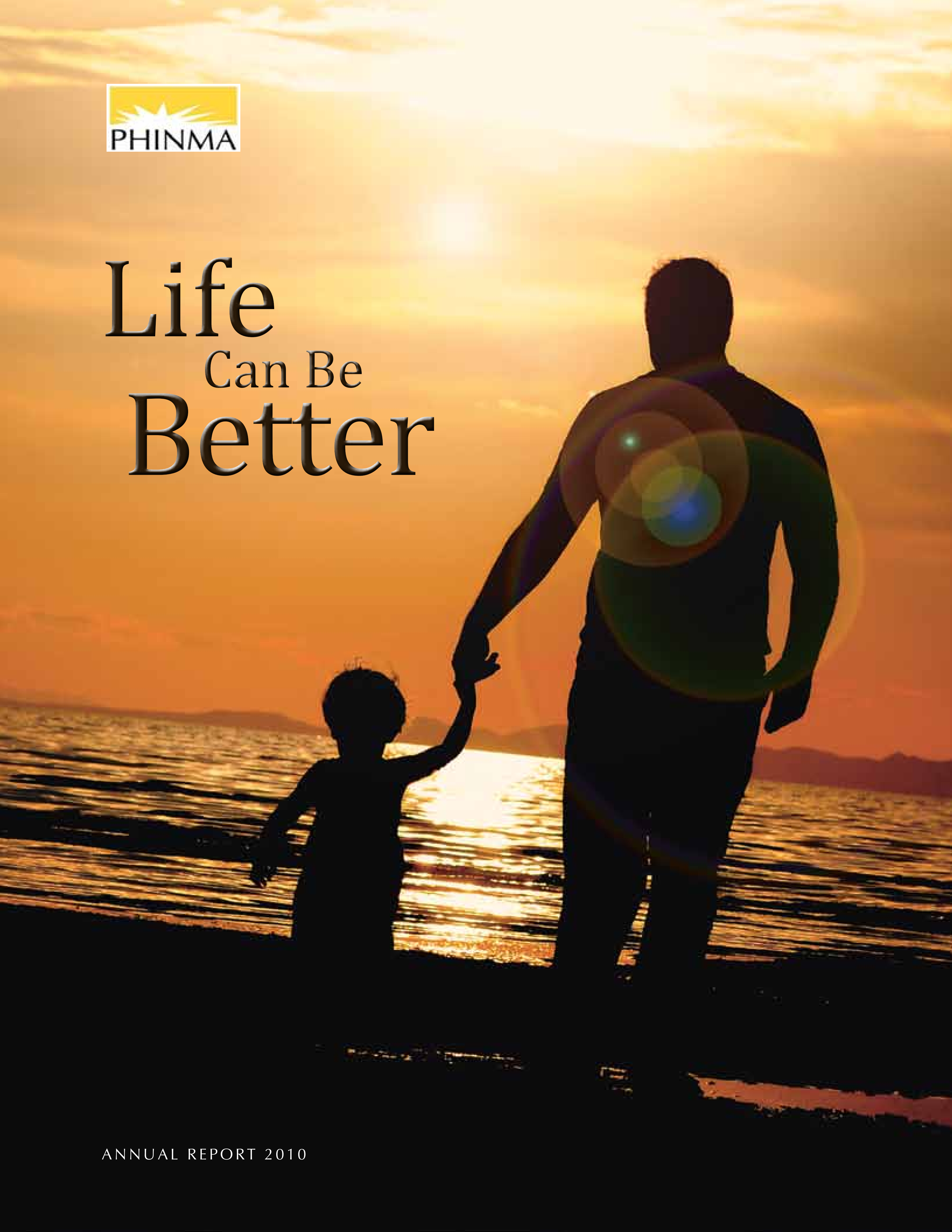

PHINMA

Life Can Be Better

ANNUAL REPORT 2010

Our Mission

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

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

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

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

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

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FINANCIAL HIGHLIGHTS

(amounts in thousands except ratios and earnings per share)

	2010	2009	restated 2008
INCOME AND DIVIDENDS			
Revenues	**3,773,732**	3,725,836	3,184,465
Net Income Attributable to BCII Equity Holders	**475,846**	447,370	273,160
Cash Dividend	**103,095**	103,095	-
Cash Dividend per share	**0.40**	0.40	-
Stock Dividend	**-**	-	234,307
Stock Dividend %	**-**	-	10%
FINANCIAL POSITION			
Current Assets	**4,099,603**	2,954,873	4,298,928
Total Assets	**9,696,714**	9,023,323	8,519,839
Current Liabilities	**1,202,941**	1,207,934	1,271,215
Non-current Liabilities	**1,193,083**	1,049,023	570,332
Equity Attributable to PHN Equity Holders	**6,538,737**	6,140,057	5,789,243
PER SHARE			
Earnings	**1.85**	1.74	1.06
Book Value of Common Shares	**25.37**	23.82	22.46
FINANCIAL RATIOS			
Current Ratio	**3.41**	2.45	3.38
Debt to Equity Ratio	**0.33**	0.33	0.28

AT A GLANCE

EDUCATION

Phinma Corporation, through the Phinma Education Network (PEN), seeks to provide a better future for thousands of students by offering quality education at affordable rates. PEN comprises four schools namely Araullo University (AU), Cagayan de Oro College (COC), University of Pangasinan (UPang) and University of Iloilo (UI), providing basic, secondary and tertiary education to approximately 25,000 students.

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

Ownership by Phinma Corporation:

AU	:	78.6%
COC	:	74.4%
UPang	:	69.8%
UI	:	69.9%

Highlights

- Income contribution from PEN increased to P123.4 million in 2010 from P79 million in 2009
- AU and COC continue to offer the leading Criminology programs in their areas.
- In 2010, 100% of AU's accounting graduates passed the CPA board examination; in COC, 100% of its first-time takers passed the examinations in mechanical engineering.
- UPang remains the best performing nursing program for 100 or more board examination takers in Region I.
- UI will offer MBA program in partnership with Ateneo de Manila Professional Schools and joint Law-Master in Public Management degree in collaboration with Ateneo School of Government
- 1,963 students of PEN enrolled under the Phinma Scholarship program

HOUSING

Phinma Property Holdings Corporation (Phinma Properties) is the leading developer of affordable medium- and high-rise residential condominiums in Manila.

The company makes life better not only by providing decent and value-for money homes, but also by contributing to the upliftment of lives in its host communities through its various Corporate Social Responsibility (CSR) projects.

Ownership by Phinma Corporation:
35.4%

Highlights

- Exceeded P200-million mark with income from operations of P230.1 million in 2010, from P132.2 million in 2009
- Completed the Sofia Bellevue and Flora Vista projects in Quezon City
- In 2011, Phinma Properties will launch three projects: Asya Enclaves Alabang in Muntinlupa, Solano Hills in Parañaque and Arezzo Place in Pasig
- Phinma Properties is also looking at opportunities in other centers such as Cebu, Davao and high-growth areas near the National Capital Region (NCR).

STEEL PRODUCTS

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

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

Ownership by Phinma Corporation:
98.4%

Highlights

- Posted net income of P249 million, surpassing its previous record income of P152 million in 2009
- Merged with Atlas Holdings Corporation, with UGC as the surviving company.
- Awarded Lakan ng Lawa by the Laguna Lake Development Authority (LLDA) for maintaining effluents discharge to the Laguna Lake better than the LLDA standards and requirements.
- UGC's Davao roll-forming and polyurethane plants were certified under ISO 9001-2008 for its Quality Management System, the first in Mindanao.

ENERGY

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

Ownership by Phinma Corporation:
27.0%

Highlights

- Generated US$1.325 million from the sale of its royalty interest in the Cadlao Production Area, Northwest Palawan under SC No. 6 to Peak Royalties Limited (BVI)
- Posted consolidated net income of P14.7 million
- Entered into partnership with One Subic Power generation to manage its 116 MW diesel power plant
- On March 31, 2011, signed an Engineering Procurement and Construction (EPC) Contract with DM Consunji, Inc. for a 135 MW CFB coal-fired power plant
- CIP II Power Corporation (CIPP), TA Oil's 100% subsidiary, will move its operation of 21 MW bunker C-fired power plant to Bacnotan, La Union
- Its wholly-owned subsidiary, Trans Asia Renewable Energy Corporation, obtained additional 10 service contracts expanding TAREC's wind farm portfolio to 20 sites.
- TAREC installed three additional wind masts in San Lorenzo, Guimaras, Ballesteros, Cagayan and Aparri, Cagayan

BUSINESS PROCESS OUTSOURCING

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

Ownership by Phinma Corporation in OAL: 80%

Highlights

- Booked revenues of US$1.4 million on projects including Warner Brothers' Looney Tunes, Kickstart-World Events Production's Voltron Force, and Titeuf from Antefilms
- Due to delays in the implementation of other contracts, OAL posted a net loss of P77.8 million.
- Ongoing projects include Geronimo Stilton, Looney Tunes, Henry and Me, and Voltron
- Built up its workforce from 300 employees in the first half of 2010 to 800 today; gearing up to further increase it to 1,000 in the coming months.

HOTELS

Phinma Corporation has also made it its mission to provide quality hotel services at value rates. In 2009, Phinma Corporation invested in preferred shares of Coral Way City Hotel Corporation (Coral Way), owner of Microtel Mall of Asia (Microtel MOA) and a subsidiary of Microtel Development Corporation (Microtel).

Microtel MOA is part of the international Microtel group with more than 300 properties worldwide.

Investment by Phinma Corporation:
P66 million

Highlights

- 150-room Microtel MOA was soft- launched in May 2010 and commenced commercial operations in September 2010
- Reached 50% occupancy rate in first months of operations
- Realized revenues of P57.1 million in 2010

MESSAGE TO OUR SHAREHOLDERS

"We reiterate our commitment to contribute to nation-building through profitable business enterprises that address the needs of our country."

Dear Shareholders,

The year 2010 marked our Company's first year of operations under our new name, Phinma Corporation.

We are pleased to report that 2010 was a period of robust growth for the company. Consolidated net income in 2010 amounted to P640 million, a 27% increase over income in 2009 of P504.5 million. Net income attributable to equity holders of the parent amounted to P475.8 million, compared to P447.4 million in 2009.

Life Can Be Better

Our mission, which has determined our business path for the past years and for the years ahead, is to make life better for our customers and suppliers, our employees, and the various other publics that we serve, while providing attractive returns for our shareholders. The strong financial results of the Company's operations reinforces our conviction that our twin objectives are not mutually exclusive, and that we can provide better returns for our shareholders, while making life better for our fellow Filipinos by providing them with attractive and decent homes in wholesome communities, reliable power and renewable energy sources, and high-quality education at affordable cost.

2010 Highlights

Union Galvasteel Corporation (UGC), the Company's steel-roofing subsidiary, again surpassed its own record performance of the past two years. UGC posted net income of P249.4 million compared to P151.9 million in 2009. These figures represent an impressive 28% return on equity, and is the result of its exceptional supply chain management, aided by the company's top-class customer service and the expansion of its distribution facilities.

During the year, aggregate income contribution from our four schools under the Phinma Education Network (PEN), amounted to P123.4 million, compared to P79 million in 2009. The year's results reflects a 5% increase in enrollment over last year and the consolidation of full-year results of operations of University of Pangasinan and University of Iloilo, both of which were consolidated by PEN in February and March 2009, respectively.

Income contribution from our animation business, however, declined during the year. In 2010, the Company picked up a P62.2 million net loss from One Animate Limited (OAL), due to delays in the implementation of various contracts, most of which have been postponed to 2011. As evidence of the company's brighter prospects in 2011 and future years, OAL has built up its workforce from a low level of less than 300 in the first half of 2010 to 800 to-date, and is gearing up to further increase it to 1,000 in the coming months.

During the year, equity in net earnings of affiliates dropped from P117.7 million in 2009 to P59.4 million. Equitized earnings from Trans Asia Oil and Energy Development Corporation (TA Oil) decreased from P76.5 million to P4.0 million in 2010 due to the volatile Wholesale Electricity Supply Market (WESM) and fuel prices. Nevertheless, TA Oil faces the future with renewed confidence that it has reduced its vulnerability to the volatilities of WESM by entering into various contracts to increase its capacity and hedge against price fluctuations, thus enabling it to take fuller advantage of the opportunities in the WESM market in the future.

Phinma Property Holdings Corporation (PPHC) posted stellar performance in 2010, as it achieved income from operations of P230.5 million, the first time the company has exceeded the P200 million mark. During the year, however, it was determined that legal procedures required to address a delayed extension of the company's corporate life may result in some liabilities for PPHC, all of which are now being addressed. Nevertheless, the company has taken a conservative stance and has provided for the maximum cost of resolving the pending issues.

As a result, equity in net earnings of PPHC remained flat at P47.5 million in 2010. On the other hand, equity in net earnings of AB Capital and Investment Corporation, decreased from P17.4 million in 2009 to P5.3 million in 2010.

Despite the above, we are pleased to note that our Company unlocked significant asset values that offset the earnings decline in some of the business sectors. During the year, Asian Plaza, Inc. (API), a 57% owned subsidiary of Phinma Corporation, signed an agreement to conclude the sale of its property at a handsome premium over market rates. The transaction yielded a net gain on sale of P386 million for API.

Phinma Corporation continued to effectively manage its foreign exchange exposure through non-deliverable forward contracts (NDF). The company booked a gain on the NDF contracts amounting to P50.1 million, which has more than offset a foreign exchange loss of P32.4 million due to the strengthening of the Philippine peso, resulting in a net foreign exchange gain of P17.7 million.

In 2010, the Securities and Exchange Commission (SEC) approved the merger of 100% owned UGC and 90% owned Atlas Holdings Corporation (AHC), with UGC as the surviving entity. The merger will make possible the more productive use of the financial assets of AHC and will reduce the financing costs of UGC. The integration of the administration of the two corporations will likewise result in economies of scale and improved efficiency of operations.

Phinma Corporation ended the year with a strong balance sheet, with total assets of P9.7 billion and a current ratio and debt-to-equity ratio at strong levels of 3.41 and 0.33 respectively.

In view of its financial performance in 2010, your Company declared a cash dividend of P 0.40 per share, which will be paid out on April 26, 2011.

2011 Outlook

As with most of the business sector, we look forward to the coming years with renewed hope and vigor as improved confidence in the current administration has encouraged new investments in the government-promoted PPP and other private projects.

Phinma Corporation's substantial investible funds will allow us to respond expeditiously in meeting growth opportunities as they become available. For the near-term, we will consider acquiring a fifth university, should a suitable prospect arise. We remain bullish about the energy sector and have made notable progress in developing two significant power plant projects, one based on clean coal and the other using wind. We are likewise aggressively pursuing opportunities in the business process outsourcing sector, particularly focusing on more value-added processes and activities.

We reiterate our commitment to contribute to nation-building through profitable business enterprises that address the needs of our country, particularly in education, housing, energy and business process outsourcing.

In closing, we wish to convey our gratitude to our directors, management team and employees who continue to work towards these goals, and to our shareholders who support us in our dream of making life better for our fellow Filipinos.

Oscar J. Hilado
Chairman of the Board

Ramon R. Del Rosario, Jr.
President

EDUCATION

Quality Education for the Deserving Filipino

Phinma Corporation, through the Phinma Education Network (PEN), seeks to provide a better future for thousands of students by offering quality education at affordable rates. PEN comprises four schools namely Araullo University (AU), Cagayan de Oro College (COC), University of Pangasinan (UPang) and University of Iloilo (UI), providing basic, secondary and tertiary education to approximately 25,000 students.

PEN has strived to make its schools among the most affordable private institutions in their respective areas, with tuition fees ranging from P14,000 to P17,000 per semester. To keep tuition fees low, the schools continue to manage costs and streamline operations. As a result, the ratio of non-teaching employees to faculty today averages at an efficient level of about 1:3. To provide education to even more students, the PEN schools introduced the PHINMA Scholarship program, which offers fifty percent scholarship on tuition and fees to those in financial need. Today, there are 1,963 students who are enrolled under this program.

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

Despite competition from state and local government universities and colleges, overall network enrollment grew by five percent to 25,719 students during the year. For the year 2010, Phinma Corporation equitized earnings from PEN amounting to P123.4 million, compared to P79 million in 2009. These results reflect the increase in enrollment and the consolidation of full-year results of operations of University of Pangasinan and University of Iloilo, both of which were consolidated by Phinma Corporation in February and March 2009, respectively.

PEN has instituted various changes in all of its schools to further improve academic quality. It has institutionalized pre-and post-graduation review programs and has set internal targets for board examinations. It has likewise expanded the number of PEN-wide final exams in order to standardize learning outcomes and track teaching performance. PEN has also begun to re-introduce the College Scholastic Aptitude Test in the higher years to track the development of general competencies of our students.

The schools have shown significant improvements in many areas. AU and COC continue to be the leading Criminology programs in their areas. COC was the top-performing school in the nation in terms of first takers for schools with more than 100 examinees, while AU produced a third placer in the August 2010 board examination. In accountancy, 100% of AU's 2010 graduates passed the September 2010 board. COC experienced similar results in Mechanical Engineering, with 100% of its first-time takers passing the examination.

In AU's nursing program, although the passing rate has dropped from last year, it remained the best performing among the private schools in Cabanatuan. Also, in other board programs, both AU's and COC's first takers performed above the national passing average. Upang, on the other hand, remained the best performing nursing program for 100 or more takers in Region I.

In 2010, UI established a partnership with Philippine Transmarine Carriers, Inc, a local maritime company, to improve the employment opportunities of the graduates of its Marine Engineering Program. UI also partnered with the Ateneo de Manila Professional Schools. The University will now offer Ateneo's MBA program in Iloilo and a joint Law – Master in Public Management Degree with the Ateneo School of Government.

With the financial support of the Lopez Group Foundation, UI has likewise set up the Center for Enterprise Development (CED) which seeks to assist, through training programs and consulting services, the province's micro and small enterprises. More recently CED signed a partnership agreement with the Iloilo Central Market Vendors' Association (ICMVA) to provide ICMVA training while the Association will open their doors to UI's students for research and on-the-job training opportunities.

While we are proud to report that significant gains have been achieved in the PHINMA Education Network, PEN continues to work toward its goal of transforming the PEN schools into truly national class institutions, while remaining accessible to its students.

HOUSING

A Quality Home for Every Filipino

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

Phinma Properties considers itself to be well positioned in the very competitive real estate environment and is confident of growing its business.

The year 2010 was another stellar year for Phinma Properties, as it achieved income from operations of P230.1 million. The year marked the first time the company breached the P200 million level and this augers well for the company's expansion plans for the next three years.

The company's financial performance for 2010 was driven not only by income from its three ongoing projects namely, Fountain Breeze, Sofia Bellevue and Flora Vista, but also by the sale of part of its Cagayan de Oro property to Robinson's Land Corporation, and by various commissions earned.

Phinma Properties' strong balance sheet will continue to grow and support its real estate developments going forward. As of December 31, 2010, total assets of Phinma Properties surpassed P2 billion while total revenues reached P1.8 billion during the year.

On the whole, Phinma Properties considers itself to be well positioned in the very competitive real estate environment and is confident of growing its business, particularly due to its positioning as being the best-value-for-money home option, with fast delivery of projects and its emphasis on community living.

