COVER SHEET

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S.E.C. Registration Number

P H I N M A   C O R P O R A T I O N

(Company's Full Name)

L E V E L   1 2 - P H I N M A   P L A Z A   3 9   P L A Z A

D R I V E ,   R O C K W E L L   C E N T E R   M A K A T I

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

L I N A   A N D R A D A

Contact Person

8 7 0 0 1 0 0

Company Telephone Number

1 2 | 3 1

Month Day

Calendar Year

S E C   1 7 - Q

FORM TYPE

0 8 | **1 4**

Month Day

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17 – Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE (SRC) AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended ***June 30, 2012***

2. Commission identification no. ***12397*** 3. BIR Tax Identification No. ***000-107-026***

4. ***PHINMA Corporation***
   Exact name of registrant as specified in its charter

5. ***Manila, Philippines***
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code : __________

7. ***12/F, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City 1210***
   Address of registrant's principal office

8. ***(632) 870-01-00***
   Registrant's telephone number, including area code

9. Former name, former address, and former fiscal year, if changed since last report : **N/A**

10. Common Shares - 257,737,307 shares issued and outstanding

11. Are any or all of the securities listed on the Philippine Stock Exchange ?

    Yes (x) No ( )

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    Philippine Stock Exchange, Inc. **Common Shares**

12. Indicate by check mark whether the registrant :

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

    Yes [x] No [ ]

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

    Yes [x] No [ ]

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PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited	Audited
	June 30, 2012	December 31, 2011
	(In Thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8, 28 and 29)	**₱950,472**	₱916,157
Investments held for trading (Notes 9, 28 and 29)	**705,818**	771,517
Trade and other receivables - net (Notes 10, 26, 28 and 29)	**1,015,728**	857,649
Inventories - at lower of cost or net realizable value (Note 11)	**990,866**	977,919
Input value-added taxes	**27,418**	40,697
Derivative asset and other current assets (Notes 32 and 33)	**118,029**	85,371
Total Current Assets	**3,808,331**	3,649,310
Noncurrent Assets		
Investments in associates - at equity (Note 12)	**1,820,331**	1,835,145
Available-for-sale (AFS) investments - (Notes 13, 28 and 29)	**136,208**	140,990
Property, plant and equipment – net (Notes 14 and 20)	**2,288,628**	2,260,744
Investment properties (Notes 15 and 20)	**432,994**	410,890
Intangibles (Notes 7 and 16)	**1,300,942**	1,295,243
Deferred tax assets – net (Note 27)	**52,202**	49,245
Other noncurrent assets (Note 17)	**51,849**	26,640
Total Noncurrent Assets	**6,083,154**	6,018,897
	₱9,891,485	₱9,668,207

LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 18, 28 and 29)	**₱274,415**	₱455,193
Trade and other payables (Notes 18, 28 and 29)	**570,105**	389,792
Unearned revenues	**301,900**	204,567
Trust receipts payable (Notes 11, 19, 28 and 29)	**392,552**	103,735
Income and other taxes payable	**31,074**	44,889
Due to related parties (Notes 26, 28 and 29)	**2,806**	24,496
Derivative liability	**-**	2,281
Current portion of long-term loan payable (Notes 7, 28 and 29)	**26,788**	22,095
Current portion of long-term debt – net of debt issuance cost (Notes 20, 26, 28 and 29)	**141,906**	141,063
Total Current Liabilities	**1,741,546**	1,388,111

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Noncurrent Liabilities		
Long-term debt - net (Notes 20, 26, 28 and 29)	**₱514,932**	₱599,659
Long-term loan payable (Notes 7, 28 and 29)	**48,522**	78,912
Deferred rent revenue - net of current portion (Note 26)	**-**	47,228
Deferred tax liabilities – net (Note 27)	**320,072**	310,995
Pension and other post-employment benefits	**77,993**	58,249
Other noncurrent liabilities (Note 26)	**52,640**	7,477
Total Noncurrent Liabilities	**1,014,159**	1,102,520
Total Liabilities	**2,755,705**	2,490,631
Equity attributable to equity holders of the parent		
Capital stock (Note 21)	**2,579,187**	2,577,249
Additional paid-in capital	**256,093**	255,785
Other components of equity (Note 21)	**32,454**	33,914
Retained earnings (Note 21)	**3,633,160**	3,649,960
Equity attributable to equity holders of the parent	**6,500,894**	6,516,908
Equity Attributable to Non-controlling Interest (Note 7)	**634,886**	660,668
Total Equity	**7,135,780**	7,177,576
	₱9,891,485	₱9,668,207

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	April - June 30,	
	2012	2011
	(In Thousands)	
REVENUE (Note 1)		
Sale of goods	**₱797,352**	₱655,371
Tuition and school fees	**165,513**	199,808
Animation services	**18,018**	44,239
Business process outsourcing	**127,938**	35,361
Investment income (Notes 8 and 21)	**14,754**	18,185
Rental income	**3,017**	2,434
	1,126,592	955,398
COSTS AND EXPENSES		
Cost of sales, educational and animation services (Notes 22)	**(856,247)**	(721,265)
Operating expenses (Notes 23)	**(239,357)**	(228,816)
OTHER INCOME (CHARGES)		
Equity in net earnings of associates (Note 11)	**44,189**	39,804
Interest expense and other financial charges (Note 24)	**(15,890)**	(20,571)
Net gains (losses) on derivatives (Note 27)	**5,650**	7,003
Foreign exchange gains (losses) - net (Note 27)	**(3,686)**	(1,083)
Others - net	**8,634**	(7,340)
INCOME BEFORE INCOME TAX	**69,885**	23,130
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 28)	**12,122**	15,634
NET INCOME	**₱57,763**	₱7,496
Attributable To		
Equity holders of the parent	**₱56,223**	₱20,090
Minority interest	**1,540**	(12,594)
Net income	**₱57,763**	₱7,496
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 29)	**₱0.22**	₱0.08

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	January – June 30,	
	2012	2011
	(In Thousands)	
REVENUE (Note 1)		
Sale of goods	**₱1,502,942**	₱1,356,241
Tuition and school fees	**395,793**	451,531
Consultancy services	**225,266**	35,361
Animation services	**30,325**	79,979
Investment income (Notes 8 and 22)	**37,022**	21,723
Rental income	**7,268**	17,403
	2,198,616	1,962,238
COSTS AND EXPENSES		
Cost of sales, educational and animation services (Notes 23)	**(1,646,832)**	(1,476,501)
Operating expenses (Notes 24)	**(475,141)**	(407,761)
OTHER INCOME (CHARGES)		
Equity in net earnings of associates (Note 12)	**48,399**	63,661
Interest expense and other financial charges (Note 25)	**(35,226)**	(40,163)
Net gains (losses) on derivatives (Note 29)	**4,409**	9,381
Foreign exchange gains (losses) - net (Note 29)	**(9,766)**	(6,821)
Others - net	**30,547**	11,077
INCOME BEFORE INCOME TAX	**115,006**	115,111
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)	**23,099**	32,003
NET INCOME	**₱91,907**	₱83,108
Attributable To		
Equity holders of the parent	**₱86,295**	₱84,353
Non-controlling interest	**5,612**	(1,245)
Net income	**₱91,907**	₱83,108
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 30)	**₱0.33**	₱0.33

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	January – June	
	2012	2011
	(In Thousands)	
NET INCOME	**₱91,907**	₱83,108
OTHER COMPREHENSIVE INCOME (LOSS)		
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 12)	**(3,010)**	2,939
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	**(69)**	(417)
Cumulative translation adjustments	**1,619**	(2,405)
	(1,460)	117
TOTAL COMPREHENSIVE INCOME	**₱90,447**	₱83,225
Attributable To		
Equity holders of the parent	**₱84,835**	₱84,470
Non-controlling interest	**5,612**	(1,245)
Total Comprehensive Income	**₱90,447**	₱83,225

