chairman of the Executive Committee and Nomination Committee of the Company. Mr. Hilado is a Certified Public Accountant with a Bachelor of Science degree in Commerce from the De La Salle College in Bacolod and a Master's degree in Business Administration from Harvard Business School.

Ramon R. Del Rosario, Jr.
VICE CHAIRMAN

Ramon R. del Rosario, Jr, is President and Vice-Chairman of the Board of the Company. He is also the President and Chief Executive Officer of PHINMA, Inc., Chairman of Araullo University, Cagayan de Oro College, University of Iloilo, and University of Pangasinan, educational institutions under the Phinma Education Network. He is also Chairman of Microtel Inns and Suites (Pilipinas), Inc., One Animate Limited, Toon City and AB Capital and Investment Corporation, and a member of the Board of Directors of other PHINMA managed companies. He is Vice Chairman and Executive Committee Chairman of Trans-Asia Oil and Energy Development Corp. He is also a member of the Board of Directors of Ayala Corp. and Holcim Philippines, Inc. Mr. del Rosario is Chairman of the Makati Business Club and Philippine Business for Education and served as Philippine Secretary of Finance in 1992-1993. He is the brother of Victor J. del Rosario. He has been a Director of the Company since 1979 and became President and Vice-Chairman of the Board on December 12, 2003. Mr. del Rosario is a graduate of De La Salle University and Harvard Business School.

Magdaleno B. Albarracin, Jr.
DIRECTOR

Magdaleno B. Albarracin, Jr. has been Senior Executive Vice President of the Company since 1988 and is Vice-Chairman of Phinma, Inc. He is also a director and President of Holcim Philippines, Inc. and holds directorates in various Phinma companies. Dr. Albarracin is the Chairman of U.P. Engineering Research and Development Foundation (UPERDF) and has served as Dean of the University of the Philippines College of Business Administration, as member of the Board of Regents of UP, and as President of the Asean Federation of Cement Manufacturers. Dr. Albarracin has a Bachelor of Science degree in Electrical Engineering from the University of the Philippines and a Master of Science degree in Electrical Engineering from the University of Michigan. He obtained his Master in Business Administration degree from the University of the Philippines and his Doctorate in Business Administration from Harvard University. He has been a Director of the Company since 1980.

Victor J. del Rosario
DIRECTOR

Victor J. del Rosario has been the Executive Vice President / Chief Financial Officer of the company since 1995. He is also the Vice-Chairman and Chief Executive Officer of Union Galvasteel Corporation and the Chief Strategy Officer of PHINMA, Inc. He is also a member of the Board of Directors of PHINMA, Inc. and various PHINMA-managed companies. Mr. del Rosario is an Economics and Accounting graduate of the De La Salle University and holds a Master of Business Administration degree from Columbia University. He is the brother of Mr. Ramon R. del Rosario, Jr. He has been a Director of the Company since 1987.

Roberto M. Laviña
DIRECTOR

Roberto M. Laviña has been the Senior Vice President – Treasurer of the Company since 2003. Mr. Laviña is the Senior Executive Vice President and Chief Operating Officer/ Chief Financial Officer of PHINMA, Inc. and Senior Executive Vice President / Treasurer of Trans-Asia Oil and Energy Development Corporation. He also occupies various executive posts in PHINMA-managed companies. He holds a Bachelor of Science degree in Economics from Ateneo de Manila University and obtained his Masters degree in Business Management from the Asian Institute of Management. He became a Director of the Company on May 20, 2004.

Jose L. Cuisia, Jr.
DIRECTOR

Jose L. Cuisia, Jr. is the Ambassador Extraordinary and Plenipotentiary to the United States of America and is Vice Chairman of The Philippine American Life and General Insurance Company. He is also Vice Chairman of SM Prime Holdings and holds directorates in BPI-Philam Life Assurance Co., Bauang Private Power Corporation, Holcim Philippines, ICCP Holdings, Beacon Property Ventures and Manila Water Company, Inc. Mr. Cuisia previously served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990. He received his Bachelor of Science degree in Commerce from De La Salle University and holds a Master's degree in Business Administration from the Wharton School of Business. Mr. Cuisia has been a Director of the Company since 1994.

Felipe B. Alfonso
INDEPENDENT DIRECTOR

Felipe B. Alfonso is the Vice-Chairman of the Board of Trustees of the Asian Institute of Management (AIM) Scientific Reserarch Foundation, Inc. He was previously Vice-Chairman of the Asian Institute of Management and Manila Electric Company and was Chairman of H&Q Philippine Holdings, Inc. He is currently a director of AIG Global Fund, Inc. and served as director in Andorra Ventures Corporation, First Private Power Corporation and Jollibee Foods Corporation. Mr. Alfonso holds a Bachelor of Laws degree from the Ateneo de Manila University and obtained his Master's degree in Business Administration from New York University. He became an Independent Director of the Company on April 19, 2001.

Guillermo D. Luchangco
INDEPENDENT DIRECTOR

Guillermo D. Luchangco is the Chairman and CEO of various companies under the ICCP Group and is Chairman and President of Beacon Property Ventures, Inc. He is a director of various companies including Phinma Property Holdings Corp., Fuld Philippines, Inc., Globe Telecom, Inc., Iomni Precision, Inc., Ionics EMS, Inc., Ionics Inc., Ionic Circuits, Ltd, Ionics Properties, Inc., and Synertronix, Inc. He was formerly the Vice-Chairman and President of Republic Glass Corporation and the Managing Director of SGV & Co. Mr. Luchangco received his Bachelor of Science degree in Chemical Engineering from De La Salle University and holds a Master's degree in Business Administration from Harvard Business School. He became an Independent Director of the Company on April 11, 2005.

Roberto F. de Ocampo

INDEPENDENT DIRECTOR

Roberto F. de Ocampo previously served as Secretary of Finance and was the former Chairman and Chief Executive Officer of the Development Bank of the Philippines. He is currently President of Philam Fund, Inc., Philam Bond Fund, Inc., Philam Strategic Growth Fund, Inc. and director of Alaska Milk Corp., Rizal Commercial Banking Corporation, Robinson's Land Corporation and EEI Corporation. He has a Bachelor of Arts degree (major in Economics) from the Ateneo de Manila University, a Master's degree in Business Administration from the University of Michigan, and a post-graduate diploma from the London School of Economics. He has been conferred Doctorates (Honoris Causa) by San Beda College, De La Salle University, Philippine Women's University and University of Angeles City. He became an Independent Director of the Company on April 2, 2009.

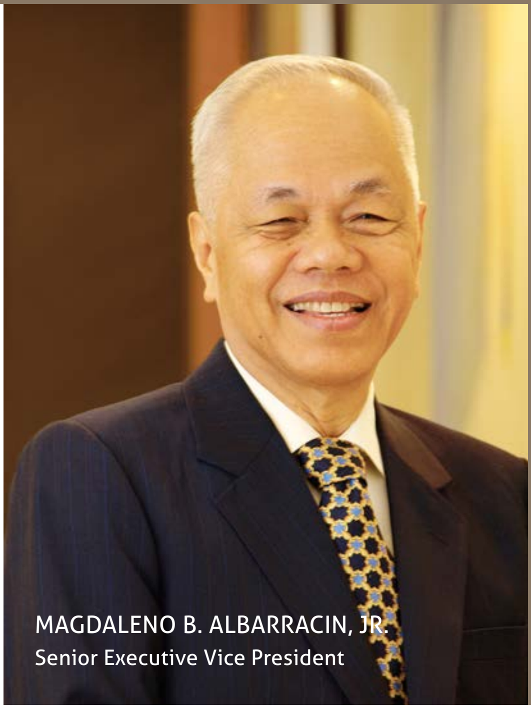
Omar T. Cruz

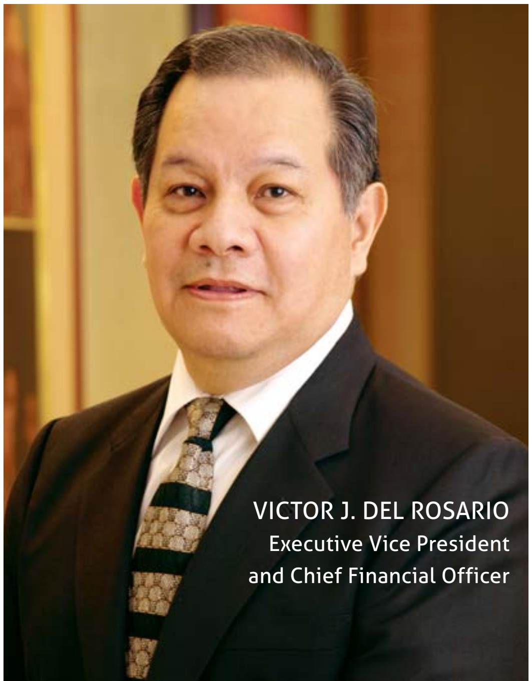
DIRECTOR

Omar T. Cruz is the President and Chief Executive Officer of BPI-Philippine-American Life Assurance Corporation. He was the National Treasurer of the Republic of the Philippines from March 1, 2005 to May 31, 2007. He was previously Vice President in Treasury, Risk Management, Corporate and Investment Banking at Citibank N.A., President at Citicorp Securities International, Inc, Director of ABN AMRO Bank and Governor at the Philippine Stock Exchange. He has a Bachelor of Science degree in Industrial Management Engineering from De La Salle College and a Master of Science degree in Industrial Economics from the University of Asia and the Pacific.

EXECUTIVE OFFICERS


RAMON R. DEL ROSARIO, JR.
President


MAGDALENO B. ALBARRACIN, JR.
Senior Executive Vice President


VICTOR J. DEL ROSARIO
Executive Vice President
and Chief Financial Officer


ROBERTO M. LAVIÑA
Senior Vice President -
Treasurer

JUAN J. DIAZ
Corporate Secretary

PYTHAGORAS L. BRION, JR.
Senior Vice President

REGINA B. ALVAREZ
Senior Vice President - Finance

CECILLE B. ARENILLO
Vice President - Treasury & Compliance Officer

RIZALINA P. ANDRADA
Assistant Vice President - Finance

ONISIMO L. PRADO
Assistant Vice President - Internal Audit

CORPORATE GOVERNANCE

The Board of Directors, officers and employees of Phinma Corporation (PHN) commit themselves to the principles of good governance, as contained in its Manual of Good Corporate Governance. PHN believes that good governance is an integral component of sound business management and exerts every effort necessary to ensure compliance within the organization.

COMPLIANCE OFFICER

The Chairman of the Board designates a Compliance Officer who shall report to the Chairman of the Board. Because PHN is a publicly-listed company, the appointment of Compliance Officer is properly disclosed to the Securities and Exchange Commission.

The Compliance Officer's duties include monitoring compliance with the provisions and requirements of the Manual of Good Corporate Governance, identifying compliance risks, determining violations and recommending appropriate penalties.

The Compliance Officer submitted to the Securities and Exchange Commission and the Philippine Stock Exchange on January 16, 2012 and January 12, 2012, respectively, the Corporate Governance Compliance Certification (CGCC) certifying that as of December 31, 2011, the Corporation substantially adopted the provisions of the Manual on Corporate Governance.

The Compliance Officer also submitted to the Philippine Stock Exchange on March 26, 2012 the Compliance Report on Corporate Governance for year 2011 based on the Corporate Governance Guidelines for Listed Companies.

BOARD OF DIRECTORS

Composition

As of December 31, 2011, the Board of directors consists of 10 members, nominated in accordance with the By-Laws of the Company. In compliance with the legal requirement of SEC for publicly listed corporations, PHN's Board of Directors consists of 3 independent directors. The independent directors hold no interest or have no relationship with the corporation that may hinder their independence from the corporation or management or would interfere with the exercise of independent judgment in carrying out their responsibilities.

The Board of Directors held 4 regular, 1 organizational and 3 special meetings in 2011. The details of the matters taken up during the Board meetings are detailed in the Definitive Information Statement sent to shareholders.

The attendance of the directors in the Board meetings is as follows:

DIRECTORS	Mar 3 Regular	Mar 24 Special	Apr 14 Organi-zational	May 13 Regular	May 27 Special	Aug 9 Regular	Sep 26 Special	Oct 17 Regular
OSCAR J. HILADO	P	P	P	P	P	P	P	P
MAGDALENO B. ALBARRACIN, JR.	P	P	P	A	A	P	P	P
RAMON R. DEL ROSARIO, JR.	P	P	P	P	P	P	P	P
JOSE L. CUISIA, JR.	P	P	P	P	P	P	P	A
VICTOR J. DEL ROSARIO	P	P	P	P	P	P	A	P
ROBERTO M. LAVIÑA	P	P	P	P	P	P	P	P
ROBERTO F. DE OCAMPO	P	P	P	P	P	P	P	P
RIZALINO S. NAVARRO	P	P	P	A	P	-	-	-
NOEL D. VASQUEZ S.J.	P	A	-	-	-	-	-	-
FELIPE B. ALFONSO	P	P	P	P	P	P	A	P
GUILLERMO D. LUCHANGCO	P	P	A	P	P	P	A	P
OMAR T. CRUZ	-	-	P	P	A	P	A	P

P: Present A: Absent - not a member as of date of meeting

Board Committees

To assist it in discharging its duties and responsibilities, the Board constitutes committees which directly report to the Board in accordance with duly approved procedures.

As of December 31, 2011 the board committees and its members were as follows:

DIRECTORS	BOARD COMMITTEES				
	AUDIT	EXCOM	NOMINATION	COMPENSATION	RETIREMENT
OSCAR J. HILADO		C	C	M	C
MAGDALENO B. ALBARRACIN, JR.	M	M			M
RAMON R. DEL ROSARIO, JR.		M	M	M	
JOSE L. CUISIA, JR.		M		C	
VICTOR J. DEL ROSARIO	M				M
ROBERTO M. LAVIÑA					M
ROBERTO F. DE OCAMPO	M				
FELIPE B. ALFONSO	C			M	
GUILLERMO D. LUCHANGCO			M		

C: Chairman M: Member

Nomination Committee

The Nomination Committee is composed of three (3) directors, one of whom is an independent director. The Nomination Committee pre-screens and shortlists all candidates nominated to become members of the board of directors, taking into account factors such as age, number of directorships/active memberships and officerships in other corporations, experience from other boards, knowledge of the industry of the Corporation, knowledge of finance and accounting, and contacts of value to the Corporation.

In March 2012, the Nomination Committee, after a review of the qualifications of the candidates, submitted to the Board of Directors the list of qualified nominees.

Compensation Committee

The Compensation Committee is composed of four (4) directors, one of whom is an independent director. The duties and responsibilities of this committee include establishing policies on executive remuneration, ensuring that the compensation is consistent with the corporation's culture, strategy and control environment, and strengthening policies on conflict of interest, salaries and benefits and compliance with statutory requirements. On September 26, 2011, the Compensation Committee met and approved the terms and conditions for a stock purchase plan for officers.

Audit Committee

The Audit Committee is composed of four (4) members of the Board, two of whom are independent directors. The audit committee is responsible for checking all financial reports for compliance with both internal financial management systems and pertinent accounting standards and regulatory requirements. The Committee ensures that the company's controls are functioning effectively and efficiently.

The Committee likewise performs oversight financial management functions, specifically in the areas of management of credit, liquidity, operations, and legal compliance and risks.

In 2011, the Audit Committee held four meetings and overall attendance was 88.75%. The Committee reviewed the audited financial statements for 2010 and the interim statements for the quarters ending March 31, June 30, and September 30 for the year 2011. It likewise endorsed to the Board of Directors the nomination of SGV and Co. as the company's external auditor for 2011, and reviewed and approved the Internal Audit plan for 2011.

Attendance

AUDIT COMMITTEE	Year 2011			
	March 3	May 13	July 27	October 17
FELIPE B. ALFONSO	P	P	A	P
MAGDALENO B. ALBARRACIN, JR.	P	P	P	P
VICTOR J. DEL ROSARIO	P	P	P	P
ROBERTO F. DE OCAMPO	P	P	P	P
RIZALINO S. NAVARRO	P	A	-	-

P: Present A: Absent - not a member as of date of meeting

EXTERNAL AUDITOR

The external Auditor contributes to the enforcement of good governance through independent examination of the financial records and reports of PHN.

On April 14, 2011, the stockholders, upon recommendation of the Audit Committee and the endorsement by the Board of directors, approved the appointment of SGV & Co. as PHN's external auditor. Ms. Maria Madeira R. Vestil is the partner in charge. On March 22, 2012, SGV & Co. issued its report on the financial statements for the year ended December 31, 2011, stating that the financial statements present fairly, in all material respects, the financial position of the company and that the same are in accordance with Philippine Financial Reporting Standards.

There have been no disagreements with the independent accountants on any matter pertaining to accounting principles or practices, financial statement disclosures or auditing scope or procedure.

The Company is in compliance with SRC Rule 68, paragraph 3(b) (iv) requiring the rotation of external auditors or engagement partners who have been engaged by the company for a period of five (5) consecutive years or more. Ms. Vestil has been the audit partner of the Company for three years.

The Company accrued the following fees for professional services rendered by SGV and Co. for the past two years:

Year	Audit Fees	Tax Fees	Other Fees
2011	P4,000,000.00	-	-
2010	3,700,000.00	-	-

INTERNAL AUDIT

The Internal Audit Group ensures that the control policy and procedures are functioning effectively. The Internal Audit group conducted examinations of the following: notes receivables and short-term investments, investments in bonds and UITFs, dividend payments, and investment real estate and land not in use. Internal Audit also checks the compliance of the company with tax laws and with reportorial requirements of the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE).

The Internal Audit Group reported that the company has complied with all statutory requirements and that controls are functioning effectively and efficiently, not only in PHN but in its subsidiaries and affiliates as well.

DISCLOSURE AND TRANSPARENCY

Phinma Corporation commits itself to high standards of disclosure and transparency. In addition to submitting annual and quarterly financial information and other statutory requirements, the corporation promptly discloses material information such as declaration of dividends, investments and divestments and other items. The disclosures in 2011 to the PSE and SEC included the following:

- Subscription in the stock rights offering of Trans-Asia Oil and Energy Development Corporation.
- Acquisition of an 85% interest in Fuld and Company, Inc. for USD 7.99 million.
- Investment in Business Back Office Inc. (now Fuld Philippines, Inc). in an amount of not more than P 26 million.
- Sale of shares of stock in AB Capital and Investment Corporation for P 96.7 million, under certain terms and conditions.

CODE OF CONDUCT

The Code of Conduct of the company contains policies on professional decorum, conflict of interest and penalties for violations.

Employees are required to always act in the best interest of the company. As a matter of policy, every employee and officer of the company should avoid any situation that could interfere or appear to interfere with their independent judgment in performing their duties. The policy also prohibits using one's official position to secure a contract or employment for a related party, soliciting gifts or any property for personal gain from any individual or organization that deals with the company, and using company information for personal gain. No employee may engage in any business or undertaking that is indirectly or directly in competition with or prejudicial to the interests of the Company.

CORPORATE SOCIAL RESPONSIBILITY

Phinma Corporation's corporate social responsibility (CSR) initiatives focus on the Company's mission of providing quality education, affordable housing, as well as reliable and renewable power. Our directors, officers and employees continue to contribute their time and personal resources in support of these initiatives.

EDUCATION

The four schools under the Phinma Education Network (PEN) extend financial assistance to their students by allowing them access to better education. During the year, PEN awarded full tuition scholarships to 690 Presidential Scholars on the basis of academic performance and half scholarships to 4,469 Phinma Scholars on the basis of financial need. Under its Serving Those Who Serve program, PEN also offered a 25% discount to children of government employees.

Phinma Corporation continues to support the Phinma National Scholarship (PNS) Program of Phinma Foundation which has graduated 21 students and supports 70 scholars in the fields of education, accounting, and engineering. Of the 70 scholars, 45 are supported by Phinma Foundation, 12 by the Australian Agency for International Aid, 11 by Phinma directors, officers and employees, one by the Province of Sarangani and another by the Alcantara Foundation. Phinma Foundation hopes to assist 100 scholars by 2014.

In addition to academic assistance, the program involves the scholars in activities such as leadership conferences and workshops which include topics such as time management and decision making. The Program also treated the students to educational trips comprised of a walking tour of Intramuros and a viewing of "RIZAL X", a theater performance on the life of Dr. Jose Rizal. In the spirit of paying forward, the scholars also joined the Phinma HERO (Helpful Employees Responsible for Others) Volunteer Network. At the end of 2011, the scholars participated in a Christmas party for the benefit of underprivileged children.

Phinma Foundation also supported 10 seminarians and, through the generous funding of a director, provided financial assistance to 65 high school students and 23 college students throughout the country.