Expansion plans

In 2011, Phinma Properties will aggressively pursue its land acquisition and joint venture programs in order to roll out projects in Metro Manila. To date, the company has three projects lined up for launch namely Asya Enclaves Alabang in Muntinlupa, Solano Hills in Parañaque and Arezzo Place in Pasig. Asya Enclaves Alabang will be formally launched by May 2011 while the two other projects will be introduced before the third quarter of the year. Other sites have likewise been identified and the project pipeline is geared towards adding more projects by the last quarter of 2011.

Phinma Properties is also looking at opportunities in other developed centers such as Cebu, Davao and high-growth areas near the National Capital Region (NCR). By 2012 the company plans to launch its first project outside Metro Manila with a 1.2 hectare property in Davao City.

Social Responsibility

Phinma Properties, through its Bagong Buhay CSR program, has been in the forefront of enhancing relations with the host communities and LGUs. Green initiatives like rain water harvesting, eco advocacies and support for Barangay needs and facilities have helped foster better community relations and speedier processing of permits. The Bagong Buhay program has also recently signed a Memorandum of Agreement with the Phinma Foundation and Kagabay, a non-governmental organization (NGO), for the establishment of an early learning center near its Flora Vista project in Quezon City. This highlights the company's thrust to make life better not only by providing decent and affordable homes, but also by contributing to the upliftment of lives in its host communities.

Quality Steel Products for the Country

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

In 2010, the Philippine economy registered robust growth of 7%, and the construction industry performed creditably as well. However, competition in the roofing market was keen, with the onslaught of imported steel products due to the liberalized tariff regime. Against this business backdrop, UGC nevertheless registered impressive gains in its operations and in its financial performance.

UGC will focus on strengthening its business model by exploring new products, new markets and new raw material sources, implementing a stronger customer service program and enhancing its organizational efficiencies.

In 2010, the Philippine economy registered robust growth of 7%, and the construction industry performed creditably as well. However, competition in the roofing market was keen, with the onslaught of imported steel products due to the liberalized tariff regime. Against this business backdrop, UGC nevertheless registered impressive gains in its operations and in its financial performance.

UGC increased its sales volume by 14% during the year, boosted by sales of high value steel products with innovative profiles. This growth was the result of the expansion of the company's distribution facilities in more strategic locations around the country. Consequently, UGC ended the year with net income of P249 million, exceeding its previous record income of P152 million in 2009.

These gains were matched by the operational efficiencies attained in its manufacturing facilities. UGC's Galvanizing and Color Coating lines located in Calamba, Laguna have been recognized by the Laguna Lake Development Authority (LLDA) with the Lakan ng Lawa award for maintaining effluents discharge to the Laguna Lake better than the LLDA standards and requirements. This is the second year UGC has received this award. Also, UGC's Davao roll-forming and polyurethane plants have been certified under ISO 9001-2008 for its Quality Management System, the first in Mindanao.

In 2011, competition in the roofing market will remain tough, brought about by importations of steel products under liberalized tariffs and possible disruptions in the supply and demand of steel products from Japan. These factors are expected to put further pressure on revenues and margins. The surging prices of oil products will likewise adversely impact UGC's operating costs.

In response to these challenges, UGC will focus on strengthening its business model by exploring new products, new markets and new raw material sources, implementing a stronger customer service program and enhancing its organizational efficiencies. The company will utilize its financial resources with prudence to enable it to withstand any economic shock in the coming months.

ENERGY

Reliable Power for the Philippines

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

During the year, TA Power continued to supply reliable quality power to Holcim Philippines, Inc. (Holcim). Out of the total energy produced of 185 GWh, 65% or 121 GWh were delivered to Holcim while the remaining 35% were exported to the Philippine Wholesale Electricity Spot Market (WESM). In 2010, Trans-Asia Power registered a net income of P45 million.

TA Oil and TA Power continued its commitment to provide sustainable and reliable supply of power to its customers.

TA Oil's 3.4MW bunker-fired power plant in Guimaras continued to operate as a peaking plant and provided reliable peaking power to the island. In 2010, the plant generated 4.3GWH of electricity resulting in total revenues of P55.5Million and net income from operations of P9.6million.

CIP II Power Corporation (CIPP), a wholly owned subsidiary of TA Oil, will move and operate its 21 MW bunker C-fired power plant to Bacnotan, La Union. Transfer begun in February 2011 and the power plant is expected to be onstream by January 2012. CIPP will operate as a merchant plant and will support the electricity supply business of its parent company.

TA Oil also continued its active participation in the WESM by trading the electricity requirements of its customers and the excess generation of Trans-Asia Power. In 2010, the total energy bought for its customer, Holcim, reached 191 GWh. To ensure the sustainability and reliability of the supply business, TA Oil has entered into a partnership with One Subic Power Generation Corporation to manage and administer the latter's 116 MW diesel power plant and has renewed the contract to purchase the generated energy of NIA-Baligatan HEP.

TA Oil has chosen Calaca, Batangas as the location for its new 135MW coal-fired power plant, which will employ the environment-friendly Atmospheric Circulating Fluidized Bed boiler technology. An option to acquire about 13.1 hectares of land inside Phoenix Petro Terminal and Industrial Park had been exercised in November 2010.

The project has been granted an Environmental Compliance Certificate by the Department of Environment and Natural Resources in April 2010 and has been endorsed by the Department of Energy for registration with the Board of Investments in October 2010.

The power plant is envisioned to begin commercial operation in 2014 and will be the first base-load plant of TA Oil, which will further support its electricity supply business.

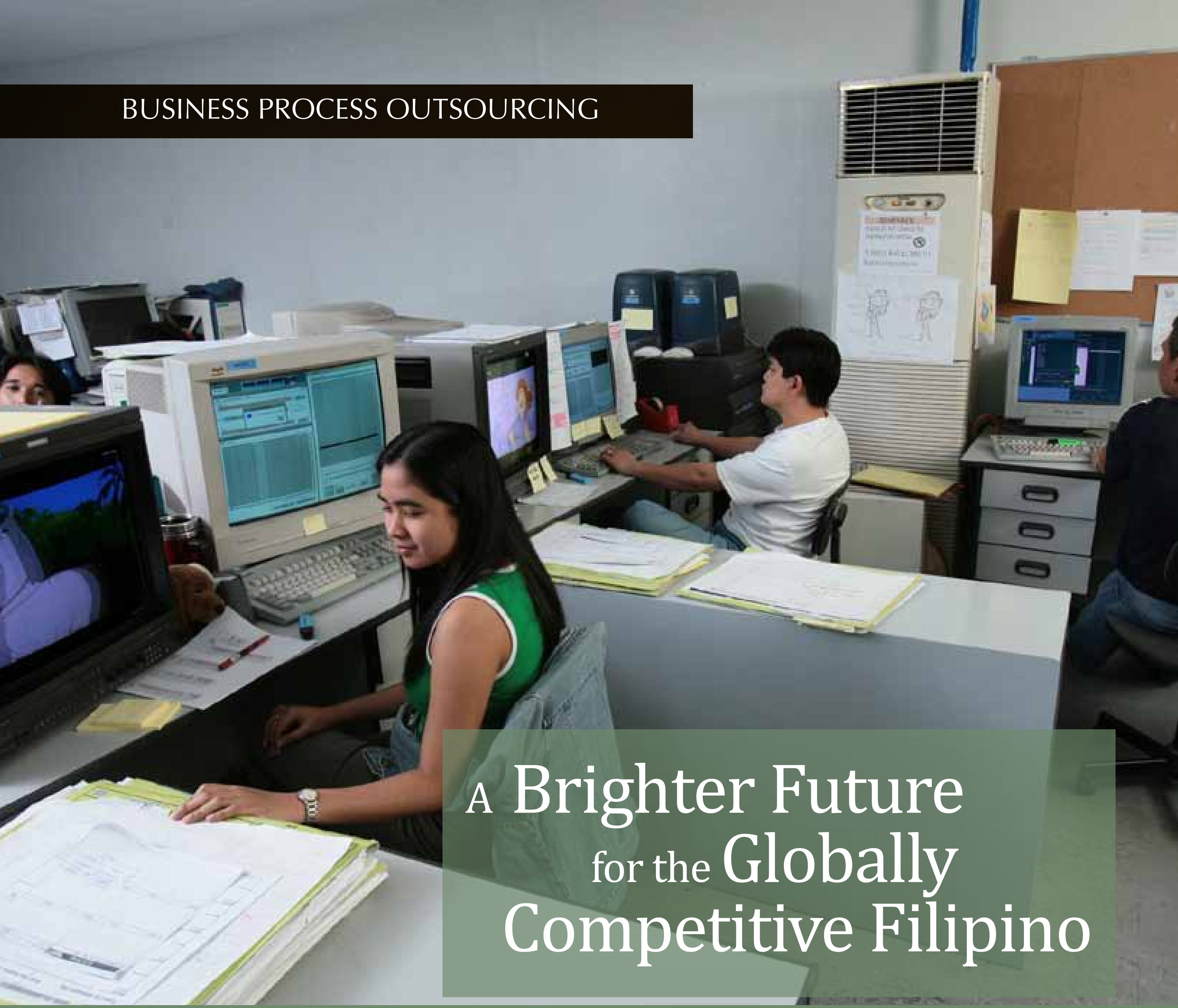
In February 2010, Trans-Asia Renewable Energy Corporation (TAREC), a wholly owned subsidiary of TA Oil focusing on developing wind resource development, obtained an additional 10 service contracts from the Department of Energy (DOE), expanding TAREC's wind farm portfolio to 20 sites capable of supporting an aggregate energy production of 350 MW.

TAREC installed three more wind masts, a second one in San Lorenzo, Guimaras and Ballesteros, Cagayan as well as one in Aparri, Cagayan. This brings to eight the total number of wind measuring devises that were installed by TAREC in various sites. Continuous readings from these sites have showed very encouraging results. To facilitate sourcing of the much needed funds to develop the San Lorenzo Wind Project, TAREC continues to discuss with potential partners and lenders.

During the year, TA Oil was able to generate US$1.325 million from the sale to Peak Royalties Limited (BVI) of its royalty interest in the Cadlao Production Area, Northwest Palawan under SC No. 6. TA Oil was also able to realize higher returns from financial assets and recoup certain economic values from its non-operating assets in Laguna.

We are pleased to report that, despite difficult challenges in 2010, TA Oil ended the year with a consolidated net income of P14.7 million and a strong balance sheet. As of December 31, 2010, total consolidated assets stood at P3.4 billion, total liabilities at P387 million and total equity at P3 billion.

BUSINESS PROCESS OUTSOURCING



A Brighter Future for the Globally Competitive Filipino

In 2008, Phinma Corporation invested US$6.734 million for an 80% interest in One Animate Limited, a company that owns 95% of Toon City Animation, Inc., a domestic BPO company which specializes in providing 2-D animation services for major film studios abroad. This investment is part of Phinma Corporation's mission of providing high value-services that are globally competitive.

Phinma Corporation supports the animation services sector which harnesses and showcases Filipino talents and skills.

During the year, One Animate booked revenues amounting to US$1.4 million on various projects, including Warner Brothers' Looney Tunes, Kickstart/World Events Production's Voltron Force, and Titeuf from Antefilms. However, due to delays in the implementation of these and other contracts, OAL posted a net loss of P77.8 million.

Many of OAL's delayed contracts, however, have been postponed to 2011. Its ongoing projects include Geronimo Stilton, Looney Tunes, Henry and Me, and Voltron. As evidence of the company's brighter prospects in 2011, OAL has built up its its workforce from 300 employees in the first half of 2010 to 800 today, and is gearing up to further increase it to 1,000 in the coming months.

Despite the operating results in 2010, we continue to believe in the viability of our animation business. Major international studios see a continuing need for expertise in 2-D, as shown by the revival of Disney's 2-D "Princess Stories", seasons 5 and 6 of Universal Studio's Curious George, and Atlantyca's Geronimo Stilton. Disney, in particular, has launched Disney Junior Channel that will feature shows in 2-D to cater to its pre-school audience.

At the same time, One Animate is enhancing its capabilities in Computer Generated Imagery (CGI) to take it to the next level of animation services, by taking on officers, artists and supervisors with known expertise in CGI, conducting extensive training programs, and investing in new software and equipment to upgrade its CGI capabilities.

Phinma Corporation supports the animation services sector which harnesses and showcases Filipino talents and skills. One Animate offers its employees work opportunities locally, in the process keeping world-class talent home.

World-class Services for a Growing Tourism Industry

Phinma Corporation also made it its mission to provide affordable quality hotel services in the Philippines. In 2009, Phinma Corporation invested P66.2 million in preferred shares of Coral Way City Hotel Corporation (Coral Way), a subsidiary of Microtel Development Corporation (Microtel). These preferred shares are convertible to common shares and bear cumulative dividends at a rate of 10%.

Our approach is back to basics: we make life better for guests by offering consistently clean, comfortable, and safe accommodations at value rates.

Microtel is part of the international Microtel group with more than 300 properties worldwide. In the Philippines, Microtels inns and resorts are located in key commercial and industrial areas, as well as in choice resort locations. Its portfolio of hotels includes properties in Baguio, Batangas, Boracay, Cabanatuan, Cavite, Davao, Palawan, Tarlac, and Manila.

Coral Way owns and operates the 150-room Microtel Mall of Asia (MOA) which was soft launched in May 2010 and which commenced full commercial operations in September 2010. Located close to SMX Convention Center and the Mall of Asia, the hotel caters to both local and international business travelers and value-minded tourists as well.

On its first months of operations, Microtel MOA achieved an occupancy rate of over 50% and revenues of P57.1 million. Microtel MOA posted a net loss of P12.9 million before financing charges due to accrual of operating expenses for the full year; however, gross operating profit amounted to P11.5 million. In 2011, Microtel MOA fully intends to strengthen its internet presence and tap more corporate and convention accounts.

Although Microtel MOA still has some way to go in improving profitability, we believe it is extremely well-located and is a good business model. Consistent with all Microtel properties world-wide, Microtel MOA is a no-frills hotel that meets the needs of the mid-market category of the hotel industry. Our approach is back to basics: we make life better for guests by offering consistently clean, comfortable, and safe accommodations at value rates.

Board of Directors

Oscar J. Hilado

CHAIRMAN

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

Ramon R. Del Rosario, Jr.

VICE CHAIRMAN

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

Magdaleno B. Albarracin, Jr.
DIRECTOR

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

Victor J. del Rosario
DIRECTOR

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

Roberto M. Laviña
DIRECTOR

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

BOARD OF DIRECTORS

Jose L. Cuisia, Jr.
DIRECTOR

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

Noel D. Vasquez
DIRECTOR

Noel D. Vasquez , S. J., Filipino, is a director of Union Galvasteel Corporation and AB Capital and Investment Corporation and is Chairman of Realty Investment, Inc. Peace and Equity Foundation, and ERDA Foundation. He obtained his licentiate in Sacred Theology from the Loyola School of Theology and a Doctorate in Labor Studies from the University of Sussex, England, United Kingdom. He became a Director of the Company on November 19, 1998 and became an Independent Director on April 24, 2003.

Felipe B. Alfonso
DIRECTOR

Felipe B. Alfonso, Filipino, is the Vice-Chairman of the AIM Board of Trustees and the Executive Director of the Ramon V. del Rosario, Sr. AIM Center for Corporate Responsibility. He was previously Chairman of Manila Electric Company and H&Q Philippine Holdings, Inc. and currently holds directorates in various companies including Andorra Ventures Corporation, Bauang Private Power Corporation, Benpres Holdings Corporation, and Jollibee Foods Corporation. Mr. Alfonso holds a Bachelor of Laws degree from the Ateneo de Manila University and obtained his Master's degree in Business Administration from New York University. He became an Independent Director of the Company on April 19, 2001.

Guillermo D. Luchangco
DIRECTOR

Guillermo D. Luchangco , Filipino, is the Chairman and CEO of ICCP Group of Companies and is Chairman and President of Beacon Property Ventures, Inc. He is a director of various companies including Globe Telecom, Inc., Iomni Precision, Inc., Planters Development Bank, Ionics Inc., Ionic Circuits, Inc., Science Park of the Philippines, Inc., Synertronix, Inc, and Phinma Property Holdings Corporation. He was the Vice-Chairman and President of Republic Glass Corporation in 1987 and the Managing Director of SGV & Co. from 1969 to 1980. Mr. Luchangco received his Bachelor of Science degree in Chemical Engineering from De La Salle University and holds a Master's degree in Business Administration from Harvard Business School. He became an Independent Director of the Company on April 11, 2005.

Rizalino S. Navarro
DIRECTOR

Rizalino S. Navarro, Filipino, is a director, Excom member and Senior Adviser of Rizal Commercial Banking Corporation, and Chairman of EEI Corporation, Clark Development Corporation, and Bankcard Corporation. He is a director in various companies such as Mapua Institute of Technology, Malayan Insurance Company, Great Pacific Life Insurance Co. and Ionics, Inc. Mr. Navarro was formerly Secretary of Trade and Industry and a member of the Monetary Board of the Central Bank of the Philippines. Mr. Navarro received his undergraduate degree in Business Administration from the University of the East and his Master's degree in Business Administration from Harvard Business School. He became an Independent Director of the Company on May 11, 2007.

Roberto F. de Ocampo
DIRECTOR

Roberto F. de Ocampo, Filipino, previously served as Secretary of Finance and was the former Chairman and Chief Executive Officer of the Development Bank of the Philippines. He is currently President of the Philam Asset Management Inc. Funds and director of Globe Telecom, Inc., Rizal Commercial Banking Corporation, and Robinson's Land Corporation, and EEI Corporation. He has a Bachelor of Arts degree (major in Economics) from the Ateneo de Manila University, a Master's degree in Business Administration from the University of Michigan, and a pos-graduate diploma from the London School of Economics. Dr. de Ocampo became an Independent Director of the Company on April 2, 2009.

Executive Officers

Ramon del Rosario
PRESIDENT

Magdaleno B. Albarracin, Jr.
SENIOR EXECUTIVE VICE PRESIDENT

Victor J. del Rosario
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Roberto M. Laviña
SENIOR VICE PRESIDENT – TREASURER

Juan J. Diaz
CORPORATE SECRETARY

Regina B. Alvarez
SENIOR VICE PRESIDENT-FINANCE

Cecille B. Arenillo
VICE PRESIDENT - TREASURY

Rizalina P. Andrada
ASSISTANT VICE PRESIDENT- FINANCE

Onisimo L. Prado
ASSISTANT VICE PRESIDENT – INTERNAL AUDIT

CORPORATE GOVERNANCE

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

COMPLIANCE OFFICER

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

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

The Compliance Officer submitted to the Securities and Exchange Commission and the Philippine Stock Exchange on January 27, 2011 the Corporate Governance Compliance Certification (CGCC) certifying that as of December 31, 2010, the Corporation substantially adopted the provisions of the Manual on Corporate Governance. The Compliance Officer also submitted to the Philippine Stock Exchange on January 31, 2011 the Compliance Report on Corporate Governance for year 2010 based on the Corporate Governance Guidelines for Listed Companies.

BOARD OF DIRECTORS

Composition

The Board of directors consists of 11 members, nominated in accordance with the By-Laws of the Company. In compliance with the legal requirement of SEC for publicly listed corporations, PHN's Board of Directors consists of 5 independent directors. The independent directors hold no interest or have no relationship with the corporation that may hinder their independence from the corporation or management or would interfere with the exercise of independent judgment in carrying out their responsibilities.