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent Company											
								Retained Earnings				
	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)	Appropriated (Note 21)	Unappropriated	Subtotal	Non-controlling Interest	Total Equity
						(In Thousands)						
Balance, January 1, 2012	**₱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**
Total comprehensive income	–	–	–	**(3,010)**	**(69)**	**1,619**	**-**	**-**	**86,295**	**84,835**	**5,612**	**90,447**
Cash dividends (Note 21)	–	–	–	**-**	**-**	**-**	**-**	**-**	**(103,095)**	**(103,095)**	**-**	**(103,095)**
Dividends received	–	–	–	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(31,394)**	**(31,394)**
Stock purchase plan	**1,938**	**308**	–	–	–	–	–	–	–	**2,246**	**-**	**2,246**
Balance, June 30, 2012	**₱2,579,187**	**₱256,093**	**₱–**	**₱16,041**	**₱916**	**₱6,554**	**₱8,943**	**₱1,000,000**	**₱2,633,160**	**₱6,500,894**	**₱634,886**	**₱7,135,780**
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 (Note 21)	–	–	–	–	–	–	–	–	**(103,095)**	**(103,095)**	–	**(103,095)**
Dividends received	–	–	–	–	–	–	–	–	–	–	**(98,914)**	**(98,914)**
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	**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, 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	–	–	–	**2,939**	**(417)**	**(2,405)**	–	–	**84,353**	**84,470**	**11,962**	**96,432**
Cash dividends (Note 21)	–	–	–	–	–	–	–	–	**(103,095)**	**(103,095)**	–	**(103,095)**
Dividends received	–	–	–	–	–	–	–	–	–	–	**(98,872)**	**(98,872)**
Subscriptions	–	–	–	–	–	–	–	–	–	–	**-**	**-**
Balance, June 30, 2011	**₱2,577,249**	**₱255,785**	**₱–**	**₱22,165**	**₱935**	**₱1,740**	**₱8,943**	**₱1,000,000**	**₱2,653,295**	**₱6,520,112**	**₱675,043**	**₱7,195,155**

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	January – June 30,	
	2012	2011
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	**₱115,005**	₱115,114
Adjustments for:		
Depreciation and amortization	**94,181**	118,217
Equity in net earnings of associates (Note 12)	**(48,398)**	(58,417)
Loss (gain) on derivatives	**(4,409)**	-
Unrealized foreign exchange loss (gain) - net	**9,766**	-
Dividend income	**(22,412)**	(6,642)
Income tax paid	**(37,567)**	(38,362)
Changes in working capital and others	**98,354**	365,529
Net cash provided by operating activities	**204,520**	495,439
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Available for sale investment	**4,712**	268
Property and equipment	**(107,427)**	(118,037)
Other noncurrent assets	**(1,619)**	872
Investments at equity	**9,080**	(350,348)
Investment properties	**48**	-
Downpayment – net of cash from business acquired	**-**	(233,246)
Additional investment in Fuld US	**(9,303)**	-
Proceeds received from settlement of derivative asset	**964**	6,537
Net settlement of derivative liability	**(3,024)**	6,884
Proceeds from sale of investment property	**-**	3,349
Dividends received	**43,436**	1,295
Net cash provided by (used in) investing activities	**(63,133)**	(682,426)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments of) :		
Short-term borrowing	**108,039**	117,344
Long-term borrowing	**(109,582)**	(64,192)
Payment of cash dividends	**(101,848)**	(104,448)
Issuance of capital stock	**2,246**	-
Net cash used in financing activities	**(101,145)**	(51,296)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**40,242**	(238,283)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(5,927)**	(942)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**916,157**	1,202,170
CASH AND CASH EQUIVALENTS AT END OF YEAR	**950,472**	962,945

PHINMA CORPORATION AND SUBSIDIARIES
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:

		Calendar/Fiscal	Percentage of Ownership	
Name of Subsidiaries	Nature of Business	Yearend	**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 100 % 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 31.

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 July 27, 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 and PAS which were adopted on January 1, 2012.

- PAS 12, *Income Taxes (Amendment) - Recovery of Underlying Assets*, will become effective for annual periods beginning on or after January 1, 2012.

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*, will become effective for annual periods beginning on or after July 1, 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 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 - 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.

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4. **Summary of Significant Accounting 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 ₱698.9 million and ₱771.5 million as of June 30, 2012 and December 31, 2011, respectively. Included under financial liability at FVPL is the Company's derivative liability. The carrying value of financial liability at FVPL amounted to ₱2.3 million as of December 31, 2011. (see Note 29).

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 ₱1,966.2 million and ₱1,773.8 million as of June 30, 2012 and December 31, 2011, respectively (see Note 29).

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 June 30, 2012 and December 31, 2011.

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 ₱136.2 million as of June 30, 2012 and ₱141.0 million as of and December 31, 2011 (see Note 29).

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 ₱1,972.0 million and ₱1,814.9 million as of June 30, 2012 and December 31, 2011, respectively (see Note 26).

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 29). 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 June 2012 and December 2011, 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, carry forward 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 carry forward 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.

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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 ₱7.3 million and ₱17.4 million in June 2012 and 2011, 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 December 2011. 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 December 2011. The carrying amount of goodwill amounted to ₱1,253.8 million and ₱1,244.5 million as of June 30, 2012 and December 31, 2011, 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 June 2012 and December 2011. The carrying amounts of investments in associates amounted to ₱1,820.3 million and ₱1,835.1 million as at June 30, 2012 and December 31, 2011, respectively (see Note 12). The carrying amounts of property, plant and equipment amounted to ₱2,288.6 million and ₱ 2,260.7 million as of June 30, 2012 and December 31, 2011, respectively (see Note 14). The carrying amounts of investment properties amounted to ₱431.3 million and ₱410.9 million as of June 30, 2012 and December 31, 2011, respectively (see Note 15). The carrying amounts of intangibles, other than goodwill, amounted to ₱47.2 million and ₱ 50.8 million as of June 30, 2012 and December 31, 2011, 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 June 2012 and December 2011. The carrying values of AFS investments amounted to ₱136.2 million as of June 30, 2012 and ₱141.0 million as o f December 31, 2011. (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 ₱1,015.7 million and ₱857.6 million as of June 30, 2012 and December 31, 2011, respectively (see Note 10). The noncurrent portion of installment contract receivables amounted to nil and ₱20.6 million as of December 31, 2011, respectively. The allowance for impairment of receivables amounted to ₱152.7.3 million and ₱164.8 million as of June 30, 2012 and December 31, 2011, 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 ₱25.7 million and ₱49.2 million as of June 30, 2012 and December 31, 2011, respectively (see Note 27).

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 as of December 31, 2011. (see Note 27).

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 as of June 30, 2012 and December 31, 2011, respectively (see Note 17). The carrying amount of input VAT classified as current assets amounted to ₱27.4 million and ₱ 40.7 million as of June 30, 2012 and December 31, 2011, respectively. There are no input VAT classified as other noncurrent assets as of June 30, 2012 and December 31, 2011. (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 ₱1,027.2 million and ₱1,059.6 million as of June 30, 2012 and December 31, 2011, respectively (see Note 14). The carrying amounts of depreciable investment properties amounted to ₱77.5 million and ₱80.6 million as of June 30, 2012 and December 31,

2011, respectively (see Note 15). The carrying amounts of intangibles with finite useful lives amounted to ₱nil and ₱3.6 million as of June 30, 2012 and December 31, 2011, 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 ₱990.9 million and ₱977.9 million as of June 30, 2012 and December 31, 2011, 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 ₱78.0 million and ₱58.2 as of June 30, 2012 and December 31, 2011.