ENVIRONMENT

In 2011, Trans-Asia Oil and Energy Development Corporation's (TA Oil) HELP Earth (Harnessing Energy Literacy for Planet Earth) program has expanded to cover 7 Trans Asia partner schools in Bulacan. TA Oil, in collaboration with the University of the Philippines Integrated School, also launched the Energy Activity Guidebook to help teachers upgrade methodologies in teaching energy-related curricula in all 17 adopted schools of the company. In September 2011, Juan Matipid, Trans-Asia's energy-saving mascot, was introduced to the public, along with the first annual competition for high school and college students looking for the "Juan Matipid in All of Us". Trans-Asia also launched Tipid Patrol, a program supported by the Department of Energy, which aims to encourage energy and environment conservation to the public. The company also participated in a program where households traded their incandescent lights for compact fluorescent lights for free.

In 2011, Trans-Asia continued its annual coastal cleanup and tree planting program, planting over 1,600 seedlings in Jose Panganiban, Camarines Norte. Union Galvasteel Corporation (UGC) likewise continued to take part in environmental programs by planting hardwood trees in Caliraya, Laguna and 250 seedlings in Busay, Cebu. UGC continued shoreline clean-up activities in Ilang, Davao City and in Barangay San Agustin, San Fernando La Union. UGC also formally adopted Baranca de Sipit Creek in Barangay Real, Calamba City in a six year program which includes environmental campaigns, clean-ups, river maintenance, "Bantay Ilog", river restoration and reforestation, and flood protection.

SHELTER

During the year, UGC continued its partnership with the Canossian Sisters in developing homes for displaced migrant workers on the shores Sitio Ronggot, Calamba. To date, 28 units out of a target of 45 have been completed, with 12 homes funded by UGC. Utilizing recycled sheets, UGC also built a community chapel in the area in November 2011, in what local residents now refer to as "Canossa-Galvaville".

UGC has also long been involved in the assistance of Bagong Silang Elementary School located on Mt. Makiling, Bagong Silang and last year, UGC restored two more classrooms and helped in building the principal's office and faculty room.

Similary, Phinma Properties continued its partnership with Phinma Foundation, Mariposa Foundation, and Kagabay by completing the construction of a modest one-classroom kindergarten school at Upper Nawasa, Commonwealth, Quezon City, near the company's Flora Vista project site. The Saint Marie Eugenie Kinder School shall provide children access to early child care and development, complemented with a feeding program, school supplies, and books. The school officially opened in January 2012 with the first batch of students expected in June 2012.

Phinma provides shelter not only to people, but to animals as well. In January 2011 UGC was informed by John Chua, a professional photographer, of the plight of Maali, Manila Zoo's oldest elephant, who has been roofless for many years. UGC provided roofing for Maali's enclosure.

DISASTER RESPONSE

UGC, with the support of the Phinma family, responded to the disastrous effects of typhoon Sendong in December 2011 by mobilizing Oplan Damayan, which extended relief operations to 186 families in Cagayan de Oro and 150 families in Iligan City. The Phinma HERO network in Manila also mobilized and extended relief in cash and in kind to affected Phinma group employees in Cagayan de Oro and Iligan. UGC also mobilized resources in Davao, providing basic goods, used clothing and roofing materials to 300 flash flood victims in the towns of Guadalupe, Matina, and Pangi, in Davao City.

INDIVIDUAL SOCIAL RESPONSIBILITY

The Phinma HERO Network encourages employees to become socially responsible by spending their free time volunteering in underserved communities. In 2011, the Phinma HERO Network had over 400 volunteers who participated in activities such as educational trips for children, animal welfare activities, construction of a school building and Christmas field trips for underprivileged children.

FINANCIAL STATEMENTS

REPORT OF AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

The Audit Committee is composed of four (4) members. An independent director chairs the Audit Committee. The Committee has an ample understanding of the Company's financial management systems and environment.

We are pleased to report our activities for Calendar Year 2011.

The Audit Committee had four (4) meetings during the year. Overall, attendance is at 88.75%. The first meeting was held to discuss the results of the annual audit of the external auditor (SGV and Co), review of audited 2010 financial statements for endorsement to the Board, the Group Internal Audit's 2010 accomplishments and 2011 Audit Plan, and the 2010 Audit Committee Report. The remaining three meetings were held to review the quarterly financial statements of the Company, status of internal audits engagements and SGV and Co.'s audit plan for 2011.

We received information and support from Management, the Compliance Officer and Internal Audit to enable us to carry out our function effectively.

ACTIVITIES

Management's Financial Reports

We reviewed and endorsed to the Board of Directors for approval the 2010 audited consolidated financial statements and 2011 quarterly consolidated financial statements.

Informatively, in our first meeting for 2012, held March 21, 2012, we, likewise, reviewed and endorsed to the Board of Directors for approval the 2011 audited consolidated financial statements presented in this annual report.

In reviewing the Financial Reports, the Committee considered the accounting estimates, policies adopted, legal compliance and all significant judgment by the Company's Management that materially impacted the financial results.

External Audit

On March 3, 2011, we endorsed to the Board of Directors the nomination of Sycip, Gorres, Velayo and Company (SGV) as the Company's external auditor or 2011. We reviewed and approved the scope and deliverables of the SGV audit plan. The Committee ensured that the SGV's scope included the review of Company's compliance to Philippine Financial Reporting Standards (PFRS).

We also proposed to the Board of Directors to retain SGV and Co. as the external auditor for 2012 as discussed in our committee meeting held March 21, 2012.

We reviewed and approved the Internal Audit plan for 2011. Based on this plan, the Committee received and reviewed the audit reports submitted by Internal Audit. Various audit and control issues including actions taken by Management were discussed in the Committee meetings. In general, there is adequate internal control. The Internal Audit’s reports also included Tax Compliance Review of the Company’s VAT and EWT.

FELIPE B. ALFONSO
Chairman, Independent Director

ROBERTO F. DE OCAMPO
Independent Director

VICTOR J. DEL ROSARIO
Executive Director

MAGDALENO B. ALBARRACIN, JR.
Executive Director

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The management of PHINMA CORPORATION AND SUBSIDIARIES is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the 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 this 22nd day of March 2012.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
President and Chief Executive Officer

VICTOR J. DEL ROSARIO
Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PHINMA Corporation

We have audited the accompanying consolidated financial statements of PHINMA Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PHINMA Corporation and Subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Maria Madeira R. Vestil

Maria Madeira R. Vestil
Partner
CPA Certificate No. 85783
SEC Accreditation No. 0680-AR-1 (Group A),
March 17, 2011, valid until March 16, 2014
Tax Identification No. 102-094-770
BIR Accreditation No. 08-001998-75-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174836, January 2, 2012, Makati City

March 22, 2012

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010
	(In Thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8, 32 and 33)	**₱916,157**	₱1,202,170
Short-term investments (Notes 32 and 33)	**–**	47,316
Investments held for trading (Notes 9, 32 and 33)	**771,517**	841,566
Trade and other receivables (Notes 10, 29, 32 and 33)	**857,649**	1,070,583
Inventories (Note 11)	**977,919**	830,910
Input value-added taxes	**40,697**	73,271
Derivative asset and other current assets (Notes 32 and 33)	**85,371**	33,787
Total Current Assets	**3,649,310**	4,099,603
Noncurrent Assets		
Investments in associates - at equity (Note 12)	**1,835,145**	1,364,684
Available-for-sale (AFS) investments (Notes 13, 32 and 33)	**140,990**	399,480
Property, plant and equipment (Notes 14 and 20)	**2,260,744**	2,176,527
Investment properties (Notes 15 and 20)	**410,890**	406,289
Intangibles (Notes 7 and 16)	**1,295,243**	1,164,035
Deferred tax assets - net (Note 30)	**49,245**	44,461
Installment contract receivables - net of current portion (Notes 6, 10, 32 and 33)	**–**	20,585
Other noncurrent assets (Note 17)	**26,640**	21,050
Total Noncurrent Assets	**6,018,897**	5,597,111
	₱9,668,207	₱9,696,714
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 18, 32 and 33)	**₱455,193**	₱248,836
Trade and other payables (Notes 19, 32 and 33)	**389,792**	379,586
Unearned revenues - inclusive of current portion of deferred rent revenue of ₱1.2 million in 2010 (Notes 4 and 29)	**204,567**	194,884
Trust receipts payable (Notes 11, 32 and 33)	**103,735**	121,567
Income and other taxes payable	**44,889**	83,789
Due to related parties (Notes 29, 32 and 33)	**24,496**	32,929
Derivative liability (Notes 32 and 33)	**2,281**	–
Current portion of long-term loan payable (Notes 7, 32 and 33)	**22,095**	–
Current portion of long-term debt - net of debt issuance cost (Notes 20, 29, 32 and 33)	**141,063**	141,350
Total Current Liabilities	**1,388,111**	1,202,941
Noncurrent Liabilities		
Long-term debt - net of current portion and debt issuance cost (Notes 20, 29, 32 and 33)	**599,659**	703,262
Long-term loan payable (Notes 7, 32 and 33)	**78,912**	–
Deferred tax liabilities - net (Note 30)	**310,995**	385,918
Pension and other post-employment benefits (Note 31)	**58,249**	40,024
Deferred rent revenue - net of current portion (Note 29)	**47,228**	48,394
Other noncurrent liabilities (Note 29)	**7,477**	15,485
Total Noncurrent Liabilities	**1,102,520**	1,193,083
Total Liabilities	**2,490,631**	2,396,024
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 21)	**2,577,249**	2,577,249
Additional paid-in capital	**255,785**	255,785
Other components of equity (Note 21)	**33,914**	33,666
Retained earnings (Note 21)	**3,649,960**	3,672,037
Equity attributable to equity holders of the parent	**6,516,908**	6,538,737
Equity Attributable to Non-controlling Interest (Note 7)	**660,668**	761,953
Total Equity	**7,177,576**	7,300,690
	₱9,668,207	₱9,696,714

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2011	2010	2009
	(In Thousands, Except Per Share Data)		
CONTINUING OPERATIONS			
REVENUE			
Sale of goods	**₱2,695,638**	₱2,795,576	₱2,547,057
Tuition and school fees	**823,964**	754,323	736,590
Consultancy services	**258,065**	–	–
Investment income (Notes 9 and 22)	**102,335**	84,067	112,406
Rental income (Note 15)	**46,872**	79,639	72,574
Animation services	**26,631**	60,127	257,209
	3,953,505	3,773,732	3,725,836
COSTS AND EXPENSES			
Cost sales (Notes 23, 26 and 27)	**(2,117,967)**	(2,038,152)	(1,980,238)
Cost of educational, animation and consultancy services (Notes 23, 26 and 27)	**(690,310)**	(573,259)	(585,915)
General and administrative expenses (Notes 10, 17, 24, 26, 27 and 29)	**(641,444)**	(561,983)	(633,778)
Selling expenses (Notes 10, 25, 26 and 27)	**(329,018)**	(228,987)	(203,180)
	(3,778,739)	(3,402,381)	(3,403,111)
OTHER INCOME (CHARGES)			
Impairment loss on goodwill (Notes 5 and 16)	**(166,369)**	–	–
Equity in net earnings of associates (Note 12)	**137,656**	59,391	117,657
Interest expense and other financial charges (Note 28)	**(108,381)**	(113,421)	(105,782)
Net gains on derivatives (Note 33)	**7,121**	50,061	58,278
Foreign exchange losses - net (Note 32)	**(6,298)**	(32,402)	(10,050)
Gain on sale of investment properties (Notes 10 and 15)	**1,611**	386,073	–
Income from reversal of unrecoverable input value-added tax	**–**	52,349	–
Negative goodwill on acquisition of non-controlling interest (Note 7)	**–**	–	84,680
Others - net (Note 20)	**63,424**	33,428	50,670
	(71,236)	435,479	195,453
INCOME BEFORE INCOME TAX	**103,530**	806,830	518,178
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30)			
Current	**128,294**	135,619	93,320
Deferred	**(82,273)**	31,208	(14,478)
	46,021	166,827	78,842
INCOME FROM CONTINUING OPERATIONS	**57,509**	640,003	439,336
INCOME FROM DISCONTINUED OPERATION (Note 6)	**–**	–	65,152
NET INCOME	**₱57,509**	₱640,003	₱504,488
Attributable to			
Equity holders of the Parent	**₱81,018**	₱475,846	₱447,370
Non-controlling interest	**(23,509)**	164,157	57,118
Net income	**₱57,509**	₱640,003	₱504,488
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 35)	**₱0.31**	₱1.85	₱1.74
Basic/Diluted Earnings Per Common Share from Continuing Operations - Attributable to Equity Holders of the Parent (Note 35)	**₱0.31**	₱1.85	₱1.48

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
		(In Thousands)	
NET INCOME	**₱57,509**	₱640,003	₱504,488
OTHER COMPREHENSIVE INCOME (LOSS)			
Cumulative translation adjustments	**790**	6,184	(802)
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	**(367)**	1,060	900
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 12)	**(175)**	7,731	6,441
	248	14,975	6,539
TOTAL COMPREHENSIVE INCOME	**₱57,757**	₱654,978	₱511,027
Attributable to			
Equity holders of the Parent	**₱81,266**	₱489,576	₱453,909
Non-controlling interest	**(23,509)**	165,402	57,118
Total Comprehensive Income	**₱57,757**	₱654,978	₱511,027

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 21)	Additional Paid-in Capital	Share in Equity Component of Convertible Notes (Note 21)	Share in Unrealized Gain (Loss) on Change in Fair Value of AFS Investments of Associates (Notes 12 and 21)	Unrealized Gain (Loss) on Change in Fair Value of AFS Investments (Notes 13 and 21)	Cumulative Translation Adjustments (Note 21)	Other Reserves (Note 21)	Retained Earnings Appropriated (Note 21)	Retained Earnings Unappropriated	Subtotal	Non-controlling Interest	Total Equity
						(In Thousands)						
Balance, January 1, 2011	**₱2,577,249**	**₱255,785**	**₱–**	**₱19,226**	**₱1,352**	**₱4,145**	**₱8,943**	**₱1,000,000**	**₱2,672,037**	**₱6,538,737**	**₱761,953**	**₱7,300,690**
Total comprehensive income	**–**	**–**	**–**	**(175)**	**(367)**	**790**	**–**	**–**	**81,018**	**81,266**	**(23,509)**	**57,757**
Cash dividends - ₱0.40 a share (Note 21)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(103,095)**	**(103,095)**	**–**	**(103,095)**
Dividends received	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(98,914)**	**(98,914)**
Acquisition of subsidiaries (Note 7)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,902**	**11,902**
Subscriptions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,236**	**9,236**
Balance, December 31, 2011	**₱2,577,249**	**₱255,785**	**₱–**	**₱19,051**	**₱985**	**₱4,935**	**₱8,943**	**₱1,000,000**	**₱2,649,960**	**₱6,516,908**	**₱660,668**	**₱7,177,576**
Balance, January 1, 2010	₱2,577,249	₱255,785	₱13,443	₱11,495	₱300	(₱802)	₱–	₱1,000,000	₱2,282,587	₱6,140,057	₱626,309	₱6,766,366
Total comprehensive income	–	–	–	7,731	1,052	4,947	–	–	475,846	489,576	165,402	654,978
Cash dividends - ₱0.40 a share (Note 21)	–	–	–	–	–	–	–	–	(103,095)	(103,095)	–	(103,095)
Dividends received	–	–	–	–	–	–	–	–	–	–	(25,218)	(25,218)
Subscriptions	–	–	–	–	–	–	–	–	–	–	4,403	4,403
Reclassification of share in equity component of convertible notes (Note 21)	–	–	(13,443)	–	–	–	–	–	16,699	3,256	–	3,256
Change in ownership interest without loss of control (Note 1)	–	–	–	–	–	–	8,943	–	–	8,943	(8,943)	–
Balance, December 31, 2010	₱2,577,249	₱255,785	₱–	₱19,226	₱1,352	₱4,145	₱8,943	₱1,000,000	₱2,672,037	₱6,538,737	₱761,953	₱7,300,690
Balance, January 1, 2009	₱2,577,249	₱255,785	₱13,443	₱5,054	(₱600)	₱–	₱–	₱1,000,000	₱1,938,312	₱5,789,243	₱889,049	₱6,678,292
Total comprehensive income	–	–	–	6,441	900	(802)	–	–	447,370	453,909	57,118	511,027
Acquisition of non-controlling interest (Note 7)	–	–	–	–	–	–	–	–	–	–	(288,807)	(288,807)
Disposal of non-controlling interest (Note 6)	–	–	–	–	–	–	–	–	–	–	(182,416)	(182,416)
Business combinations (Note 7)	–	–	–	–	–	–	–	–	–	–	158,614	158,614
Cash dividends - ₱0.40 a share (Note 21)	–	–	–	–	–	–	–	–	(103,095)	(103,095)	–	(103,095)
Dividends received	–	–	–	–	–	–	–	–	–	–	(26,841)	(26,841)
Subscriptions	–	–	–	–	–	–	–	–	–	–	19,592	19,592
Balance, December 31, 2009	₱2,577,249	₱255,785	₱13,443	₱11,495	₱300	(₱802)	₱–	₱1,000,000	₱2,282,587	₱6,140,057	₱626,309	₱6,766,366

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
	(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱103,530**	₱806,830	₱518,178
Income before income tax from discontinued operation (Note 6)	**–**	–	170
Income before income tax	**103,530**	806,830	518,348
Noncash adjustment to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Notes 27 and 36)	**218,079**	238,380	251,077
Impairment loss on goodwill (Note 16)	**166,369**	–	–
Equity in net earnings of associates (Note 12)	**(137,656)**	(59,391)	(117,657)
Interest expense and other financial charges (Notes 28 and 36)	**108,381**	113,421	105,782
Interest income (Notes 22 and 36)	**(61,287)**	(60,252)	(82,457)
Retirement cost (Note 31)	**38,478**	38,168	21,436
Provision for unrecoverable input value-added tax (Notes 24 and 36)	**7,372**	4,063	13,002
Net gains on derivatives - net (Note 33)	**(7,121)**	(50,061)	(58,278)
Unrealized foreign exchange loss - net	**4,672**	17,442	15,783
Dividend income (Note 22)	**(2,454)**	(4,469)	(7,162)
Gain on sale of investment property (Notes 10 and 15)	**(1,611)**	(386,073)	–
Loss (gain) on sale of property and equipment	**(56)**	72	–
Gain on sale of AFS investments	**(4)**	(16)	–
Income from reversal of unrecoverable input value-added tax	**–**	(52,349)	–
Negative goodwill on acquisition of non-controlling interest (Note 7)	**–**	–	(84,680)
Operating income before working capital changes	**436,692**	605,765	575,194
Decrease (increase) in:			
Short-term investments	**47,316**	(47,316)	86,817
Investments held for trading	**67,707**	(291,404)	205,656
Trade and other receivables	**309,983**	308,999	(148,785)
Inventories	**(147,009)**	(229,669)	323,332
Other current assets	**(6,586)**	(11,066)	79,733
Increase (decrease) in:			
Trade and other payables	**(83,689)**	(219,211)	(113,665)
Trust receipts payable	**(18,589)**	(9,484)	(406,201)
Other taxes payable	**(63,614)**	(5,694)	19,051
Unearned revenues	**9,683**	6,419	112,620
Cash generated from operations	**551,894**	107,339	733,752
Interest paid	**(109,266)**	(127,981)	(92,105)
Income tax paid	**(102,452)**	(87,618)	(86,609)
Net cash provided by (used in) operating activities	**340,176**	(108,260)	555,038
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investments in associates	**(350,364)**	–	(66,540)
Property, plant and equipment and investment properties (Notes 14 and 15)	**(315,790)**	(222,202)	(210,857)
Proceeds from sale/settlement of:			
AFS investments	**257,940**	258	–
Forward currency contracts	**13,844**	52,484	24,556
Investment properties	**9,986**	135,300	–
Property, plant and equipment	**766**	47,141	25,986
Acquisition of subsidiaries - net of cash acquired (Note 7)	**(235,141)**	–	(872,478)
Interest received	**58,381**	60,372	101,860
Decrease (increase) in other noncurrent assets	**19,640**	9,333	(9,622)
Dividends received	**17,986**	43,570	39,102
Acquisition of non-controlling interest (Note 7)	**–**	–	(176,876)
Proceeds from sale of discontinued operation (Note 6)	**–**	–	62,876
Net cash provided by (used in) investing activities	**(522,752)**	126,256	(1,081,993)

(Forward)

	Years Ended December 31		
	2011	2010	2009
		(In Thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Notes payable	**₱447,133**	₱212,991	₱–
Long-term debt	**37,841**	400,000	–
Payments of:			
Notes payable	**(241,737)**	(67,634)	(22,927)
Long-term debt	**(142,474)**	(256,440)	(154,836)
Cash dividends	**(101,874)**	(103,095)	(95,933)
Long-term loan payable	**(4,160)**	–	–
Increase (decrease) in:			
Non-controlling interest	**(89,677)**	(16,314)	(7,249)
Due to related parties	**(8,433)**	(27,341)	60,127
Net cash provided by (used in) financing activities	**(103,381)**	142,167	(220,818)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(56)**	(10,210)	(26,788)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(286,013)**	149,953	(774,561)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,202,170**	1,052,217	1,826,778
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱916,157**	₱1,202,170	₱1,052,217

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

PHINMA Corporation (PHN or the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on March 12, 1957. On August 2, 2006, the Philippine SEC approved the extension of the Parent Company's corporate life for another 50 years. Also, on May 27, 2010, the Philippine SEC approved the change in the Parent Company's corporate name from Bacnotan Consolidated Industries, Inc. to PHINMA Corporation. Its principal activity is investment holdings of shares in various subsidiaries, associates and affiliates and other financial instruments.