The Board of Directors held 1 organizational, 1 special and 4 regular meetings in 2010. The details of the matters taken up during the Board meetings are included in the Definitive Information Statement sent to shareholders.

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

DIRECTORS	2010 BOARD MEETINGS					
	Mar 3 Regular	Apr 20 Org	May 6 Regular	Aug 9 Regular	Oct 19 Regular	Nov 18 Special
Oscar J. Hilado	P	P	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	P	P	P	P	P
Ramon R. Del Rosario, Jr.	P	P	P	P	P	P
Jose L. Cuisia, Jr.	P	P	P	P	P	P
Victor J. Del Rosario	P	P	P	P	P	P
Roberto M. Laviña	P	P	P	P	P	P
Roberto F. De Ocampo	P	P	P	P	P	A
Rizalino S. Navarro	P	P	P	P	P	A
Noel D. Vasquez S.J.	P	P	A	P	P	P
Felipe B. Alfonso	P	P	P	P	P	P
Guillermo D. Luchangco	P	P	P	A	P	P

P: Present A: Absent

Board Committees

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

The board committees and its members are as follows:

	BOARD COMMITTEES				
DIRECTORS	Audit	Excom	Nomination	Compensation	Retirement
Oscar J. Hilado		C	C	M	C
Magdaleno B. Albarracin, Jr.	M	M			M
Ramon R. Del Rosario, Jr.		M	M	M	
Jose L. Cuisia, Jr.		M		C	
Victor J. Del Rosario	M				M
Roberto M. Laviña					M
Roberto F. De Ocampo	M				
Rizalino S. Navarro	M				
Noel D. Vasquez, S.J.			M	M	
Felipe B. Alfonso	C			M	
Guillermo D. Luchangco					

Nomination Committee

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

On March 3, 2011, the Nomination Committee, after a review of the qualifications of the candidates, submitted to the Board of Directors the list of qualified nominees.

Compensation Committee

The Compensation Committee is composed of five (5) directors, two of whom are independent directors. The duties and responsibilities of this committee include establishing policies on executive remuneration, ensuring that the compensation is consistent with the corporation's culture, strategy and control environment, and strengthening policies on conflict of interest, salaries and benefits and compliance with statutory requirements.

There was no Compensation Committee meeting held in 2010 and none was required.

Audit Committee

The Audit Committee is composed of five (5) members of the Board, two of whom are independent directors. The audit committee is responsible for checking all financial reports for compliance with both internal financial management systems and pertinent accounting standards and regulatory requirements. The Committee ensures that the company's controls are functioning effectively and efficiently. The Committee likewise performs oversight financial management functions, specifically in the areas of crisis management and management of credit, market, liquidity, operations, and legal risks.

In 2010, the Audit Committee held four meetings and reviewed the audited financial statements for 2009 and the interim statements for the quarters ending March 31, June 30, and September 30, 2010. The Committee likewise endorsed to the Board of Directors the nomination of SGV and Co. as the company's external auditor for 2010, and reviewed and approved the Internal Audit plan for 2010.

Attendance

	YEAR 2010			
AUDIT COMMITTEE	March 2	May 5	August 9	October 19
Felipe B. Alfonso	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	P	P	P
Victor J. Del Rosario	P	P	P	P
Noel D. Vasquez, S.J.	A	-	-	-
Rizalino S. Navarro	-	A	P	P
Roberto F. De Ocampo	P	P	A	A

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

EXTERNAL AUDITOR

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

On April 20, 2010, the stockholders, upon recommendation of the Audit Committee and the endorsement by the Board of directors, approved the appointment of SGV & Co. as PHN's external auditor. Ms. Maria Madeira R. Vestil is the partner in charge. On March 3, 2011, SGV & Co. issued its report on the financial statements for the year ended December 31, 2010, stating that the financial statements present fairly, in all material respects, the financial position of the company and that the same are in accordance with Philippine Financial Reporting Standards.

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

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

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

Year	Audit Fees	Tax Fees	Other Fees
2010	P3,700,000.00	-	-
2009	3,500,000.00	-	-

INTERNAL AUDIT

The Internal Audit Group ensures that the control policy and procedures are functioning effectively. In 2010, the Internal Audit group conducted examinations of the following: notes receivables and short-term investments, investments in bonds and UITFs, dividend payments, and investment real estate and land not in use. Internal Audit also checks the compliance of the company with reportorial requirements of the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE).

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

Phinma Corporation commits itself to high standards of disclosure and transparency. In addition to submitting annual and quarterly financial information and other statutory requirements, the corporation promptly discloses material information such as declaration of dividends, investments and divestments and other items. The disclosures in 2010 to the PSE and SEC included the following:

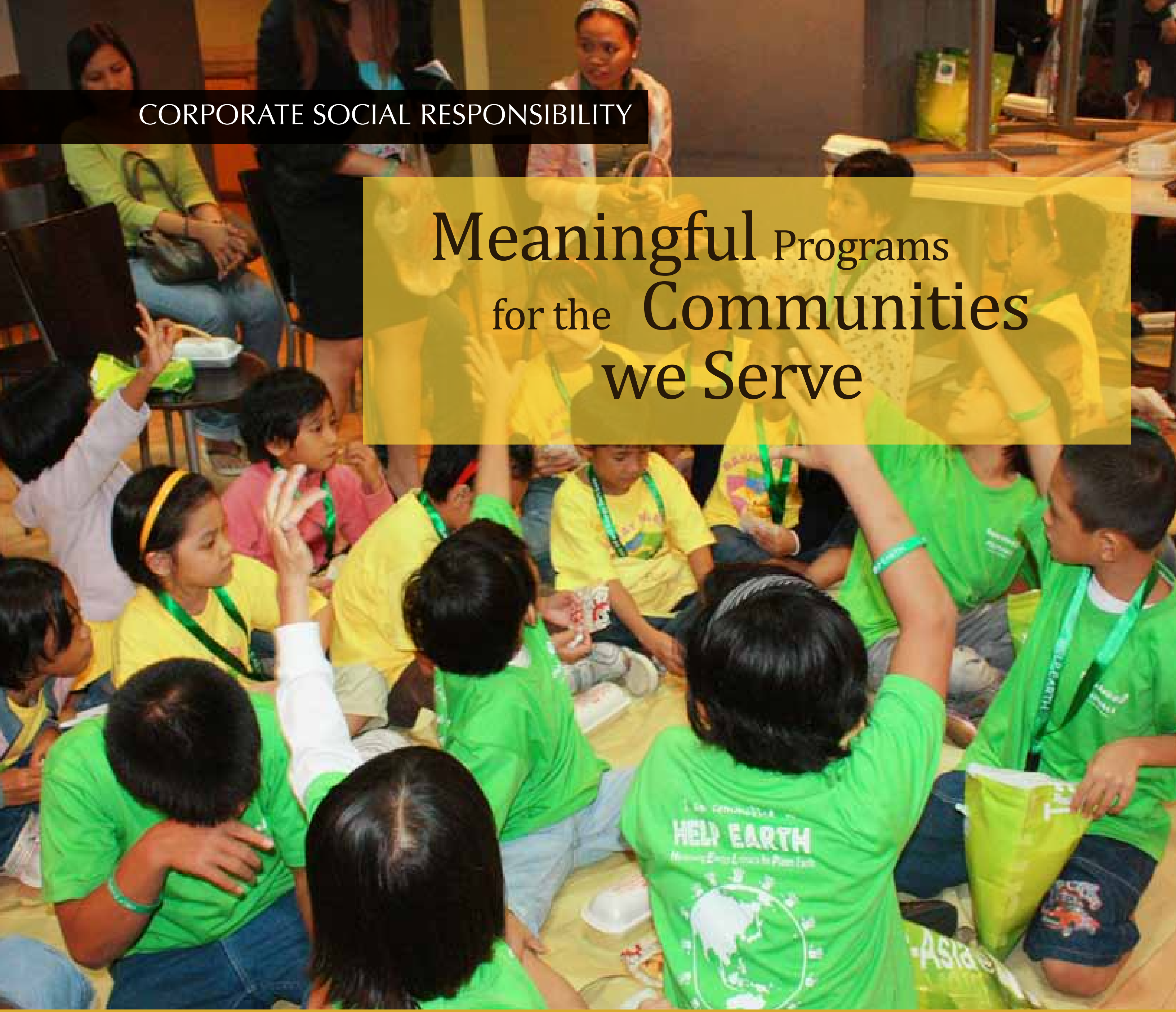
- Change in corporate name from Bacnotan Consolidated Industries, Inc. (BCI) to Phinma Corporation (PHN).
- Approval to the merger of the company's subsidiaries Union Galvasteel Corporation (UGC) and Atlas Holdings Corporation (AHC), with UGC as the surviving entity.

CODE OF CONDUCT

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

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

Meaningful Programs for the Communities we Serve



Much of Phinma Corporation's core business reflects the Company's social responsibility concerns, particularly in the fields of affordable quality education and value-for-money housing. In addition to these, however, the Company and our employees continue to devote corporate and personal time and resources to undertake meaningful social programs that address the needs of the communities we serve.

Education

With education as its main thrust, Phinma Corporation continuously supports the Phinma National Scholarship (PNS) Program of Phinma Foundation. Now in its fifth year, PNS has grown from 11 to 52 scholars, 14 of whom are from the University of the Philippines (UP) in Diliman and 38 from Philippine Normal University (PNU) taking up undergraduate courses in accountancy, education and engineering. To date, 14 PNS scholars have graduated since the program's launch in 2006.

More than just a financial aid project, the program aims to mold its scholars into leaders and responsible citizens. In 2010, a three-day conference on the 7 Habits of Highly Effective Teenagers was held to equip scholars with tools for handling challenging life situations and decisions. Forty nine PNS scholars and 20 presidential scholars from our Phinma Education Network (PEN) schools participated in said conference, the largest group yet.

Recognizing that it takes a community to educate a child, PNS is also starting to grow the program and include not only the scholars but also the parents, partner institutions, PNS alumni, and the Phinma employees as mentors

In 2010, the PNS program was also supported by several individuals and institutions with 10 scholars sponsored by Phinma directors and officers, 12 by Australian Aid, 1 by the Province of Sarangani and another by the Alcantara Foundation. PNS is targeting to support 95 scholars by next school year.

Our directors and officers continue to contribute their time and personal resources for our scholarship programs. For the school year 2010-2011, Phinma Foundation provided financial assistance to 77 science high school students and 28 college students throughout the country, generously funded by a director. These scholarships are in addition to the Presidential Scholarship programs of the schools under the Phinma Education Network.

Environment

Trans-Asia Oil and Energy Development Corporation's (TA Oil) HELP Earth (Harnessing Energy Literacy for Planet Earth) project doubled in 2010 with the donation of an additional 8 of 15 HELP Earth multimedia corner to schools in La Union, Bulacan and Guimaras. To sustain the program, TA Oil distributed new experiment kits, DVDs and other educational materials to partner schools and conducted several competitions and film-shows about recycling and environmental conservation.

TA Oil was also successful in creating a Filipino role model for energy conservation in the character of Juan Matipid. TA Oil sponsored 4 shadow plays featuring Juan Matipid to primary students of the UP Integrated School and kids of Museo Pambata, Ricardo Alcuerzo Foundation and Barangay Guadalupe Viejo.

In 2010, TA Oil successfully registered the HELP Earth trademark with the Intellectual Property Philippines.

Union Galvasteel Corporation (UGC) likewise undertook several activities

The Company and our employees continue to devote corporate and personal time and resources to undertake meaningful social programs that address the needs of the communities we serve.

geared towards the environment. In 2010, these activities included the construction of a butterfly sanctuary in Halang Elementary School in Calamba City, tree-planting in Caliraya, Laguna and Ilang, Davao City and coastal clean-up activities, also in Ilang, Davao City.

Housing

Phinma Corporation and its investee companies not only provide decent and affordable homes, but also contribute to the upliftment of lives in its host communities.

Phinma Property Holdings Coporation's (Phinma Properties) Bagong Buhay Program helped rehabilitate Gawad Kalinga (GK) homes located in nearby communities of Phinma Properties' Sunny Villas and Spazio Bernardo which were affected by previous typhoons. UGC likewise helped build GK homes for displaced migrant settlers along the shores of Sitio Ronggot, Lecheria, Calamba City. The project is a partnership between UGC and the Canossa Sisters.

Phinma Properties also partnered with Phinma Foundation, Mariposa Foundation and Kagabay to establish and operate an early learning center at Upper Nawasa Commonwealth, Quezon City near its Flora Vista project site. This initiative aims to provide to children of less privileged families aged five to six an early child care and development program. The program also includes a feeding program for the students and livelihood and skills training for the parents.

Individual Social Responsibility

The volunteers of Phinma HERO (Helpful Employees Responsible for Other) Network grew in number from 304 volunteers in 2009 to 414 in 2011. The HERO Network encourages employees to become socially responsible by spending their free time to volunteer in underserved communities.

Last year's activities ranged from mass blood drives, animal welfare activities, regular feeding programs, art classes, public school rehabilitation and house building and repair among others.

To celebrate Phinma HERO's second anniversary, Ms. Reese Fernandez, Rags2Riches co-founder and 2010 Rolex Young Laureate awardee, was invited as the year's inspirational speaker to help increase awareness on volunteerism and to underscore the need for volunteers in society.

In 2011 the Phinma HERO Network will campaign to encourage more volunteers to start leading their own activities. The most promising leaders will be invited to attend a two-day leadership conference to further enhance their skills and leadership potential.

REPORT OF AUDIT COMMITTEE

The Audit Committee is composed of five (5) members. An independent director chairs the Audit Committee. The Committee has an ample understanding of the Company'sfinancial management systems and environment.

We are pleased to report our activities for Calendar Year 2010.

The Audit Committee had four (4) meetings during the year. Each meeting was attended by the Chairman and three members obtaining an overall eighty percent attendance rating. The first meeting was held to discuss the results of the annual audit of the external auditor (SGV and Co), review of audited 2009 financial statements for endorsement to the Board, the Group Internal Audit's 2009 accomplishments and 2010 Audit Plan, and the 2009 Audit Committee Report. The remaining three meetings were held to review the quarterly financial statements of the Company, status of internal audits engagements and SGV and Co.'s audit plan for 2010.

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

ACTIVITIES

Management's Financial Reports

We reviewed and endorsed to the Board of Directors for approval the 2009 audited consolidated financial statements and 2010 quarterly consolidated financial statements.

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

Extemal Audit

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

Internal Audit

We reviewed and approved the Internal Audit plan for 2010. Based on this plan, the Committee received and reviewed the audit reports submitted by Intemal Audit. Various audit and control issues including actions taken by Management were discussed in the Committee meetings. The Internal Audit's reports included the review of the Company's compliance to PSE and SEC reportorial requirements.

FELIPE B. ALFONSO
Chairman

RIZALINO S. NAVARRO
Director

ROBERTO F. DE OCAMPO
Director

MAGDALENO B. ALBARRACIN, JR.
Director

VICTOR J. DEL ROSARIO
Executive Director

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

March 3, 20ll
Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

The management of PHINMA CORPORATION (formerly Bacnotan Consolidated Industries, Inc.) AND SUBSIDIARIES is responsible for all information and representations contained in the consolidated statements of financial position as of December 31,2010 and 2009 and the related consolidated statements of income, changes in equity and cash flows for the years ended December 31,2010,2009 and,2008. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimated and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial date; (ii) material weaknesses in the internal controls; and iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the company. SyCip Gorres velayo & Co., the independent auditors appointed by the Board of Directors and stockholders, have audited the consolidated financial statements of the Company and its Subsidiaries in accordance with auditing standards generally accepted in the Philippines and have expresses their opinion on the faimess of presentation upon completion of such audit, in their report to the Stockholders and the Board of Directors.

OSCAR J. HILADO
Chairman

RAMON R. DEL ROSARIO, JR.
President

VICTOR J. DEL ROSARIO
Executive Vice-President and Chief Finance Officer

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

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

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PHINMA Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of PHINMA Corporation (formerly Bacnotan Consolidated Industries, Inc.) and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PHINMA Corporation and Subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Maria Madeira R. Vestil

Maria Madeira R. Vestil
Partner
CPA Certificate No. 85783
SEC Accreditation No. 0680-A
Tax Identification No. 102-094-770
BIR Accreditation No. 08-001998-75-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641574, January 3, 2011, Makati City

March 3, 2011

PHINMA CORPORATION
(Formerly Bacnotan Consolidated Industries, Inc.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2010	2009
	(In Thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8, 30 and 31)	**₱1,202,170**	₱1,052,217
Short-term investments (Notes 30 and 31)	**47,316**	–
Investments held for trading (Notes 9, 30 and 31)	**841,566**	564,412
Trade and other receivables (Notes 6, 10, 29, 30 and 31)	**1,070,583**	662,624
Inventories (Note 11)	**830,910**	601,241
Input value-added taxes	**73,271**	25,293
Derivative assets (Notes 30 and 31)	**4,442**	6,865
Other current assets	**29,345**	42,221
Total Current Assets	**4,099,603**	2,954,873
Noncurrent Assets		
Investments in associates - at equity (Note 12)	**1,364,684**	1,336,663
Available-for-sale (AFS) investments (Notes 13, 30 and 31)	**399,480**	398,670
Property, plant and equipment (Notes 14 and 20)	**2,176,527**	2,172,507
Investment properties (Notes 15 and 20)	**406,289**	648,932
Intangibles (Notes 7 and 16)	**1,164,035**	1,199,280
Deferred tax assets - net (Note 32)	**44,461**	5,602
Installment contract receivables - net of current portion (Notes 6, 10, 30 and 31)	**20,585**	276,413
Other noncurrent assets (Note 17)	**21,050**	30,383
Total Noncurrent Assets	**5,597,111**	6,068,450
	₱9,696,714	₱9,023,323
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 18, 30 and 31)	**₱248,836**	₱100,891
Trade and other payables (Notes 7, 19, 29, 30 and 31)	**379,586**	575,171
Unearned revenues - inclusive of current portion of deferred rent revenue of ₱1.2 million in 2010 and 2009 (Note 29)	**194,884**	187,299
Trust receipts payable (Notes 11, 30 and 31)	**121,567**	131,051
Income and other taxes payable	**83,789**	65,732
Due to related parties (Notes 29, 30 and 31)	**32,929**	60,270
Current portion of long-term debts - net of debt issuance cost (Notes 14, 15, 20, 29, 30 and 31)	**141,350**	87,520
Total Current Liabilities	**1,202,941**	1,207,934
Noncurrent Liabilities		
Long-term debts - net of current portion and debt issuance cost (Notes 14, 15, 20, 29, 30 and 31)	**₱703,262**	₱614,193
Deferred tax liabilities - net (Note 32)	**385,918**	322,869
Deferred rent revenue - net of current portion (Note 29)	**48,394**	49,560
Pension and other post-employment benefits (Note 33)	**40,024**	51,488
Other noncurrent liabilities (Note 29)	**15,485**	10,913
Total Noncurrent Liabilities	**1,193,083**	1,049,023
Total Liabilities	**2,396,024**	2,256,957
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 21)	**2,577,249**	2,577,249
Additional paid-in capital	**255,785**	255,785
Other components of equity (Note 21)	**33,666**	24,436
Retained earnings (Note 21)	**3,672,037**	3,282,587
Equity attributable to equity holders of the parent	**6,538,737**	6,140,057
Equity Attributable to Non-controlling Interest (Note 7)	**761,953**	626,309
Total Equity	**7,300,690**	6,766,366
	₱9,696,714	₱9,023,323