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 29.

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

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
	(In Thousands)	
Property and equipment	8,491	8,491
Intangibles (see Note 16)	47,156	-
Total (Carried Forward)	154,409	107,253
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:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Cash on hand and in banks	**₱150,864**	₱83,853
Short-term deposits	**799,608**	832,304
	₱950,472	₱916,157

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.

9. Investments Held for Trading

This account consists of:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Investments in:		
UITFs	**₱269,610**	₱414,525
Bonds	**432,539**	353,065
Marketable equity securities	**3,669**	3,927
	₱705,818	₱771,517

10. **Trade and Other Receivables**

This account consists of:

	Unaudited	Audited
	June 30, 2011	Dec. 31, 2011
	(In Thousands)	
Trade	**₱1,011,783**	₱780,742
Due from related parties (see Note 26)	**15,549**	75,653
Installment contract receivables	**68,880**	72,617
Advances to suppliers and contractors	**6,396**	13,449
Accrued interest	**10,264**	11,817
Receivable from PHN Retirement/Gratuity Plan (PHN Retirement)	**8,939**	8,939
Advances to officers and employees	**7,408**	6,094
Others	**62,970**	53,144
	1,192,189	1,022,455
Less allowance for doubtful accounts	**(176,461)**	(164,806)
	₱1,015,728	₱857,649

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 26.

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:

		June 30, 2012	
	Trade	**Others**	**Total**
		(In Thousands)	
Balance at January 1, 2012	**₱161,835**	**₱2,970**	**₱164,805**
Provisions (see Notes 24 and 25)	**11,656**	**-**	**11,656**
Balance at March 31, 2012	**₱173,491**	**₱2,970**	**₱176,461**
Individual impairment	**₱81,008**	**₱87,536**	**₱168,544**
Collective impairment	**7,917**	**–**	**7,917**
	₱88,925	**₱87,536**	**₱176,461**

	December 31, 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

11. Inventories

This account consists of:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
At cost:		
Finished goods	**₱871,834**	₱886,342
Raw materials	**60,029**	36,303
Other inventories	**20,333**	20,633
At net realizable value -		
Spare parts and others	**38,670**	34,641
	₱990,866	₱977,919

Under the terms of the agreements covering liabilities under trust receipts, certain inventories amounting to ₱392.60 million and ₱103.7 million as of June 30, 2012 and December 31, 2011, 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 ₱40.0 million and ₱36.0 million as of June 30, 2012 and December 31, 2011, respectively.

12. Investments in Associates

This account consists of the Company's investments in the following entities:

	Percentage of Ownership	
	Direct	Indirect
Phinma Property Holdings Corporation (PPHC)	35.35	–
TA Oil	28.04	–
AB Capital and Investment Corporation (AB Capital)	26.51	1.67
Luzon Bag Corporation[a]	21.05	–
Asia Coal Corporation (Asia Coal)[a] [b]	12.08	5.99

[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:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
Acquisition costs:		
Balance at beginning of year	**₱1,888,248**	₱1,537,282
Additions (disposal)	**(5,989)**	350,966
Balance at end of year	**1,882,259**	1,888,248
Accumulated equity in net losses:		
Balance at beginning of year	**(72,154)**	(191,824)
Equity in net earnings for the year	**48,384**	137,656
Dividends received	**(54,198)**	(17,986)
Balance at end of year	**(77,968)**	(72,154)
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	**19,051**	19,226
Change in fair value during the year	**(3,011)**	(175)
Balance at end of year	**16,040**	19,051
	₱1,820,331	₱1,835,145

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

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
TA Oil*	**₱1,288,761**	₱1,267,692
PPHC	**333,364**	373,630
AB Capital	**195,794**	191,397
Academy of Competitive Intelligence **	**2,144**	2,158
Asia Coal	**268**	268
	₱1,820,331	₱1,835,145

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

As of June 30, 2012 and December 31, 2011, 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 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. This was paid on March 27, 2012.

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 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. The 50% was paid on March 30, 2012 and the balance payable on September 28, 2012.

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:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Quoted:		
First Philippine Holdings Corporation (FPHC) - preferred shares	**₱15,693**	₱20,475
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
Others	**11,099**	11,099
	181,725	186,507
Less accumulated impairment losses	**45,517**	45,517
	₱136,208	₱140,990

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.

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, 2012	**Additions**	**Disposals**	**Reclassification**	**June 30, 2012**
			(In Thousands)		
Cost					
Land	**₱1,085,875**	**₱10,115**	**₱–**	**₱-**	**₱1,095,990**
Plant site improvements	**22,834**	**-**	**(119)**	**719**	**23,434**
Buildings and improvements	**1,252,026**	**10,910**	**(428)**	**(1,895)**	**1,260,613**
Machinery and equipment	**723,353**	**21,189**	**(1,060)**	**(4,422)**	**739,060**
Transportation and other equipment	**469,532**	**18,224**	**(8,685)**	**2,893**	**481,964**
	3,553,620	**60,438**	**(10,292)**	**(2,705)**	**3,601,061**
Less Accumulated Depreciation					
Plant site improvements	**17,809**	**1,192**	**(119)**	**-**	**18,882**
Buildings and improvements	**482,495**	**26,545**	**(421)**	**-**	**508,619**
Machinery and equipment	**568,813**	**38,318**	**(1,060)**	**-**	**606,071**
Transportation and other equipment	**339,065**	**13,487**	**(8,606)**	**326**	**344,272**
	1,408,182	**79,542**	**(10,206)**	**326**	**1,477,844**
	2,145,438	**(19,104)**	**(85)**	**(3,031)**	**2,123,217**
Construction in progress	**115,306**	**55,165**	**-**	**(5,060)**	**165,411**
Net Book Value	**₱2,260,744**	**36,061**	**(85)**	**(8,091)**	**₱2,288,628**

	January 1, 2011	Additions	Disposals	Reclassification	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

Certain property, plant and equipment of UGC, AU and UPANG totaling ₱1.1 billion as of December 31, 2011 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, 2012	**Additions**	**Reclass**	**June 30, 2012**
		(In Thousands)		
Cost:				
Land	**₱330,314**	**25,225**	**(47)**	**₱355,492**
Buildings for lease	**93,316**	**-**	**-**	**93,316**
	423,630	**25,225**	**(47)**	**448,808**
Less accumulated depreciation -				
Buildings for lease	**12,740**	**3,074**	**-**	**15,814**
	₱410,890	**22,151**	**(47)**	**₱432,994**

	January 1, 2010	Additions	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

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 as of June 30, 2012 and December 31, 2011. 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, presented in "Installment contract receivables" account under "Trade and other receivables", as at December 31, 2011. (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.