Following are the subsidiaries of the Parent Company and the nature of their principal business activities:

Name of Subsidiaries	Nature of Business	Calendar/Fiscal Yearend	Percentage of Ownership 2011	2010
Union Galvasteel Corporation (UGC)	Manufacture and distribution of steel products	December 31	**98.08**	98.36[(a)]
One Animate Limited (OAL) and Subsidiary	BPO-Animation services	December 31	**80.00**	80.00[(b)]
Pamantasan ng Araullo (Araullo University), Inc.(AU)	Educational institution	March 31[(c)]	**78.64**	78.64
Cagayan de Oro College, Inc. (COC)	Educational institution	March 31[(c)]	**74.21**	74.35
University of Iloilo (UI)	Educational institution	March 31[(c)]	**69.79**	69.85
University of Pangasinan (UPANG) and Subsidiary	Educational institution	March 31[(c)]	**69.75**	69.76
P & S Holdings Corporation (PSHC)	Investment and real estate holdings	December 31	**60.00**	60.00
Asian Plaza, Inc. (API)	Lease of real property	December 31	**57.62**	57.62
Fuld & Company, Inc. (Fuld U.S. and Subsidiary)	Business Research	December 31	**85.00**[(d)]	–
Fuld & Company (Philippines), Inc. (Fuld Philippines)	Business Research	December 31	**85.00**[(e)]	–

(a) *On December 22, 2010, the SEC approved the merger of UGC and AHC with UGC as the surviving entity. The execution of the merger involved a share swap between UGC and the holder of the non-controlling interest in AHC. This resulted in a decrease of the Parent Company's ownership interest in UGC from 100% to 98.36% (see Note 20). In 2011, the change in percentage of ownership in UGC was a result of UGC's issuance of shares to the holder of the non-controlling interest.*
(b) *OAL owns 95.0% interest in Toon City Animation, Inc. (Toon City).*
(c) *Balances of these subsidiaries as of and for the year ended December 31 were used for consolidation purposes, which is the same reporting period of PHN.*
(d) *Acquired by PHN on June 10, 2011.*
(e) *Acquired by PHN on July 25, 2011.*

The Parent Company and its subsidiaries (collectively referred to as "the Company") are all incorporated in the Philippines except for OAL and Fuld U.S. OAL is incorporated in Hong Kong while Fuld US is incorporated in the United States of America (USA). The Company's ultimate parent company is Philippine Investment-Management (PHINMA), Inc., which is also incorporated in the Philippines.

The information on the segments of the Company is presented in Note 36.

The registered office address of the Parent Company is 12th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on March 22, 2012.

2. Basis of Preparation and Statement of Compliance

The accompanying consolidated financial statements of the Company have been prepared using the historical cost basis, except for investments held for trading, available-for-sale (AFS) investments and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the Parent Company's functional currency. All values are rounded to the nearest thousand peso unless otherwise stated.

The accompanying consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting and Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

3. **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, PAS and Philippine Interpretations which were adopted on January 1, 2011.

- PAS 24, *Related Party Disclosures (Amendment)*, became effective for annual periods beginning on or after January 1, 2011.

- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*, became effective for annual periods on or after February 1, 2010.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*, became effective for annual periods beginning on or after January 1, 2011.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, became effective for annual periods beginning on or after July 1, 2010.

- 2010 Improvements to PFRS (Effective 2011).

The standards or interpretations that have been adopted have no material impact on the consolidated financial statements of the Company.

<u>Standards Issued but not yet Effective</u>
The following standards, amendments to standards and interpretations have been issued but will become effective subsequent to December 31, 2011. The Company will adopt these standards and interpretations when they become effective.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)*, will become effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in 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 Company's financial position or performance.

- PAS 12, *Income Taxes (Amendment) - Recovery of Underlying Assets*, will become effective for annual periods beginning on or after January 1, 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

- PAS 19, *Employee Benefits (Amendment)*, will become effective for annual periods beginning on or after January 1, 2013. The numerous amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is currently assessing the impact of the amendment to PAS 19.

- PAS 27, *Separate Financial Statements (as revised in 2011*), will become effective for annual periods beginning on or after January 1, 2013. 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 Company does not expect this revised standard to have any significant impact on its financial position or performance.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, will become effective for annual periods beginning on or after January 1, 2013. 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. The Company does not expect this revised standard to have a significant impact on its consolidated financial statements.

- PAS 32*, Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*, will become effective for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify 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. While the amendment is expected not to have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Company is currently assessing impact of the amendments to PAS 32.

- PFRS 7*, Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*, will become effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

- PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, will become effective for annual periods beginning on or after January 1, 2013. These 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. 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 statement of financial position;
  (c) The net amounts presented in the statement of financial position;
  (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 applied retrospectively. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

- PFRS 9*, Financial Instruments: Classification and Measurement*, will become effective for annual periods beginning on or after January 1, 2015. This standard reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed. The completion of this project is expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- PFRS 10, *Consolidated Financial Statements*, will become effective for annual periods beginning on or after January 1, 2013. This standard 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 Standing Interpretations Committee (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. This standard will have no significant impact on the consolidated financial statements.

- PFRS 11*, Joint Arrangements*, will become effective for annual periods beginning on or after January 1, 2013. This standard replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*, and 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 Company does not expect this standard to have any impact on its financial statements.

- PFRS 12, *Disclosure of Interests with Other Entities*, will become effective for annual periods beginning on or after January 1, 2013. This standard 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 Company expects that this new standard will have no significant effect on its financial position or performance.

- PFRS 13, *Fair Value Measurement*, will become effective for annual periods beginning on or after January 1, 2013. This standard 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 Company is currently assessing the impact of this standard on its financial position and performance.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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 SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation will have no significant impact in the consolidated financial statements.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, will become effective for annual periods beginning on or after January 1, 2013. This interpretation 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 interpretation will have no impact in the consolidated financial statements.

4. **Summary of Significant Accounting and Financial Reporting Policies**

Principles of Consolidation
The consolidated financial statements include the accounts of the Parent Company and all the subsidiaries mentioned in Note 1. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intercompany balances, transactions, income and expenses and profits and losses resulting from intercompany transactions are eliminated in full.

Subsidiaries are fully consolidated from the date control is transferred to the Company and cease to be consolidated from the date control is transferred out of the Company.

Non-controlling interest represents the portion of profit or loss and net assets in the subsidiaries not held by the Company and is presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from equity attributable to equity holders of the parent. Prior to January 1, 2010, acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill, otherwise, the difference is recognized as a "negative" goodwill (shown as "Negative goodwill on acquisition of non-controlling interest" in the consolidated statement of income). Starting January 1, 2010, a change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction and is shown as "Other reserves" in the consolidated statements of changes in equity. If the Company loses control over a subsidiary, it:

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

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 the date of acquisition and are subject to an insignificant risk of change in value.

Short-term Investments
Short-term investments represent investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition. The Company recognizes a financial instrument in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Company commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial instruments, except for financial instruments measured at fair value through profit or loss (FVPL).

The Company classifies its financial instruments into the following categories: financial assets and liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS investments and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every financial reporting date.

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.

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

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

Day 1 Difference. Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a ‘Day 1’ difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the ‘Day 1’ difference amount.

Financial Assets and Liabilities at FVPL. This category includes financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including any separated derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Instruments under this category are classified as current assets/liabilities if these are hold primarily for the purpose of trading or expected to be realized/settled within 12 months from reporting date. Otherwise, these are classified as noncurrent assets/liabilities.

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities designated at FVPL are recorded in the consolidated statements of financial position at fair value. Subsequent changes in fair value on financial assets and liabilities designated at FVPL are recorded in the consolidated statements of income as “Net gains from fair value change of investments held for trading” under “Investment income” account. Interest earned or incurred is recorded in “Investment income” account or “Interest expense and other financial charges” account, respectively. Dividend income is recorded according to the terms of the contract, when the right to receive payment has been established.

The Company’s investments held for trading and derivative asset are classified under this category. The aggregate carrying values of financial assets under this category amounted to ₱771.5 million and ₱846.0 million as of December 31, 2011 and 2010, respectively. Included under financial liability at FVPL is the Company’s derivative liability. The carrying values of financial liability at FVPL amounted to ₱2.3 million as of December 31, 2011 (see Note 33).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL. Loans and receivables are included in current assets if maturity is within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

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

The Company’s cash and cash equivalents, short-term investments, trade and other receivables and installment contract receivables are classified under this category. The aggregate carrying values of financial assets under this category amounted to ₱1,773.8 million and ₱2,340.7 million as of December 31, 2011 and 2010, respectively (see Note 33).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company’s management has the positive intention and ability to hold to maturity. Where the company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process. HTM Investments are classified as current if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Company has no financial assets classified as HTM as of December 31, 2011 and 2010.

AFS Investments. AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS investments are carried at fair value in the consolidated statements of financial position. Changes in the fair value of such assets are reported as unrealized gain or loss on change in fair value of AFS investments recognized as other comprehensive income in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statements of comprehensive income is transferred to the consolidated statements of income. AFS investments are classified as current if they are expected to be realized within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

The Company's investments in quoted and unquoted equity securities and other investments are classified under this category. The carrying values of financial assets under this category amounted to ₱141.0 million and ₱399.5 million as of December 31, 2011 and 2010, respectively (see Note 33).

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. This includes liabilities arising from operations or loans and borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent liabilities.

The Company's notes payable, trade and other payables, trust receipts payable, due to related parties, long-term loan payable and long-term debt are classified under this category. The aggregate carrying values of financial liabilities under this category amounted to ₱1,814.9 million and ₱1,627.5 million as of December 31, 2011 and 2010, respectively (see Note 33).

Convertible Notes

Convertible notes which contain both a liability and an equity element, are separated into two components on initial issuance based on the present value of the expected cash flows of the notes, and each is accounted for separately. Upon issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as a long-term liability at amortized cost until extinguished on conversion or repayment. Amortization of discount is based on the effective interest rate method. The remainder of the proceeds is allocated to the conversion option. The Parent Company's share is recognized and included in equity as "Share in equity component of convertible notes."

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

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

Debt Issuance Cost

Debt issuance costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derivative Financial Instruments

The Company enters into short-term forward currency contracts to hedge its currency exposure (see Note 33). Such derivative financial instruments are initially recorded at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statements of income. The Company has opted not to designate its derivative transactions under hedge accounting. The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Embedded Derivative. An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

Embedded derivatives are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statements of income.

In 2009, the Company bifurcated embedded foreign currency derivatives (see Note 33).

In 2011 and 2010, the Company has no embedded derivatives.

Impairment of Financial Assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future 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 is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables 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 Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the consolidated statements of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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. For the purpose of specific evaluation of impairment, the Company assesses whether financial assets are impaired through assessment of collectability of financial assets considering the debtor's capacity to pay, history of payment, and the availability of other financial support. For the purpose of a collective evaluation of impairment, if necessary, financial assets are grouped on the basis of such credit risk characteristics such as debtor type, payment history, past-due status and terms.

Assets Carried at Cost. If there is objective evidence (such as continuing losses or significant financial difficulties of the investee company) that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 for a similar financial asset.

AFS Investments. In the case of equity instruments classified as AFS investments, evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is removed from the consolidated statements of comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income. Increases in the fair value after impairment are recognized directly in consolidated statements of comprehensive income.

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

Derecognition of Financial Assets and 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; or
- the Company retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company 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 the risks and rewards of the asset, but has transferred control of the asset.

Where the Company 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 Company'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 Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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, of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if and only if there is a currently legal right to offset the recognized amounts and the Company intends to either 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 at gross amounts in the consolidated statements of financial position.

Inventories

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

Finished goods	–	determined using the moving average method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excludes borrowing costs;
Raw materials, spare parts and others	–	determined using the moving average method.

The net realizable value of inventories, except spare parts, is the selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The net realizable value of spare parts is the current replacement cost.

Investments in Associates

Investments in associates are accounted for under the equity method. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The investments in associates are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Company’s share in net assets of the associates, less any impairment in value. The consolidated statements of income reflect the Company’s share in the results of operations of the associates. Unrealized gains arising from transactions with its associates are eliminated to the extent of the Company’s interest in the associates against the related investments. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. The Company’s investment in an associate includes goodwill on acquisition, which is recorded in accordance with the accounting policy for goodwill.

When the Company’s accumulated share in net losses of an associate equals or exceeds the carrying amount of the investment, including advances for future conversion to equity, the Company discontinues the recognition of its share in additional losses and the investment is reported at nil value. If the associate subsequently reports net income, the Company will resume applying the equity method only after its share in that net income equals the share in net losses not recognized during the period the equity method was suspended.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and any impairment loss. Land is carried at cost less any impairment loss. The cost of property, plant and equipment comprises its purchase price, including any applicable import duties and capitalized borrowing costs (for property, plant and equipment other than land) and other costs directly attributable in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to current operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

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

Plant site improvements	10–20 years
Buildings and improvements	10–20 years
Machinery and equipment	5–20 years
Transportation and other equipment	2–10 years

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

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are met.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is credited or charged to consolidated statements of income.

Construction in-progress represents properties and structures under construction/development and is stated at cost. This includes cost of construction, plant and equipment, any borrowing costs directly attributable to such asset during the construction period and other direct costs. Construction in-progress is not depreciated until such time when the relevant assets are completed and ready for operational use.

Investment Properties

Investment properties are measured initially at cost, including direct transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties (except land) are stated at cost less accumulated depreciation and impairment loss. Land is carried at cost less any impairment in value.

Depreciation of buildings for lease is calculated on a straight-line basis over the estimated useful lives of 15 to 20 years.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of income in the year of retirement or disposal.

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

Noncurrent Assets Held for Sale and Discontinued Operations

Noncurrent assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statements of income of the reporting period, and the comparable period of the previous year, income and expenses from discontinued operations are reported separately from normal income and expenses down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statements of income.

Property, plant and equipment and intangible assets once classified as held for sale are no longer depreciated/amortized.

Business Combinations, Goodwill and Goodwill Impairment

Business Combinations from January 1, 2010. Business combinations are accounted for using the acquisition method. 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 measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed 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 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 change to other comprehensive income. If the contingent consideration is classified as equity, it should 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 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 cash-generating units 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 cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business Combinations Prior to January 1, 2010. Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

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

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

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

Business combinations under common control are accounted for using the pooling of interest method. Financial statements for periods prior to the combination under common control are not restated.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Company reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and recognizes immediately in profit or loss any excess remaining after that reassessment.

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

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on the Company's primary or the Company's any secondary reporting format determined in accordance with PFRS 8, "Operating Segments."

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets
The cost of intangible assets acquired separately is measured on initial recognition at cost. The cost of intangible assets (student lists and customer contracts) acquired in a business combination is measured at the fair value as of date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Student lists are amortized over three years and assessed for impairment whenever there is an indication that the student lists acquired may be impaired. Customer contracts are amortized over the estimated economic life of one year.

The useful lives of intangible assets are assessed to be either finite or indefinite. The amortization periods and method are reviewed at least at each financial year-end. 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 statements of income in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired when events or changes in circumstances indicate that the carrying value of a nonfinancial asset may not be recoverable. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset 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 assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statements of income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's investments in associates. The Company determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Company calculates the amount of impairment being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statements of income.

The following assets have specific characteristics for impairment testing:

Goodwill. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit (or group of cash generating units) to which the goodwill relates. When the recoverable amount of the cash generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets. Intangible assets with indefinite useful lives are tested for impairment annually as either individually or at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account in the consolidated statement of financial position. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to the "Additional paid-in capital" account in the consolidated statements of financial position.

Retained Earnings
Retained earnings represent accumulated net profits, net of dividend distributions and other capital adjustments.

Revenue Recognition
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue from sale of roofing and other steel products, books and incidentals is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Tuition and School Fees. Revenue is recognized as income over the corresponding school term to which they pertain. Tuition and school fees received pertaining to the summer semester and the next school year are recorded as part of “Unearned revenues” account in the consolidated statements of financial position.

Animation Services. Income from animation services is recognized by reference to the stage of completion. Stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Rental Income. Revenue is recognized on a straight-line basis over the lease term.

Investment Income. Investment income includes net gains and losses on investments held for trading (see accounting policy on Financial Assets) and interest income. Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Consultancy Services. Revenue is recognized when services are rendered.

Sale of Real Estate. Revenue from the sale of real estate of Bacnotan Industrial Park Corporation (BIPC), included under “Income from discontinued operation” account in the 2009 consolidated statement of income which includes cost of land and development, is accounted for under the percentage of completion method when the Company has material obligations under the sales contracts to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured on the basis of the ratio of actual cost incurred to date over the estimated total costs of the project as determined by the Company’s contractors and technical personnel. Any excess of collections over the recognized receivables are included under the “Unearned revenues” account in the current liabilities section of the consolidated statements of financial position. If none of the revenue recognition criteria are met, deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented as part of “Other noncurrent liabilities” account in the consolidated statements of financial position.

Port and Cargo Handling Services. Revenue from port operations of BIPC, included under “Income from discontinued operation” account in the 2009 consolidated statement of income, is recognized when services are rendered.

Cost of Sales, Educational, Animation and Consultancy Services
Cost of sales includes direct materials used, personnel costs, as well as repair and power and fuel used to run production of steel products. Cost of educational services constitutes costs incurred to administer academic instruction. Costs of animation services include all direct materials, labor costs and indirect costs related to contract performance. Cost of consultancy services includes labor cost and other direct costs related to the performance of consultancy services. These expenses are expensed as incurred.

General and Administrative Expenses
General and administrative expenses constitute costs of administering the businesses and are expensed as incurred.

Selling Expenses
Selling expenses include costs of distribution of steel products, books, incidentals, personnel costs, freight expenses, commission and advertising. Selling expenses are expensed as incurred.

Retirement Costs
PHN, UGC, Toon City, UPANG and AU have distinct funded, noncontributory defined benefit retirement plans while UI and COC have a defined, unfunded, noncontributory retirement plans covering all permanent employees, each administered by their respective Retirement Committees. Retirement costs are 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 each plan at the end of the previous financial reporting year exceed 10% of the higher of the defined benefit 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 plans.

The past service cost, if any, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate 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 plan or reductions in the 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 past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately 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. If there is no change or 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.

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.

Company as Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Company as Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the consolidated statement of income on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Company 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 assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase due to the passage of time is recognized as interest expense in the consolidated statements of income.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing cost consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency-denominated Transactions and Translation

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. The subsidiaries determine their own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency. The Company has elected to recycle the gain or loss that arises from direct method of consolidation, the method the Company uses to complete its consolidation.

Transactions in foreign currencies are recorded using their functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange at the end of the reporting period. Exchange gains or losses arising from foreign currency translations are credited or charged to current operations. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the 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 is determined.

Other than OAL and Fuld U.S., the functional and presentation currency of the subsidiaries within the Company is Philippine peso. The functional currency of OAL and Fuld U.S. is U.S. dollar. The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the consolidated statements of income.

Taxes

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

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates. Deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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 the reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Value-Added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT, except:

- Where the VAT incurred on a purchase of assets or services are not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of “Input value-added taxes” or “Income and other taxes payable” accounts in the consolidated statements of financial position.

Earnings Per Common Share (EPS) Attributable to the Equity Holders of the Parent
Basic EPS is computed by dividing net income (after deducting dividends on preferred shares) attributable to equity holders of the parent by the weighted average number of outstanding common shares during the year after giving retroactive effect to any stock dividend declared during the year.

The Company does not have potential common shares nor other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

Segment Reporting
The Company is organized into five major business segments. Such business segments are the bases upon which the Company reports its primary segment information. Financial information on business segments is presented in Note 36 to the consolidated financial statements.

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

Events After the Reporting Period
Post year-end events that provide additional information about the Company's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The accompanying consolidated financial statements are prepared in conformity with PFRS require management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. In preparing the Company's consolidated financial statements, management has made its best judgments, estimates and assumptions of certain amounts, giving due consideration to materiality. The judgments and estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

The Company believes the following represents a summary of these significant judgments, estimates and assumptions and related impact and associated risks in its consolidated financial statements.

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

Operating Lease - Company as Lessor. The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Rental income amounted to ₱46.9 million, ₱79.6 million and ₱72.6 million in 2011, 2010 and 2009, respectively.

Revenue Recognition. Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on sufficiency of cumulative payments by the buyer and completion of development. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all its revenue arrangements.