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION
(Formerly Bacnotan Consolidated Industries, Inc.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2010	2009	2008 (As Restated - Note 6)
	(In Thousands, Except Per Share Data)		
CONTINUING OPERATIONS			
REVENUE			
Sale of goods	**₱2,795,576**	₱2,547,057	₱2,743,537
Tuition and school fees	**754,323**	736,590	291,252
Investment income (Notes 9 and 22)	**84,067**	112,406	79,068
Rental income	**79,639**	72,574	70,608
Animation services	**60,127**	257,209	–
	3,773,732	3,725,836	3,184,465
COSTS AND EXPENSES			
Cost of sales, educational and animation services (Notes 23, 27 and 28)	**(2,611,411)**	(2,566,153)	(2,304,500)
General and administrative expenses (Notes 10, 17, 24, 27, 28 and 29)	**(561,983)**	(633,778)	(339,961)
Selling expenses (Notes 10, 25, 27 and 28)	**(228,987)**	(203,180)	(202,530)
OTHER INCOME (CHARGES)			
Gain on sale of investment property (Notes 10 and 15)	**386,073**	–	–
Interest expense and other financial charges (Note 26)	**(113,421)**	(105,782)	(93,183)
Equity in net earnings of associates (Note 12)	**59,391**	117,657	41,586
Income from reversal of unrecoverable input value-added tax	**52,349**	–	–
Net gains (losses) on derivatives (Note 31)	**50,061**	58,278	(100,314)
Foreign exchange gains (losses) - net (Note 30)	**(32,402)**	(10,050)	190,728
Negative goodwill on acquisition of non-controlling interest (Note 7)	**–**	84,680	–
Others - net (Note 20)	**33,428**	50,670	17,076
INCOME BEFORE INCOME TAX	**806,830**	518,178	393,367
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 32)			
Current	**135,619**	93,320	83,177
Deferred	**31,208**	(14,478)	(2,725)
	166,827	78,842	80,452
INCOME FROM CONTINUING OPERATIONS	**640,003**	439,336	312,915
INCOME FROM DISCONTINUED OPERATION (Note 6)	**–**	65,152	4,312
NET INCOME	**₱640,003**	₱504,488	₱317,227
Attributable to			
Equity holders of the Parent	**₱475,846**	₱447,370	₱273,160
Non-controlling interest	**164,157**	57,118	44,067
Net income	**₱640,003**	₱504,488	₱317,227
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 35)	**₱1.85**	₱1.74	₱1.06
Basic/Diluted Earnings Per Common Share from Continuing Operations - Attributable to Equity Holders of the Parent (Note 35)	**₱1.85**	₱1.48	₱1.05

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION
(Formerly Bacnotan Consolidated Industries, Inc.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2010	2009	2008
		(In Thousands)	
NET INCOME	**₱640,003**	₱504,488	₱317,227
OTHER COMPREHENSIVE INCOME (LOSS)			
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 12)	**7,731**	6,441	(19,730)
Cumulative translation adjustments	**6,184**	(802)	–
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	**1,060**	900	(1,751)
	14,975	6,539	(21,481)
TOTAL COMPREHENSIVE INCOME	**₱654,978**	₱511,027	₱295,746
Attributable to			
Equity holders of the Parent	**₱489,576**	₱453,909	₱251,679
Non-controlling interest	**165,402**	57,118	44,067
Total Comprehensive Income	**₱654,978**	₱511,027	₱295,746

See accompanying Notes to Consolidated Financial Statements
.

PHINMA CORPORATION
(Formerly Bacnotan Consolidated Industries, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 21)	Additional Paid-in Capital	Share in Equity Component of Convertible Notes (Note 21)	Share in Unrealized Gain (Loss) on Change in Fair Value of AFS Investments of Associates (Notes 12 and 21)	Unrealized Gain (Loss) on Change in Fair Value of AFS Investments (Notes 13 and 21)	Cumulative Translation Adjustments (Note 21)	Other Reserves (Note 21)	Retained Earnings Appropriated (Note 21)	Retained Earnings Unappropriated	Subtotal	Non-controlling Interest	Total Equity
						(In Thousands)						
Balance, January 1, 2010	**₱2,577,249**	**₱255,785**	**₱13,443**	**₱11,495**	**₱300**	**(₱802)**	**₱–**	**₱1,000,000**	**₱2,282,587**	**₱6,140,057**	**₱626,309**	**₱6,766,366**
Total comprehensive income	**–**	**–**	**–**	**7,731**	**1,052**	**4,947**	**–**	**–**	**475,846**	**489,576**	**165,402**	**654,978**
Cash dividends (Note 21)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(103,095)**	**(103,095)**	**–**	**(103,095)**
Change in ownership interest without loss of control (Note 1)	**–**	**–**	**–**	**–**	**–**	**–**	**8,943**	**–**	**–**	**8,943**	**(8,943)**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,218)**	**(25,218)**
Reclassification of share in equity component of convertible notes	**–**	**–**	**(13,443)**	**–**	**–**	**–**	**–**	**–**	**16,699**	**3,256**	**–**	**3,256**
Subscriptions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,403**	**4,403**
Balance, December 31, 2010	**₱2,577,249**	**₱255,785**	**₱–**	**₱19,226**	**₱1,352**	**₱4,145**	**₱8,943**	**₱1,000,000**	**₱2,672,037**	**₱6,538,737**	**₱761,953**	**₱7,300,690**
Balance, January 1, 2009	₱2,577,249	₱255,785	₱13,443	₱5,054	(₱600)	₱–	₱–	₱1,000,000	₱1,938,312	₱5,789,243	₱889,049	₱6,678,292
Total comprehensive income	–	–	–	6,441	900	(802)	–	–	447,370	453,909	57,118	511,027
Cash dividends (Note 21)	–	–	–	–	–	–	–	–	(103,095)	(103,095)	–	(103,095)
Acquisition of non-controlling interest (Note 7)	–	–	–	–	–	–	–	–	–	–	(288,807)	(288,807)
Disposal of non-controlling interest (Note 6)	–	–	–	–	–	–	–	–	–	–	(182,416)	(182,416)
Business combinations (Note 7)	–	–	–	–	–	–	–	–	–	–	158,614	158,614
Dividends	–	–	–	–	–	–	–	–	–	–	(26,841)	(26,841)
Subscriptions	–	–	–	–	–	–	–	–	–	–	19,592	19,592
Balance, December 31, 2009	₱2,577,249	₱255,785	₱13,443	₱11,495	₱300	(₱802)	₱–	₱1,000,000	₱2,282,587	₱6,140,057	₱626,309	₱6,766,366
Balance, January 1, 2008	₱2,342,942	₱255,785	₱13,443	₱24,784	₱1,151	₱–	₱–	₱1,000,000	₱1,899,459	₱5,537,564	₱781,344	₱6,318,908
Total comprehensive income	–	–	–	(19,730)	(1,751)	–	–	–	273,160	251,679	44,067	295,746
Stock dividends (Note 21)	234,307	–	–	–	–	–	–	–	(234,307)	–	–	–
Business combination (Note 7)	–	–	–	–	–	–	–	–	–	–	84,900	84,900
Dividends	–	–	–	–	–	–	–	–	–	–	(21,963)	(21,963)
Subscriptions	–	–	–	–	–	–	–	–	–	–	701	701
Balance, December 31, 2008	₱2,577,249	₱255,785	₱13,443	₱5,054	(₱600)	₱–	₱–	₱1,000,000	₱1,938,312	₱5,789,243	₱889,049	₱6,678,292

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2010	2009	2008 (As Restated - Note 6)
		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱806,830**	₱518,178	₱393,367
Income before income tax from discontinued operation (Note 6)	**–**	170	6,612
Income before income tax	**806,830**	518,348	399,979
Noncash adjustment to reconcile income before income tax to net cash flows:			
Gain on sale of investment property (Notes 10 and 15)	**(386,073)**	–	–
Depreciation and amortization (Notes 28 and 36)	**238,380**	251,077	137,952
Interest expense and other financial charges (Notes 26 and 36)	**113,421**	105,782	93,183
Interest income (Notes 22 and 36)	**(60,252)**	(82,457)	(108,070)
Equity in net earnings of associates (Note 12)	**(59,391)**	(117,657)	(41,586)
Income from reversal of unrecoverable input value-added tax	**(52,349)**	–	–
Losses (gains) on derivatives - net (Note 31)	**(50,061)**	(58,278)	100,314
Retirement cost (Note 33)	**38,168**	21,436	14,227
Unrealized foreign exchange loss (gain) - net	**17,442**	15,783	(87,728)
Dividend income (Notes 22 and 36)	**(4,469)**	(7,162)	(5,466)
Provision for unrecoverable input value-added tax (Note 24)	**4,063**	13,002	4,512
Loss (gain) on sale of property and equipment	**72**	–	(631)
Gain on sale of AFS investments	**(16)**	–	–
Negative goodwill on acquisition of non-controlling interest (Note 7)	**–**	(84,680)	–
Others	**–**	–	(27,409)
Operating income before working capital changes	**605,765**	575,194	479,277
Decrease (increase) in:			
Short-term investments	**(47,316)**	86,817	(5,727)
Investments held for trading	**(291,404)**	205,656	245,460
Trade and other receivables	**308,999**	(148,785)	(18,856)
Inventories	**(229,669)**	323,332	(217,993)
Other current assets	**(11,066)**	79,733	42,857
Increase (decrease) in:			
Trade and other payables	**(223,783)**	(113,556)	(6,883)
Trust receipts payable	**(9,484)**	(406,201)	345,950
Other taxes payable	**(5,694)**	19,051	(5,655)
Unearned revenues	**6,419**	112,620	(6,723)
Net cash generated from operations	**102,767**	733,861	851,707
Interest paid	**(127,981)**	(92,105)	(87,074)
Income tax paid	**(87,618)**	(86,609)	(63,374)
Net cash provided by (used in) operating activities	**(112,832)**	555,147	701,259
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment and investment properties (Notes 14 and 15)	**(222,202)**	(210,857)	(115,285)
Investments in shares of stock	**–**	(66,540)	(83,350)
Proceeds from sale/settlement of:			
Investment property	**135,300**	–	–
Forward currency contracts	**52,484**	24,556	20,774
Property, plant and equipment	**47,141**	25,986	687
AFS investments	**258**	–	–
Interest received	**60,372**	101,860	136,487
Dividends received	**43,570**	39,102	31,359
Decrease (increase) in other noncurrent assets	**9,333**	(9,622)	2,067
Cash paid - net of cash from business acquired (Note 7)	**–**	(872,478)	(403,988)
Acquisition of non-controlling interest (Note 7)	**–**	(176,876)	–
Proceeds from sale of discontinued operation (Note 6)	**–**	62,876	–
Net cash provided by (used in) investing activities	**126,256**	(1,081,993)	(411,249)

(Forward)

	2010	2009	2008 (As Restated - Note 6)
	Years Ended December 31		
	(In Thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Long-term debt	**400,000**	–	–
Notes payable	**212,991**	–	184,731
Payments of:			
Cash dividends	**(103,095)**	(95,933)	–
Notes payable	**(67,634)**	(22,927)	(295,580)
Long-term debt	**(256,440)**	(154,836)	(96,251)
Increase (decrease) in:			
Due to related parties	**(27,341)**	60,127	(17,326)
Non-controlling interest	**(16,314)**	(7,249)	59,844
Other noncurrent liabilities	**4,572**	(109)	(29,050)
Net cash provided by (used in) financing activities	**146,739**	(220,927)	(193,632)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**160,163**	(747,773)	96,378
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(10,210)**	(26,788)	69,522
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,052,217**	1,826,778	1,660,878
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱1,202,170**	₱1,052,217	₱1,826,778

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

PHINMA Corporation (formerly Bacnotan Consolidated Industries, Inc.) (PHN or the "Parent Company") and its subsidiaries (collectively referred to as "the Company") were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on various dates, except for One Animate Limited (OAL), which was incorporated in Hong Kong. The change in corporate name to PHINMA Corporation was approved by the SEC on May 27, 2010. The ultimate parent of PHN is Philippine Investment-Management (PHINMA), Inc., a company incorporated in the Philippines. The Company is also controlled by PHINMA under an existing management agreement.

The Parent Company is principally engaged in investment holdings in various subsidiaries, associates and investment in financial assets. The principal activities of its subsidiaries are as follows:

Name of Subsidiaries	Nature of Business	Calendar/ Fiscal Yearend	Percentage of Ownership 2010	2009
Union Galvasteel Corporation (UGC)	Manufacture and distribution of steel products	December 31	**98.36**	100.00[(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[(e)]	**78.64**	78.64
Cagayan de Oro College, Inc. (COC)	Educational institution	March 31[(e)]	**74.35**	74.35
University of Iloilo (UI)	Educational institution	March 31[(e)]	**69.85**	70.00[(c)]
University of Pangasinan (UPANG) and Subsidiary	Educational institution	March 31[(e)]	**69.76**	69.90[(d)]
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
Atlas Holdings Corporation (AHC)	Investment holdings	December 31	**–**[(a)]	90.00

(a) *On December 21, 2009, PHN acquired 19.5% of the voting shares of UGC (see Note 7). 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 21).*
(b) *OAL owns 95.0% interest in Toon City Animation, Inc. (Toon City).*
(c) *Acquired by PHN on February 25, 2009 (see Note 7).*
(d) *Acquired by PHN on February 2, 2009. Pangasinan Medical Center, Inc. is the subsidiary of UPANG (see Note 7).*
(e) *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.*

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

On March 10, 2009, PHN, AHC and other related parties sold all their ownership interests in Bacnotan Industrial Park Corporation (BIPC) (see Note 6).

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 of PHN were authorized for issuance by the Board of Directors (BOD) on March 3, 2011.

2. Basis of Preparation and Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council.

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 assets that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the Company's functional and presentation currency, except for OAL with a functional currency of United States dollar (USD). All values are rounded to the nearest thousand peso unless otherwise stated.

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, amended and revised PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations which were adopted as of January 1, 2010.

New Interpretation

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 17 - *Distributions of Non-cash Assets to Owners*, effective July 1, 2009

Revised and Amended Standards

- PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions,* effective January 1, 2010
- PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements,* effective July 1, 2009
- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items,* effective July 1, 2009

Improvements to PFRSs issued in May 2008

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* effective July 1, 2009

Improvements to PFRSs issued in April 2009

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

Standards that have been adopted and that are deemed to have an impact on the consolidated financial statements or performance of the Company are as follows:

- PFRS 3 - *Business Combinations* (Revised) and PAS 27 - *Consolidated and Separate Financial Statements* (Amended)

  PFRS 3 (Revised) introduces significant changes in the accounting for business combinations. Changes include the effect on the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

  PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, losses incurred by the subsidiary will be allocated between the controlling and non-controlling interest even if the losses exceed the non-controlling equity investment in the subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

As discussed in Note 1, the share-swap between UGC and the holder of the non-controlling interest in AHC to effect the merger resulted in a decrease of the Parent Company's ownership interest in UGC from 100% to 98.36%. This is accounted for as an equity transaction and resulted in the recognition of other equity reserves amounting to ₱8.9 million (see Notes 1 and 21).

Standards Issued but not yet Effective
The following standards, amendments to standards and interpretation have been issued but will become effective subsequent to financial year ended December 31, 2010. The Company has not early adopted the following amendments and anticipates that these changes are either not applicable or will have no significant effect on the consolidated financial statements.

Effective in 2011

- PAS 24 (Amended), *Related Party Disclosures*

  The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*

  The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

  This interpretation which is effective for annual periods beginning on or after July 1, 2010, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*

  The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Improvements to PFRS to be adopted by the Company starting January 1, 2011. The omnibus amendments to PFRS were issued primarily with a view to remove inconsistencies and clarify wordings. The adoption of the following improvements resulted in changes in accounting policies but did not have significant impact on the consolidated financial statements of the Company.

- PFRS 3, *Business Combinations*

  The amendment clarifies that the amendments to PFRS 7 *Financial Instruments: Disclosures*, PAS 32 *Financial Instruments: Presentation* and PAS 39 *Financial Instruments: Recognition and Measurement* that eliminates the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede application of PFRS 3 (as revised in 2008).

- PFRS 7, *Financial Instruments: Disclosures*

  The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

- PAS 1, *Presentation of Financial Statements*

  The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 27, *Consolidated and Separate Financial Statements*

  The amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.

Effective in 2012

- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*

  The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Transfers of Financial Assets*

  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

  This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contracts qualify as construction contract under PAS 11, *Construction Contracts*, or involve 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.

Effective in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement*

  PFRS 9, as issued in 2010, 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. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011.

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4. Summary of Significant Accounting Policies

<u>Principles of Consolidation</u>
The consolidated financial statements include the accounts of the Parent Company and 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 Parent Company and cease to be consolidated from the date control is transferred out of the Parent Company.

OAL has been included in the 2008 consolidated financial statements using the purchase method of accounting. The purchase considerations have been allocated to the assets and liabilities on the basis of their fair value at the date of acquisition. Also, the accounts of UPANG and UI have been included in the 2009 consolidated financial statements using the purchase method of accounting. Accordingly, the 2009 consolidated statement of income and consolidated statement of cash flows include the results of operations and cash flows of UPANG and UI from their respective acquisition dates to December 31, 2009.

Non-controlling interest represents the portion of profit or loss and net assets in subsidiaries not held by the Parent Company and is presented in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement 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 statement of changes in equity. If the Parent 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.

<u>Cash and Cash Equivalents</u>
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 that are subject to an insignificant risk of change in value.

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

<u>Financial Assets and Liabilities</u>
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

The Company recognizes a financial asset or a financial liability in the consolidated statement 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.

The fair value for 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 asking 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 quoted 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 observable market prices exist, and other relevant valuation models.

Where the transaction price in a non-active market is different from the fair value from 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 ("Day 1 Gain or Loss") in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1 Gain or Loss” amount.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, 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.

Financial assets are classified into the following categories: Financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS investments. Financial liabilities are classified into: Financial liabilities at FVPL, and other financial liabilities. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- Financial Assets and Financial Liabilities at FVPL

  Financial Assets or Financial Liabilities Designated as at FVPL on Initial Recognition
  Financial assets or financial liabilities classified in this category included those that are designated by management on initial recognition as at FVPL when any of the following criteria are met:

  a. 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

  b. 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

  c. 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 as at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value on financial assets and liabilities designated at FVPL are recorded in the consolidated statement of income under “Investment income” account. Interest earned or incurred is recorded in investment income and interest expense and other financial charges, respectively, while dividend income is recorded according to the terms of the contract, or when the right to receive payment has been established.

  The Company has no financial asset or financial liability designated on initial recognition as at FVPL as of December 31, 2010 and 2009.