16. Intangibles

Following are the details and movements of this account:

	January 1, 2012	Additions	Impairment	June 30, 2012
		(In Thousands)		
Cost:				
Goodwill (see Note 7)	**₱1,244,483**	**₱9,303**	**₱-**	**₱1,253,786**
Student lists	**131,120**	**–**	**–**	**131,120**
Trademarks (see Note 7)	**47,156**	**–**	**–**	**47,156**
Customer contracts	**22,080**	**–**	**–**	**22,080**
	1,444,839	**9,303**	**–**	**1,454,142**
Accumulated amortization:				
Student lists	**127,516**	**3,604**	**–**	**131,120**
Customer contracts	**22,080**	**-**	**–**	**22,080**
	149,596	**3,604**	**–**	**153,200**
	₱1,295,243	**₱5,699**		**₱1,300,942**

	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

In December 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:

	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Input VAT - net of allowance for unrecoverable amount of ₱89.2 million in 2011.	**₱–**	₱–
Others - net of allowance for doubtful advances of ₱51.1 million in 2011 , respectively	**51,849**	26,640
	₱51,849	**₱26,640**

18. Notes Payable

This account consists of notes payable of the following subsidiaries:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
UGC	**₱250,365**	₱423,543
COC	**23,900**	20,150
UI	**150**	11,500
	₱274,415	₱455,193

This account consists of unsecured short-term peso-denominated loans obtained from financial institutions with annual interest rates ranging from 4.25 % to 5 % in June 2012 and 4.63% to 5.25 % in December 2011.

19. Trade and Other Payables

This account consists of:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Trade	**₱120,322**	₱108,901
Accruals for :		
Professional fees and others (see Note 26)	**43,218**	65,912
Personnel costs (see Note 26)	**56,880**	52,773
Interest (see Note 26)	**11,135**	10,823
Freight, hauling and handling	**2,559**	883
Customers' deposits	**86,397**	44,756
Dividends	**54,412**	31,916
Payable to third parties	**124,164**	31,746
Others	**71,018**	42,082
	₱570,105	₱389,792

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 Debts**

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

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
UPANG	**₱224,469**	₱259,148
UGC:	**239,469**	280,000
	463,938	539,148
Less debt issuance cost	**-**	827
	463,938	538,321
PSHC	**151,050**	151,050
AU	**41,850**	45,653
Fuld U.S.	**-**	5,698
	656,838	740,772
Less current portion - net of debt issuance cost	**141,906**	141,063
	514,932	₱599,659

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 June 30, 2012 and 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 June 30, 2012 and December 31, 2011, 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 June 30, 2012 and December 31, 2011, 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 June 30, 2012 and December 31, 2011, UGC is in compliance with the terms of the loan agreement.

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 in December 2011 (see Note 28). The details of the loan are as follows:

	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Loan payable to UPPC	**₱154,000**	₱154,000
Less unamortized discount	**2,950**	2,950
	₱151,050	₱151,050

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 December 31, 2011. (see Note 20).

AU

AU's long-term debt consists of:

	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Loan payable to China Bank	**₱41,850**	₱45,653
Less current portion	**12,500**	9,573
	₱29,350	₱36,080

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 8.426 % in June 2012 and 10.3% in December 2011.

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 as of December 31, 2011. (see Note 14).

21. **Equity**

a. Capital Stock

The composition of the Parent Company's capital stock as of June 30, 2012 and December 31, 2011 is as follows:

	Number of Shares	
	June 30, 2012	Dec. 31, 2011
Preferred - cumulative, nonparticipating, ₱10 par value		
Class AA		
Authorized	**50,000,000**	50,000,000
Class BB		
Authorized	**50,000,000**	50,000,000
Common - ₱10 par value		
Authorized	**420,000,000**	420,000,000
Common shares :		
Issued	**257,697,313**	257,697,313
Subscribed	**39,994**	39,994
Stock Purchase Plan	**193,752**	-
Issued and subscribed (see Note 35)	**257,931,059**	257,737,307

The issued and outstanding shares as of June 30, 2012 and December 31, 2011 are held by 1,283 and 1,306 equity holders, respectively.

Capital stock presented in the statements of financial position is net of subscription receivables amounting to ₱124 thousand as at June 30, 2012 and December 31, 2011.

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 22, 2012, the BOD of PHN declared a cash dividend of ₱0.40 a share to all common shareholders of record as of April 11, 2012, which was paid on April 26, 2012.

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 as of December 31, 2011, 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:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Share in unrealized gain on change in fair value of AFS investments of associates (see Note 12)	**₱16,041**	₱19,051
Other reserves resulting from change in ownership interest in subsidiaries without loss of control (see Note 1)	**8,943**	8,943
Cumulative translation adjustments	**6,554**	4,935
Unrealized gain on change in fair value of AFS investments (see Note 13)	**916**	985
	₱32,454	₱33,914

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.

d. Stock Purchase Plan

Following are the salient features of the Company's Stock Purchase Plan :

Purpose	To motivate the Senior Officers to achieve the company's goals, to help make the personal goals and corporate goals congruent and to reward the officers for the resulting increase in the value of Phinma Corporation shares.
Prices of share	The officers shall purchase shares of stock of Phinma Corporation (PHN) from those set aside under the Stock Purchase Plan at the average closing price of PHN shares in the stock market for 20 trading days , in no case shall the price be lower than par value.
Tranches	1/3 of the maximum shares can be purchased upon date of first notice and 1/3 each every year thereafter provided that work performance is deemed acceptable.
Holding period	One-third of the shares shall not be sold or transferred to a 3rd party for at least one year from the date of each purchase or until retirement whichever comes first .Another one-third of the shares shall not be sold or transferred to a 3rd party for at least two years from the date of each purchase or until retirement whichever comes first. The last one-third of the shares shall not be sold or transferred to a 3rd party for at least three years from the date of each purchase or until retirement whichever comes first. Any such sale or transfer shall be considered null and void.

On April 2, 2009 and April 20, 2010, the Board of Directors and shareholders of PHN respectively, approved the setting aside of 8.4 million shares from the unsubscribed portion of the Corporation's 420 million authorized common shares for stock purchase by the Senior Officers of this Corporation. On January 26, 2012, the Securities & Exchange Commission approved the Company's Stock Purchase Plan while the Philippine Stock Exchange approved for listing the 8.4 million shares last May 23, 2012.

22. **Investment Income**

This account consists of:

	January – June	
	2012	2011
	(In Thousands)	
Interest income	**₱26,738**	₱23,884
Net gain from fair value change of investments held for trading	**10,284**	(2,161)
	₱37,022	₱21,723

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

This account consists of:

	January – June	
	2012	2011
	(In Thousands)	
Cost of sales	**₱1,290,639**	₱1,098,103
Cost of educational services	**238,115**	249,683
Cost of animation services	**42,015**	115,505
Cost of consultancy services	**76,063**	13,210
	₱1,646,832	₱1,476,501

24. Operating Expenses

This account consists of:

	January – June	
	2012	2011
	(In Thousands)	
General and administrative expenses	**₱404,304**	₱331,475
Selling expenses	**70,837**	76,286
	₱475,141	₱407,761

25. Interest Expense and Other Financial Charges

This account consists of:

	January – June	
	2012	2011
	(In Thousands)	
Interest expense on loans and borrowings	**₱34,250**	₱39,493
Other financial charges	**976**	670
	₱35,226	₱40,163

26. 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 six (6) months ended June 30,2012 and year ended December 31, 2011, 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.	Share in expenses and interest -bearing advances in 2011	**2012**	**₱3,690**	**₱933**	**₱417**
		2011	₱85,310	₱20,200	₱58,258
TA Oil	Share in expenses and dividend receivable	**2012**	**32,226**	**–**	**23**
		2011	881	–	131
PPHC	Dividend receivable and interest-bearing advances in 2011	**2012**	**22,623**	**–**	**11,803**
		2011	131,816	–	643
CIP II	Share in expenses and sale of property	**2012**	**214**	**–**	**16**
		2011	12,116	–	7,565
AB Capital	Share in expenses	**2012**	**-**	**–**	**5**
		2011	28	–	5
Other Shareholders of UPANG	Interest-bearing advances	**2012**	**-**	**-**	**-**
		2011	11,677	–	397
Others	Share in expenses	**2012**	**5,126**	**1,873**	**3,285**
		2011	10,607	4,296	8,654
		2012		**₱2,806**	**₱15,549**
		2011		₱24,496	₱75,653

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.