Functional Currency. The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. The subsidiaries determine their own functional currencies depending on the primary economic environment to which they operate.

Estimates and Assumptions

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

Impairment of Goodwill. The Company performs impairment testing of goodwill on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Value in use is determined by making an estimate of the expected future cash flows from the cash-generating unit and applies a discount rate to calculate the present value of these cash flows. Goodwill acquired through business combination has been allocated to one cash-generating unit which is also the operating entity acquired through business combination and to which the goodwill relates. The recoverable amount of the goodwill has been determined based on value in use calculation using cash flow projections covering a five-year period. The pre-tax discount rates applied to cash flow projections ranges from 10% to 15% in 2011 and 2010. Discount rate reflects the current market assessment of the risk specific to each cash-generating unit. The discount rate is based on the average percentage of the weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. The Company performs its annual testing of goodwill at December 31.

Impairment loss on goodwill amounting to ₱166.4 million was recognized in 2011. The carrying amount of goodwill amounted to ₱1,244.5 million and ₱1,125.2 million as of December 31, 2011 and 2010, respectively, and is presented as part of the “Intangibles” account in the consolidated statements of financial position (see Note 16).

Impairment of Nonfinancial Assets, other than Goodwill. The Company assesses whether there are any indicators of impairment for all nonfinancial assets, other than goodwill, at each reporting date. These nonfinancial assets (investment in associates, property, plant and equipment, investment properties and intangibles) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In cases where the value in use cannot be reliably estimated, the recoverable amount is based on the fair value less costs to sell. The recoverable amount of investments in associates is based on fair value less cost to sell. Fair value less costs to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate.

There are no impairment of nonfinancial assets in 2011 and 2010. The carrying amounts of investments in associates amounted to ₱1,835.1 million and ₱1,364.7 million as at December 31, 2011 and 2010, respectively (see Note 12). The carrying amounts of property, plant and equipment amounted to ₱2,260.7 million and ₱2,176.5 million as of December 31, 2011 and 2010, respectively (see Note 14). The carrying amounts of investment properties amounted to ₱410.9 million and ₱406.3 million as of December 31, 2011 and 2010, respectively (see Note 15). The carrying amounts of intangibles, other than goodwill, amounted to ₱50.8 million and ₱38.9 million as of December 31, 2011 and 2010, respectively (see Note 16).

Impairment of AFS Investments. The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Company treats “significant” generally as 20% or more of the original cost of investment, and “prolonged” as period longer than six months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Based on management's assessment, the Company's AFS investments are fairly stated, thus, no impairment loss was recognized in 2011, 2010, and 2009. The carrying values of AFS investments amounted to ₱141.0 million and ₱399.5 million as of December 31, 2011 and 2010, respectively (see Note 13).

Impairment of Trade Receivables. The Company maintains allowance for doubtful accounts based on the result of the individual and collective assessments under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the debtor, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (debtor type, past-due status and terms) of the debtors. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any year would differ depending on the judgments and estimates made for the year.

The carrying amounts of trade and other receivables amounted to ₱857.6 million and ₱1,070.6 million as of December 31, 2011 and 2010, respectively (see Note 10). The noncurrent portion of installment contract receivables amounted to nil and ₱20.6 million as of December 31, 2011 and 2010, respectively. The allowance for impairment of receivables amounted to ₱164.8 million and ₱146.3 million as of December 31, 2011 and 2010, respectively (see Note 10).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. This is based on the Company's projection of the future results of operations.

Deferred tax assets amounted to ₱78.9 million and ₱40.9 million as of December 31, 2011 and 2010, respectively (see Note 30).

Deductible temporary differences, unused NOLCO and MCIT for which no deferred tax assets were recognized in the consolidated statements of financial position amounted to ₱374.7 million and ₱128.4 million as of December 31, 2011 and 2010, respectively (see Note 30).

Recognition of Input VAT. The carrying amounts of input taxes were reduced to the extent that it is no longer probable that sufficient revenue subject to VAT will be available to allow all or part of the input VAT to be utilized.

Allowance for unrecoverable input VAT amounted to ₱89.2 million and ₱81.8 million as of December 31, 2011 and 2010, respectively (see Note 17). The carrying amount of input VAT classified as current assets amounted to ₱40.7 million and ₱73.3 million as of December 31, 2011 and 2010, respectively. There are no input VAT classified as other noncurrent assets as of December 31, 2011 and 2010 (see Note 17).

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Intangibles. The Company estimates the useful lives of depreciable property, plant and equipment, depreciable investment properties and intangibles with finite useful lives based on the period over which the property, plant and equipment, investment properties and intangibles with finite useful lives are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets and in the case of intangibles, useful lives are also based on the contracts covering such intangibles. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment and investment properties. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

The carrying amounts of depreciable property, plant and equipment amounted to ₱1,059.6 million and ₱1,098.2 million as of December 31, 2011 and 2010, respectively (see Note 14). The carrying amounts of depreciable investment properties amounted to ₱80.6 million and ₱85.2 million as of December 31, 2011 and 2010, respectively (see Note 15). The carrying amounts of intangibles with finite useful lives amounted to ₱3.6 million and ₱38.9 million as of December 31, 2011 and 2010, respectively (see Note 16).

Estimating Net Realizable Value of Inventories. The Company carries inventories at net realizable value when this becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The carrying amounts of inventories amounted to ₱977.9 million and ₱830.9 million as of December 31, 2011 and 2010, respectively (see Note 11).

Estimating the Fair Values of Acquiree's Identifiable Assets and Liabilities. Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Company determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections.

The fair values of the identifiable net assets acquired (liabilities assumed) from Fuld U.S. and Fuld Philippines amounted to ₱83.8 million and (₱4.5 million), respectively, in 2011 (see Note 7).

Pension Benefits. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions made by management and used by actuaries in calculating such amounts. The assumptions presented in Note 31 include among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Net pension liability, included under "Pension and other post-employment benefits" account in the consolidated statements of financial position, amounted to ₱31.8 million and ₱20.1 million as of December 31, 2011 and 2010, respectively. Net pension expense amounted to ₱31.7 million, ₱34.3 million and ₱18.4 million in 2011, 2010 and 2009, respectively (see Note 31).

Fair Value of Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value in the consolidated statements of financial position. Determining the fair value of financial assets and liabilities requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). However, the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 33.

6. **Discontinued Operation**

On March 10, 2009, PHN, AHC, Trans-Asia Oil and Energy Development Corporation (TA Oil) and Trans-Asia Power Corporation (TA Power) (collectively referred to as "the Sellers") signed a Share Purchase Agreement for the sale of all their interests in BIPC to Phoenix Petroleum Philippines, Inc. (Phoenix), an unrelated party, for ₱109.8 per share totaling ₱642.3 million, ₱428.3 million of which pertains to the Company. Outstanding receivable of the Company from this transaction amounted to ₱333.5 million as of December 31, 2009. The current portion amounting to ₱57.0 million is presented under "Trade and other receivables" account in the 2009 consolidated statement of financial position (see Note 10). The noncurrent portion amounting to ₱276.4 million is shown separately as "Installment contract receivables - net of current portion" account under noncurrent assets in the 2009 consolidated statement of financial position. The sale resulted in the Company's recognition of gain amounting to ₱65.0 million. On April 16, 2010, Phoenix prepaid all its outstanding payable to the Sellers.

BIPC is presented as Discontinued Operation – Property Development in the 2009 segment information (see Note 36).

The cash inflow related to discontinued operation in 2009 is as follows (amounts in thousands):

Total disposal consideration	₱428,250
Less receivable	333,450
Cash received from disposal	94,800
Less:	
Cash and cash equivalents of a subsidiary disposed of	22,538
Disposal costs	9,386
Net cash inflow	₱62,876

The results of BIPC for the period January 1 to March 10, 2009, included in the 2009 consolidated statement of income, are presented below (amounts in thousands):

Revenues	₱5,292
Cost and expenses	(4,643)
Operating income	649
Other expenses – net	(479)
Income before income tax from discontinued operation	170
Provision for income tax	(57)
Net income for the year from discontinued operation	₱113

Income from discontinued operation, included in the 2009 consolidated statement of income, consists of the following (amounts in thousands):

Gain from sale of discontinued operation, net of tax	₱65,039
Net income from discontinued operation	113
Net income for the year from discontinued operation	₱65,152

The assets and liabilities of BIPC as of March 10, 2009 are as follows (amounts in thousands):

Current assets:	
Cash and cash equivalents	₱22,538
Trade and other receivables	23,245
Inventories	122,051
Prepaid expenses and other current assets	724
Noncurrent assets:	
Property, plant and equipment	131,140
Investment property	216,721
Deferred tax assets	283
Installment contracts receivable	58,482
Other noncurrent assets	9,246
Total (Carried Forward)	584,430

Total (Brought Forward)	₱584,430
Current Liabilities:	
Trade and other payables	(23,321)
Current portion of long-term debt	(7,144)
Noncurrent Liabilities:	
Long-term debt	(13,380)
Accrued retirement	(2,139)
Other noncurrent liabilities	(2,247)
	(48,231)
Net assets	₱536,199
Share in net assets	₱353,783
Non-controlling interest	182,416
	₱536,199

The net cash flows of BIPC for the period January 1 to March 10, 2009 are as follows (amounts in thousands):

Operating	₱22,538
Investing	–
Financing	–
Net cash flow	₱22,538

Basic EPS from discontinued operation in 2009 is computed as follows (amounts in thousands):

(a) Net income from discontinued operation attributable to equity holders of the parent (see Note 36)	₱65,090
(b) Weighted average shares outstanding	257,737
Basic EPS (a/b)	₱0.25

7. **Business Combinations and Acquisition of Non-controlling Interests**

- Following are the business combinations in 2011

Acquisition of Fuld & Company, Inc. (Fuld U.S.)
On June 10, 2011, PHN purchased 85% voting shares of stock of Fuld U.S. Fuld U.S. is a business research and consulting firm focusing on business and competitive intelligence. Fuld U.S. is incorporated in the USA with offices in the USA, United Kingdom and China. Founded in 1979, Fuld U.S. delivers customized proprietary research analysis and consulting designed to help clients understand the competition and anticipate competitive challenges. The Company acquired Fuld U.S. to increase its Business Process Outsourcing (BPO) portfolio which will provide opportunities in the high value-added services sector.

The fair values of the identifiable assets acquired and liabilities assumed as of the date of acquisition are as follows:

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
	(In Thousands)	
Cash on hand and in banks	₱8,969	₱8,969
Receivables	69,340	69,340
Prepaid expenses and other assets	20,453	20,453
Property and equipment	8,491	8,491
Intangibles (see Note 16)	47,156	-
Total (Carried Forward)	154,409	107,253

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
	(In Thousands)	
Total (Brought Forward)	₱154,409	₱107,253
Accounts payable and accrued liabilities	(56,429)	(56,429)
Deferred tax liabilities	(14,147)	-
	(70,576)	(56,429)
Total identifiable net assets	83,833	₱50,824
Non-controlling interest at fair value	(12,575)	
Goodwill arising from acquisition (see Note 16)	274,949	
Total consideration transferred	₱346,207	

The Company measured the non-controlling interest in the acquiree by its proportionate share of the acquiree's net identifiable assets.

The cost of acquiring Fuld U.S. amounted to U.S.$7.99 million (₱346.2 million) consisting of cash payment of U.S.$5.6 million and the remaining balance of U.S.$2.4 million payable in four years at four equal installments with an interest rate of 4.5% per annum.

As of December 31, 2011, current and noncurrent portions of long-term loan payable related to the acquisition of Fuld U.S. amounted to ₱22.1 million ($0.5 million) and ₱78.9 million ($1.8 million), respectively, (non-cash investing transaction).

The cash outflow related to the acquisition is as follows (amounts in thousands):

Cash paid on acquisition date (included in cash flows from investing activities)	(₱242,215)
Transaction cost (included as part of administrative expenses and cash flows from operating activities)	(10,610)
Less cash of acquired subsidiary	8,969
Net cash outflow	(₱243,856)

The fair value of receivables amounted to ₱69.3 million. These receivables are not impaired and expected to be collected in full.

The goodwill amounting to ₱274.9 million includes the value of expected synergies arising between Fuld U.S. and the Company's knowledge process outsourcing portfolio.

From the date of acquisition, Fuld U.S. has contributed ₱248.3 million of revenue and ₱12.5 million to the loss to the consolidated income before income tax of the Company. If the combination had taken place at the beginning of the year, consolidated revenue from continuing operation would have been ₱4,174.4 million and consolidated net income would have been ₱72.4 million.

Acquisition of Fuld & Company (Philippines), Inc. (formerly Business Back Office, Inc.)
On July 25, 2011, PHN purchased 85% voting shares of stock of Fuld Philippines. Fuld Philippines is a knowledge process outsourcing provider based in Manila. It is a multi-industry, multi-market, and multi-company research capability with over 350 projects conducted since 2002. The Company acquired Fuld Philippines to increase its BPO portfolio which will provide opportunities in the high value-added services sector.

The fair values of the identifiable assets acquired and liabilities assumed as of the date of acquisition are as follows:

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
	(In Thousands)	
Cash on hand and in banks	₱1,012	₱1,012
Receivables	1,756	1,756
Advances to employees	163	163
Property and equipment	636	636
	3,567	3,567
Accrued payable and accrued expenses	(5,157)	(5,157)
Loans payable	(961)	(961)
Retirement payable	(78)	(78)
Taxes payable	(1,857)	(1,857)
	(8,053)	(8,053)
Total identifiable net liabilities	(4,486)	(₱4,486)
Non-controlling interest at fair value	673	
Goodwill arising from acquisition (see Note 16)	10,720	
Total consideration transferred	₱6,907	

The Company measured the non-controlling interest in the acquiree by its proportionate share of the acquiree's net liabilities.

The cost of acquiring Fuld Philippines amounted to ₱6.9 million, of which ₱4.0 million (non-cash investing transaction) was retained by the Company and remain unpaid as at December 31, 2011.

The cash outflow related to the acquisition is as follows (amounts in thousands):

Cash paid on acquisition date (included in cash flows from investing activities)	(₱2,907)
Transaction costs (included as part of administrative expenses and cash flows from operating activities)	(6)
Less cash of acquired subsidiary	1,012
Net cash outflow	(₱1,901)

The fair value of receivables amounted to ₱1.7 million. These receivables are not impaired and expected to be collected in full.

The goodwill amounting to ₱10.7 million includes the value of expected synergies arising between Fuld Philippines and the Company's knowledge process outsourcing portfolio.

From the date of acquisition, Fuld Philippines has contributed ₱9.7 million of revenue and ₱0.2 million loss to the consolidated income before income tax of the Company. If the combination had taken place at the beginning of the year, consolidated revenue from continuing operations would have been ₱4,174.4 million and consolidated net income would have been ₱72.4 million.

The net assets of Fuld U.S. and Fuld Philippines recognized in the Company's December 31, 2011 consolidated financial statements were based on provisional assessment of fair values as the audit and fair valuation of the identifiable net assets acquired were not yet completed.

Acquisition of Non-controlling Interest
On December 21, 2009, PHN acquired the remaining 19.5% non-controlling interest in UGC thereby increasing PHN's ownership to 100%, thus making UGC a wholly owned subsidiary of PHN. The total consideration was ₱36.3 million of which ₱9.1 million was paid as of December 31, 2009. The carrying value of the net assets of UGC at the date of sale was ₱620.6 million, and the carrying value of the additional interest acquired was ₱121.0 million. The difference of ₱84.7 million between the consideration paid and the carrying value of non-controlling interest acquired is recorded as "Negative goodwill on acquisition of non-controlling interest" in the 2009 consolidated statement of income.

8. Cash and Cash Equivalents

This account consists of:

	2011	2010
	(In Thousands)	
Cash on hand and in banks	**₱83,853**	₱102,095
Short-term deposits	**832,304**	1,100,075
	₱916,157	₱1,202,170

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income from cash and cash equivalents amounted to ₱32.3 million, ₱29.6 million and ₱28.2 million in 2011, 2010 and 2009, respectively (see Note 22).

9. Investments Held for Trading

This account consists of investments in:

	2011	2010
	(In Thousands)	
Bonds	**₱414,525**	₱349,443
Unit Investment Trust Funds (UITFs)	**353,065**	487,588
Marketable equity securities	**3,927**	4,535
	₱771,517	₱841,566

Net gains from fair value change of investments held for trading amounted to ₱38.6 million, ₱19.3 million and ₱22.8 million in 2011, 2010 and 2009, respectively. The unrealized gains from fair value change of investments held for trading amounted to ₱27.9 million, ₱13.0 million and ₱6.6 million in 2011, 2010 and 2009, respectively (see Note 22). Cumulative unrealized gains from fair value change of investment held for trading amounted to ₱18.6 million and ₱5.1 million as at December 31, 2011 and 2010, respectively.

Investments held for trading have yields ranging from 3.66% to 7.98% in 2011 and 3.27% to 10.46% in 2010. Interest income from investments held for trading amounted to ₱15.0 million, ₱20.2 million and ₱20.9 million in 2011, 2010 and 2009, respectively (see Note 22).

10. **Trade and Other Receivables**

This account consists of:

	2011	2010
	(In Thousands)	
Trade	**₱780,742**	₱665,044
Due from related parties (see Note 29)	**75,653**	9,316
Installment contract receivables (see Note 15)	**72,617**	473,396
Advances to suppliers and contractors	**13,449**	10,321
Accrued interest	**11,817**	8,356
Receivable from PHN Retirement/Gratuity Plan (PHN Retirement)	**8,939**	8,939
Advances to officers and employees	**6,094**	2,352
Others	**53,144**	39,156
	1,022,455	1,216,880
Less allowance for doubtful accounts	**(164,806)**	(146,297)
	₱857,649	₱1,070,583

Trade receivables include receivables from sale of roofing and other steel products to customers like developers and contractors, which are normally on a 30-60 days term. Trade receivables also include tuition and other school fees receivables which are normally collected within the current school semester. Other trade receivables are noninterest-bearing and normally collected throughout the financial year.

The terms and conditions of due from related parties are discussed in Note 29.

Installment contract receivables mainly represent the balance of receivable from a third party for the sale of API's property (see Note 15). The receivables are noninterest-bearing and are short-term in nature.

Other receivables are noninterest-bearing and normally collected throughout the financial year.

Movements in the allowance for doubtful accounts are as follows:

		2011	
	Trade	**Others**	**Total**
		(In Thousands)	
Balance at January 1, 2011	**₱138,052**	**₱8,245**	**₱146,297**
Additions	**5,714**	**–**	**5,714**
Provisions (see Notes 24 and 25)	**36,192**	**–**	**36,192**
Reversals/write-offs	**(23,397)**	**–**	**(23,397)**
Balance at December 31, 2011	**₱156,561**	**₱8,245**	**₱164,806**
Individual impairment	**₱74,538**	**₱82,781**	**₱157,319**
Collective impairment	**7,487**	**–**	**7,487**
	₱82,025	**₱82,781**	**₱164,806**

		2010	
	Trade	Others	Total
		(In Thousands)	
Balance at January 1, 2010	₱112,715	₱8,065	₱120,780
Provisions (see Notes 24 and 25)	42,094	180	42,274
Write-offs	(16,757)	–	(16,757)
Balance at December 31, 2010	₱138,052	₱8,245	₱146,297

	2010		
	Trade	Others	Total
		(In Thousands)	
Individual impairment	₱131,643	₱8,245	₱139,888
Collective impairment	6,409	–	6,409
	₱138,052	₱8,245	₱146,297

11. **Inventories**

This account consists of:

	2011	2010
	(In Thousands)	
At cost:		
Finished goods	**₱886,342**	₱731,904
Raw materials	**36,303**	61,275
Other inventories	**20,633**	13,879
At net realizable value -		
Spare parts and others	**34,641**	23,852
	₱977,919	₱830,910

Under the terms of the agreements covering liabilities under trust receipts, certain inventories amounting to ₱103.7 million and ₱121.6 million as of December 31, 2011 and 2010, respectively, have been released to UGC in trust for the banks. UGC is accountable to the banks for the inventories under trust or its sales proceeds.

Finished goods mainly represent roofing and other steel products of UGC.

The cost of spare parts and other inventories carried at net realizable value amounted to ₱36.0 million and ₱25.2 million as of December 31, 2011 and 2010, respectively.

Cost of inventories sold, presented as part of "Inventories used" under "Cost of Sales", amounted to ₱1,834.0 million, ₱1,736.8 million and ₱1,732.3 million in 2011, 2010 and 2009, respectively (see Note 23).