  Financial Assets or Financial Liabilities Held for Trading
  Financial assets or financial liabilities held for trading are also included in this category and are classified under financial assets and liabilities at FVPL. These financial instruments are recorded in the consolidated statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as net gain (loss) on investment held for trading under “Investment income” account. Interest earned or incurred is recorded in investment income and interest expense and other financial charges, respectively, while dividend income is recorded when the right to receive payment has been established.

  The Company’s investments in unit investment trust funds (UITFs), bonds, marketable equity securities and trust accounts are classified as investments held for trading (see Notes 9, 30 and 31).

  Derivatives recorded at FVPL
  The Company enters into short-term forward currency contracts to hedge its currency exposure. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

  The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

  The Company’s derivative assets or liabilities are classified as financial assets or liabilities at FVPL (see Note 31).

Embedded Derivatives
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 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.

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 statement of income.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company first becomes a party to the contract. The Company makes a reassessment on whether an embedded derivative is to be separated from the host contract only if there is a change to the contract that significantly modifies the cash flows.

The Company has bifurcated embedded foreign currency derivatives (see Note 31).

- Loans and Receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement, such assets are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the end of the reporting date, and as noncurrent assets if maturity date is more than 12 months from the end of the reporting date.

  The Company's cash and cash equivalents, short-term investments, trade and other receivables and installment contract receivables are classified as loans and receivables (see Notes 8, 10, 29, 30 and 31).

- HTM Investments

  Quoted nonderivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investment, the entire category would be tainted and would have to be reclassified as AFS Investments. Furthermore, the Company would be prohibited to classify any financial assets as HTM investments for the following two years. After initial measurement, such assets are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium or acquisition and fees that are integral parts of the effective interest rates.

  Gains and losses are recognized in the consolidated statement 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 end of the reporting date. Otherwise, these are classified as noncurrent assets.

  The Company has no financial asset classified as HTM investments as of December 31, 2010 and 2009.

- AFS Investments

  AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. Unquoted equity securities are carried at cost, net of impairment. Interest earned on the investments is reported as interest income using the effective interest rate. Dividends earned on investments are reported as interest income when the right to receive payment is established. AFS investments are classified as current if they are expected to be realized within 12 months from the end of the reporting date. Otherwise, these are classified as noncurrent assets.

  The Company's investments in quoted and unquoted equity securities and other investments are classified as AFS investments (see Notes 13, 30 and 31).

- 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 initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

  Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process. Amortized cost is calculated by taking into account any related issue costs, discount or premium.

  The Company's notes payable, trade and other payables, trust receipts payable, due to related parties and long-term debt are classified as other financial liabilities (see Notes 18, 19, 20, 29, 30 and 31).

<u>Convertible Notes</u>
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."

<u>Impairment of Financial Assets</u>
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 statement 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 statement of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at 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. For AFS investments, the Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, this 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 statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in the fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as loans and receivables and HTM investments. Future interest income is based on the reduced amount 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 statement 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 statement of income, the impairment loss is reversed through the consolidated statement 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 right 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 has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement 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 statement of financial position.

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). 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
The Company's 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 statement 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 statement of income reflects 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.

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 statement 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 statement of income.

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

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 to 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
Port facilities and equipment	22.5 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 statement of income.

Construction in-progress represents plant and properties under construction/development and is stated at cost. This includes cost of construction, plant and equipment, 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 statement 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, commencement of an operating lease to another party or ending of construction or development. 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.

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.

Business Combinations Prior to January 1, 2010. In comparison to the above-mentioned requirements, the following differences applied:

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 period and method are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level.

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 statement of income.

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 statement of financial position.

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, 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. Income from tuition and school fees 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 statement 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.

Sale of Real Estate. Revenue from the sale of real estate of BIPC, included under "Income from discontinued operation" account in the 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 statement 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 statement of financial position.

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

Cost of Sales, Educational and Animation 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. These expenses are expensed as incurred.

General and Administrative Expenses
General and administrative expenses constitute costs of administering the business and are expensed as incurred. These normally include personnel costs, management and professional fees, supplies, rental and utilities.

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 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.

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.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired when events or changes in circumstances indicate that the carrying value of an 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 statement of income in those expense categories consistent with the function of the impaired asset.

For 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 statement 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 statement of income.

Foreign Currency Translation

The consolidated financial statements are presented in Philippine peso, which is also the parent company's functional and presentation currency. The Company determines its own functional currency and items included in the financial statements of each entity 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, the functional and presentation currency of the companies within the group is Philippine peso. OAL's functional currency is US dollar. The assets and liabilities of foreign operations (OAL) 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 statement of income.

Taxes

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

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

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

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

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

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

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

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

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

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

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 receivables or payables in the consolidated statement of financial position.

<u>Earnings Per Common Share (EPS) attributable to the equity holders of the Parent</u>
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 unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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

5. Significant Accounting Judgments, Estimates and Assumptions

The Company's consolidated financial statement prepared in conformity with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. In preparing the Company's consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The 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 estimates and judgments 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 - the 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.

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 in order 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 Company, except for OAL with a functional currency of US dollar, has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Company operates.

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 Testing 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 in order 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 2010 and 2009. 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 carrying amount of goodwill amounted to 1,125.2 million as of December 31, 2010 and 2009, and is presented as part of the "Intangibles" account in the consolidated statements of financial position (see Note 16). No impairment loss on goodwill was recognized in 2010, 2009 and 2008.

The Company performs its annual testing of goodwill at December 31.

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. The carrying amounts of investments in associates as of December 31, 2010 and 2009 amounted to ₱1,364.7 million and₱1,336.7 million, respectively (see Note 12). Based on management's assessment, the Company's investments in associates are fairly stated, thus no impairment loss was recognized in 2010, 2009 and 2008.

There are no impairment indicators for the other nonfinancial assets. The carrying amounts of property plant and equipment as of December 31, 2010 and 2009 amounted to ₱2,176.5 million and ₱2,172.5 million, respectively (see Note 14). The carrying amounts of investment properties as of December 31, 2010 and 2009 amount to ₱406.3 million and ₱648.9 million, respectively (see Note 15). The carrying amounts of intangibles other than goodwill as of December 31, 2010 and 2009 amounted to ₱38.9 million and ₱74.1 million, 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," greater 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. The carrying values of AFS investments as of December 31, 2010 and 2009 amounted to ₱399.5 million and ₱398.7 million, respectively (see Note 13). Based on management's assessment, the Company's AFS investments are fairly stated, thus, no impairment loss was recognized in 2010, 2009, and 2008.

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.

The recognized deferred tax assets as of December 31, 2010 and 2009 amounted to ₱81.7 million and ₱24.2 million, respectively (see Note 32).

The Company's deductible temporary differences, unused NOLCO and MCIT for which no deferred tax asset is recognized in the consolidated statements of financial position as of December 31, 2010 and 2009 amounted to ₱128.4 million and ₱219.1 million, respectively (see Note 32).

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 ₱81.8 million and ₱122.2 million as of December 31, 2010 and 2009, respectively. The carrying amount of input VAT classified as current assets as of December 31, 2010 and 2009 amounted to ₱73.3 million and ₱25.3 million, respectively. The carrying value of input VAT classified as other noncurrent assets amounted to nil and ₱0.7 million as of December 31, 2010 and 2009, respectively (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 as of December 31, 2010 and 2009 amounted to ₱1,098.2 million and ₱1,096.9 million, respectively (see Note 14). The carrying amounts of depreciable investment properties as of December 31, 2010 and 2009 amounted to ₱85.2 million and ₱327.8 million, respectively (see Note 15). The carrying amounts of intangibles with finite useful lives amounted to ₱38.9 million and ₱74.1 million as of December 31, 2010 and 2009, respectively (see Note 16).

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 ₱1,070.6 million and ₱662.6 million as of December 31, 2010 and 2009, respectively (see Note 10). The noncurrent portion of the installment contract receivables amounted to ₱20.6 million and ₱276.4 million as of December 31, 2010 and 2009. The allowance for impairment of receivables specifically identified and collectively assessed amounted to ₱146.3 million and ₱120.8 million as of December 31, 2010 and 2009, respectively (see Note 10).

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 as of December 31, 2010 and 2009 amounted to ₱830.9 million and ₱601.2 million, 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 acquired net assets of Toon City, UPANG and UI are ₱78.5 million, ₱772.9 million, and ₱731.0 million, respectively, while the fair values of liabilities assumed amounted to ₱49.9 million, ₱607.3 million, and ₱364.8 million, respectively (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 33 include among others, discount rates, expected rate of return on plan assets and rates of 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.

The Company's net pension liability under "Pension and other post-employment benefits" account in the consolidated statements of financial position amounted to ₱20.1 million and ₱34.5 million as of December 31, 2010 and 2009, respectively. The net pension expense incurred in 2010, 2009 and 2008 amounted to ₱34.3 million, ₱18.4 million and ₱12.6 million, respectively (see Note 33).

6. **Discontinued Operation**

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

BIPC is presented as Discontinued Operation – Property Development in the 2009 and 2008 segment information (see Note 36).

The cash inflow related to discontinued operation is as follows:

	Amount
	(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 and for the year ended December 31, 2008 are presented below:

	2009	2008
	(In Thousands)	
Revenues	₱5,292	₱63,718
Cost and expenses	(4,643)	(55,378)
Operating income	649	8,340
Other expenses - net	(479)	(1,728)
Income before income tax from discontinued operation	170	6,612
Provision for income tax	(57)	(2,300)
Net income for the year from discontinued operation	₱113	₱4,312

Income from discontinued operation consists of the following:

	2009	2008
	(In Thousands)	
Gain from sale of discontinued operation, net of tax	₱65,039	₱–
Net income from discontinued operation	113	4,312
Net income for the year from discontinued operation	₱65,152	₱4,312

The assets and liabilities of BIPC as of March 10, 2009 are as follows:

	Amount
	(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
	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 and year ended December 31, 2008 are as follows:

	2009 (January 1 to March 10)	2008
	(In Thousands)	
Operating	₱22,538	(₱5,040)
Investing	–	14,431
Financing	–	(3,666)
Net cash flow	₱22,538	₱5,725

Basic EPS from discontinued operation is computed as follows:

	2009	2008
	(In Thousands)	
(a) Net income from discontinued operation attributable to equity holders of the parent (see Note 36)	₱65,090	₱3,160
(b) Weighted average shares outstanding	257,737	257,737
Basic EPS (a/b)	₱0.25	₱0.01

7. Business Combinations and Acquisition of Non-controlling Interests

- Acquisitions in 2009

Acquisition of UPANG
On February 2, 2009, PHN purchased 524,351 shares of stock of UPANG representing 70% ownership interest. UPANG is a private educational institution incorporated in the Philippines with campus located at Dagupan City, Pangasinan.

The fair values of the identifiable acquired assets and liabilities 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	₱1,815	₱1,815
Receivables	4,609	4,609
Inventories	2,659	2,659
Prepaid expenses and other assets	51,134	51,134
Property and equipment (see Note 14)	630,994	302,400
Intangibles (see Note 16)	81,729	–
	772,940	362,617
Accounts payable and accrued liabilities	(68,605)	(68,605)
Loans payable	(365,000)	(365,000)
Deferred tax liabilities	(138,072)	(14,975)
Retirement payable	(35,605)	(35,605)
	(607,282)	(484,185)
Net assets	165,658	(₱121,568)
Percentage of ownership	70%	
	115,961	
Goodwill arising from acquisition (see Note 16)	466,637	
Total consideration	₱582,598	

Identifiable intangible assets pertain to the students lists acquired and are expected to be amortized within 3 years from the acquisition date (see Note 16).

The cash outflow related to the acquisition is as follows:

	Amount
	(In Thousands)
Cash paid on acquisition date	₱582,598
Less cash of acquired subsidiary	1,815
Net cash outflow	₱580,783

From the date of acquisition, UPANG has contributed ₱349.8 million of revenue and ₱61.6 million 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 ₱3,792.4 million and consolidated net income would have been ₱383.2 million.

Acquisition of UI
On February 25, 2009, PHN purchased 34,997 shares of stock of UI from Inaec Agro Industrial Corporation, with PHN paying the corresponding tax, and completed the subscription and payment of 1,190,000 shares of said university at ₱100 per share. The shares represent 70% ownership interest in UI, a private educational institution incorporated in the Philippines located in Iloilo City.

The fair values of the identifiable acquired assets and liabilities 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	₱178,600	₱178,600
Tuition fee receivables	42,865	42,865
Loans and advances	1,149	1,149
Other receivables	2,254	2,254
Inventories	1,609	1,609
Prepaid expenses	127	127
Property and equipment (see Note 14)	480,362	56,859
Intangibles (see Note 16)	24,011	–
	730,977	283,463
Accrued payable and accrued expenses	(45,311)	(45,311)
Retirement payable	(185,269)	(185,269)
Deferred tax liabilities	(134,255)	–
	(364,835)	(230,580)
Net assets	366,142	₱52,883
Percentage of ownership	70%	
	256,300	
Goodwill arising from acquisition (see Note 16)	213,995	
Total consideration	₱470,295	

Identifiable intangible assets pertain to the students lists acquired and are expected to be amortized within 3 years from the acquisition date (see Note 16).

The cash outflow related to the acquisition is as follows:

	Amount
	(In Thousands)
Cash paid on acquisition dates (cost of shares and costs associated with the acquisition amounting to ₱36.3 million)	₱470,295
Less cash of acquired subsidiary	178,600
Net cash outflow	₱291,695

From the date of acquisition, UI has contributed ₱162.0 million of revenue and ₱19.6 million 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 ₱3,811.3 million and consolidated net income would have been ₱184.3 million.

The goodwill comprises the value of expected synergies arising from the acquisition.

Acquisition of Additional Interest in UGC

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 remaining balance amounted ₱27.2 million and included in "Trade and other payables" account in the 2009 consolidated statement of financial position (see Note 19). The remaining balance was fully paid in January 2010. 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.

Buy-back of Preferred Shares

On December 21, 2009, UGC repurchased all of the preferred shares at par in the amount of ₱167.8 million.

- Acquisition in 2008

Acquisition of Toon City
OAL, a limited liability company incorporated in Hong Kong in October 2008 was used as an acquisition vehicle in the purchase of the shares of stock of Toon City. On December 24, 2008, the Company, through OAL, acquired an effective interest of 76% in Toon City, a fifteen-year old animation studio in the Philippines providing services to clients abroad. OAL owns 95% equity interest in Toon City.

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

	Fair value Recognized on Acquisition (Restated)	Previous Carrying Value in the Subsidiary
	(In Thousands)	
Cash and cash equivalents	₱1,800	₱1,800
Receivables	20,492	20,492
Prepayments and other current assets	18,475	18,475
Property and equipment	13,362	13,362
Customer contracts	22,080	–
Refundable deposits and other noncurrent assets	2,272	2,272
	78,481	56,401
Accounts payable and accrued expenses	(18,522)	(18,522)
Loans payable	(15,000)	(15,000)
Accrued retirement	(3,628)	(3,628)
Deferred tax liability	(12,784)	(6,160)
	(49,934)	(43,310)
Net assets	28,547	₱13,091
Percentage of ownership	95%	
	27,119	
Goodwill arising from acquisition (see Note 16)	378,669	
Total consideration	₱405,788	

The net assets recognized in the December 31, 2008 consolidated financial statements were based on a provisional assessment of fair values as the audit and fair valuation of the identifiable net assets acquired were not yet completed as of such date.

The valuation of the customer contracts was completed in December 2009 and showed that the fair value at the date of acquisition was ₱22.1 million, a decrease of ₱68.4 million compared to the provisional value.

The 2008 comparative information has been restated to reflect the final purchase price allocation. The value of the customer contracts decreased by ₱68.4 million, with a decrease in deferred tax liability of ₱14.4 million. There was also a corresponding increase in goodwill of ₱115.0 million for a total goodwill arising from acquisition of ₱378.7 million. In addition, cash and cash equivalents increased by ₱1.1 million, prepayments and other current assets increased by ₱15.7 million, refundable deposits and other noncurrent assets decreased by ₱17.6 million, accounts payable and accrued expenses decreased by ₱6.7 million and accrued retirement increased by ₱3.6 million.

The results of operations of OAL and Toon City from the acquisition date (December 24, 2008) until yearend is not significant and has not been included in the Company's results of operations in 2008. Management deemed it impracticable to disclose the consolidated revenue and net income of OAL for the year ended December 31, 2008 as though the acquisition date for the business combination effected had been January 1, 2008.

The goodwill comprises the value of expected synergies arising from the acquisition.

Customer contracts pertain to the identifiable intangible asset acquired and were fully amortized within 12 months from the acquisition date (see Note 16).

The cash outflow related to the acquisition is as follows:

	Amount
	(In Thousands)
Cash paid on acquisition dates (cost of shares and costs associated with the acquisition amounting to ₱0.5 million)	₱405,788
Less cash of acquired subsidiary	1,800
Net cash outflow	₱403,988

8. **Cash and Cash Equivalents**

This account consists of:

	2010	2009
	(In Thousands)	
Cash on hand and in banks	**₱102,095**	₱392,052
Short-term deposits	**1,100,075**	660,165
	₱1,202,170	₱1,052,217

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:

	2010	2009
	(In Thousands)	
Investments in:		
UITFs	**₱487,588**	₱261,172
Bonds	**349,443**	296,205
Marketable equity securities	**4,535**	2,534
Trust accounts	–	4,501
	₱841,566	₱564,412

The Company's net gains from investments held for trading (shown under "Investment income" account in the consolidated statements of income) amounted to ₱19.3 million in 2010 and ₱22.8 million in 2009, and net loss of ₱34.5 million in 2008. The unrealized gains from investments held for trading included in net gain (loss) on investments held for trading (shown under "Investment income" account in the consolidated statements of income) amounted to ₱13.0 million in 2010 and ₱6.6 million in 2009, and unrealized loss of ₱28.3 million in 2008 (see Note 22).

10. Trade and Other Receivables

This account consists of:

	2010	2009
	(In Thousands)	
Trade	**₱665,044**	₱598,745
Current portion of installment contract receivables (see Notes 6 and 15)	**473,396**	57,037
Advances to suppliers and contractors	**10,321**	25,915
Due from related parties (see Note 29)	**9,316**	41,239
Receivable from PHN Retirement/Gratuity Plan (PHN Retirement)	**8,939**	8,939
Accrued interest	**8,356**	14,126
Advances to officers and employees	**2,352**	5,335
Others	**39,156**	32,068
	1,216,880	783,404
Less allowance for doubtful accounts	**146,297**	120,780
	₱1,070,583	₱662,624

Trade and other receivables are noninterest-bearing and are short-term in nature.

In 2009, the installment contract receivable pertains to the balance of the Company's receivable from Phoenix for the sale of BIPC (see Note 6). Such receivable would have been collected in monthly installments for a period of five years with interest at the rate to set quarterly based on the applicable 91-day PDST-F Philippine Dealing System Treasury-Fixing, or its successor, on the day of setting plus three percent (3%). The noncurrent portion is included in the 2009 "Installment contract receivable - net of current portion" account in the consolidated statement of financial position. As discussed in Note 6, this installment contract receivable has been fully collected by the Company on April 16, 2010, earlier than the agreed term.

As of December 2010, the installment contract receivable pertains to the balance of the Company's receivable from a third party for the sale of API's building (see Note 15). Net consideration from the sale and the gain recognized by the Company amounted to ₱596.6 million and ₱386.1 million, respectively.