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 ₱30.6 million and ₱42.0 million in June 30, 2012 and December 31, 2011, 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 ₱19.20 million and ₱16.5 million as of June 30, 2012 and December 31, 2011, 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 ₱17.1 million and ₱20.9 million in June 30, 2012 and December 31, 2011, 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 ₱9.6 million and ₱7.2 million as of June 30, 2012 and December 31, 2011 , respectively.

27. Income Tax

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

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Deferred tax assets	**₱52,202**	₱49,245
Deferred tax liabilities	**(320,072)**	(310,995)
	(₱267,870)	(₱261,750)

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 expired in December 2011.

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 December 2011, the Parent Company computed its taxable income based on itemized deductions.

28. 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
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.

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Loans and receivables:		
Cash and cash equivalents	**₱950,472**	₱916,157
Trade and other receivables	**1,015,728**	857,649
Investments held for trading:		
Investments in UITFs	**269,610**	353,065
Investments in bonds	**432,539**	414,525
Investments in marketable equity securities	**3,669**	3,927
AFS investments:		
Quoted	**15,693**	20,620
Unquoted - net of accumulated impairment losses	**120,515**	120,370
	₱2,808,226	₱2,686,313

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 June 30, 2012 and December 31 , 2011 are as follows:

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**

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 June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012			
	Neither Past Due nor Impaired		**Past Due**	
	High Grade	**Standard Grade**	**or Impaired**	**Total**
		(In Thousands)		
Trade	**₱–**	**₱843,764**	**₱168,019**	**₱1,011,783**
Due from related parties	–	**12,675**	**2,874**	**15,549**
Installment contract receivables	–	**68,880**	**-**	**68,880**
Advances to suppliers and contractors	–	**3,570**	**2,826**	**6,396**
Accrued interest	**10,264**	**-**	**-**	**10,264**
Receivable from PHN Retirement	–	**8,939**	**-**	**8,939**
Advances to officers and employees	–	**7,408**	**-**	**7,408**
Others	–	**57,971**	**4,999**	**62,970**
	₱10,264	**₱1,003,207**	**₱178,718**	**₱1,192,189**

	December 31, 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**

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.

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 June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	**US$3,210**	**₱135,201**	US$3,720	₱163,085
Receivables	**-**	**-**	151	6,620
Investments in bonds	**1,627**	**68,526**	2,284	100,130
Investments in UITFs	**1,023**	**43,086**	1,400	61,376
	US$5,860	**₱246,813**	US$7,555	₱331,211

	June 30, 2012		December 31, 2011	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
		(In Thousands)		
Financial liabilities:				
Trust receipts payable	**US$9,320**	**₱392,552**	US$2,773	₱121,568
Long-term loan payable	**1,788**	**75,311**	–	–
	US$11,108	**₱467,863**	US$2,773	₱121,568

In translating foreign currency-denominated financial assets into peso amounts, the exchange rate used was ₱42.92 to US$1.00 as of June 30, 2012 and ₱42.12 to US$1.00 as of December 31, 2011.

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.

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.

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.

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.

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 non-controlling 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 June 30, 2012 and December 31, 2011 are as follows:

	Unaudited	Audited
	June 30, 2012	Dec. 31, 2011
	(In Thousands)	
Total liabilities	**₱2,755,705**	₱2,490,631
Total equity	**7,135,780**	7,177,576
Debt-to-equity ratio	**0.39:1**	0.35:1

29. **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 :

	Carrying Amount		**Fair Value**	
	June 30, 2012	Dec. 31, 2011	**June 30, 2012**	Dec. 31, 2011
		(In Thousands)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱950,472**	₱916,157	**₱950,472**	₱916,157
Trade and other receivables*	**1,015,728**	857,649	**1,015,728**	857,649
Total (Carried Forward)	**1,966,200**	1,773,806	**1,966,200**	1,773,806

	Carrying Amount		Fair Value	
	June 30, 2012	Dec. 31, 2011	**June 30, 2012**	Dec. 31, 2011
		(In Thousands)		
Total (Brought Forward)	**₱1,966,200**	₱1,773,806	**₱1,966,200**	₱1,773,806
Financial assets at FVPL:				
Investments held for trading:				
Investments in UITFs	**269,610**	353,065	**269,610**	353,065
Investments in bonds	**432,539**	414,525	**432,539**	414,525
Investments in marketable equity securities	**3,669**	3,927	**3,669**	3,927
	705,818	771,517	**705,818**	771,517
AFS investments:				
Quoted	**15,693**	20,620	**15,693**	20,620
Unquoted	**120,515**	120,370	**120,515**	120,370
	136,208	140,990	**136,208**	140,990
	₱2,808,226	₱2,686,313	**₱2,808,226**	₱2,686,313
Financial Liabilities				
Financial liability at FVPL -				
Derivative liability	**₱-**	₱2,281	**₱-**	₱2,281
Other financial liabilities:				
Notes payable	**274,415**	455,193	**274,415**	455,193
Trade and other payables	**570,105**	389,792	**570,105**	389,792
Trust receipts payable	**392,552**	103,735	**392,552**	103,735
Due to related parties	**2,806**	24,496	**2,806**	24,496
Long-term loan payable*	**75,310**	101,007	**75,310**	110,460
Long-term debt*	**656,838**	740,722	**656,838**	774,019
	1,972,026	1,814,945	**1,972,026**	1,857,695
	₱1,972,026	₱1,817,226	**₱1,972,026**	₱1,859,976

**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 December 2011.

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$-buy PHP non-deliverable foreign currency forward contracts to manage the foreign currency risk arising from its US$ 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$3.85 million and US$6.4 million as of June 30, 2012 and December 31, 2011, respectively. The weighted average contracted forward rate is ₱43.50 to US$1.00 and ₱43.49 to US$1.00 as of June 30, 2012 and December 31, 2011, respectively. The currency forward contracts outstanding as of June 30, 2012 will mature in September to November 2012. The net changes in fair values of these outstanding currency forward contracts amounted to ₱4.2 million and negative ₱2.3 million as of June 30, 2012 and December 31, 2011, respectively.

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

	Unaudited	Audited
	June 30, 2012	Dec. 31,2011
	(In Thousands)	
Balance at beginning of year	**(₱2,281)**	₱4,442
Net change in fair value during the year	**4,409**	7,121
Fair value of settled contracts	**2,060**	(13,844)
Balance at end of year	**₱4,188**	(₱2,281)

Embedded Derivatives. 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 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:

	June 30, 2012	Level 1	Level 2	Level 3
		(In Thousands)		
Financial assets at FVPL:				
Investments held for trading:				

	June 30, 2012	Level 1	Level 2	Level 3
Investments in UITFs	**₱269,610**	**₱269,610**	**₱–**	**₱–**
Investments in bonds	**432,539**	**432,539**	–	–
Investments in marketable equity securities	**3,669**	**3,669**	–	–
AFS investments -				
Quoted	**15,693**	**15,693**	–	–
	₱721,511	**₱721,511**	**₱–**	**₱–**

	Dec. 31, 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	₱–	₱–

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

During the three (3) months ended June 30, 2012 and the year ended December 31, 2011, 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.

30. EPS Computation

	Unaudited	
	June 30, 2012	June 30, 2011
(a) Net income attributable to equity holders of the parent	**₱86,295**	**₱84,353**
(b) Number of shares outstanding at beginning of year	**257,931,059**	**257,737,307**
Basic/Diluted EPS attributable to equity holders of the parent (a/e)	**₱.33**	**₱.33**

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 March 2012 and December 2011.