12. **Investments in Associates**

This account consists of investments in the following entities:

	Percentage of Ownership	
	2011	2010
Phinma Property Holdings Corporation (PPHC)	**35.35**	35.35
TA Oil	**28.26**	27.03
AB Capital and Investment Corporation (AB Capital)	**26.51**	26.51
Luzon Bag Corporation[a]	**21.05**	21.05
Asia Coal Corporation (Asia Coal)[a] [b]	**12.08**	12.08

[a] *Ceased commercial operations*

[b] *Considered as an associate although percentage of ownership is below 20% since the Company has significant influence as evidenced in its representation in the BOD of Asia Coal.*

The movements and details of investments in associates are as follows:

	2011	2010
	(In Thousands)	
Acquisition costs:		
Balance at beginning of year	**₱1,537,282**	₱1,537,282
Additions	**350,966**	–
Balance at end of year	**1,888,248**	1,537,282
Accumulated equity in net losses:		
Balance at beginning of year	**(191,824)**	(212,114)
Equity in net earnings for the year	**137,656**	59,391
Dividends received	**(17,986)**	(39,101)
Balance at end of year	**(72,154)**	(191,824)
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	**19,226**	11,495
Change in fair value during the year	**(175)**	7,731
Balance at end of year	**19,051**	19,226
	₱1,835,145	₱1,364,684

The detailed carrying values of investments in associates which are accounted for under the equity method are as follows:

	2011	2010
	(In Thousands)	
TA Oil*	**₱1,267,692**	₱823,472
PPHC	**373,630**	348,559
AB Capital	**191,397**	192,385
Academy of Competititve Intelligence**	**2,158**	–
Asia Coal	**268**	268
	₱1,835,145	₱1,364,684

**The fair value amounted to ₱896.0 million and ₱513.0 as of December 31, 2011 and 2010, respectively.*
***Associate of Fuld U.S.*

The following table summarizes the financial information of the Company's investments in associates:

	2011	2010
	(In Thousands)	
Share in the associates' net assets:		
Current assets	**₱1,683,679**	₱1,277,243
Noncurrent assets	**945,154**	745,764
Current liabilities	**(410,481)**	(480,040)
Noncurrent liabilities	**(388,283)**	(50,809)
Preferred stock	**–**	(132,550)
Net assets attributable to common stockholders	**₱1,830,069**	₱1,359,608
Share in the associates' revenue and net income:		
Revenue	**₱694,215**	₱946,250
Net income	**146,875**	59,389
Carrying amount of the investments	**₱1,835,145**	₱1,364,684

As of December 31, 2011 and 2010, the carrying amount of the Company's investments in associates exceeded its equity in the net assets of the associates by ₱5.1 million representing goodwill related to AB Capital.

Following are status of operations and significant transactions of certain associates:

a. TA Oil

TA Oil is involved in power generation and oil and mineral exploration activities.

On June 6, 2011, the SEC approved the increase in the Company's authorized capital stock from ₱2 billion divided into 2 billion shares, to ₱4.2 billion divided into 4.2 billion shares.

On March 30, 2011, the SEC approved the stock rights offering of 1,165.24 million shares of TA Oil at the rate of seven shares for every ten shares held as of record date of May 18, 2011, at a price of ₱1.00 per share. The offer period commenced on May 30, 2011 and ended on June 3, 2011. Total proceeds raised from the stock rights offering, net of direct costs incurred, amounted to ₱1,154.53 million. The proceeds will be used as equity investment in new 135 MW clean coal power project and in Maibarara Geothermal, Inc. Additional investments made to TA Oil as a result of stock rights offering and issuance of new shares amounted to ₱350.4 million in 2011.

On March 21, 2011, the BOD of TA Oil declared a cash dividend amounting to ₱66.5 million equivalent to ₱0.04 a share to all common stockholders of record as of April 11, 2011. This was paid on May 4, 2011.

On March 24, 2010, the BOD of TA Oil declared a cash dividend amounting to ₱66.5 million equivalent to ₱0.04 a share to all common stockholders of record as of May 3, 2010. This was paid on May 28, 2010.

On March 16, 2009, the BOD of TA Oil declared a cash dividend amounting to ₱66.5 million equivalent to ₱0.04 a share to all common stockholders of record as of March 30, 2009. This was paid in 2009.

Dividend income recognized by the Parent Company from TA Oil amounted to ₱18.0 million each in 2011, 2010 and 2009.

TA Oil has 100% equity interest in CIP II Power Corporation (CIPP) which operates a 21 MW Bunker C-fired power plant in CIP II Special Economic Zone in Calamba, Laguna. In April, 2009, the terms of the sale of the distributions assets to Manila Electric Company was finalized resulting in the cessation of CIPP's operations starting April 2009. Also, the separation of substantially all of CIPP's employees effective January 2010 was announced. On February 22, 2010 and March 24, 2010, the BOD and stockholders of TA Oil and CIPP approved the proposed merger of TA Oil and CIPP, respectively subject to the approval by the SEC. As of December 31, 2011, CIPP has not filed its application for merger with SEC and has deferred its plan for merger.

b. PPHC

PPHC is engaged in real estate development, particularly in the development of affordable medium and high-rise condominium units.

On March 1, 2010, the BOD of PPHC declared a cash dividend amounting to ₱59.7 million equivalent to ₱0.01 per share to all common stockholders of record as of March 15, 2010. This was paid in 2010.

On March 3, 2009, the BOD of PPHC declared a cash dividend of ₱0.005 per share and a special cash dividend of ₱0.005 per share to all common stockholders of record as of March 17, 2009.

Dividend income recognized by the Parent Company from PPHC amounted to ₱21.1 million each in 2010 and 2009.

c. AB Capital

AB Capital is an investment house that engages in corporate finance, fixed-income securities dealership, stock brokerage and fund management.

On March 21, 2011, the BOD of PHN approved the sale of all the shares in AB Capital to Vicsal Invesment, Inc. (Vicsal) subject to regulatory approvals. Under the Share Purchase Agreement (SPA), prior to the execution of the sale, AB Capital will effect (a) the transfer of certain assets to a new company (NewCo) in exchange for cash or shares of stock and (b) transfer of the NewCo shares to the stockholders through a return of capital or other appropriate structures.

In December 2011, the Bangko Sentral ng Pilipinas approved the sale of the shares to Vicsal and, on February 2, 2012, the Company received ₱5.0 million representing its share of the first installment amounting to ₱15.0 million. AB Capital has filed with the SEC for the transfer of certain assets to the NewCo.

d. Asia Coal

Asia Coal is engaged in the trading of coal. On March 19, 2009, the BOD and stockholders of Asia Coal approved the shortening of the term of Asia Coal's corporate existence until October 31, 2009, thereby causing the dissolution of Asia Coal as of such date, subject to the approval of the SEC. As of December 31, 2011, Asia Coal is in the process of securing a tax clearance with the Bureau of Internal Revenue (BIR) in connection with the filing with the SEC of its application for dissolution.

13. **AFS Investments**

This account consists of investments in quoted and unquoted equity securities:

	2011	2010
	(In Thousands)	
Quoted:		
First Philippine Holdings Corporation (FPHC) - preferred shares	**₱20,620**	₱20,639
Ayala Corporation - preferred shares	**–**	8,471
Unquoted:		
Coral Way City Hotel Corporation	**66,250**	66,250
Beacon Property Ventures Inc.	**46,329**	46,329
United Industrial Bag Corporation	**30,000**	30,000
Unicon Phinma Concrete Corporation	**12,354**	12,354
AB Capital - preferred shares	**–**	250,000
Others	**10,954**	10,954
	186,507	444,997
Less accumulated impairment losses	**45,517**	45,517
	₱140,990	₱399,480

AFS investments consist of investment in shares, and therefore have no fixed maturity date or coupon rate.

Investment in AB Capital preferred shares was redeemed in 2011 at par value.

The unquoted AFS investments are carried at cost less accumulated impairment losses since their fair value cannot be reliably measured. The quoted AFS securities which are listed in the Philippine Stock Exchange (PSE) are carried at fair value. Unrealized gain (loss) on change in fair value on such quoted AFS amounting to (₱0.4 million), ₱1.1 million and ₱0.9 million were recognized in 2011, 2010 and 2009, respectively.

Unicon Phinma Concrete Corporation and United Industrial Bag Corporation discontinued their operations on March 21, 2000 and October 2000, respectively. Consequently, full provision for impairment loss has been made on such AFS investments.

Accumulated impairment losses pertain to certain AFS investments classified as unquoted.

14. **Property, Plant and Equipment**

This account consists of:

	January 1, 2011	Additions	Disposals	Reclassifi-cation	December 31, 2011
			(In Thousands)		
Cost					
Land	**₱1,044,497**	**₱67,436**	**₱–**	**(₱26,058)**	**₱1,085,875**
Plant site improvements	**23,469**	**–**	**(635)**	**–**	**22,834**
Buildings and improvements	**1,202,671**	**54,955**	**–**	**(5,600)**	**1,252,026**
Machinery and equipment	**694,524**	**31,459**	**(3,008)**	**378**	**723,353**
Transportation and other equipment	**398,435**	**76,060**	**(3,075)**	**(1,888)**	**469,532**
	3,363,596	**229,910**	**(6,718)**	**(33,168)**	**3,553,620**
Less Accumulated Depreciation					
Plant site improvements	**15,978**	**2,466**	**(635)**	**–**	**17,809**
Buildings and improvements	**429,305**	**53,190**	**–**	**–**	**482,495**
Machinery and equipment	**494,608**	**76,970**	**(2,765)**	**–**	**568,813**
Transportation and other equipment	**280,996**	**64,410**	**(2,608)**	**(3,733)**	**339,065**
	1,220,887	**197,036**	**(6,008)**	**(3,733)**	**1,408,182**
	2,142,709	**32,874**	**(710)**	**(29,435)**	**2,145,438**
Construction in progress	**33,818**	**98,406**	**–**	**(16,918)**	**115,306**
Net Book Value	**₱2,176,527**	**₱131,280**	**(₱710)**	**(₱46,353)**	**₱2,260,744**

	January 1, 2010	Additions	Disposals	Reclassifi-cation	December 31, 2010
			(In Thousands)		
Cost					
Land	₱1,057,127	₱14,870	(₱27,500)	₱–	₱1,044,497
Plant site improvements	18,217	5,252	–	–	23,469
Buildings and improvements	1,145,210	59,073	(1,612)	–	1,202,671
Machinery and equipment	646,253	44,198	–	4,073	694,524
Transportation and other equipment	340,282	61,508	(3,355)	–	398,435
	3,207,089	184,901	(32,467)	4,073	3,363,596
Less Accumulated Depreciation					
Plant site improvements	13,883	2,095	–	–	15,978
Buildings and improvements	372,471	56,834	–	–	429,305
Machinery and equipment	431,430	63,178	–	–	494,608
Transportation and other equipment	235,245	48,862	(3,111)	–	280,996
	1,053,029	170,969	(3,111)	–	1,220,887
	2,154,060	13,932	(29,356)	4,073	2,142,709
Construction in progress	18,447	37,301	(17,857)	(4,073)	33,818
Net Book Value	₱2,172,507	₱51,233	(₱47,213)	₱–	₱2,176,527

Undepreciated capitalized borrowing costs amounted to ₱1.7 million and ₱2.1 million as at December 31, 2011 and 2010, respectively. There were no borrowing costs capitalized in 2011 and 2010.

Certain property, plant and equipment of UGC, AU and UPANG totaling ₱1.1 billion and ₱1.0 billion as of December 31, 2011 and 2010, respectively, were used as security for their respective long-term debt as disclosed in Note 20 to the consolidated financial statements.

15. **Investment Properties**

This account consists of:

	January 1, 2011	**Additions/ Reclassifications**	**Disposals** (see Note 10)	**December 31, 2011**
		(In Thousands)		
Cost:				
Land	**₱321,085**	**₱9,229**	**₱–**	**₱330,314**
Buildings for lease	**106,175**	**10,000**	**(22,859)**	**93,316**
	427,260	**19,229**	**(22,859)**	**423,630**
Less accumulated depreciation -				
Buildings for lease	**20,971**	**6,253**	**(14,484)**	**12,740**
	₱406,289	**₱12,976**	**(₱8,375)**	**₱410,890**

	January 1, 2010	Additions	Disposals (see Note 10)	December 31, 2010
		(In Thousands)		
Cost:				
Land	₱321,085	₱–	₱–	₱321,085
Buildings for lease	441,496	–	(335,321)	106,175
	762,581	–	(335,321)	427,260
Less accumulated depreciation -				
Buildings for lease	113,649	32,166	(124,844)	20,971
	₱648,932	(₱32,166)	(₱210,477)	₱406,289

The fair value of investment properties based on the latest valuation performed by independent firms of appraisers on various dates in 2011 and 2012 amounted to ₱810.6 million and ₱756.0 million as of December 31, 2011 and 2010, respectively. The valuation of investment properties was based on market values using sales comparison approach, which considers the sales of similar or substitute properties and related market data and establishes value estimate by processes involving comparison.

On December 9, 2011, API acquired a condominium unit amounting to ₱10.0 million from AB Capital, an affiliate, for cash.

On December 28, 2010, the API signed a Memorandum of Agreement with Shang Property Developers, Inc. (SPDI) for the sale of API's property for ₱615.0 million. Outstanding receivable from SPDI amounted to ₱68.9 million and ₱461.3 million, presented in "Installment contract receivables" account under "Trade and other receivables", as at December 31, 2011 and 2010, respectively (see Note 10).

Land include PSHC's land amounting to ₱220.0 million was used as security for its long-term debt as disclosed in Note 20 to the consolidated financial statements.

Rental income amounted to ₱44.3 million, ₱73.6 million and ₱68.7 million in 2011, 2010 and 2009, respectively, and presented in the consolidated statements of income. While direct costs and expenses incurred amounted to ₱6.3 million, ₱26.7 million and ₱26.9 million in 2011, 2010 and 2009, respectively, and included as part of "General and administrative expenses" account in the consolidated statements of income (see Note 24).

16. Intangibles

Following are the details and movements in this account:

	January 1, 2011	Additions	Impairment	December 31, 2011
		(In Thousands)		
Cost:				
Goodwill (see Note 7)	**₱1,125,183**	**₱285,669**	**(₱166,369)**	**₱1,244,483**
Student lists	**131,120**	**–**	**–**	**131,120**
Trademarks (see Note 7)	**–**	**47,156**	**–**	**47,156**
Customer contracts	**22,080**	**–**	**–**	**22,080**
	1,278,383	**332,825**	**(166,369)**	**1,444,839**
Accumulated amortization:				
Student lists	**92,268**	**35,248**	**–**	**127,516**
Customer contracts	**22,080**	**–**	**–**	**22,080**
	114,348	**35,248**	**–**	**149,596**
	₱1,164,035	**₱297,577**	**(₱166,369)**	**₱1,295,243**

	January 1, 2010	Additions	December 31, 2010
		(In Thousands)	
Cost:			
Goodwill	₱1,125,183	₱–	₱1,125,183
Student lists	131,120	–	131,120
Customer contracts	22,080	–	22,080
	1,278,383	–	1,278,383
Accumulated amortization:			
Student lists	57,023	35,245	92,268
Customer contracts	22,080	–	22,080
	79,103	35,245	114,348
	₱1,199,280	(₱35,245)	₱1,164,035

In 2011, the Company recognized impairment loss on goodwill amounting to ₱166.4 million pertaining to its investments in OAL.

17. Other Noncurrent Assets

This account consists of:

	2011	2010
	(In Thousands)	
Input VAT - net of allowance for unrecoverable amount of ₱89.2 million and ₱81.8 million in 2011 and 2010, respectively (see Note 24)	**₱–**	₱–
Others - net of allowance for doubtful advances of ₱51.1 million in 2011 and ₱66.8 million 2010	**26,640**	21,050
	₱26,640	₱21,050

18. Notes Payable

This account consists of notes payable of the following subsidiaries:

	2011	2010
	(In Thousands)	
UGC	**₱423,543**	₱242,776
UI	**20,150**	–
COC	**11,500**	6,060
	₱455,193	₱248,836

This account consists of unsecured short-term peso-denominated loans obtained from financial institutions with annual interest rates ranging from 4.63% to 5.25 % in 2011, and 5.00% to 6.50% in 2010.

19. Trade and Other Payables

This account consists of:

	2011	2010
	(In Thousands)	
Trade	**₱108,901**	₱79,560
Accruals for:		
Professional fees and others (see Note 29)	**65,912**	135,782
Personnel costs (see Notes 27 and 29)	**52,773**	36,819
Interest (see Note 26)	**10,823**	15,967
Freight, hauling and handling	**883**	12,805
Customers' deposits	**44,756**	33,657
Dividends	**31,916**	26,785
Payable to third parties	**31,746**	8,840
Others	**42,082**	29,371
	₱389,792	₱379,586

Trade payables are noninterest-bearing and normally settled on 30 to 90-day terms.

Accrued expenses, customers deposits, dividends, payable to third parties and others are normally settled throughout the financial year.

20. Long-term Debt

This account consists of long-term liabilities of the following subsidiaries:

	2011	2010
	(In Thousands)	
UPANG	**₱259,148**	₱284,320
UGC	**280,000**	360,000
	539,148	644,320
Less debt issuance cost	**827**	2,198
	538,321	642,122
PSHC	**151,050**	149,350
AU	**45,653**	53,140
Fuld U.S.	**5,698**	–
	740,722	844,612
Less current portion - net of debt issuance cost	**141,063**	141,350
	₱599,659	₱703,262

UPANG

This represents loan obtained from China Banking Corporation (China Bank) on July 21, 2009 used for the acquisition and/or refinancing of its capital expenditures. The terms of the loan are as follows:

Tenure	Seven (7) - year term loan with one year grace period for repayment.
Repayment	The first principal payment will commence at the end of the 5th quarter from the date of drawdown; amortization will be graduated, at ₱12.5 million from the fifth to the 16th quarters; ₱15.0 million from the 17th to the 24th quarters and the ₱7.5 million for the last four quarters until full settlement.
Funding/Interest rate	Interest will be based on the Wholesale Lending Program (third party funder) with a fixed rate of 8% for the first five years. Rates for the remaining two year period of the term shall be based on the prevailing two-year PDST-F rate plus a minimum spread of 2%.
Security	The facility will be secured by Real Estate Mortgage amounting to ₱300.0 million on the school assets covering land and land improvements (see Note 14).

The foregoing loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Maintenance of the following ratios based on the audited year-end financial statements: (1) current ratio of not less than 1:1; (2) debt to equity ratio of not more than 3:1. Waived for the first year of the loan but is required for the remaining term of the loan.

- Restrictions on declaration and payment of dividends, entering into merger or consolidation which would result in a material change in control, sale, lease, mortgage or otherwise dispose of all or substantially all of its assets and amendment of Articles of Incorporation and By-laws that would cause a material adverse change in the financial ability or capacity of the Company to perform.

As of December 31, 2011, the University is not yet required to report and comply with the required financial ratios because the year two of the loan is not yet completed.

UGC

As at December 31, 2011 and 2010, long-term debt includes loans obtained from Banco de Oro Unibank, Inc. (BDO) and Rizal Commercial Banking Corporation (RCBC).

On June 29, 2010, the outstanding long-term debt from BDO and RCBC (the lenders) were pre-terminated by obtaining three-year term loans aggregating to ₱400.0 million from the same lenders for which ₱2.8 million debt issue cost was paid. The newly obtained loans are to be paid in 11 quarterly installments of ₱20.0 million to commence on September 25, 2010 and a lump sum payment in June 2013 amounting to ₱180.0 million. The interest is at a fixed rate of 7.624% computed based on 3-year PDST-F plus a spread of 1.75% and applicable taxes at the time of the drawdown.

As of December 31, 2011 and 2010, the loans from the lenders are collateralized by mortgage agreement on UGC's land, plantsite improvements, buildings and installations and machinery and equipment of Calamba and Davao plants amounting to ₱461.3 million and ₱494.8 million, respectively (see Note 14).

The foregoing loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Maintenance of the following ratios for the duration of the loan agreements: (1) current ratio of not less than 1:1; (2) debt to equity ratio of not more than 1.5:1

- Restrictions on declaration and payment of dividends, incurrence of new long-term debt, entering into management agreement other than with PHINMA, entering into merger (except where it is the surviving entity) or consolidation or any change of ownership, sale, lease or otherwise transfer of a substantial portion of its assets except in the ordinary course of business, making any loans, advances or investments, making capital expenditures, prepayment of any other long-term debt and amendment of Articles of Incorporation and By-laws.

Under the loan agreement, failure to comply with the obligation or covenant in the agreement should be remedied within thirty (30) calendar days after notice by the lenders.

As of December 31, 2011 and 2010, UGC is in compliance with the terms of the loan agreement.

Amortization of debt issue costs, included under “Interest expense and other financial charges” account in the consolidated statements of income, amounted to ₱0.7 million, ₱1.9 million and ₱1.3 million for the years ended December 31, 2011, 2010 and 2009, respectively. Interest expense amounted to ₱25.6 million, ₱25.4 million and ₱23.9 million for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 28).

PSHC

This represents interest-bearing loan obtained from United Pulp and Paper Co., Inc. (UPPC) amounting to ₱154.0 million arising from the acquisition of land from UPPC. UPPC was a former associate of the Company.