Movements in the allowance for doubtful accounts are as follows:

		2010	
	Trade	**Others**	**Total**
		(In Thousands)	
Balance at January 1, 2010	**₱112,715**	**₱8,065**	**₱120,780**
Provisions (see Notes 24 and 25)	**42,094**	**180**	**42,274**
Write-off	**(16,757)**	–	**(16,757)**
Balance at December 31, 2010	**₱138,052**	**₱8,245**	**₱146,297**
Individual impairment	**₱131,643**	**₱8,245**	**₱139,888**
Collective impairment	**6,409**	**–**	**6,409**
	₱138,052	**₱8,245**	**₱146,297**

		2009	
	Trade	Others	Total
		(In Thousands)	
Balance at January 1, 2009	₱107,895	₱7,629	₱115,524
Provisions (see Notes 24 and 25)	36,730	481	37,211
Write-off	(31,910)	(45)	(31,955)
Balance at December 31, 2009	₱112,715	₱8,065	₱120,780
Individual impairment	₱106,306	₱8,065	₱114,371
Collective impairment	6,409	–	6,409
	₱112,715	₱8,065	₱120,780

11. **Inventories**

This account consists of:

	2010	2009
	(In Thousands)	
At cost:		
Finished goods	**₱731,904**	₱502,443
Raw materials	**61,275**	67,676
Other inventories	**13,879**	9,369
At net realizable value -		
Spare parts and others	**23,852**	21,753
	₱830,910	₱601,241

Under the terms of the agreements covering liabilities under trust receipts, inventories amounting to ₱121.6 million and ₱ 123.5 million as of December 31, 2010 and 2009, respectively, have been released to UGC in trust for the bank. UGC is accountable to the bank for the inventories under trust or its sales proceeds.

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

The acquisition cost of spare parts and other inventories carried at net realizable value amounted to ₱25.2 million and ₱ 23.1 million as of December 31, 2010 and 2009, 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	27.03	–
AB Capital and Investment Corporation (AB Capital)	26.51	1.67
Luzon Bag Corporation[(a)]	20.61	–
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:

	2010	2009
	(In Thousands)	
Acquisition costs:		
Balance at beginning of year	**₱1,537,282**	₱1,536,993
Additions	**–**	289
Balance at end of year	**1,537,282**	1,537,282
Accumulated equity in net losses:		
Balance at beginning of year	**(212,114)**	(290,669)
Equity in net earnings for the year	**59,391**	117,657
Dividends received	**(39,101)**	(39,102)
Balance at end of year	**(191,824)**	(212,114)
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	**11,495**	5,054
Change in fair value during the year	**7,731**	6,441
Balance at end of year	**19,226**	11,495
	₱1,364,684	₱1,336,663

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

	2010	2009
	(In Thousands)	
TA Oil*	**₱823,472**	₱831,039
PPHC	**348,559**	325,925
AB Capital	**192,385**	179,427
Asia Coal	**268**	272
	₱1,364,684	₱1,336,663

* *The fair value as of December 31, 2010 and 2009 amounted to ₱513.0 million and ₱522.0 million, respectively*.

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

	2010	2009
	(In Thousands)	
Share in the associates' net assets:		
Current assets	**₱1,277,243**	₱1,186,960
Noncurrent assets	**745,764**	742,207
Current liabilities	**(480,040)**	(444,766)
Noncurrent liabilities	**(50,809)**	(20,264)
Preferred stock	**(132,550)**	(132,550)
Net assets attributable to common stockholders	**₱1,359,608**	₱1,331,587
Share in the associates' revenue and net income:		
Revenue	**₱946,250**	₱783,102
Net income	**59,389**	117,657
Carrying amount of the investments	**₱1,364,684**	₱1,336,663

As of December 31, 2010 and 2009, the carrying amount of the Company's investments exceeded its equity in the net assets of associates by ₱5.1 million representing goodwill related to AB Capital.

Status of operations and significant transactions of certain associates are as follows:

a. TA Oil

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

On March 24, 2010, the BOD of TA Oil declared a cash dividend of ₱0.04 a share totaling ₱66.5 million to all common stockholders of record as of May 3, 2010 which was paid on May 28, 2010. The Company recognized ₱18.0 million dividend income from TA Oil.

On March 16, 2009, the BOD of TA Oil declared a cash dividend of ₱0.04 a share totaling ₱66.5 million to all common stockholders of record as of March 30, 2009. The Company received ₱18.0 million cash dividends from TA Oil.

On July 2, 2007, Trans-Asia Gold and Minerals Development Corporation (TA Gold) (a wholly owned subsidiary of TA Oil) was incorporated and registered with the SEC primarily to engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the BOD of TA Gold approved the suspension of exploration activities effective March 31, 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 March 3, 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 November 10, 2010, it was determined that legal procedures were required to address a delayed extension of PPHC's corporate life. Consequently, the estimated costs to the process have been recognized in the books.

On March 1, 2010, the BOD of PPHC declared a regular cash dividend of ₱0.01 per share to all common stockholders of record as of March 15, 2010 in two equal installments which was paid on March 25, 2010 and September 24, 2010. The Company recognized ₱21.1 million dividend income from PPHC.

On March 3, 2009, the BOD of PPHC declared a regular 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. The Company received ₱ 21.1 million cash dividends from PPHC.

c. AB Capital

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

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 March 3, 2011, Asia Coal filed with the Bureau of Internal Revenue request for tax clearance 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:

	2010	2009
	(In Thousands)	
Quoted:		
Ayala Corporation - preferred shares	**₱8,471**	₱8,400
First Philippine Holdings Corporation (FPHC) - preferred shares	**20,639**	19,900
Unquoted:		
AB Capital - preferred shares	**250,000**	250,000
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	**10,954**	10,954
	444,997	444,187
Less accumulated impairment losses	**45,517**	45,517
	₱399,480	₱398,670

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

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

Unicon Phinma Concrete Corporation and United Industrial Bag Corporation discontinued 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:

	December 31, 2009	**Additions**	**Disposals**	**Reclassification**	**December 31, 2010**
			(In Thousands)		
Cost					
Land	₱1,057,127	**₱14,870**	**(₱27,500)**	**₱–**	**₱1,044,497**
Plant site improvements	18,217	**5,252**	**–**	**–**	**23,469**
Buildings and improvements	1,145,210	**59,073**	**(1,612)**	**–**	**1,202,671**
Machinery and equipment	646,253	**44,198**	**–**	**4,073**	**694,524**
Transportation and other equipment	340,282	**61,508**	**(3,355)**	**–**	**398,435**
	3,207,089	**184,901**	**(32,467)**	**4,073**	**3,363,596**
Less Accumulated Depreciation					
Plant site improvements	13,883	**2,095**	**–**	**–**	**15,978**
Buildings and improvements	372,471	**56,834**	**–**	**–**	**429,305**
Machinery and equipment	431,430	**63,178**	**–**	**–**	**494,608**
Transportation and other equipment	235,245	**48,862**	**(3,111)**	**–**	**280,996**
	1,053,029	**170,969**	**(3,111)**	**–**	**1,220,887**
	2,154,060	**13,932**	**(29,356)**	**4,073**	**2,142,709**
Construction in progress	18,447	**37,301**	**(17,857)**	**(4,073)**	**33,818**
Net Book Value	₱2,172,507	**₱51,233**	**(₱47,213)**	**₱–**	**₱2,176,527**

	December 31, 2008	Acquisition through Business Combination (see Note 7)	Additions	Disposals	Discontinued Operation (see Note 6)	Reclassification (see Note 15)	December 31, 2009
				(In Thousands)			
Cost							
Land	₱349,967	₱714,360	₱–	(₱7,200)	₱–	₱–	₱1,057,127
Plant site improvements	25,847	–	–	–	–	(7,630)	18,217
Buildings and improvements	805,165	365,644	64,912	(22,350)	–	(68,161)	1,145,210
Port facilities and equipment	223,664	–	–	–	(223,664)	–	–
Machinery and equipment	604,506	2,510	23,545	(6,570)	(11)	22,273	646,253
Transportation and other equipment	290,320	28,842	34,099	(6,591)	(4,589)	(1,799)	340,282
	2,299,469	1,111,356	122,556	(42,711)	(228,264)	(55,317)	3,207,089
Less Accumulated Depreciation							
Plant site improvements	12,181	–	1,565	–	–	137	13,883
Buildings and improvements	317,212	–	81,381	(4,789)	–	(21,333)	372,471
Port facilities and equipment	91,667	–	1,627	–	(93,294)	–	–
Machinery and equipment	385,663	–	49,006	(6,570)	(6)	3,337	431,430
Transportation and other equipment	204,203	–	42,238	(5,366)	(3,824)	(2,006)	235,245
	1,010,926	–	175,817	(16,725)	(97,124)	(19,865)	1,053,029
	1,288,543	1,111,356	(53,261)	(25,986)	(131,140)	(35,452)	2,154,060
Construction in progress	9,015	–	9,432	–	–	–	18,447
Net Book Value	₱1,297,558	₱1,111,356	(₱43,829)	(₱25,986)	(₱131,140)	(₱35,452)	₱2,172,507

As of December 31, 2010 and 2009, the unamortized capitalized borrowing costs included as part of property, plant and equipment amounted to ₱2.1 million and ₱2.4 million, respectively. No borrowing cost has been capitalized in 2010 and 2009.

Certain property, plant and equipment of UGC, AU and UPANG totaling ₱1.03 billion and ₱994.6 million as of December 31, 2010 and 2009 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:

	December 31, 2009	**Additions**	**Disposals** (see Note 10)	**December 31, 2010**
		(In Thousands)		
Cost:				
Land	₱321,085	**₱–**	**₱–**	**₱321,085**
Buildings for lease	441,496	**–**	**(335,321)**	**106,175**
	762,581	**–**	**(335,321)**	**427,260**
Less accumulated depreciation -				
Buildings for lease	113,649	**32,166**	**(124,844)**	**20,971**
	₱648,932	**₱32,166**	**(₱210,477)**	**₱406,289**

	December 31, 2008	Additions	Discontinued Operation (see Note 6)	Reclassification (see Note 14)	December 31, 2009
			(In Thousands)		
Cost:					
Land	₱537,806	₱–	(₱216,721)	₱–	₱321,085
Buildings for lease	307,912	78,869	–	54,715	441,496
	845,718	78,869	(216,721)	54,715	762,581
Less accumulated depreciation -					
Buildings for lease	72,849	21,537	–	19,263	113,649
	₱772,869	₱57,332	(₱216,721)	₱35,452	₱648,932

Investment properties (except land) are stated at cost less accumulated depreciation and any impairment losses. Land is stated at cost less any accumulated impairment losses. The fair value of investment properties based on the latest valuation by independent firms of appraisers as of December 31, 2010 and 2009 amounted to ₱756.0 million and ₱1.3 billion, respectively.

As discussed in Note 10, the building owned by API has been sold to a third party in 2010.

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

Rental income recognized in 2010, 2009 and 2008 amounted to ₱73.6 million, ₱68.7 million and ₱74.7 million, respectively, and presented in the consolidated statements of income. While direct costs and expenses incurred in 2010, 2009 and 2008 amounted to ₱26.7 million, ₱26.9 million and ₱26.5 million, respectively, and included as part of "General and administrative expenses" account in the consolidated statements of income.

16. Intangibles

Following are the details and movements of this account:

	December 31, 2009	**Additions**	**December 31, 2010**
		(In Thousands)	
Cost:			
Goodwill	₱1,125,183	**₱–**	**₱1,125,183**
Intangible - student lists	131,120	**–**	**131,120**
Intangible - customer contracts	22,080	**–**	**22,080**
	1,278,383	**–**	**1,278,383**
Accumulated amortization:			
Intangible - student lists	57,023	**35,245**	**92,268**
Intangible - customer contracts	22,080	**–**	**22,080**
	79,103	**35,245**	**114,348**
	₱1,199,280	**(₱35,245)**	**₱1,164,035**

	December 31, 2008 (As Restated - see Note 7)	Acquisition through Business Combinations (see Note 7)	December 31, 2009
		(In Thousands)	
Cost:			
Goodwill	₱444,551	₱680,632	₱1,125,183
Intangible - student lists	25,380	105,740	131,120
Intangible - customer contracts	22,080	–	22,080
	492,011	786,372	1,278,383
Accumulated amortization:			
Intangible - student lists	25,380	31,643	57,023
Intangible - customer contracts	–	22,080	22,080
	25,380	53,723	79,103
	₱466,631	₱732,649	₱1,199,280

Acquisition in 2008 of Toon City initially recognized at provisional values were adjusted to take up the results of the accounting for the fair value of identifiable assets and liabilities, which were finalized in 2009. This resulted in the recognition of additional goodwill of ₱115.0 million and decrease in customer contracts by ₱68.4 million.

The average remaining useful life of student lists as of December 31, 2010 is about a year.

17. Other Noncurrent Assets

This account consists of:

	2010	2009
	(In Thousands)	
Input VAT - net of allowance for unrecoverable amount of ₱81.8 million and ₱122.2 million in 2010 and 2009, respectively (see Note 24)	**₱–**	₱676
Others - net of allowance for doubtful advances of ₱66.8 million in 2010 and 2009, respectively	**21,050**	29,707
	₱21,050	₱30,383

Other noncurrent assets - others mainly pertain to utility and rental deposits.

18. Notes Payable

This account consists of notes payable of the following subsidiaries:

	2010	2009
	(In Thousands)	
UGC	**₱242,776**	₱94,646
COC	**6,060**	6,245
	₱248,836	₱100,891

Notes payable consist of unsecured short-term peso-denominated loans from financial institutions with annual interest rates ranging from 5.00% to 6.50% in 2010 and 6.63% to 8.25% in 2009.

19. Trade and Other Payables

This account consists of:

	2010	2009
	(In Thousands)	
Trade	**₱79,560**	₱33,921
Accruals for:		
Professional fees and others (see Note 29)	**135,782**	112,415
Personnel cost (see Notes 27 and 29)	**36,819**	68,191
Interest (see Note 26)	**15,967**	29,866
Freight, hauling and handling	**12,805**	11,621
Customers' deposits	**33,657**	39,813
Dividends	**26,785**	94,864
Payable to third parties (see Note 7)	**8,840**	162,067
Others	**29,371**	22,413
	₱379,586	₱575,171

Trade and other payables are noninterest-bearing. Trade payables are normally settled on 30 to 60-day terms. Other payables are normally settled within twelve months.

20. Long-term Debts

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

	2010	2009
	(In Thousands)	
UPANG	**₱284,320**	₱300,000
UGC:		
Banco de Oro (BDO)	**270,000**	150,000
Rizal Commercial Banking Corporation (RCBC)	**90,000**	50,000
	644,320	500,000
Less debt issuance cost	**2,198**	1,515
	642,122	498,485
PSHC	**149,350**	147,813
AU	**53,140**	55,415
	844,612	701,713
Less current portion - net of debt issuance cost	**141,350**	87,520
	₱703,262	₱614,193

UPANG

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

Drawdown Date	Amount
July 31, 2009	₱180,000,000
December 14, 2009	120,000,000
	₱300,000,000

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).

UGC

Features of Long-term Debts Outstanding as of December 31, 2010
On June 29, 2010, the outstanding long-term debts as of December 31, 2009 from BDO and RCBC (the lenders) were pre-terminated by obtaining three-year term loans aggregating to ₱400.0 million from the same lenders for which ₱2.8 million debt issue cost was paid. The newly obtained loans are to be paid in 11 quarterly installments of ₱20.0 million to commence on September 25, 2010 and a lump sum payment in June 2013 amounting to ₱180.0 million. The interest is at a fixed rate of 7.624% computed based on 3-year PDST-F plus a spread of 1.75% and applicable taxes at the time of the drawdown.

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

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

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

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

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

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

Features of Long-term Debts Outstanding as of December 31, 2009
Initially, the loans from BDO and RCBC (the lenders) outstanding as of December 31, 2009 are payable in 10 equal quarterly installments until June 2012. On June 29, 2010, these loans have been preterminated. The interest is at a fixed rate of 9.11% computed on 5-year PDST-F plus a spread of 1.75% and applicable taxes at the time of the drawdown.

As of December 31, 2009, the loans from the lenders are collateralized by mortgage agreement on UGC's land, plant site improvements, buildings and installations and machinery and equipment of Calamba and Davao plants amounting to ₱537.9 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; and (3) debt service ratio of 1.25:1.

  On November 6, 2008, an amendment to the loan agreement was entered into between UGC and the lenders, wherein UGC requested to adjust the debt to equity ratio requirement for each of the years 2008, 2009 and 2010, among others. The lenders have agreed thereto under the following terms and conditions, which UGC has accepted.

  Based on the amended loan agreement, UGC shall maintain the following debt-to-equity ratio in the respective financial year-end:

Year	Debt-to-equity Ratio
2008	1.6:1
2009	1.7:1
2010	1.6:1

- Restrictions on declaration and payment of dividends, incurrence of new long-term debt, entering into management agreement other than with PHINMA, entering into merger 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.

As of December 31, 2009, UGC is in compliance with the terms of the loan agreement.

PSHC
This represents interest-bearing loan of ₱154.0 million payable to United Pulp and Paper Co., Inc. (UPPC) 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 11.03%. 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 9.10%.

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 ₱1.54 million, ₱1.39 million and ₱1.29 million in 2010, 2009 and 2008, respectively. The details of the loan are as follows:

	2010	2009
	(In Thousands)	
Loan payable to UPPC	**₱154,000**	₱154,000
Less unamortized discount	**4,650**	6,187
	₱149,350	₱147,813

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 9.10% of the outstanding principal balance, amounted to ₱14.0 million in 2010, 2009 and 2008.

AU
Araullo University's long-term debt consists of:

	2010	2009
	(In Thousands)	
Loan payable to China Bank	**₱47,440**	₱55,415
Less current portion	**6,690**	8,165
	₱40,750	₱47,250

China Bank
Loan payable to China Bank as of December 31, 2009 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 1.50% payable quarterly in arrears including the applicable taxes for the account of the borrower. The new debt is to be paid in 19 quarterly installments until February 5, 2015 under a graduated amortization schedule based on the agreement. Transaction costs paid on this transaction and included in the carrying amount of the new debt amounted to ₱2.4 million. Actual average interest rate was 10.17% in 2010 and 9.70% in 2009.

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 was ₱242.6 million and ₱156.7 million as of December 31, 2010 and 2009, respectively (see Note 14).

21. **Equity**

a. Capital Stock

The composition of the Parent Company's capital stock as of December 31, 2010, 2009 and 2008 is as follows:

	Number of Shares		
	2010	2009	2008
Preferred - cumulative, nonparticipating, ₱10 par value			
Class AA			
Authorized	**50,000,000**	50,000,000	50,000,000
Class BB			
Authorized	**50,000,000**	50,000,000	50,000,000
Common - ₱10 par value			
Authorized	**420,000,000**	420,000,000	420,000,000
Issued:			
Balance at beginning of year	**257,697,313**	257,697,313	234,266,572
Stock dividends	**–**	–	23,430,741
Balance at end of year	**257,697,313**	257,697,313	257,697,313
Subscribed	**39,994**	39,994	39,994
Issued and subscribed	**257,737,307**	257,737,307	257,737,307

b. Retained Earnings

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

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 last April 23, 2010.