31. Segment Information *(see page 77 for table presentation)*

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:

	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(In Thousands)			
For the Period January – June 30, 2012							
Revenues							
Segment revenue	**₱6,957**	**₱310**	**₱1,502,942**	**₱395,793**	**₱255,591**	**₱-**	**₱2,161,**
Investment income	**29,715**	**7,308**	**-**	**-**		**-**	**37,**
Total revenues	**₱36,672**	**₱7,618**	**₱1,502,942**	**₱395,793**	**₱255,591**	**₱-**	**₱2,198,**
Results							
Segment results	**₱154,717**	**(₱2,503)**	**₱81,300**	**₱52,275**	**(₱25,801)**	**(₱195,177)**	**₱64,**
Investment income	**29,715**	**7,308**	**-**	**-**	**-**	**-**	**37,**
Equity in net earnings of an associate	**-**	**(17,796)**	**-**	**-**	**-**	**66,194**	**48,**
Interest expense and financing charges	**(2,034)**	**-**	**(21,247)**	**(8,007)**	**(3,939)**	**-**	**(35,**
Benefit from (provision for) income tax	**(860)**	**(440)**	**(17,817)**	**(6,439)**	**(316)**	**2,773**	**(23,**
Share of non-controlling interest	**-**	**-**	**-**	**(391)**	**-**	**(5,220)**	**(5,**
Net income attributable to equity holders of parent	**₱181,538**	**(₱13,431)**	**₱42,236**	**₱37,438**	**(₱30,056)**	**(₱131,430)**	**₱86,**
As at June 30, 2012							
Assets and Liabilities							
Segment assets	**₱2,221,667**	**₱493,024**	**₱1,993,138**	**₱2,369,840**	**₱514,627**	**₱426,656**	**₱8,018,**
Investment in associates	**4,331,846**	**-**	**10,287**	**-**	**2,141**	**(2,523,943)**	**1,820,**
Deferred tax assets	**-**	**-**	**-**	**6,444**	**15,155**	**4,056**	**25,**
Total assets	**₱6,553,513**	**₱493,024**	**₱2,003,425**	**₱2,376,284**	**₱531,923**	**(₱2,093,231)**	**₱9,864,**
Segment liabilities	**₱466,253**	**₱787**	**₱1,091,624**	**₱895,470**	**₱424,423**	**(₱473,998)**	**₱2,404,**
Income and other taxes payable	**1,874**	**229**	**17,186**	**10,051**	**1,734**	**-**	**31,**
Deferred tax liabilities	**-**	**7,281**	**27,623**	**130,068**	**83**	**128,470**	**293,**
Total liabilities	**₱468,127**	**₱8,297**	**₱1,136,433**	**₱1,035,589**	**₱426,240**	**(₱345,528)**	**₱2,729,**
Other Segment Information							
Capital expenditures	**8,879**	**-**	**4,534**	**40,110**	**15,347**	**-**	**68,**
Depreciation and amortization	**5,278**	**333**	**43,992**	**34,627**	**709**	**9,243**	**94,**

	Continuing Operations						
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(In Thousands)			
January – June 2011							
Revenues							
Segment revenue	**₱22,314**	**₱16,812**	**₱1,356,241**	**₱451,531**	**₱115,340**	**₱-**	**₱1,962,**
Investment income	**-**	**-**	**-**	**-**	**-**	**-**	
Total revenues	**₱22,314**	**₱16,812**	**₱1,356,241**	**₱451,531**	**₱115,340**	**₱-**	**₱1,962,**
Results							
Segment results	**₱389,848**	**(₱2,474)**	**₱134,976**	**₱65,065**	**(₱41,590)**	**(₱454,212)**	**₱91,**
Equity in net earnings of an associate	**-**	**16,017**	**-**	**-**	**-**	**47,644**	**63,**
Interest expense and financing charges	**(754)**	**-**	**(22,898)**	**(14,148)**	**(2,363)**	**-**	**(40,**
Benefit from (provision for) income tax	**(621)**	**(2,245)**	**(33,051)**	**(1,477)**	**(1,588)**	**6,979**	**(32,**
Share of non-controlling interest	**-**	**-**	**-**	**341**	**881**	**23**	**1,**
Net income attributable to equity holders of parent	**₱388,473**	**₱11,298**	**₱79,027**	**₱49,781**	**(₱44,660)**	**(₱399,566)**	**₱84,**
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,**
Investment in associates	**4,319,127**	**–**	**10,288**	**–**	**2,159**	**(2,496,429)**	**1,835,**
Deferred tax assets	**–**	**–**	**19,904**	**2,879**	**22,283**	**4,179**	**49,**
Total assets	**₱6,414,432**	**₱512,803**	**₱1,958,432**	**₱2,212,782**	**₱485,286**	**(₱1,915,528)**	**₱9,668,**
Segment liabilities	**₱406,773**	**₱977**	**₱955,196**	**₱748,466**	**₱361,363**	**(₱338,028)**	**₱2,134,**
Income and other taxes payable	**2,914**	**120**	**25,739**	**12,870**	**3,246**	**–**	**44,**
Deferred tax liabilities	**–**	**7,281**	**52,759**	**119,793**	**83**	**131,079**	**310,**
Total liabilities	**₱409,687**	**₱8,378**	**₱1,033,694**	**₱881,129**	**₱364,692**	**(₱206,949)**	**₱2,490,**
Other Segment Information							
Capital expenditures	**₱18,026**	**₱10,000**	**₱91,710**	**₱181,516**	**₱18,300**	**(₱3,762)**	**₱315,**
Depreciation and amortization	**11,748**	**772**	**77,975**	**73,088**	**7,972**	**46,524**	**218,**
Provision for impairment loss on investment in a subsidiary/goodwill	**274,172**	**–**	**–**	**–**	**166,369**	**(274,172)**	**166,**
Provision for unrecoverable input value-added tax	**7,372**	**–**	**–**	**–**	**–**	**–**	**7,**

Item 2 – Management's Discussion and Analysis of Financial Condition and Results Of Operations

For the 1st half ended June 30, 2012, consolidated revenues of Phinma Corporation (PHN) amounted to P2.2 billion, 12% higher than revenues of P2.0 billion for the same period last year. Revenue of Fuld & Company, Inc. which was acquired and consolidated beginning June 2011, as well as increased revenues from Union Galvasteel Corporation (UGC) offset a decrease in revenue contribution from One Animate Limited, Inc. (OAL), University of Pangasinan (UPANG) and University of Iloilo (UI).

Consolidated costs and expenses of PHN for the period amounted to P1.6 billion, 12% higher compared to the previous year's cost and expenses amounting to P1.5 billion. The increase is attributable to the increased costs and expenses of Fuld and Company, Inc., Fuld and Company (Philippines), Inc., and UGC as a result of higher volume.

Equity in net earnings of associates decreased from P64 million for the period January to June 2011 to P48 million this year. The decline is mainly due to an P 18 million equitized loss in Phinma Property Holdings Corporation (PPHC), compared to equity in net earnings of P16 million last year. These losses were offset to some extent by equity in net earnings of Trans Asia Oil and Energy Development Corporation (TA Oil) which increased from P 39 million for the first half of 2011 to P62 million in the first half of 2012.

Consolidated net income of the company for the period January to June 2012 amounted to P92 million, an increase of 11% over the P83 million net income for the same period in 2011. Net income attributable to equity holders of the parent of P86 million is an increase of 2% over the P84 million income posted in 2011.

The results of operations of PHN subsidiaries for the period January to June 2012 are as follows:

Union Galvasteel Corporation (UGC)

I. Marketing

For the 1st semester of CY 2012, the company sold 3.36 million sheets or 4% below the budget as the market remains very competitive, putting constant pressure on volume and margins.