This loan is presented at amortized cost as of the end of the reporting period. The present value of the loan at initial recognition in 2006 was calculated using an effective interest rate of 11.0%. The effective interest rate used in computing for the present value of the loan payable was derived based on the rate inherent to the loan after considering the carrying value and the future value of the loan payable at the coupon rate of 9.1%.

Initially, the said loan is payable in two installments amounting to ₱44.0 million on July 15, 2008 and ₱110.0 million on July 15, 2013. On July 8, 2008, a Memorandum of Agreement was executed by UPPC and PSHC amending the maturity date of ₱44.0 million from July 15, 2008 to July 15, 2013. A recomputation of the effective interest rate of 10.52% was made in 2008 to reflect the change in the payment terms of the liability in 2013. Additional interest expense resulting from the accretion of loan payable amounted to ₱1.7 million, ₱1.5 million and ₱1.4 million in 2011, 2010 and 2009, respectively (see Note 28). The details of the loan are as follows:

	2011	2010
	(In Thousands)	
Loan payable to UPPC	**₱154,000**	₱154,000
Less unamortized discount	**2,950**	4,650
	₱151,050	₱149,350

To secure the payment of the loan, PSHC constituted a mortgage over its land amounting to ₱220.0 million in favor of certain creditors of UPPC (see Note 15).

The payable of PSHC to UPPC incurs an annual interest at a rate subject to mutual agreement by UPPC and PSHC on each anniversary date. Interest expense on the amount payable to UPPC, computed at 9.1% of the outstanding principal balance, amounted to ₱14.0 million in 2011, 2010 and 2009 (see Note 28).

<u>AU</u>

AU's long-term debt consists of:

	2011	2010
	(In Thousands)	
Loan payable to China Bank	**₱45,653**	₱53,140
Less current portion	**9,573**	12,390
	₱36,080	₱40,750

Loan payable to China Bank represents the balance of a 10-year loan from China Bank which was used to preterminate the restructured long-term debt from another local bank, partially finance Araullo University's building renovation and purchase various school equipment. The debt is payable on fixed monthly amortization of ₱750,000 starting April 17, 2006. Interest shall be payable monthly in arrears based on variable pass-on rate plus spread. In 2010, the outstanding loan payable to China Bank of ₱53.25 million was restructured to the same lender at a fixed rate interest based on the 5-year prevailing PDST-F rate plus a spread of 1.5% payable quarterly in arrears including the applicable taxes for the account of the borrower. The new debt is to be paid in 19 quarterly installments until February 5, 2015 under a graduated amortization schedule based on the agreement. Transaction costs paid on this transaction and included in the carrying amount of the new debt amounted to ₱2.4 million. Actual average interest rate was 10.3% in 2011 and 10.2% in 2010.

AU's land, including existing and future improvements thereon, is used as collateral for its loan payable to China Bank. The net book value of the said land and improvements amounted to ₱163.0 million and ₱242.6 million as of December 31, 2011 and 2010, respectively (see Note 14).

21. **Equity**

a. Capital Stock

The composition of the Parent Company's capital stock as of December 31, 2011, 2010 and 2009 is as follows:

	Number of Shares		
	2011	2010	2009
Preferred - cumulative, nonparticipating, ₱10 par value			
Class AA			
Authorized	**50,000,000**	50,000,000	50,000,000
Class BB			
Authorized	**50,000,000**	50,000,000	50,000,000
Common - ₱10 par value			
Authorized	**420,000,000**	420,000,000	420,000,000
Common shares:			
Issued	**257,697,313**	257,697,313	257,697,313
Subscribed	**39,994**	39,994	39,994
Issued and subscribed (see Note 35)	**257,737,307**	257,737,307	257,737,307

The issued and outstanding shares as of December 31, 2011, 2010 and 2009 are held by 1,292, 1,306 and 1,323 equity holders, respectively.

Capital stock presented in the statements of financial position is net of subscription receivables amounting to ₱124 thousand as at December 31, 2011 and 2010.

The following summarizes the information on the Company's track record of registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 12, 1957	1,200,000	172,298	₱10
June 30, 1959	–	47,868	10
June 30, 1967*	800,000	–	–
June 30, 1968*	1,000,000	–	–
January 21, 1980*	2,000,000	–	–
November 3, 1988*	10,000,000	–	–
July 21, 1992*	25,000,000	–	–
January 15, 1995*	60,000,000	–	–
March 16, 1999*	320,000,000	–	–

**Increased in authorized capital stock.*

b. Retained Earnings

On March 3, 2011, the BOD of PHN declared a cash dividend of ₱0.40 a share to all common shareholders of record as of March 29, 2011, which was paid on April 26, 2011.

On March 3, 2010, the BOD of PHN declared a cash dividend of ₱0.40 a share to all common shareholders of record as of March 29, 2010, which was paid on April 23, 2010.

On March 9, 2009, the BOD of PHN declared a cash dividend of ₱0.40 a share to all common shareholders of record as of March 30, 2009, which was paid on April 24, 2009.

On October 5, 2005, the BOD of PHN appropriated ₱1.0 billion of retained earnings for future investments.

The BOD of PHN declared the following stock dividends:

Date	Dividend Rate	Shareholders' Record Date
April 14, 2008	10%	June 13, 2008
March 30, 2007	15%	June 15, 2007
May 31, 2006	20%	August 11, 2006

The retained earnings account is restricted for the payment of dividends to the extent of ₱594.1 million and ₱648.4 million as of December 31, 2011 and 2010, respectively, representing the accumulated equity in net earnings of the subsidiaries and associates. The accumulated equity in net earnings of the subsidiaries and associates is not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries and associates.

c. Other Components of Equity

This account consists of:

	2011	2010
	(In Thousands)	
Share in unrealized gain on change in fair value of AFS investments of associates (see Note 12)	**₱19,051**	₱19,226
Other reserves resulting from change in ownership interest in subsidiaries without loss of control (see Note 1)	**8,943**	8,943
Cumulative translation adjustments	**4,935**	4,145
Unrealized gain on change in fair value of AFS investments (see Note 13)	**985**	1,352
	₱33,914	₱33,666

In 2010, the convertible debt has been extinguished thus the Company reclassified the remaining balance of share in equity component of convertible notes to retained earnings.

22. Investment Income

This account consists of:

	2011	2010	2009
		(In Thousands)	
Interest income:			
Cash and cash equivalents (see Note 8)	**₱32,265**	₱29,624	₱28,249
Investments held for trading (see Note 9)	**14,998**	20,258	20,925
Due from related parties (see Note 29)	**14,024**	10,370	33,283
	61,287	60,252	82,457
Net gains from fair value change of investments held for trading (see Note 9)	**38,594**	19,346	22,787
Dividend income	**2,454**	4,469	7,162
	₱102,335	₱84,067	₱112,406

23. Cost of Sales, Educational, Animation and Consultancy Services

This account consists of:

	2011	2010	2009
		(In Thousands)	
Cost of sales	**₱2,117,967**	₱2,038,152	₱1,980,238
Cost of educational services	**518,249**	481,946	375,094
Cost of animation services	**87,176**	91,313	210,821
Cost of consultancy services	**84,885**	–	–
	₱2,808,277	₱2,611,411	₱2,566,153

The details of cost of sales, educational, animation and consultancy services are as follows:

	2011	2010	2009
		(In Thousands)	
Inventories used (see Note 11)	**₱1,844,916**	₱1,740,462	₱1,750,338
Personnel costs (see Note 26)	**534,982**	454,703	508,568
Depreciation (see Note 27)	**133,475**	127,399	106,487
Laboratory and school supplies	**60,176**	51,836	2,144
Equipment running	**55,253**	18,342	14,539
Repairs and maintenance	**39,249**	52,265	37,301
Educational tour expenses	**23,449**	9,044	3,704
School affiliations and other expenses	**12,750**	16,557	22,620
Sports development and school activities	**9,508**	16,089	3,503
Accreditation expenses	**75**	19,260	2,983
Others	**94,444**	105,454	113,966
	₱2,808,277	₱2,611,411	₱2,566,153

24. General and Administrative Expenses

This account consists of:

	2011	2010	2009
		(In Thousands)	
Professional fees and outside services (see Note 29)	**₱120,294**	₱169,323	₱146,241
Personnel costs (see Notes 26, 29 and 31)	**257,206**	145,711	205,354
Depreciation and amortization (see Notes 15 and 27)	**73,067**	101,949	135,923
Provision for doubtful accounts (see Note 10)	**23,505**	30,189	24,220
Advertising and promotions	**22,921**	15,987	8,198
Taxes and licenses	**20,929**	21,937	18,241
Donation	**19,393**	20,605	–
Light and water	**18,706**	5,935	7,971
Transportation and travel	**10,395**	5,563	5,870
Provision for unrecoverable input value-added tax (see Note 17)	**7,372**	4,063	13,002
Office supplies	**5,097**	5,475	3,240
Insurance	**4,821**	4,662	1,785
Communications	**2,643**	4,199	2,436
Others	**55,095**	26,385	61,297
	₱641,444	₱561,983	₱633,778

25. Selling Expenses

This account consists of:

	2011	2010	2009
		(In Thousands)	
Personnel costs (see Note 26)	**₱135,984**	₱64,791	₱59,053
Freight, handling and hauling	**53,147**	49,416	34,562
Transportation and travel	**30,832**	17,990	16,859
Commission	**23,541**	21,779	19,102
Advertising	**14,858**	9,957	13,667
Provision for doubtful accounts (see Note 10)	**12,687**	12,085	12,991
Depreciation (see Note 27)	**11,537**	9,032	7,040
Taxes and licenses	**9,378**	8,046	6,901
Supplies	**8,822**	9,243	7,415
Postage, telephone and telegraph	**8,436**	7,671	7,923
Repairs and maintenance	**8,215**	8,002	7,594
Entertainment, amusement and recreation	**3,167**	3,050	2,516
Insurance	**2,596**	2,182	1,720
Outside services	**1,272**	1,418	894
Rental and utilities	**1,120**	1,008	998
Others	**3,426**	3,317	3,945
	₱329,018	₱228,987	₱203,180

26. **Personnel Costs**

This account consists of:

	2011	2010	2009
		(In Thousands)	
Salaries, employee benefits and bonuses (see Note 29)	**₱883,622**	₱605,285	₱728,334
Retirement and other post-employment benefits (see Note 31)	**30,631**	38,168	21,436
Training	**8,381**	6,902	2,374
Others	**5,538**	14,850	20,831
	₱928,172	₱665,205	₱772,975

27. **Depreciation and Amortization**

Depreciation and amortization relate to the following assets:

	2011	2010	2009
		(In Thousands)	
Property, plant and equipment and investment properties:			
Cost of sales, educational and animation services (see Note 23)	**₱133,475**	₱127,399	₱106,487
General and administrative expenses (see Note 24)	**37,819**	66,704	82,200
Selling expenses (see Note 25)	**11,537**	9,032	7,040
Intangibles -			
General and administrative expenses (see Note 24)	**35,248**	35,245	53,723
	₱218,079	₱238,380	₱249,450

28. **Interest Expense and Other Financial Charges**

This account consists of:

	2011	2010	2009
		(In Thousands)	
Interest expense on loans and borrowings (see Notes 18 and 20)	**₱107,903**	₱104,375	₱105,265
Other financial charges	**478**	9,046	517
	₱108,381	₱113,421	₱105,782

29. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions and the parties are subject to common control. Related parties may be individual or corporate entities.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2011, 2010 and 2009, the Company has not recorded any impairment of receivables from receivables owed by the related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The significant related party transactions entered into by the Company with its associates and entities under common control and the amounts included in the consolidated financial statements with respect to such transactions follow:

Related Party	Nature of Transaction	Year	Amount of Transactions During the Year	Amount of Due to Related Parties	Amount of Due from Related Parties (see Note 10)
				(In Thousands)	
PHINMA, Inc.	Interest-bearing advances and share in expenses	**2011**	**₱85,310**	**₱20,200**	**₱58,258**
		2010	88,479	29,690	239
		2009	110,256	–	26,198
TA Oil	Noninterest-bearing advances and share in expenses	**2011**	**881**	**–**	**131**
		2010	4,638	–	148
		2009	1,680	–	3,799
PPHC	Interest-bearing advances and share in expenses	**2011**	**131,816**	**–**	**643**
		2010	310	–	569
		2009	21,302	–	5,878
CIP II	Sale of property	**2011**	**12,116**	**–**	**7,565**
AB Capital	Purchase of property/share in expenses	**2011**	**28**	**–**	**5**
		2010	155	–	23
		2009	274	–	158
Other Shareholders of UPANG	Interest-bearing advances	**2011**	**11,677**	**–**	**397**
		2010	2,546	16	714
		2009	59,769	59,769	–
Others	Share in expenses	**2011**	**10,607**	**4,296**	**8,654**
		2010	35,445	3,223	7,623
		2009	2,679	501	5,206
		2011		**₱24,496**	**₱75,653**
		2010		32,929	9,316
		2009		60,270	41,239

PSHC. PSHC has outstanding long-term debt to UPPC arising from the acquisition of land from UPPC, then an associate of the Company (see Note 20). PSHC leases the land to UPPC for a period of 50 years, renewable for another 25 years upon the approval of the Philippine Department of Trade and Industry. Annual lease income during the entire lease term is initially fixed at ₱14.6 million. In connection with the lease, UPPC was required to make a lease deposit with PSHC of ₱55.5 million in July 2003 and an additional ₱2.9 million in April 2005, aggregated and reflected as part of “Other noncurrent liabilities” at amortized cost at the end of the reporting period, and refundable to UPPC upon the expiration of the lease. The lease deposit’s present value was calculated using an effective interest rate of 12.0% per annum. On August 2, 2006, PSHC and UPPC amended the lease agreement increasing the annual rent revenue from ₱14.6 million to ₱19.2 million effective January 1, 2006.

The difference between the face value of the lease deposit and its corresponding present value at inception was aggregated and reflected as unearned revenue that is being amortized as rent revenue simultaneous with the accretion of the lease deposit.

The consolidated statements of financial position include the following outstanding balances as of December 31 resulting from the aforementioned transactions:

	2011	2010
	(In Thousands)	
Trade and other receivables	**₱1,712**	₱–
Unearned revenues	**48,394**	49,560
Trade and other payables	**1,144**	11,445
Long-term debt	**151,050**	149,350
Other noncurrent liabilities	**531**	474

Management and Directors' Compensation

PHN, UGC, COC, AU, UPANG and UI are under common management by PHINMA, Inc. and pay PHINMA, Inc. a fixed annual management fee plus an annual bonus based on a certain percentage of the respective companies' adjusted net income, as defined in the management contract between PHINMA, Inc. and the respective companies, pursuant to the provisions of the same contract.

Management fees and bonuses, included in "Professional fees and outside services" account under "General and administrative expenses", amounted to ₱42.0 million, ₱110.2 million and ₱69.6 million in 2011, 2010 and 2009, respectively. The related unpaid amount, included in "Accruals for professional fees and others" account under "Trade and other payables" in the consolidated statements of financial position, amounted to ₱16.5 million and ₱81.3 million as of December 31, 2011 and 2010, respectively.

PHN, UGC, AHC, UI and AU recognized bonus to directors computed based on net income with pre-agreed adjustments. Directors' bonus, included in "Personnel costs" account under "General and administrative expenses", amounted to ₱20.9 million, ₱43.2 million and ₱28.8 million in 2011, 2010 and 2009, respectively. The related unpaid amount, included in "Accruals for personnel costs" account under "Trade and other payables" in the consolidated statements of financial position, amounted to ₱7.2 million and ₱42.0 million as of December 31, 2011 and 2010, respectively.

Compensation of key management personnel of the Company are as follows:

	2011	2010	2009
		(In Thousands)	
Short-term employee benefits	**₱69,168**	₱70,227	₱48,041
Post-employment benefits (see Note 31):			
Retirement benefits	**5,107**	4,582	3,677
Vacation and sick leave	**1,213**	2,064	3,465
	₱75,488	₱76,873	₱55,183

30. **Income Tax**

The components of the Company's deferred tax assets and liabilities are as follows:

	2011	2010
	(In Thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	**₱23,676**	₱17,354
NOLCO	**13,753**	–
Accrued expenses	**13,118**	32
Unrealized foreign exchange losses	**8,524**	10,311
Pension liability	**8,113**	5,531
Unearned tuition fee revenue	**4,148**	3,535
Excess of straight-line recognition of management fee over contract payment terms	**2,709**	10
Unamortized past service costs	**1,556**	1,982
Allowance for impairment losses	**1,255**	1,255
Accrued interest expense	**1,091**	448
Allowance for inventory writedown	**409**	409
MCIT	**339**	–
Unamortized accrued rent expense	**185**	–
	78,876	40,867
Deferred tax liabilities:		
Revalued net assets of subsidiaries	**(286,403)**	(278,122)
Expansion of school facilities	**(33,508)**	(29,784)
Deferred installment sales	**(7,282)**	(54,611)
Pension asset	**(6,104)**	(7,603)
Unrealized gain on change in fair value	**(3,700)**	(1,530)
Unrealized foreign exchange gains	**(2,377)**	(7,425)
Unamortized capitalized borrowing cost	**(525)**	(630)
Derivative assets	**(390)**	(1,616)
Unamortized debt issuance costs	**(248)**	(659)
Accrued revenue	**(89)**	–
Excess of straight-line lease over lease contract terms	**–**	(344)
	(340,626)	(382,324)
	(₱261,750)	(₱341,457)

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2011	2010
	(In Thousands)	
Deferred tax assets - net	**₱49,245**	₱44,461
Deferred tax liabilities - net	**(310,995)**	(385,918)
	(₱261,750)	(₱341,457)

The Company's deductible temporary differences, unused NOLCO and MCIT for which no deferred tax assets are recognized in the consolidated statements of financial position, are as follows:

	2011	2010
	(In Thousands)	
NOLCO	**₱212,722**	₱21,327
Allowance for:		
Unrecoverable input VAT	**89,214**	–
Doubtful accounts	**–**	31,659
Accrued personnel costs and employee benefits	**31,675**	35,920
Unrealized foreign exchange losses	**16,980**	27,605
Unamortized past service costs	**13,443**	1,708
MCIT	**8,377**	10,138
Unrealized loss on derivatives	**2,281**	–
Unrealized loss from change in fair value of investments held for trading	**–**	65
	₱374,692	₱128,422

Deferred tax assets were not recognized since management believes that it is not probable that sufficient future taxable profit will be available to allow said deferred tax assets to be utilized.

AU, UPANG, UI and COC, as private educational institutions, are taxed based on the provisions of Republic Act (R.A.) No. 8424, which was passed into law effective January 1, 1998. Section 27(B) of R.A. No. 8424 defines and provides that: "A Proprietary Educational Institution is any private school maintained and administered by private individuals or groups with an issued permit to operate from the Department of Education, Culture and Sports, or Commission on Higher Education, or Technical Education and Skills Development Authority, as the case may be, in accordance with the existing laws and regulations - shall pay a tax of ten percent (10%) on their taxable income."

MCIT totaling ₱8.4 million can be deducted against RCIT due while NOLCO totaling ₱212.3 million can be claimed as deduction against taxable income, as follows:

		Amount	
Date Paid/Incurred	Expiry Date	MCIT	NOLCO
		(In Thousands)	
December 31, 2009	December 31, 2012	₱2,452	₱21,581
December 31, 2010	December 31, 2013	4,788	–
December 31, 2011	December 31, 2014	1,137	191,141
		₱8,377	₱212,722

MCIT amounting to ₱2.8 million and ₱7.4 million expired in 2011 and 2010, respectively. MCIT and NOLCO totaling nil in 2011 and ₱102.9 million in 2010 were claimed as deduction against regular taxable income.

A reconciliation between the statutory tax rates and the Company's effective tax rates on income before income tax and non-controlling interest is as follows:

	2011	2010	2009
Applicable statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Tax rate differential of schools	**(27.4)**	(3.6)	(5.1)
Interest income subjected to lower final tax rate	**(17.8)**	(2.2)	(4.8)
Dividend income exempt from tax	**(0.7)**	(0.2)	(0.4)
Change in unrecognized deferred tax assets and others	**60.4**	(3.3)	(4.5)
Effective tax rates	**44.5%**	20.7%	15.2%

The RCIT rate decreased to 30% from 35% effective January 1, 2009, as provided under the provisions of R.A. No. 9337, which amended certain provisions of the Tax Code.

On December 18, 2008, the BIR issued Revenue Regulations (RR) No. 16-2008 which implemented the provisions of Section 34(L) of the Tax Code of 1997, as amended by Section 3 of R.A. No. 9504, which allows individuals and corporations to adopt the Optional Standard Deduction (OSD) in computing their taxable income.