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

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

The balance of the Company's retained earnings include the subsidiaries and associates undistributed net earnings of ₱648.4 million and ₱746.0 million as of December 31, 2010 and 2009, respectively, which are available for distribution only upon declaration of dividends by such subsidiaries and associates of the Parent Company.

c. Other Components of Equity

This account consists of:

	2010	2009
	(In Thousands)	
Share in unrealized gain on change in fair value of AFS investments of associates (see Note 12)	**₱19,226**	₱11,495
Other reserves resulting from change in ownership interest in subsidiaries without loss of control (see Note 1)	**8,943**	–
Cumulative translation adjustments	**4,145**	(802)
Unrealized gain on change in fair value of AFS investments (see Note 13)	**1,352**	300
Share in equity component of convertible notes	**–**	13,443
	₱33,666	₱24,436

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

22. Investment Income

This account consists of:

	2010	2009	2008 (As Restated - see Note 6)
		(In Thousands)	
Interest income:			
Cash and cash equivalents	**₱29,624**	₱28,249	₱66,544
Investments held for trading	**20,258**	20,925	35,782
Receivables	**10,370**	33,283	5,744
	60,252	82,457	108,070
Net gain (loss) on investments held for trading (see Note 9)	**19,346**	22,787	(34,468)
Dividend income	**4,469**	7,162	5,466
	₱84,067	₱112,406	₱79,068

The 2008 investment income was restated to exclude the investment income from discontinued operation of ₱6.7 million.

23. Cost of Sales, Educational and Animation Services

This account consists of:

	2010	2009	2008 (As restated - see Note 6)
		(In Thousands)	
Cost of sales	**₱2,038,152**	₱1,980,238	₱2,171,695
Cost of educational services	**481,946**	375,094	132,805
Cost of animation services	**91,313**	210,821	–
	₱2,611,411	₱2,566,153	₱2,304,500

The 2008 cost of sales and educational services were restated to exclude the cost of sales from discontinued operation of ₱27.5 million.

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

	2010	2009	2008 (As restated - see Note 6)
		(In Thousands)	
Inventories used	**₱1,740,462**	₱1,750,338	₱1,926,077
Personnel costs (see Note 27)	**454,703**	508,568	162,784
Depreciation (see Note 28)	**127,399**	106,487	66,077
Repairs and maintenance	**52,265**	37,301	51,706
Laboratory and school supplies	**51,836**	2,144	721
Accreditation expenses	**19,260**	2,983	–
Equipment running	**18,342**	14,539	16,330
School affiliations and other expenses	**16,557**	22,620	481
Sports development and school activities	**16,089**	3,503	2,134
Educational tour expenses	**9,044**	3,704	1,510
Others	**105,454**	113,966	76,680
	₱2,611,411	₱2,566,153	₱2,304,500

24. General and Administrative Expenses

This account consists of:

	2010	2009	2008 (As Restated - see Note 6)
		(In Thousands)	
Professional fees and outside services (see Note 29)	**₱169,323**	₱146,241	₱95,010
Personnel costs (see Note 27)	**145,711**	205,354	101,266
Depreciation and amortization (see Note 28)	**101,949**	135,923	53,693
Provision for doubtful accounts (see Note 10)	**30,189**	24,220	21,657
Taxes and licenses	**21,937**	18,241	13,878
Donation	**20,605**	–	–
Advertising and promotions	**15,987**	8,198	5,352
Light and water	**5,935**	7,971	862
Transportation and travel	**5,563**	5,870	2,976
Office Supplies	**5,475**	3,240	1,617
Insurance	**4,662**	1,785	1,312
Communications	**4,199**	2,436	1,236
Provision for unrecoverable input value-added tax (see Note 17)	**4,063**	13,002	4,512
Provision for impairment losses	**–**	1,249	–
Others	**26,385**	60,048	36,590
	₱561,983	₱633,778	₱339,961

The 2008 general and administrative expenses were restated to exclude the general and administrative expenses of discontinued operation of ₱27.9 million.

25. Selling Expenses

This account consists of:

	2010	2009	2008 (As Restated - see Note 6)
		(In Thousands)	
Personnel costs (see Note 27)	**₱64,791**	₱59,053	₱48,285
Freight, handling and hauling	**49,416**	34,562	27,689
Commission	**21,779**	19,102	17,177
Transportation and travel	**17,990**	16,859	19,687
Provision for doubtful accounts (see Note 10)	**12,085**	12,991	23,252
Advertising	**9,957**	13,667	20,826
Supplies	**9,243**	7,415	5,179
Depreciation (see Note 28)	**9,032**	7,040	6,009
Taxes and licenses	**8,046**	6,901	6,742
Repairs and maintenance	**8,002**	7,594	7,601
Postage, telephone and telegraph	**7,671**	7,923	8,099
Entertainment, amusement and recreation	**3,050**	2,516	3,228
Insurance	**2,182**	1,720	1,525
Outside services	**1,418**	894	908
Rental and utilities	**1,008**	998	1,300
Others	**3,317**	3,945	5,023
	₱228,987	₱203,180	₱202,530

The 2008 selling expenses were restated to exclude the selling expenses of discontinued operation of ₱60.0 million.

26. Interest Expense and Other Financial Charges

This account consists of:

	2010	2009	2008 (As Restated - see Note 6)
		(In Thousands)	
Interest expense on loans and borrowings	**₱104,375**	₱105,265	₱91,733
Other financial charges	**9,046**	517	1,450
	₱113,421	₱105,782	₱93,183

The 2008 interest expense and other financial charges were restated to exclude the interest expense and other financial charges of discontinued operation of ₱6.7 million.

27. Personnel Costs

This account consists of:

	2010	2009	2008 (As Restated - see Note 6)
		(In Thousands)	
Salaries, employee benefits and bonuses (see Note 29)	**₱605,285**	₱728,334	₱285,235
Retirement and other post-employment benefits (see Note 33)	**38,168**	21,436	14,227
Training	**6,902**	2,374	4,538
Others	**14,850**	20,831	8,335
	₱665,205	₱772,975	₱312,335

The 2008 personnel costs were restated to exclude the personnel costs of discontinued operation of ₱9.3 million.

28. Depreciation and Amortization

Depreciation and amortization relate to the following assets:

	2010	2009	2008 (As Restated - see Note 6)
		(In Thousands)	
Property, plant and equipment and investment properties:			
Cost of sales, educational and animation services (see Note 23)	**₱127,399**	₱106,487	₱66,077
General and administrative expenses (see Note 24)	**66,704**	82,200	52,111
Selling expenses (see Note 25)	**9,032**	7,040	6,009
Intangible - schools -			
General and administrative expenses (see Note 24)	**35,245**	53,723	1,582
	₱238,380	₱249,450	₱125,779

The 2008 depreciation and amortization were restated to exclude the depreciation and amortization of discontinued operation of ₱12.2 million.

29. Related Party Transactions

Associates and Related Corporations

AB Capital. Transactions with AB Capital, a subsidiary of PHINMA, pertain to sharing of expenses and short-term placements made by the Company in AB Capital.

PHINMA and TA Oil. In 2009, API granted noninterest-bearing advances amounting to ₱6.4 million to its shareholders, PHINMA (parent company of PHN), and TA Oil (subsidiary of PHINMA), which are due and collectible upon demand. In 2010, API granted additional noninterest-bearing advances amounting to ₱32.5 million to PHINMA and TA Oil and was paid in December 2010.

Others. Other related party transactions primarily relate to the grant of advances to and sharing of expenses with other companies which are also under the common control of PHINMA, namely, PPHC, TO Insurance Brokers, Inc. and others.

Amounts and outstanding balances relating to the aforementioned transactions are as follows:

Related Party	Nature of Transaction	Year	Amount of Transactions During the Year	Amount of Due to Related Parties	Amount of Due from Related Parties
				(In Thousands)	
PHINMA	Noninterest-bearing advances and share in expenses	**2010**	**₱88,479**	**₱29,690**	**₱239**
		2009	110,256	–	26,198
		2008	29,220	–	25,977
TA Oil	Noninterest-bearing advances and share in expenses	**2010**	**4,638**	**–**	**148**
		2009	1,680	–	3,799
		2008	4,213	–	3,896
PPHC	Share in expenses	**2010**	**310**	**–**	**569**
		2009	21,302	–	5,878
		2008	289	–	660
AB Capital	Share in expenses	**2010**	**155**	**–**	**23**
		2009	274	–	158
		2008	632	–	632
Other Shareholders of UPANG	Interest bearing advances	**2010**	**2,546**	**16**	**714**
		2009	59,769	59,769	–
		2008	–	–	–
Others	Share in expenses	**2010**	**35,445**	**3,223**	**7,623**
		2009	2,679	501	5,206
		2008	1,431	143	962
		2010		**₱32,929**	**₱9,316**
		2009		60,270	41,239
		2008		143	32,127

PSHC. PSHC has outstanding long-term payable 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 “Other noncurrent liabilities” at amortized cost at the end of the reporting period, and refundable to UPPC upon the expiration of the lease. The lease deposit’s present value was calculated using an effective interest rate of 12.0% per annum. On August 2, 2006, PSHC and UPPC amended the lease agreement increasing the annual rent revenue from ₱14.6 million to ₱19.2 million effective January 1, 2006

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

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

	2010	2009
	(In Thousands)	
Trade and other receivables	**₱–**	₱5,136
Unearned revenues	**49,560**	50,726
Trade and other payables	**11,445**	16,092
Long-term debt	**149,350**	147,813
Other noncurrent liabilities	**474**	423

<u>Management and Directors' Compensation</u>
PHN, UGC, COC, Araullo University, UPANG and UI are under common management by PHINMA and pay PHINMA 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 and the respective companies, pursuant to the provisions of the same contract.

Total management fees and bonuses incurred in 2010, 2009 and 2008 amounted to ₱110.2 million, ₱69.6 million and ₱63.1 million, respectively. The related unpaid amount, included under "Trade and other payables" account in the consolidated statements of financial position, was ₱81.3 million and ₱53.0 million as of December 31, 2010 and 2009, respectively.

PHN, UGC, AHC, UI and AU recognized bonus to directors computed based on net income with pre-agreed adjustments. Directors' bonus amounted to ₱43.2 million, ₱28.8 million and ₱29.6 million in 2010, 2009 and 2008. The related unpaid amount, included under "Trade and other payables" account in the consolidated statements of financial position, was ₱42.0 million and ₱28.8 million as of December 31, 2010 and 2009, respectively.

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

	2010	2009	2008
		(In Thousands)	
Short-term employee benefits	**₱70,227**	₱48,041	₱37,820
Post-employment benefits:			
Retirement benefits	**4,582**	3,677	3,355
Vacation and sick leave	**2,064**	3,465	1,927
	₱76,873	₱55,183	₱43,102

30. **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 USD currencies. The main purpose of these financial instruments is to finance the Company's investments. The Company also has financial assets and liabilities, such as trade and other receivables and trade and other payables that arise directly from operations.

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

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

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

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

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

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

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

	2010	2009
	(In Thousands)	
Loans and receivables:		
Cash and cash equivalents*	**₱1,187,581**	₱1,042,375
Short-term investments	**47,316**	–
Trade and other receivables	**1,070,583**	662,624
Installment contract receivables**	**20,585**	276,413
Investments held for trading:		
Investments in UITFs	**487,588**	261,172
Investments in bonds	**349,443**	296,205
Investments in marketable equity securities	**4,535**	2,534
Derivative assets	**4,442**	6,865
Investments in trust accounts	**–**	4,501
AFS investments:		
Quoted	**29,110**	28,300
Unquoted	**370,370**	370,370
	₱3,571,553	₱2,951,359

* *Excluding cash on hand.*
** *In 2009, current portion is included in "Trade and other receivables" account while noncurrent portion is presented as a separate line item in the consolidated statements of financial position.*

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

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

The following table illustrates credit quality of investments held for trading and AFS investments as of December 31, 2010 and 2009:

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

	2009				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Substandard Grade	Impaired	Total
			(In Thousands)		
Investments held for trading:					
Investments in bonds	₱292,300	₱3,905	₱–	₱–	₱296,205
Investments in UITFs	261,172	–	–	–	261,172
Investments in trust accounts	–	4,501	–	–	4,501
Investments in marketable equity securities	–	2,534	–	–	2,534
AFS investments:					
Quoted	–	28,300	–	–	28,300
Unquoted	–	370,370	–	45,517	415,887
	₱553,472	₱409,610	₱–	₱45,517	₱1,008,599

The Company uses the following criteria to rate credit quality:

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.

The credit quality of the Company's trade and other receivables (including installment contract receivables) as of December 31, 2010 and 2009 are as follows:

	2010			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	Total
	(In Thousands)			
Trade	**₱65,433**	**₱317,661**	**₱281,950**	**₱665,044**
Installment contract receivables (current and noncurrent)	**–**	**493,981**	**–**	**493,981**
Advances to suppliers and contractors	**–**	**10,321**	**–**	**10,321**
Accrued interest (see Note 29)	**6,718**	**1,638**	**–**	**8,356**
Due from related parties (see Note 29)	**–**	**6,526**	**2,790**	**9,316**
Receivable from PHN Retirement	**–**	**8,939**	**–**	**8,939**
Advances to officers and employees	**2,352**	**–**	**–**	**2,352**
Others	**–**	**33,701**	**5,455**	**39,156**
	₱74,503	**₱872,767**	**₱290,195**	**₱1,237,465**

	2009			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard Grade	or Impaired	Total
	(In Thousands)			
Trade	₱6,050	₱402,826	₱189,869	₱598,745
Installment contract receivables (current and noncurrent)	–	333,450	–	333,450
Advances to suppliers and contractors	24,272	1,643	–	25,915
Accrued interest (see Note 29)	12,478	1,648	–	14,126
Due from related parties (see Note 29)	–	41,239	–	41,239
Receivable from PHN Retirement	–	8,939	–	8,939
Advances to officers and employees	1,758	3,577	–	5,335
Others	–	24,003	8,065	32,068
	₱44,558	₱817,325	₱197,934	₱1,059,817

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.

As of December 31, 2010 and 2009, the aging analysis of trade and other receivables (including installment contract receivables) are as follows:

	2010							
		Neither Past Due nor	Past Due but not Impaired					Past Due and
	Total	Impaired	<30 Days	30–60 Days	60–90 Days	90–120 Days	>130 Days	Impaired
	(In Thousands)							
Trade	**₱665,044**	**₱383,094**	**₱85,558**	**₱24,866**	**₱14,629**	**₱4,795**	**₱14,050**	**₱138,052**
Installment contract receivables (current and noncurrent)	**493,981**	**493,981**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to suppliers and contractors	**10,321**	**10,321**	**–**	**–**	**–**	**–**	**–**	**–**
Accrued interest (see Note 29)	**8,356**	**8,356**	**–**	**–**	**–**	**–**	**–**	**–**
Due from related parties (see Note 29)	**9,316**	**6,526**	**–**	**–**	**–**	**–**	**–**	**2,790**
Receivable from PHN Retirement	**8,939**	**8,939**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to officers and employees	**2,352**	**2,352**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**39,156**	**33,701**	**–**	**–**	**–**	**–**	**–**	**5,455**
	₱1,237,465	**₱947,270**	**₱85,558**	**₱24,866**	**₱14,629**	**₱4,795**	**₱14,050**	**₱146,297**

	2009							
		Neither Past Due	Past Due but not Impaired					Past Due and
	Total	nor Impaired	<30 Days	30–60 Days	60–90 Days	90–120 Days	>130 Days	Impaired
				(In Thousands)				
Trade	₱598,745	₱408,876	₱51,660	₱8,808	₱7,298	₱6,859	₱2,529	₱112,715
Installment contract receivables (current and noncurrent)	333,450	333,450	–	–	–	–	–	–
Advances to suppliers and contractors	25,915	25,915	–	–	–	–	–	–
Accrued interest (see Note 29)	14,126	14,126	–	–	–	–	–	–
Due from related parties (see Note 29)	41,239	38,449	–	–	–	–	–	2,790
Receivable from PHN Retirement	8,939	8,939	–	–	–	–	–	–
Advances to officers and employees	5,335	5,335	–	–	–	–	–	–
Others	32,068	26,793	–	–	–	–	–	5,275
	₱1,059,817	₱861,883	₱51,660	₱8,808	₱7,298	₱6,859	₱2,529	₱120,780

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

Liquidity Risk

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

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

The tables below show the maturity profile of the Company's financial assets used for liquidity purposes based on contractual undiscounted cash flows as of December 31, 2010 and 2009:

	2010					
	Within 1 Year	**1–2 Years**	**2–3 Years**	**3–5 Years**	**More than 5 Years**	**Total**
			(In Thousands)			
Financial Assets						
Loans and receivables -						
Cash and cash equivalents	**₱1,202,170**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,202,170**
Financial assets at FVPL:						
Investments in UITFs	**487,588**	**–**	**–**	**–**	**–**	**487,588**
Investments in bonds	**88,462**	**53,779**	**72,355**	**38,250**	**96,597**	**349,443**
Investments in marketable equity securities	**4,535**	**–**	**–**	**–**	**–**	**4,535**
AFS investments -						
Quoted	**29,110**	**–**	**–**	**–**	**–**	**29,110**
	₱1,811,865	**₱53,779-**	**₱72,355**	**₱38,250**	**₱96,597**	**₱2,072,846**

	2009					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
			(In Thousands)			
Financial Assets						
Loans and receivables -						
Cash and cash equivalents	₱1,052,217	₱–	₱–	₱–	₱–	₱1,052,217
Financial assets at FVPL:						
Investments in bonds	113,005	93,595	55,232	34,373	–	296,205
Investments in UITFs	261,172	–	–	–	–	261,172
Investments in trust accounts	4,501	–	–	–	–	4,501
Investments in marketable equity securities	2,534	–	–	–	–	2,534
AFS investments -						
Quoted	28,300	–	–	–	–	28,300
	₱1,461,729	₱93,595	₱55,232	₱34,373	₱–	₱1,644,929

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2010 and 2009 based on contractual undiscounted payments:

	2010					
	Within 1 Year	**1–2 Years**	**2–3 Years**	**3–5 Years**	**More than 5 Years**	**Total**
	(In Thousands)					
Financial Liabilities						
Other financial liabilities:						
Notes payable	**₱248,836**	**₱–**	**₱–**	**₱–**	**₱–**	**₱248,836**
Trade and other payables	**379,586**	**–**	**–**	**–**	**–**	**379,586**
Trust receipts payable	**121,567**	**–**	**–**	**–**	**–**	**121,567**
Due to related parties	**32,929**	**–**	**–**	**–**	**–**	**32,929**
Long-term debt	**177,105**	**561,948**	**140,066**	**41,648**	**–**	**920,767**
	₱960,023	**₱561,948**	**₱140,066**	**₱41,648**	**₱–**	**₱1,703,685**

	2009					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
	(In Thousands)					
Financial Liabilities						
Other financial liabilities:						
Notes payable	₱100,891	₱–	₱–	₱–	₱–	₱100,891
Trade and other payables	575,171	–	–	–	–	575,171
Trust receipts payable	131,051	–	–	–	–	131,051
Due to related parties	60,270	–	–	–	–	60,270
Long-term debt	144,336	172,422	120,876	300,890	91,613	830,137
	₱1,011,719	₱172,422	₱120,876	₱300,890	₱91,613	₱1,697,520

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

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 US 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 foreign currency-denominated financial assets and financial liabilities and their peso equivalents as of December 31:

	2010		2009	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
	(In Thousands)			
Assets				
In US Dollar:				
Cash and cash equivalents	**US$7,867**	**₱344,889**	US$7,843	₱362,347
Investments in bonds	**2,546**	**111,617**	3,044	140,633
Investments in UITFs	**3,477**	**152,432**	2,615	120,813
	US$13,890	**₱608,938**	US$13,502	₱623,793
Liability				
In US Dollar -				
Trust receipts payable	**US$2,773**	**₱121,568**	–	–
	US$2,773	**₱121,568**	–	–

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were ₱43.84 to US$1.00 and ₱46.20 to US$1.00 as of December 31, 2010 and 2009, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets) as of December 31, 2010 and 2009. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives outstanding as of December 31, 2010 and 2009.