II. Production

The Galvanizing line produced 6228 MT for the semester and has been on shut down since April 2012

The color coating line operated at 80% utilization for the semester and produced 15.772 MT as against budget of 16,300 MT. For the 1st quarter of the semester the line was undergoing upgrading, however in the 2nd quarter the line was operating at over 90% utilization.

III. Financials

Revenue generated was P1.5 billion with a Gross Profit (GP) rate of 14% and a net income of P42 million. This is lower than last year's GP rate of 21% and income of P79 million due to the pressure on margins brought about by the competitive markets.

Araullo University (AU)

For the period January to June 2012, Araullo University registered revenues amounting to P79 million while direct costs amounted to P40 million. General and administrative expenses for the same period amounted to P20 million. For the six months ended June 30, 2012, Araullo University registered a net income of P7.8 million , 32% lower than the net income of P11.4 million during the same period last year. The latter includes a reversal of provision for income tax in March 2011 in the amount of P3 million.

Total assets for the period June 30, 2012 amounted to P526 million while liabilities amounted to P204 million.

Cagayan de Oro College, Inc. (COC)

For the period January to June 2012, COC registered revenues amounting to P75 million. Direct cost and operating expenses as of June 30, 2012 were P41 million and P24 million respectively. COC net income increased from a net loss of P7.6 million last year to a net income of P2.5 million for the period January to June 30, 2012 due to increase in student enrollment.

University of Pangasinan (UPANG)

On February 2, 2009, the Company acquired a 70% stake in University of Pangasinan in Dagupan City. UPang is the leading educational institution in Pangasinan offering elementary, secondary and tertiary education. UPang offers courses in Nursing, Engineering and Accountancy, among others. UPang also owns 69.75% of Pangasinan Medical Center, also located in Dagupan City.

For the 1st half of 2012, UPANG registered revenues amounting to P148 million and net income of P23 million. These decreased from revenues of P187 million and net income of P25 million over the same period in 2011. Student enrollment slightly decreased from 8,741 for the school year 2010-11 to 8,669 for the school year 2011-12.

University of Iloilo (UI)

On February 25, 2009, PHN acquired a 70% interest in University of Iloilo (UI), located in Iloilo City. UI offers elementary, secondary and tertiary education. UI offers courses in nursing, criminology, hotel and restaurant management and accountancy.

For the period January to June 2012, UI posted a net income of P3.9 million, compared to income of P 21.3 million income over the same period in 2011. The decrease was due to an 8% decline in enrollment from 6,641 students for school year 2010-11 to 6,110 students for school year 2011-12.

One Animate Limited (OAL)

One Animate Limited is a limited liability company incorporated in October 2008. OAL owns one hundred (100%) interest in Toon City Animation, Inc. The latter is an award winning animation studio providing 2D Flash and 3D CGI animation services and counts among its clients international names like Disney and Universal Studios.

For the 1st half of CY 2012, OAL registered revenues of P30 million, part of a $2.6 million contract with Universal Studios for Curious George. OAL incurred a net loss of P31 million, compared to a net loss of P 48 million for the same period last year.

OAL total assets as of end June 2012 amounted to P334 million.

Fuld & Company, Inc. (Fuld)

In June 2011, the Company acquired an 85% interest in Fuld & Company, Inc. (Fuld). Fuld is a business research and consulting firm focusing on business and competitive intelligence. Fuld is incorporated in the United States with offices in the US, UK and China. Founded in 1979, Fuld delivers customized, proprietary research analysis and consulting designed to help clients understand the competition and anticipate competitive challenges.

For the period January – June 2012, Fuld posted a net income of P 3 million on revenues of P 212 million. Fuld total assets as of end June 2012 amounted to 183 million.

Fuld & Company Philippines, Inc.

In July 2011, PHN acquired an 85% interest in Fuld & Company (Philippines), Inc. (formerly Business Back Office, Inc. (BBI). 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.

For the period January to June 2012, Fuld Philippines registered revenues of P13 million and gross margin of P 5.6 million. However, the company posted a net loss of P2 million.

Asian Plaza, Inc. (API)

API is a 57.6% subsidiary of PHN. On December 28, 2010 and March 31, 2011, API signed a Memorandum of Agreement and Deed of Sale respectively, for the sale of Asian Plaza property to Shang Property Developers, Inc. (SPDI) in the amount of P615 million with 25% of the selling price paid already as of December 31, 2010. API recognized the gain from this transaction amounting to P386 million in 2010. On April 4, 2011, API received the 65% payment of SDPI amounting to P399.75 million.

For the period January – June 2012, API posted a net income of P4.4 million on revenues of P7.6 million, compared to a net loss of P 4.7 million last year. The increase in net income is due to the reduction in operating expenses in 2012. Expenses in 2011 included one-off expenses for the sale of API's property.

Key Performance Indicators (KPI)

The top five (5) KPI's used to measure the financial performance of PHN and its subsidiaries as of June 30, 2012 compared to the same period last year are shown in the following table :

Financial KPI	Definition	2012	2011
Profitability			
Return on Equity (ROE)	Net income (loss) / Ave. total equity attributable to PHN equity holders	1.33%	1.29%
Gross Profit Margin	Gross profit / Net sales	25.10%	24.75%
Efficiency			
Cash Flow Margin	Cash flow from operating Activities / Net sales	9.30%	25.25%
Liquidity			
Current Ratio	Current assets / Current liabilities	2.19 : 1.00	2.63 : 1.00
Debt-to Equity Ratio	Total liabilities / Total equity	0.39 : 1.00	0.35 : 1.00

Profitability

The return on equity for the period of 1.33% is higher than the 1.29% return for the same period last year. The increase was due to the increase in net income for the period January to June 2012. Moreover, the gross profit margin increased from 24.8% in June 2011 to 25.1% in June 2012 mainly due to gross profit margin contribution of Fuld & Company, Inc. which was acquired and consolidated beginning June 2011.

Efficiency

Net cash inflow from operations was P205 million for the period January to June 2012 compared to P495 million for the same period last year. The lower net cash inflow for the 1st semester of CY 2012 is due to increase in accounts receivable of AU, COC, UPANG, UI & UGC as well as increase in inventories of UGC.

Liquidity

Current ratio as of June 30, 2012 slightly decreased from 2.63:1.00 last year to 2.19:1.00 this year mainly due to the increase in trade payables and trust receipts payables of UGC.

Debt-equity ratio of PHN and its subsidiaries as of end June 30, 2012 was slightly higher at 0.39 compared to 0.35 as of end June 30, 2011 due to above-mentioned increase in current liabilities.

Accounting Policies and Principles

The accompanying consolidated financial statements of Phinma Corporation have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine

Financial Reporting Standards (PFRS). The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit and loss, available for sale investments and derivative investments that have been measured at fair value.

The consolidated financial statements are prepared in Philippine pesos, the company's functional and presentation currency.

Seasonality Aspects of the Business

Like any other company in the construction industry, the operations of UGC is affected by seasonality of cyclicality. During the summer months starting December to May, demand for roofing materials are greater than during the rainy months of June to November. The demand for the first semester of the calendar year is normally higher than that of the second semester.

Interim Disclosures on Financial Statements

The following financial disclosures do not materially affect or are not applicable to the Company's interim operations :

1. Unusual items that affect the assets, liabilities, equity, net income or cash flows because of their nature, size or incidents.

2. Changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that have a material effect in the current period.

3. Issuances, repurchases of debt and equity securities.

4. Segment revenue and segment results for business segments and geographical segments.

5. Changes in contingent liabilities or contingent assets since the last annual balance sheet.

6. Existence of material contingencies and other events of transactions that are material to an understanding of the current interim period.