Under RR No. 16-2008, corporations may claim OSD equivalent to 40% of gross income, excluding passive income subjected to final tax, in lieu of the itemized deductions. A corporate taxpayer who elected to avail of the OSD shall signify such in the income tax return. Otherwise, it shall be considered as having availed of the itemized deductions allowed under Section 34 of the National Internal Revenue Code. Election is done on an annual basis. In 2011, 2010 and 2009, the Parent Company computed its taxable income based on itemized deductions.

31. Pension and Other Post-employment Benefits

Pension and other post-employment benefits consist of:

	2011	2010
	(In Thousands)	
Net pension liability	**₱31,778**	₱20,120
Vacation and sick leave	**26,471**	19,904
	₱58,249	₱40,024

Pension and other employee benefits expenses, included under "General and administrative expenses", consist of:

	2011	2010	2009
		(In Thousands)	
Net pension expense	**₱31,747**	₱34,317	₱18,433
Vacation and sick leave	**6,731**	3,851	3,003
	₱38,478	₱38,168	₱21,436

Annual contribution to the retirement plans consists of a payment to cover the current service costs for the year plus a payment toward funding the actuarial accrued liability.

The following tables summarize the components of net pension expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the respective plans.

Net pension expense consists of:

	2011	2010	2009
		(In Thousands)	
Current service cost	**₱18,900**	₱22,764	₱17,354
Interest cost on defined benefit obligation	**13,911**	13,169	10,317
Expected return on plan assets	**(7,956)**	(7,776)	(8,462)
Adjustment for cross-assigned employees	**(566)**	–	–
Past service cost	**5,535**	4,141	–
Net actuarial loss (gain) recognized	**1,923**	2,019	(776)
Net pension expense	**₱31,747**	₱34,317	₱18,433

Details of net pension liability are as follows:

	2011	2010
	(In Thousands)	
Present value of defined benefit obligation	**₱219,656**	₱165,644
Fair value of plan assets	**(120,150)**	(113,945)
Unfunded obligation	**99,506**	51,699
Adjustment for cross-assigned employees	**(4,182)**	–
Unrecognized net actuarial losses	**(63,546)**	(31,579)
Pension liability	**₱31,778**	₱20,120

Changes in the present value of the defined benefit obligation are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱165,644**	₱156,033
Current service cost	**18,900**	22,764
Interest cost on defined benefit obligation	**13,911**	13,169
Actuarial gains	**36,236**	1,808
Benefits paid	**(15,421)**	(28,130)
Adjustment for cross-assigned employees	**(5,136)**	–
Increase in past service cost	**5,522**	–
Balance at end of year	**₱219,656**	₱165,644

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

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱113,945**	₱81,870
Contributions by employer	**20,088**	49,602
Benefits paid	**(15,421)**	(28,130)
Expected return on plan assets	**7,956**	7,776
Adjustment for cross-assigned employees	**(8,665)**	–
Actuarial gains	**2,247**	2,827
Balance at end of year	**₱120,150**	₱113,945
Actual return on plan assets	**₱10,203**	₱10,603

The Company expects to contribute ₱2.7 million to its defined benefit pension plans in 2012.

The principal assumptions used in determining pension benefits are as follows:

	2011	2010	2009
Discount rates	**7–12%**	7–12%	8–11%
Expected rates of return on plan assets	**5–8%**	5–8%	5–8%
Rates of salary increase	**5–9%**	5–9%	5–12%

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

	2011	2010
Fixed income securities and others	**66%**	93%
Equities	**32%**	4%
Property	**2%**	3%
	100%	100%

The expected return on plan assets is based on the Company's expectation that assets will yield at least equal to the risk-free rate for the applicable period over which the obligation is to be settled.

The plan assets include shares of stock of PHN with a fair value of ₱2.4 million and ₱2.3 million in 2011 and 2010, respectively.

Amounts for the current and previous four periods are as follows:

	2011	2010	2009	2008	2007
			(In Thousands)		
Present value of defined benefit obligation	**₱219,658**	₱165,644	₱156,033	₱47,564	₱86,921
Fair value of plan assets	**(120,152)**	(113,945)	(81,870)	(73,022)	(64,809)
Unfunded (surplus) obligation	**99,506**	51,699	74,163	(25,458)	22,112
Experience adjustments on plan liabilities	**(27)**	(5,469)	(1,284)	1,900	1,000
Experience adjustments on plan assets	**7**	2,026	–	36	11,300

32. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents, short-term investments, corporate promissory notes and bonds, government bonds, quoted and unquoted shares of stocks, currency forwards, investments in UITFs and loans and borrowings in Philippine Peso and U.S. dollar currencies. The main purpose of these financial instruments is to finance the Company's investments. The Company also has financial assets and liabilities, such as trade and other receivables and trade and other payables that arise directly from operations.

The main risks arising from the Company's treasury transactions are credit risk, liquidity risk, market risk, foreign currency risk, interest rate risk and equity price risk. Careful study, skill, prudence and due diligence are exercised at all times in the handling of the funds of the Company. An Investment Committee reviews and approves policies and directions for investments and risks management. The basic parameters approved by the Investment Committee are:

Investment Objective	Safety of Principal
Tenor	Three year maximum for any security, with average duration between one and two years

Investment Objective	Safety of Principal
Exposure Limits	a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund b. For peso investments: minimal corporate exposure except for registered bonds c. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee d. For investments in equities whether directly managed or managed by professional managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review e. For derivative transactions - limits are set up to 100% of asset subject to derivative transaction with the objective of neutrality of gain/loss

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Due to the Company's investing and operating activities, the Company is exposed to the potential credit-related losses that may occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations.

In managing credit risk on these financial instruments, the Company transacts only with the Company's duly accredited domestic and foreign banks. Investments per financial institution are subject to a maximum of 20% of the Company's investible funds. It is the Company's policy that investments cannot exceed 10% of the trust or mutual fund's total assets.

A comprehensive credit and business review in coordination with dealers or underwriters is performed whenever the Company invests in non-rated securities. Furthermore, the Company monitors the credit quality of corporate and sovereign bonds with reference to credit rating studies and updates from the major rating agencies.

The Company's exposure to credit risk on its cash and cash equivalents, short-term investments, investments held for trading, AFS investments, trade and other receivables and derivative instruments arises from default of the counterparties with maximum exposures equal to the carrying amounts of the instruments.

	2011	2010
	(In Thousands)	
Loans and receivables:		
Cash and cash equivalents	**₱916,157**	₱1,202,170
Short-term investments	**–**	47,316
Trade and other receivables	**857,649**	1,070,583
Installment contract receivables*	**–**	20,585
Investments held for trading:		
Investments in UITFs	**353,065**	487,588
Investments in bonds	**414,525**	349,443
Investments in marketable equity securities	**3,927**	4,535
Derivative assets	**–**	4,442
AFS investments:		
Quoted	**20,620**	29,110
Unquoted - net of accumulated impairment losses	**120,370**	370,370
	₱2,686,313	₱3,586,142

**In 2010, current portion is included in "Trade and other receivables" account while noncurrent portion is presented as a separate line item in the consolidated statement of financial position.*

There are no significant concentrations of credit risk within the Company.

Credit Quality of Financial Assets, Other than Trade and Other Receivables
The Company uses the following criteria to rate credit quality of its financial assets, other than trade and other receivables:

Class	Description
High Grade	Investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty/collateral.
Standard Grade	Investments in instruments of companies that have the apparent ability to satisfy its obligations in full.
Substandard Grade	Investments in instruments of companies that have an imminent possibility of foreclosure; those whose securities have declined materially in value, or those whose audited financial statements show impaired/negative net worth.

Cash and cash equivalents, short-term investments and derivative instruments are classified as high grade since these are deposited in/or transacted with reputable financial institutions which have low probability of insolvency.

The credit quality of investments held for trading and AFS investments as of December 31 follows:

	2011				
	Neither Past Due nor Impaired				
	High Grade	**Standard Grade**	**Substandard Grade**	**Impaired**	**Total**
			(In Thousands)		
Investments held for trading:					
Investments in UITFs	**₱93,684**	**₱259,381**	**₱–**	**₱–**	**₱353,065**
Investments in bonds	**387,264**	**27,262**	**–**	**–**	**414,526**
Investments in marketable equity securities	**–**	**3,927**	**–**	**–**	**3,927**
AFS investments:					
Quoted	**–**	**20,620**	**–**	**–**	**20,620**
Unquoted	**–**	**120,370**	**–**	**45,517**	**165,887**
	₱480,948	**₱431,560**	**₱–**	**₱45,517**	**₱958,025**

	2010				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Substandard Grade	Impaired	Total
			(In Thousands)		
Investments held for trading:					
Investments in UITFs	₱332,583	₱155,005	₱–	₱–	₱487,588
Investments in bonds	322,270	27,173	–	–	349,443
Investments in marketable equity securities	–	4,535	–	–	4,535
AFS investments:					
Quoted	–	29,110	–	–	29,110
Unquoted	–	370,370	–	45,517	415,887
	₱654,853	₱586,193	₱–	₱45,517	₱1,286,563

Credit Quality of Trade and Other Receivables
Trade and other receivables are classified as (a) high grade when the receivables are secured or covered with collaterals; (b) standard grade when the receivables are unsecured but debtors have good paying habits; or (c) substandard grade when the receivables are unsecured and debtors have poor paying habits.

The credit quality of trade and other receivables (including installment contract receivables) as of December 31 are as follows:

	2011			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	Total
	(In Thousands)			
Trade	**₱–**	**₱420,007**	**₱360,735**	**₱780,742**
Due from related parties	**–**	**72,779**	**2,874**	**75,653**
Installment contract receivables	**–**	**72,617**	**–**	**72,617**
Advances to suppliers and contractors	**–**	**10,623**	**2,826**	**13,449**
Accrued interest	**11,817**	**–**	**–**	**11,817**
Receivable from PHN Retirement	**–**	**8,939**	**–**	**8,939**
Advances to officers and employees	**–**	**6,094**	**–**	**6,094**
Others	**–**	**48,145**	**4,999**	**53,144**
	₱11,817	**₱639,204**	**₱371,434**	**₱1,022,455**

	2010			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	Total
	(In Thousands)			
Trade	₱65,433	₱317,661	₱281,950	₱665,044
Installment contract receivables (current and noncurrent)	–	493,981	–	493,981
Advances to suppliers and contractors	–	10,321	–	10,321
Due from related parties	–	6,526	2,790	9,316
Receivable from PHN Retirement	–	8,939	–	8,939
Accrued interest	6,718	1,638	–	8,356
Advances to officers and employees	2,352	–	–	2,352
Others	–	33,701	5,455	39,156
	₱74,503	₱872,767	₱290,195	₱1,237,465

As of December 31, 2011 and 2010, the aging analysis of trade and other receivables (including installment contract receivables) are as follows:

	2011							
		Neither Past Due	Past Due but not Impaired					Past Due and
	Total	nor Impaired	<30 Days	30–60 Days	60–90 Days	90–120 Days	>130 Days	Impaired
	(In Thousands)							
Trade	**₱780,742**	**₱420,007**	**₱88,274**	**₱35,125**	**₱15,242**	**₱22,485**	**₱39,041**	**₱160,568**
Due from related parties	**75,653**	**72,779**	**–**	**–**	**–**	**–**	**–**	**2,874**
Installment contract receivables	**72,617**	**72,617**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to suppliers and contractors	**13,449**	**10,623**	**445**	**874**	**457**	**638**	**412**	**–**
Accrued interest	**11,817**	**11,817**	**–**	**–**	**–**	**–**	**–**	**–**
Receivable from PHN Retirement	**8,939**	**8,939**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to officers and employees	**6,094**	**6,094**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**53,144**	**48,145**	**345**	**345**	**345**	**–**	**2,600**	**1,364**
	₱1,022,455	**₱651,021**	**₱89,064**	**₱36,344**	**₱16,044**	**₱23,123**	**₱42,053**	**₱164,806**

	2010							
		Neither Past Due	Past Due but not Impaired					Past Due and
	Total	nor Impaired	<30 Days	30–60 Days	60–90 Days	90–120 Days	>130 Days	Impaired
				(In Thousands)				
Trade	₱665,044	₱383,094	₱85,558	₱24,866	₱14,629	₱4,795	₱14,050	₱138,052
Installment contract receivables (current and noncurrent)	493,981	493,981	–	–	–	–	–	–
Advances to suppliers and contractors	10,321	10,321	–	–	–	–	–	–
Due from related parties	9,316	6,526	–	–	–	–	–	2,790
Receivable from PHN Retirement	8,939	8,939	–	–	–	–	–	–
Accrued interest	8,356	8,356	–	–	–	–	–	–
Advances to officers and employees	2,352	2,352	–	–	–	–	–	–
Others	39,156	33,701	–	–	–	–	–	5,455
	₱1,237,465	₱947,270	₱85,558	₱24,866	₱14,629	₱4,795	₱14,050	₱146,297

Impaired financial instruments comprise of trade receivables from customers, related parties and other receivables.

Liquidity Risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages liquidity risks by restricting investments and continuously monitoring weekly and monthly cash flows as well as updates of annual plans.

The maturities of the financial liabilities are determined based on the Company's projected payments and contractual maturities. The average duration adheres to guidelines provided by the Investment Committee. It is the Company's policy to restrict investment principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

The tables below show the maturity profile of the Company's financial assets used for liquidity purposes based on contractual undiscounted cash flows as of December 31:

	2011					
	Within 1 Year	**1–2 Years**	**2–3 Years**	**3–5 Years**	**More than 5 Years**	**Total**
			(In Thousands)			
Financial Assets						
Loans and receivables -						
Cash and cash equivalents	**₱916,157**	**₱–**	**₱–**	**₱–**	**₱–**	**₱916,157**
Financial assets at FVPL:						
Investments in UITFs	**353,065**	**–**	**–**	**–**	**–**	**353,065**
Investments in bonds	**24,066**	**7,845**	**30,743**	**29,329**	**322,542**	**414,525**
Investments in marketable equity securities	**3,927**	**–**	**–**	**–**	**–**	**3,927**
AFS investments -						
Quoted	**20,620**	**–**	**–**	**–**	**–**	**20,620**
	₱1,317,835	**₱7,845**	**₱30,743**	**₱29,329**	**₱322,542**	**₱1,708,294**

	2010					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
			(In Thousands)			
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	₱1,202,170	₱–	₱–	₱–	₱–	₱1,202,170
Short-term investments	47,316	–	–	–	–	47,316
Financial assets at FVPL:						
Investments in UITFs	487,588	–	–	–	–	487,588
Investments in bonds	88,462	53,779	72,355	38,251	96,596	349,443
Investments in marketable equity securities	4,535	–	–	–	–	4,535
AFS investments -						
Quoted	29,110	–	–	–	–	29,110
	₱1,859,181	₱53,779-	₱72,355	₱38,250	₱96,597	₱2,120,162

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31:

	2011					
	Within 1 Year	**1–2 Years**	**2–3 Years**	**3–5 Years**	**More than 5 Years**	**Total**
	(In Thousands)					
Financial Liabilities						
Other financial liabilities:						
Notes payable	**₱459,115**	**₱–**	**₱–**	**₱–**	**₱–**	**₱459,115**
Trade and other payables	**389,792**	**–**	**–**	**–**	**–**	**389,792**
Trust receipts payable	**104,240**	**–**	**–**	**–**	**–**	**104,240**
Due to related parties	**24,496**	**–**	**–**	**–**	**–**	**24,496**
Long-term loan payable*	**24,713**	**26,304**	**26,304**	**26,304**	**–**	**103,625**
Long-term debt*	**197,122**	**477,447**	**68,985**	**56,437**	**23,347**	**823,338**
	₱1,199,478	**₱503,751**	**₱95,289**	**₱82,741**	**₱23,347**	**₱1,904,606**

* *Including current and noncurrent portions.*

	2010					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
	(In Thousands)					
Financial Liabilities						
Other financial liabilities:						
Notes payable	₱252,304	₱–	₱–	₱–	₱–	₱252,304
Trade and other payables	379,586	–	–	–	–	379,586
Trust receipts payable	122,611	–	–	–	–	122,611
Due to related parties	32,929	–	–	–	–	32,929
Long-term debt*	202,845	194,708	456,213	82,395	84,675	1,020,836
	₱990,275	₱194,708	₱456,213	₱82,395	₱84,675	₱1,808,266

* *Including current and noncurrent portions.*

Market Risk

Market risks are managed by constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers to get multiple perspectives on interest rate trends/forecasts. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks are also made.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's financial assets that are exposed to foreign currency risk are foreign currency denominated cash and cash equivalents, investment in bonds and investments in UITFs.

Foreign exchange risks on the U.S. dollar and other foreign currencies are managed through constant monitoring of the political and economic environment. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies. The Company also enters into currency forward contracts to manage its foreign currency risk.

The following table shows the U.S. foreign currency-denominated financial assets and financial liabilities and their peso equivalents as of December 31:

	2011		2010	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	**US$3,720**	**₱163,085**	US$7,867	₱344,889
Receivables	**151**	**6,620**	–	–
Investments in bonds	**2,284**	**100,130**	2,546	111,617
Investments in UITFs	**1,400**	**61,376**	3,477	152,432
	US$7,555	**₱331,211**	US$13,890	₱608,938

	2011		2010	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
		(In Thousands)		
Financial liabilities:				
Trust receipts payable	**US$2,366**	**₱103,725**	US$2,773	₱121,568
Long-term loan payable	**2,304**	**101,007**	–	–
	US$4,670	**₱204,732**	US$2,773	₱121,568

In translating foreign currency-denominated financial assets into peso amounts, the exchange rate used was ₱43.84 to US$1.00 as of December 31, 2011 and 2010.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets) as of December 31, 2011 and 2010. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives outstanding as of December 31, 2011 and 2010.

	2011	
	Increase (Decrease) in Peso-Dollar Exchange Rate	**Effect on Profit Before Tax**
		(In Millions)
PHN	**₱1.00**	**₱1.5**
	(1.00)	**(1.5)**
UGC	**1.00**	**2.4**
	(1.00)	**(2.4)**
Fuld Philippines	**1.00**	**0.1**
	(1.00)	**(0.1)**

	2010	
	Increase (Decrease) in Peso-Dollar Exchange Rate	Effect on Profit Before Tax
		(In Millions)
PHN	₱1.50	₱8.2
	(1.50)	(8.2)
UGC	1.50	(3.6)
	(1.50)	3.6

Interest Rate Risk

a. Cash Flow Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to cash flow interest rate risk due to AU's variable rate loan from China Bank as at December 31, 2010 (see Note 20). On August 5, 2011, the interest on AU's loan is fixed based on the 5-year prevailing PDST-F plus a spread of 1.50% payable quarterly.

The following table demonstrates the effect of changes in market interest rates, on the Company's profit before income tax, based on the Company's expectation, with all other variables held constant as of December 31, 2010. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

	2010	
	Increase/Decrease in Basis Points	Effect on Profit Before Tax
		(In Thousands)
Loan payable to China Bank	50	(₱274)
	(50)	274

b. Price Interest Rate Risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company accounts for its debt investments at fair value. Thus, changes in benchmark interest rate will cause changes in the fair value of quoted debt instruments.

The following table sets out the carrying amounts, by maturity, of the Company's financial instruments that are exposed to interest rate risk as of December 31:

	2011						
	Interest Rates	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–5 Years**	**More than 5 Years**	**Total**
							(In Thousands)
Fixed Rate							
Placements (PHP)	**3.60%–3.90%**	**₱742,320**	**₱–**	**₱–**	**₱–**	**₱–**	**₱742,320**
Placements (US$)	**0.69%–6.47%**	**162,459**	**–**	**–**	**–**	**–**	**162,459**
Investments in bonds (PHP)	**6.37%–13.00%**	**24,066**	**7,845**	**–**	**–**	**282,469**	**314,380**
Investments in bonds (US$)	**6.25%–10.37%**	**–**	**–**	**30,743**	**29,329**	**40,073**	**100,145**
Advances	**3.00%–6.62%**	**168,238**	**–**	**–**	**–**	**–**	**168,238**

	2010						
	Interest Rates	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
							(In Thousands)
Fixed Rate							
Special savings account (PHP)	1.50–3.62%	₱216,401	₱–	₱–	₱–	₱–	₱216,401
Placements (PHP)	3.87–4.06%	426,053	–	–	–	–	426,053
Placements (US$)	0.63–1.50%	342,704	–	–	–	–	342,704
Investments in bonds (PHP)	5.88–17.50%	77,433	53,779	39,738	21,975	44,920	237,845
Investments in bonds (US$)	7.37–10.37%	11,029	–	32,617	16,276	51,676	111,598

Interest on financial instruments classified as fixed rate was fixed until the maturity of the instrument.

Other financial assets at FVPL are noninterest-bearing investments and are therefore not subject to interest rate volatility.