7. Known trends, demands, commitments, events and uncertainties that will result in or likely to decrease its liquidity in any material way. PHN does not anticipate having within the next twelve (12) months any cash flow or liquidity problems nor does it anticipate any default or breach of any of its existing notes, loans, leases, other indebtedness or financing arrangements requiring it to make payments, except the breach in current ratio requirements of the loan covenants.

8. Events that will trigger direct or contingent material financial obligations to the company, including any default or acceleration of its existing obligations.

9. Material off-balance sheet transactions, arrangements, obligations (direct or contingent) and other relationships of the company with unconsolidated entities or other person created during the year.

10. Material commitments for capital expenditures.

11. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales/revenues/ income from continuing operations.

12. Significant elements of income or loss that did not arise from the company's continuing operations.

Material Changes in Balance Sheet Accounts

Cash and cash equivalents

The increase in cash and cash equivalents of P34 million are shown in the cash flow statement.

Investments held for Trading

The decrease in Investments Held for Trading of P66 million represents additional purchases of bonds by PHN.

Trade and other receivables - net

The increase in the account in the amount of P158 million represents increase in trade receivables of AU, COC, UPANG & UI in an aggregate amount of P142 million

Input tax

The decrease in the account of P13 million represents a decrease in input tax of OAL in the amount of P9 million as well as decrease in input tax of UGC amounting to P4 million.

Other current assets

The increase in the account of P33 million is mainly due to an increase in various assets of UPang , AU & OAL in the amount of P19 million, P12 million and P10 million respectively.

Investment properties – net

The increase in investment properties of P22 million represents PHN's share of a property received as liquidating dividend from Luzon Bag Corporation, which ended its corporate life in February 2012.

Deferred tax assets

The P 3 million increase in the account is mainly due to an increase in deferred tax of UGC arising from its provision for doubtful accounts.

Other assets

The P 25 million increase in other assets is attributable to the increase in deferred charges of Fuld & Company, Inc. in the amount of P12 million as well as deferred charges of Cagayan de Oro College amounting to P14 million.

LIABILITIES

Notes payable

The decrease of P181 million in the account is due to payment of short-term borrowings of UGC.

Trade and other payables

The increase in the account from P390 million to P570 million is partly due to a P 97 million deposit received from Vicsal Investments, Inc. pending the finalization of the sale of AB Capital shares, as well as the increase in the combined trade payables of AU, COC, UPANG & UI in the amount of P71 million. Fuld & Company, Inc. trade and personnel costs likewise increased in the amount of P23 million.

Trust receipts payable

The increase of P289 million in the account is attributable to the increase in UGC's trust receipts payable from P104 million in December 2011 to P393 million this year.

Unearned revenues

The unearned revenues of AU, COC, UI and UPANG increased from P205 million in December 2011 to P302 million in June 2012. Tuition fees collected at the beginning of the semester in June are booked under Unearned Revenues ; the account is eventually reduced as the income is earned over the semester.

Income and other taxes payable

The decrease in the account of P14 million represents a decrease in income tax payable of UGC and COC.

Due to related parties

The decrease in the account represents payments by UGC of various liabilities to Phinma, Inc.

Derivative liability

The decrease in the account is due to the full settlement of non-deliverable forward contracts of PHN which were outstanding as of December 2011.

Long-term loan payable

The decrease in the amount of P26 million represents partial principal payments made by PHN to selling stockholders of Fuld & Company, Inc. last June 2012.

Long-term debt – net of current portion

The decrease in the account of P84 million represents principal payments made by UGC, UPang and AU during the first semester of CY 2012.

Pension and other post-employment benefits

The increase in the account of P 20 million represents accrual for post-employment benefits of PHN, AU, COC, UPANG and UI.

EQUITY

Share in unrealized gains on financial assets of associates

The P3 million decrease in the account represents a decrease in the market prices of various securities held by Trans-Asia Oil & Energy Development Corporation.

Unrealized gain (loss) on change in fair value of available for sale investments

The change is due to the increase in prices of First Philippine Holdings preferred shares held by Phinma Corporation and Union Galvasteel Corporation.

Cumulative translation adjustments

The increase of P2 million in the account represents cumulative translation adjustments arising from the consolidation of OAL and Fuld & Company, Inc.

Material Changes in Income Statement Accounts

Revenues

The increase in revenues in the amount of P236 million is due to increase in revenues of UGC amounting to P147 million as a result of increase in sales volume. Likewise, revenues of Fuld & Company, Inc. increased from P35 million to P 212 million for the 1st semester of CY 2012. The former reflects only revenues for the month of June 2011, since the company was acquired and consolidated only beginning June 2011.

Cost of sales

Increase in cost of sales amounting to P170 million represents UGC's increase due to increase in sales volume as well as increase in cost of raw materials during the 1st half of CY 2012.

Operating expenses

The P 67 million increase in the account is due to the consolidation of operating expenses of Fuld & Company, Inc for 6 months in 2012 compared to one month in 2011. Fuld & Company was consolidated by PHN only starting June 2011.

Financial charges

The decrease in the account of P5 million is due to to payment of short-term payables during the 1st half of CY 2012

Equity in net earnings of associates

The decrease in the account of P15 million is largely due to equitized loss from Phinma Property Holdings Corporation (PPHC) in the amount of P18 million as of June 30, 2012, compared to P 16 million for the same period last year. The loss of PPHC was partially offset by a P 62 million equitized income from TA Oil.

Net gain (loss) on derivatives

This account reflects a net gain in derivatives amounting to P4.4 million for the six-month ended June 30, 2012 compared to P9.4 million of the same period last year.

As of June 30, 2012, the company has outstanding non-deliverable contracts with an aggregate notional amount of US$3.85 million transacted at an average rate of P43.50 to $1.00. As of the end of the quarter, unrealized gain on said contracts amount to P4.2 million. The company also booked a net derivative gain on settled contracts amounting to P.22 million.

Last year, the company recognized an unrealized gain on derivatives amounting to P2.8 million and a realized gain on derivatives of P6.6 million.

Foreign exchange gain (loss)

Foreign exchange loss as of June 30, 2012 was P9.8 million due to the movement in foreign exchange rate from P43.84 as of Dec. 31, 2011 to P42.12 as of June 30, 2012.

Other income (charges)

The increase in other income of P19 million is mainly due to a liquidating dividend from Luzon Bag Corporation.

Provision for income tax

The decrease in provision for income tax from P32 million to P23 million is attributable to the decline in income of UGC from P79 million last year to P42 million this year.

Comprehensive Income

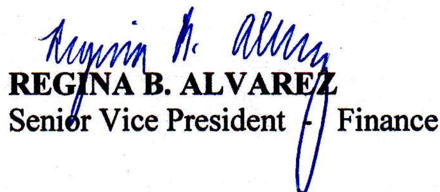
Comprehensive income increased from P83 million for the six-month period ended June 30, 2011 to P90 million this year due to the increase in net income from P83 million last year to P92 million this year.

For other comprehensive income / (charges), kindly refer to the comments on equity accounts.

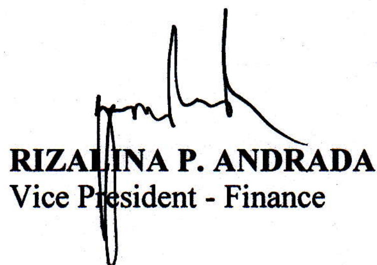
SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHINMA CORPORATION



REGINA B. ALVAREZ
Senior Vice President - Finance



RIZALINA P. ANDRADA
Vice President - Finance

August 10, 2012