The table below set forth the estimated change in the Company's income before tax due to a reasonably possible change in the market prices of quoted bonds and interest rates for peso placements and trust receipts classified under financial assets at FVPL and short term deposits classified under loans and receivables, brought about by movement in the interest rate as of December 31, 2011 and 2010. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2011	
	Increase/(Decrease) in Basis Points	**Effect on Profit Before Tax**
		(In Thousands)
PHN – peso placement	**175**	**₱1,015**
	(175)	**(1,015)**

(Forward)

		2011	
		Increase/(Decrease) in Basis Points	**Effect on Profit Before Tax**
			(In Thousands)
	– peso placement	**50**	**₱1,506**
		(50)	**(1,506)**
	– peso bonds	**50**	**(7,758)**
		(50)	**7,758**
	– dollar bonds	**100**	**851**
		(100)	**(851)**
UGC	– trust receipts	**25**	**(37)**
		(25)	**37**

		2010	
		Increase/(Decrease) in Basis Points	Effect on Profit Before Tax
			(In Thousands)
PHN	– peso placements	25–50	₱737
		(25–50)	(737)
	– peso bonds	150	(1,196)
		(150)	1,196
	– dollar bonds	150	(1,249)
		(150)	1,249
UGC	– peso placements	25	4
		(25)	(4)
	– peso bonds	150	(154)
		(150)	154

Peso placements are subject to cash flow interest rate risk while peso and dollar bonds are subject to fair value interest rate risk.

Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The Company's exposure to equity price risk relates primarily to its equity investments listed in the PSE classified under investments held for trading.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the Company's financial position.

The following tables demonstrate the effect on the Company's profit before income tax (as a result of a change in the fair value of equity instruments held as investment held for trading) due to a reasonably possible change in equity indices, based on the Company's expectation, with all other variables held constant as of December 31, 2011 and 2010. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

	2011	
	Increase/Decrease in Stock Exchange Index	**Effect on Profit Before Tax**
		(In Thousands)
PHN	**+16.2%**	**₱439**
	-16.2%	**(439)**
UGC	**+20.2%**	**218**
	-20.2%	**(218)**

	2010	
	Increase/Decrease in Stock Exchange Index	Effect on Profit Before Tax
		(In Thousands)
PHN	+10.9%	₱292
	-10.9%	(292)
UGC	+10.9%	179
	-10.9%	(179)

Capital Management

The primary objective of the Company's capital management is to ensure that the Company maintains a healthy capital structure to maintain strong credit rating and maximize shareholder value.

The Company closely monitors and manages its debt-to-equity ratio, which it defines as total liabilities divided by total equity. Capital includes all the accounts appearing in the "Equity attributable to equity holders of the parent" and "Equity attributable to noncontrolling interest" in the consolidated statements of financial position.

To ensure that there are sufficient funds to settle its liabilities, the Company's policy is to keep debt-to-equity ratio below 1:1. The Company's consolidated debt-to-equity ratio as of December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Total liabilities	**₱2,490,631**	₱2,396,024
Total equity	**7,177,576**	7,300,690
Debt-to-equity ratio	**0.35:1**	0.33:1

33. **Financial Instruments**

Fair Value

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the consolidated statements of financial position as at December 31:

	Carrying Amount		**Fair Value**	
	2011	2010	**2011**	2010
		(In Thousands)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱916,157**	₱1,202,170	**₱916,157**	₱1,202,170
Short-term investments	**–**	47,316	**–**	47,316
Trade and other receivables*	**857,649**	1,091,168	**857,649**	1,092,991
Total (Carried Forward)	**1,773,806**	2,340,654	**1,773,806**	2,342,477

	Carrying Amount		Fair Value	
	2011	2010	**2011**	2010
	(In Thousands)			
Total (Brought Forward)	**₱1,773,806**	₱2,340,654	**₱1,773,806**	₱2,342,477
Financial assets at FVPL:				
Investments held for trading:				
Investments in UITFs	**353,065**	487,588	**353,065**	487,588
Investments in bonds	**414,525**	349,443	**414,525**	349,443
Investments in marketable equity securities	**3,927**	4,535	**3,927**	4,535
Derivative asset	**–**	4,442	**–**	4,442
	771,517	846,008	**771,517**	846,008
AFS investments:				
Quoted	**20,620**	29,110	**20,620**	29,110
Unquoted	**120,370**	370,370	**120,370**	370,370
	140,990	399,480	**140,990**	399,480
	₱2,686,313	₱3,586,142	**₱2,686,313**	₱3,587,965
Financial Liabilities				
Financial liability at FVPL -				
Derivative liability	**₱2,281**	₱–	**₱2,281**	₱–
Other financial liabilities:				
Notes payable	**455,193**	248,836	**455,193**	248,836
Trade and other payables	**389,792**	379,586	**389,792**	379,586
Trust receipts payable	**103,735**	121,567	**103,735**	121,567
Due to related parties	**24,496**	32,929	**24,496**	32,929
Long-term loan payable**	**101,007**	–	**110,460**	–
Long-term debt**	**740,722**	844,612	**774,019**	853,175
	1,814,945	1,627,530	**1,857,695**	1,636,093
	₱1,817,226	₱1,627,530	**₱1,859,976**	₱1,636,093

**Including noncurrent portion of installment contract receivables as at December 31, 2010.*
***Including current and noncurrent portion.*

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

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Notes Payable, Trade and Other Payables, Trust Receipts Payable and Due to Related Parties. The carrying amounts approximate fair values due to the relatively short-term maturities of the financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair value of financial assets at FVPL and listed AFS investments. Unquoted AFS investments are measured at cost less accumulated impairment loss since the fair value is not readily determinable due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. The Company does not intend to dispose the unquoted AFS in the near future.

Long-term Loan Payable and Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.7% to 6.0% in 2011, and 2.3% to 6.1% in 2010.

Derivative Instruments. The fair value of freestanding currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Derivative Instruments

Freestanding Derivatives. The Company's derivative financial instruments are accounted for as financial instruments at FVPL.

The Company enters into sell US$-buy PH₱ non-deliverable foreign currency forward contracts to manage the foreign currency risk arising from its US$ denominated assets. These derivatives are transactions not accounted for as accounting hedges.

The Company has outstanding currency forward contracts with an aggregate notional amount of US$6.4 million and US$11.1 million as of December 31, 2011 and 2010, respectively. The weighted average contracted forward rate is ₱43.49 to US$1.00 and ₱45.70 to US$1.00 as of December 31, 2011 and 2010, respectively. The currency forward contracts outstanding as of December 31, 2011 will mature in January 2012. The net changes in fair values of these outstanding currency forward contracts amounted to negative ₱2.3 million and positive ₱4.4 million as of December 31, 2011 and 2010, respectively.

The net changes in fair value of these derivative assets (liabilities) are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱4,442**	₱4,088
Net change in fair value during the year	**7,121**	50,061
Fair value of settled contracts	**(13,844)**	(49,707)
Balance at end of year	**(₱2,281)**	₱4,442

Embedded Derivatives. In 2009, embedded foreign currency derivatives were bifurcated from certain of the Company's purchase contracts, which are denominated in a currency that is neither the functional currency of a party to the contract nor the routine currency for the transaction.

The Company's embedded derivatives have an aggregate notional amount of US$7.2 million as of December 31, 2009. The weighted average contracted forward rate is ₱42.72 to US$1.00 as of December 31, 2009. The net fair values of the embedded derivatives amounted to ₱2.8 million gain as of December 31, 2009. These embedded derivatives matured in 2010. There are no embedded derivatives as of December 31, 2011 and 2010.

The net changes in fair values of derivatives are presented as "Net gains on derivatives" in the consolidated statements of income.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Financial assets measured at fair value follow:

	2011	**Level 1**	**Level 2**	**Level 3**
		(In Thousands)		
Financial assets at FVPL:				
Investments held for trading:				
Investments in UITFs	**₱353,065**	**₱353,065**	**₱–**	**₱–**
Investments in bonds	**414,525**	**414,525**	**–**	**–**
Investments in marketable equity securities	**3,927**	**3,927**	**–**	**–**
AFS investments -				
Quoted	**20,620**	**20,620**	**–**	**–**
	₱792,137	**₱792,137**	**₱–**	**₱–**

	2010	Level 1	Level 2	Level 3
		(In Thousands)		
Financial assets at FVPL:				
Investments held for trading:				
Investments in UITFs	₱487,588	₱487,588	₱–	₱–
Investments in bonds	349,443	349,443	–	–
Investments in marketable equity securities	4,535	4,535	–	–
Derivative assets	4,442	–	4,442	–
AFS investments -				
Quoted	29,110	29,110	–	–
	₱875,118	₱870,676	₱4,442	₱–

Derivative assets and liabilities are classified under Level 1 fair value hierarchy.

During the years ended December 31, 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.

34. Commitments and Contingencies

a. Unused Credit Lines

PHN has an unused credit line amounting to ₱400.0 million as at December 31, 2011.

UGC has the following unused approved credit lines with local banks and financial institutions as of December 31, 2011:

Nature	Amount
	(In Thousands)
Letters of credit/trust receipts	₱816,337
Bills purchase line	167,613
Invoice financing	100,000
Settlement risk	350,000
Forward contract	65,000

b. Commitments Under Operating Lease Agreements

Lessee

UGC entered into lease agreements covering its warehouse premises which have terms ranging from one to two years, renewable at the option of UGC under certain terms and conditions.

Future minimum rental payable as of December 31, 2011 are as follows:

	Amount
	(In Thousands)
2012	₱12,875
2013	14,279

c. Property Agreement

On March 2, 2006, API entered into an agreement with Paramount Property Management Company for services to manage, administer, operate and maintain the building for a monthly rate of ₱0.07 million exclusive of VAT. In consideration, API shall pay a pre-agreed management fee. Such fee is subject to an annual escalation of 10%. The agreement shall be for a period of five years up to March 2, 2011 and was not renewed as a result of disposal of the property in 2010.

d. Others

There are contingent liabilities arising from lawsuits primarily involving collection cases filed by third parties and for tax assessments occurring in the ordinary course of business. On the basis of information furnished by the Company's legal counsel, management believes that none of these contingencies will materially affect the Company's financial position and results of operations.

35. EPS Computation

Basic/diluted EPS is computed as follows:

	2011	2010	2009
		(In Thousands)	
(a) Net income attributable to equity holders of the parent	**₱81,018**	₱475,846	₱447,370
(b) Net income from continuing operations attributable to equity holders of the parent (see Note 36)	**₱81,018**	₱475,846	₱382,280
(c) Weighted average number of common shares outstanding	**257,737**	257,737	257,737
Basic/Diluted EPS attributable to equity holders of the parent (a/c)	**₱0.31**	₱1.85	₱1.74
Basic/Diluted EPS from continuing operations attributable to equity holders of the parent (b/c)	**₱0.31**	₱1.85	₱1.48

There were no stock issuances, stock dividends or any increases or decreases in capitalization of the Company that would impact the weighted average number of common shares outstanding in 2011, 2010 and 2009.

36. Segment Information

For management purposes, the Company's operating businesses are organized and managed separately according to business activities and has five reportable operating segments as follows:

- Investment holdings – The Parent Company and PSHC are engaged in investment holding activities of shares of stocks and other financial instruments.
- Property development – API leases its real and personal properties.
- Steel – UGC manufactures and trades iron and steel products.
- Educational services – AU, COC, UPANG and UI offer graduate, tertiary, secondary and elementary education services.
- BPO – OAL and Toon City are engaged in film, video, television and animation services. Fuld U.S. and Fuld Philippines are engaged in intelligence research.

The Company has no geographical segment for segment reporting format as the Company's risks and rates of return are substantially in the same economic and political environment, with the companies incorporated and operated in the Philippines.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Company financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transaction with third parties.

Segment Information

Financial information on the operating segments are summarized as follows:

	Continuing Operations						
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(In Thousands)			
Year Ended December 31, 2011							
Revenues							
Segment revenue	₱33,585	₱10,695	₱2,640,861	₱881,333	₱284,696	₱–	₱3,851,170
Investment income	508,173	14,867	2,571	2,435	39	(425,750)	102,335
Total revenues	₱541,758	₱25,562	₱2,643,432	₱883,768	₱284,735	(₱425,750)	₱3,953,505
Results							
Segment results	(₱346,987)	(₱35,539)	₱198,804	₱168,647	(₱103,272)	₱90,267	(₱28,080)
Investment income	508,173	14,867	2,571	2,435	39	(425,750)	102,335
Equity in net earnings of an associate	–	25,071	–	–	1,556	111,029	137,656
Interest expense and financing charges	(19,620)	–	(49,636)	(29,052)	(10,073)	–	(108,381)
Benefit from (provision for) income tax	(2,821)	(2,722)	(43,794)	(9,984)	(2,371)	15,671	(46,021)
Share of non-controlling interest	–	–	–	(716)	1,947	22,278	23,509
Net income attributable to equity holders of parent	₱138,745	₱1,677	₱107,945	₱131,330	(₱112,174)	(₱186,505)	₱81,018
As at December 31, 2011							
Assets and Liabilities							
Segment assets	₱2,095,305	₱512,803	₱1,928,240	₱2,209,903	₱460,844	₱576,722	₱7,783,817
Investment in associates	4,319,127	–	10,288	–	2,159	(2,496,429)	1,835,145
Deferred tax assets	–	–	19,904	2,879	22,283	4,179	49,245
Total assets	₱6,414,432	₱512,803	₱1,958,432	₱2,212,782	₱485,286	(₱1,915,528)	₱9,668,207
Segment liabilities	₱406,773	₱977	₱955,196	₱748,466	₱361,363	(₱338,028)	₱2,134,747
Income and other taxes payable	2,914	120	25,739	12,870	3,246	–	44,889
Deferred tax liabilities	–	7,281	52,759	119,793	83	131,079	310,995
Total liabilities	₱409,687	₱8,378	₱1,033,694	₱881,129	₱364,692	(₱206,949)	₱2,490,631
Other Segment Information							
Capital expenditures	₱18,026	₱10,000	₱91,710	₱181,516	₱18,300	(₱3,762)	₱315,790
Depreciation and amortization	11,748	772	77,975	73,088	7,972	46,524	218,079
Provision for impairment loss on investment in a subsidiary/goodwill	274,172	–	–	–	166,369	(274,172)	166,369
Provision for unrecoverable input value-added tax	7,372	–	–	–	–	–	7,372

	Continuing Operations						
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(In Thousands)			
Year Ended December 31, 2010							
Revenues							
Segment revenue	₱28,839	₱44,781	₱2,660,613	₱895,305	₱60,127	₱–	₱3,689,665
Investment income	307,107	2,270	742	1,712	28	(227,792)	84,067
Total revenues	₱335,946	₱47,051	₱2,661,355	₱897,017	₱60,155	(₱227,792)	₱3,773,732
Results							
Segment results	₱234,627	₱351,846	₱372,536	₱174,918	(₱71,621)	(₱285,513)	₱776,793
Investment income	307,107	2,270	742	1,712	28	(227,792)	84,067
Equity in net earnings of an associate	–	47,501	–	–	–	11,890	59,391
Interest expense and financing charges	(24,212)	(717)	(51,365)	(31,287)	(5,840)	–	(113,421)
Benefit from (provision for) income tax	(6,152)	(83,546)	(72,563)	(19,545)	(907)	15,886	(166,827)
Share of non-controlling interest	–	–	–	(412)	554	(164,299)	(164,157)
Net income attributable to equity holders of parent	₱511,370	₱317,354	₱249,350	₱125,386	(₱77,786)	(₱649,828)	₱475,846
As at December 31, 2010							
Assets and Liabilities							
Segment assets	₱2,752,849	₱763,198	₱2,027,099	₱2,093,216	₱452,936	₱198,271	₱8,287,569
Investment in associates	3,885,950	–	10,288	–	–	(2,531,554)	1,364,684
Deferred tax assets	–	36,407	–	1,963	1,672	4,419	44,461
Total assets	₱6,638,799	₱799,605	₱2,037,387	₱2,095,179	₱454,608	(₱2,328,864)	₱9,696,714
Segment liabilities	₱443,312	₱11,076	₱886,565	₱688,544	₱125,744	(₱228,924)	₱1,926,317
Income and other taxes payable	1,366	35,794	37,122	9,081	462	(36)	83,789
Deferred tax liabilities	–	91,352	49,902	112,481	923	131,260	385,918
Total liabilities	₱444,678	₱138,222	₱973,589	₱810,106	₱127,129	(₱97,700)	₱2,396,024
Other Segment Information							
Capital expenditures	₱1,173	₱–	₱63,725	₱153,652	₱3,652	₱–	₱222,202
Depreciation and amortization	12,456	26,686	72,707	73,112	6,896	46,523	238,380
Reversal of impairment loss on investment in a subsidiary	346,282	–	–	–	–	(346,282)	–
Provision for (reversal of) unrecoverable input value-added tax	3,891	–	(52,177)	–	–	–	(48,286)

	Continuing Operations							Discontinued Operation - Property Development (see Note 6)	Total Operations
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total		
				(In Thousands)					
Year Ended December 31, 2009									
Revenues									
Segment revenue	₱25,827	₱42,843	₱2,503,987	₱783,564	₱257,209	₱–	₱3,613,430	₱5,292	₱3,618,722
Investment income	369,699	671	708	2,334	29	(261,035)	112,406	–	112,406
Total revenues	₱395,526	₱43,514	₱2,504,695	₱785,898	₱257,238	(₱261,035)	₱3,725,836	₱5,292	₱3,731,128
Results									
Segment results	₱29,499	₱11,267	₱271,859	₱166,687	₱4,320	(₱89,735)	₱393,897	₱66,371	₱460,268
Investment income	369,699	671	708	2,334	29	(261,035)	112,406	–	112,406
Equity in net earnings of an associate	–	29,772	–	–	–	87,885	117,657	–	117,657
Interest expense and financing charges	(15,946)	(783)	(47,575)	(37,632)	(3,846)	–	(105,782)	(1,219)	(107,001)
Benefit from (provision for) income tax	(3,798)	(3,067)	(73,116)	(18,821)	–	19,960	(78,842)	–	(78,842)
Share of non-controlling interest	–	–	–	(2,395)	–	(54,661)	(57,056)	(62)	(57,118)
Net income attributable to equity holders of parent	₱379,454	₱37,860	₱151,876	₱110,173	₱503	(₱297,586)	₱382,280	₱65,090	₱447,370
As at December 31, 2009									
Assets and Liabilities									
Segment assets	₱6,256,991	₱365,137	₱1,541,441	₱2,116,439	₱502,529	(₱3,101,479)	₱7,681,058	₱–	₱7,681,058
Investment in associates	–	325,925	–	–	–	1,010,738	1,336,663	–	1,336,663
Deferred tax assets	–	–	–	941	–	4,661	5,602	–	5,602
Total assets	₱6,256,991	₱691,062	₱1,541,441	₱2,117,380	₱502,529	(₱2,086,080)	₱9,023,323	₱–	₱9,023,323
Segment liabilities	₱453,689	₱10,787	₱727,165	₱872,627	₱80,994	(₱276,906)	₱1,868,356	₱–	₱1,868,356
Income and other taxes payable	5,486	556	48,912	10,778	–	–	65,732	–	65,732
Deferred tax liabilities	–	1,516	60,467	100,887	12,784	147,215	322,869	–	322,869
Total liabilities	₱459,175	₱12,859	₱836,544	₱984,292	₱93,778	(₱129,691)	₱2,256,957	₱–	₱2,256,957
Other Segment Information									
Capital expenditures	₱79,627	₱2	₱37,501	₱25,156	₱6,352	₱–	₱148,638	₱–	₱148,638
Depreciation and amortization	7,519	26,716	70,273	71,030	9,934	63,978	249,450	1,627	251,077
Provision for unrecoverable input value-added tax	13,002	–	–	–	–	–	13,002	–	13,002

37. **Events after the Reporting Period**

On March 22, 2012, the BOD of UGC declared a cash dividend amounting to ₱100.0 million equivalent to ₱1.04 per share to all shareholders of record as of declaration date, which is payable in two equal installments of ₱50.0 million in April 2012 and July 2012.

On March 22, 2012, the Parent Company's BOD declared a cash dividend amounting to ₱103.1 million equivalent to ₱0.40 a share to all common shareholders of record as of April 3, 2012, which is payable on April 26, 2012.

On March 21, 2012, the BOD of API declared a cash dividend amounting to ₱24.1 million equivalent to ₱35.0 a share to all shareholders of record as of declaration date, which is payable on April 16, 2012.

On March 13, 2012, the BOD of PPHC declared a cash dividend amounting to ₱63.5 million or 7% of outstanding capital stock to all shareholders of record as of March 23, 2012, which is payable on March 30, 2012 and September 28, 2012.

On February 16, 2012, the BOD of TA Oil declared a cash dividend amounting to ₱66.5 million equivalent to ₱0.04 a share to all common stockholders of record as of March 1, 2012, which is payable on March 27, 2012.

On February 2, 2012, the Parent Company received ₱5.0 million representing its share of the first installment amounting to ₱15 million. AB Capital has filed with the SEC for the transfer of certain assets to the new corporation.

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