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

	2009	
	Increase/(Decrease) in Peso-Dollar Exchange Rate	Effect on Profit Before Tax
		(In Millions)
PHN	₱0.50	₱5.1
	(0.50)	(5.1)
UGC	0.50	3.6
	(0.50)	(3.6)
AHC	0.50	0.2
	(0.50)	(0.2)

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 Araullo University's variable rate loan from China Bank (see Note 20).

The following table demonstrates the effect of changes in market interest rates, on the Company's profit before income tax, based on the Company's expectation, with all other variables held constant as of December 31, 2010 and 2009. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

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

	2009	
	Increase/Decrease in Basis Points	Effect on Profit Before Tax
	(In Thousands)	
Loan payable to China Bank	50	(₱306)
	(50)	306

b. Price Interest Rate Risk

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

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

	2010						
	Interest Rates	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–5 Years**	**More than 5 Years**	**Total**
				(In Thousands)			
Fixed Rate							
Special savings account (PHP)	**1.5–3.62%**	**₱216,401**	**₱–**	**₱–**	**₱–**	**₱–**	**₱216,401**
Placements (PHP)	**3.87–4.06%**	**426,053**	**–**	**–**	**–**	**–**	**426,053**
Placements (US$)	**.625–1.5%**	**342,704**	**–**	**–**	**–**	**–**	**342,704**
Investments in bonds (PHP)	**5.875–17.5%**	**77,433**	**53,779**	**39,738**	**21,975**	**44,920**	**237,845**
Investments in bonds (US$)	**7.37–10.37%**	**11,028**	**-**	**32,617**	**16,276**	**51,676**	**111,597**

	2009						
	Interest Rates	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
				(In Thousands)			
Fixed Rate							
Special savings account (PHP)	0.05–1.5%	₱2,722	₱–	₱–	₱–	₱–	₱2,722
Placements (PHP)	1.5–9.075%	360,108	–	–	–	–	360,108
Placements (US$)	0.005–4.25%	545,738	–	–	–	–	545,738
Short-term investments (PHP)	3.1–7.142%	59,062	–	–	–	–	59,062
Investments in bonds (PHP)	4.5–17.5%	19,099	81,236	55,232	–	–	155,567
Investments in bonds (US$)	8.375–10.4%	93,906	12,359	–	34,373	–	140,638
Installment contract receivable	91day PDST + 3% spread	57,038	65,813	83,363	127,237	–	333,451

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

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

The table below set forth the estimated change in the Company's income before tax due to a reasonably possible change in the market prices of quoted bonds classified under financial assets at FVPL and short term deposits classified under loans and receivables, brought about by movement in the interest rate as of December 31, 2010 and 2009. There is no impact on the Company's equity other than those already affecting the profit or loss.

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

		2009	
		Increase/(Decrease) in Basis Points	Effect on Profit Before Tax
			(In Thousands)
PHN	– peso placements	25	₱515
		(25)	(515)
	– peso bonds	25	(218)
		(25)	218
	– dollar bonds	10	(982)
		(10)	982
UGC	– peso trust receipts payable	25	(309)
		(25)	309

		2009	
		Increase/(Decrease) in Basis Points	Effect on Profit Before Tax
			(In Thousands)
AHC	– peso placements	25	₱66
		(25)	(66)
	– peso bonds	25	(280)
		(25)	280
	– dollar placements	10	8
		(10)	(8)

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

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

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

The following tables demonstrate the effect on the Company's profit before income tax (as a result of a change in the fair value of equity instruments held as investment held for trading) due to a reasonably possible change in equity indices, based on the Company's expectation, with all other variables held constant as of December 31, 2010 and 2009. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

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

	2009	
	Increase/Decrease in Stock Exchange Index	Effect on Profit Before Tax
		(In Thousands)
PHN	+10%	₱198
	-10%	(198)
AHC	+10%	125
	-10%	(125)

Capital Management
The primary objective of the Company's capital management is to ensure that the Company maintains a healthy capital structure in order 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. The Company considers its equity as the total of capital stock, additional paid-in-capital, share in equity component of convertible notes, unrealized gain on change in fair value of an AFS investment, share in unrealized gain on change in fair value of AFS investments of associates, cumulative translation adjustments, other reserves, retained earnings, and non-controlling interest.

To ensure that there are sufficient funds to settle its liabilities, the Company's policy is to keep debt-to-equity ratio below 1:1. The Company's consolidated debt-to-equity ratio as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In Thousands)	
Total liabilities	**₱2,396,024**	₱2,256,957
Total equity	**7,300,690**	6,766,366
Debt-to-equity ratio	**0.33:1**	0.33:1

31. **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**	
	2010	2009	**2010**	2009
		(In Thousands)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱1,202,170**	₱1,052,217	**₱1,202,170**	₱1,052,217
Short-term investments	**47,316**	–	**47,316**	–
Trade and other receivables:				
Trade	**526,992**	486,030	**526,992**	486,030
Due from related parties	**6,526**	38,449	**6,526**	38,449
Accrued interest	**8,356**	14,126	**8,356**	14,126
Receivable from PHN Retirement	**8,939**	8,939	**8,939**	8,939
Advances to suppliers and contractors	**10,321**	25,915	**10,321**	25,915
Advances to officers and employees	**2,352**	5,335	**2,352**	5,335
Others	**33,701**	26,793	**33,701**	26,793
Installment contract receivables*	**493,981**	333,450	**495,804**	333,450
	2,340,654	1,991,254	**2,342,477**	1,991,254
Financial assets at FVPL:				
Investments held for trading:				
Investments in UITFs	**487,588**	261,172	**487,588**	261,172
Investments in bonds	**349,443**	296,205	**349,443**	296,205
Investments in marketable equity securities	**4,535**	2,534	**4,535**	2,534
Derivative assets	**4,442**	6,865	**4,442**	6,865
Investments in trust accounts	–	4,501	–	4,501
	846,008	571,277	**846,008**	571,277
AFS investments:				
Quoted	**29,110**	28,300	**29,110**	28,300
Unquoted	**370,370**	370,370	**370,370**	370,370
	399,480	398,670	**399,480**	398,670
	₱3,586,142	₱2,961,201	**₱3,587,965**	₱2,961,201
Financial Liabilities				
Other financial liabilities:				
Notes payable	**248,836**	100,891	**248,836**	100,891
Trade and other payables	**379,586**	575,171	**379,586**	575,171
Trust receipts payable	**121,567**	131,051	**121,567**	131,051
Due to related parties	**32,929**	60,270	**32,929**	60,270
Long-term debt (including current portion)	**844,612**	701,713	**919,593**	719,111
	₱1,627,530	₱1,569,096	**₱1,702,511**	₱1,586,494

* *Current portion is included in "Trade and other receivables" account while noncurrent portion is presented as a separate line item in the consolidated statements of financial position.*

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.

Installment Contract Receivables. The carrying amounts of the current portion of installment contract receivables approximate fair values due to the relatively short-term maturities of the financial instruments. In 2010, the estimated fair value of the noncurrent portion of installment contract receivables is based on the discounted values of future cash flows using the applicable discount rate for similar instruments with same maturity. In 2009, carrying value of noncurrent portion of installment contract receivables approximates fair value due to quarterly repricing of interest rate based on the applicable 91-day Philippine Dealing System Treasury-Fixing, or its successor, on the day of setting plus three percent (3%).

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 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 3.04% to 10.90% in 2010 and 6.03% and 9.42% in 2009.

Derivative Assets. 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$11.1 million and US$3.0 million as of December 31, 2010 and 2009, respectively. The weighted average contracted forward rate is ₱45.70 to US$1.00 and ₱47.57 to US$1.00 as of December 31, 2010 and 2009, respectively. The currency forward contracts outstanding as of December 31, 2010 will mature in February 2011. The net positive fair values of these outstanding currency forward contracts amounted to ₱4.4 million and ₱4.1 million as of December 31, 2010 and 2009, respectively.

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

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱4,088**	(₱26,857)
Net change in fair value during the year	**50,061**	49,215
Fair value of settled contracts	**(49,707)**	(18,270)
Balance at end of year	**₱4,442**	₱4,088

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

The net movements in fair value changes of these embedded derivatives are as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱2,777**	₱–
Net changes in fair value during the year	**–**	9,063
Fair value of settled contracts	**(2,777)**	(6,286)
Balance at end of year	**₱–**	₱2,777

The net changes in fair values of derivatives are presented as "Net gains (losses) on derivatives" in the Company's 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

Assets measured at fair value:

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

	2009	Level 1	Level 2	Level 3
		(In Thousands)		
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds	₱296,205	₱296,205	₱–	₱–
Investments in UITFs	261,172	261,172	–	–
Investments in trust accounts	4,501	4,501	–	–
Investments in marketable equity securities	2,534	2,534	–	–
Derivative assets	6,865	–	6,865	–
AFS investments:				
Quoted	28,300	28,300	–	–
	₱599,577	₱592,712	₱6,865	₱–

During the year ended December 31, 2010 and 2009, 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.

32. Income Tax

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

	2010	2009
	(In Thousands)	
Deferred tax assets:		
Change in tax rate	**₱36,407**	₱–
Allowance for doubtful accounts	**17,354**	9,584
Unrealized foreign exchange losses	**10,311**	1,792
Accrued retirement expense	**5,531**	971
Revalued net assets of a subsidiary	**4,419**	4,661
Unearned tuition fee	**3,535**	3,330
Unamortized past service cost	**1,982**	2,467
Impairment loss	**1,255**	1,290
Accrued interest expense	**448**	–
Allowance for inventory writedown	**409**	–
Advances from students	**32**	–
Excess of straight-line recognition of management fee over contract payment terms	**10**	64
Deferred interest income on refunds from Meralco	**–**	64
	81,693	24,223
Deferred tax liabilities:		
Revalued net assets	**(282,541)**	(300,620)
Deferred installment sales	**(91,018)**	–
Expansion of school facilities	**(29,784)**	(27,176)
Pension asset	**(7,603)**	(8,267)
Unrealized foreign exchange gains	**(7,425)**	(1,799)
Derivative assets	**(1,616)**	(833)
Unrealized gain on change in fair value	**(1,530)**	(26)
Unamortized debt issuance cost	**(659)**	(454)
Unamortized capitalized borrowing cost	**(630)**	(735)
Excess of straight-line lease over lease contract terms	**(344)**	(1,580)
	(423,150)	(341,490)
	(₱341,457)	(₱317,267)

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

	2010	2009
	(In Thousands)	
Deferred tax assets - net	**₱44,461**	₱5,602
Deferred tax liabilities - net	**(385,918)**	(322,869)
	(₱341,457)	(₱317,267)

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

	2010	2009
	(In Thousands)	
Accrued personnel cost	**₱35,920**	₱21,580
Allowance for:		
Doubtful accounts	**31,659**	4,541
Write-down of inventories to net realizable value	**–**	59
Unrealized foreign exchange losses	**27,605**	51,174
NOLCO	**21,327**	106,605
MCIT	**10,138**	12,735
Unamortized past service cost	**1,708**	7,771
Unrealized loss on change in fair value of investments held for trading	**65**	(2,754)
Accrued employee benefits	**–**	21,455
Unrealized loss on derivatives	**–**	(4,088)
	₱128,422	₱219,078

Some of the Company's 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 ₱10.1 million can be deducted against RCIT due while NOLCO totaling ₱21.3 million can be claimed as deduction against taxable income as follows:

		Amount	
Date Incurred	Expiry Date	MCIT	NOLCO
		(In Thousands)	
December 31, 2008	December 31, 2011	₱2,790	₱–
December 31, 2009	December 31, 2012	2,560	18,240
December 31, 2010	December 31, 2013	4,788	3,087
		₱10,138	₱21,327

MCIT amounting to ₱7.4 million and ₱1.9 million expired in 2010 and 2009, respectively. NOLCO of nil and ₱139.6 million expired in 2010 and 2009, respectively. MCIT and NOLCO totaling nil and ₱102.9 million in 2010 and ₱0.2 million and nil in 2009 were claimed as deduction against regular taxable income.

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

	2010	2009	2008
Applicable statutory tax rate	**30.0%**	30.0%	35.0%
Income tax effects of:			
Tax rate differential of schools	**(3.6)**	(5.1)	(2.2)
Interest income subjected to lower final tax rate	**(2.2)**	(4.8)	(9.6)
Dividend income	**(0.2)**	(0.4)	(0.5)
Change in unrecognized deferred tax assets and others	**(3.3)**	(4.5)	(2.3)
Effective tax rates	**20.7%**	15.2%	20.4%

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 Bureau of Internal Revenue (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 2010 and 2009, the Company computed its income tax based on itemized deductions.

33. Pension and Other Post-employment Benefits

Pension and other post-employment benefits consist of accruals for:

	2010	2009
	(In Thousands)	
Net pension liability	**₱20,120**	₱34,501
Vacation and sick leave	**19,904**	16,987
	₱40,024	₱51,488

Employee benefits included under general and administrative expenses consist of:

	2010	2009	2008
		(In Thousands)	
Net pension expense	**₱34,317**	₱18,433	₱12,632
Vacation and sick leave	**3,851**	3,003	1,595
	₱38,168	₱21,436	₱14,227

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

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

Net pension expense consists of:

	2010	2009	2008
		(In Thousands)	
Current service cost	**₱22,764**	₱17,354	₱8,174
Interest cost on defined benefit obligation	**13,169**	10,317	7,348
Expected return on plan assets	**(7,776)**	(8,462)	(4,554)
Past service cost	**4,141**	–	–
Net actuarial loss (gain) recognized	**2,019**	(776)	1,664
Net pension expense	**₱34,317**	₱18,433	₱12,632

Details of net pension liability are as follows:

	2010	2009
	(In Thousands)	
Present value of defined benefit obligation	**₱165,644**	₱156,033
Fair value of plan assets	**(113,945)**	(81,870)
Unfunded obligation	**51,699**	74,163
Unrecognized net actuarial losses	**(31,579)**	(39,662)
Pension liability	**₱20,120**	₱34,501

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

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱156,033**	₱47,564
Current service cost	**22,764**	17,354
Interest cost on defined benefit obligation	**13,169**	10,317
Actuarial gains	**1,808**	83,097
Benefits paid	**(28,130)**	(1,858)
Discontinued operation (see Note 6)	**–**	(441)
Balance at end of year	**₱165,644**	₱156,033

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

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱81,870**	₱73,022
Contributions by employer	**49,602**	8,406
Benefits paid	**(28,130)**	(1,858)
Expected return	**7,776**	8,462
Actuarial gains (losses)	**2,827**	(6,162)
Balance at end of year	**₱113,945**	₱81,870
Actual return on plan assets	**₱10,603**	₱2,300

The Company expects to contribute ₱2.7 million to its defined benefit pension plans in 2011.

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

	2010	2009	2008
Discount rates	**7–12%**	8–11%	8–30%
Expected rates of return on plan assets	**5–8%**	5–8%	5–10%
Rates of salary increase	**5–9%**	5–12%	5–11%

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

	2010	2009
Fixed income securities and others	**93%**	74%
Equities	**4%**	7
Property	**3%**	19
	100%	100%

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

The plan assets include shares of stock of PHN with a fair value of ₱2.3 million and ₱1.9 million in 2010 and 2009, respectively.

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

	2010	2009	2008	2007	2006
			(In Thousands)		
Present value of defined benefit obligation	₱165,644	₱156,033	₱47,564	₱86,921	₱107,929
Fair value of plan assets	(113,945)	(81,870)	(73,022)	(64,809)	(50,363)
Unfunded (surplus) obligation	51,699	74,163	(25,458)	22,112	57,566
Experience adjustments on plan liabilities	(5,469)	(1,284)	1,900	1,000	(3,100)
Experience adjustments on plan assets	2,026	–	36	11,300	1,000

34. **Commitments and Contingencies**

a. Unused Credit Lines

UGC has the following unused approved credit lines with local banks and financial institutions as of December 31, 2010:

Nature	Amount
	(In Thousands)
Letters of credit/trust receipts	₱1,047,588
Bills purchase line	170,000
Invoice financing	100,000
Settlement risk	350,000
Forward contract	65,000

b. Commitments Under Operating Lease Agreements

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

Future minimum rental payable as of December 31, 2010 are as follows:

	Amount
	(In Thousands)
2011	₱13,966
2012	8,802

Lessor
API's lease contracts related to its building space were for five to seven years ending 2011 to 2013, respectively. The lease contracts included a provision for an annual escalation of 5%, 7% and 10%.

API will pre-terminate the lease contracts on March 31, 2011 as a result of the sale of the building for lease. Accrued pre-termination fees amounted to ₱0.8 million as of December 31, 2010.

Future minimum rental receivables under the non-cancelable operating leases as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In Thousands)	
Within one year	**₱11,689**	₱39,941
After one year but not more than five years	**–**	16,342
	₱11,689	₱56,283

PSHC's commitment under its operating lease agreement with UPPC is discussed in Note 29 to the consolidated financial statements.

c. Property Agreement

On March 2, 2006, API entered into an agreement with Paramount Property Management Company for services to manage, administer, operate and maintain the building for a monthly rate of ₱0.07 million exclusive of VAT. In consideration, API shall pay a pre-agreed management fee. Such fee is subject to an annual escalation of 10%. The agreement shall be for a period of five years up to March 2, 2011.

d. Others

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

35. **EPS Computation**

	2010	2009	2008
		(In Thousands)	
(a) Net income attributable to equity holders of the parent	**₱475,846**	₱447,370	₱273,160
(b) Net income from continuing operations attributable to equity holder of the parent (see Note 36)	**₱475,846**	₱382,280	₱270,000
(c) Number of shares outstanding at beginning of year	**257,737,307**	257,737,307	234,306,566
(d) Effects of 10% stock dividends declared in 2008	**–**	–	23,430,741
(e) Weighted average number of common shares outstanding (c+d)	**257,737,307**	257,737,307	257,737,307
Basic/Diluted EPS attributable to equity holders of the parent (a/e)	**₱1.85**	₱1.74	₱1.06
Basic/Diluted EPS from continuing operations attributable to equity holder of the parent (b/e)	**₱1.85**	₱1.48	₱1.05

36. **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, AHC 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.
- Business Process Outsourcing – OAL and Toon City are engaged in film, video, television and animation services.

The Company has no geographical segment for segment reporting format as the Company's risks and rates of return are 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.

37. **Events after the Reporting Period**

On March 3, 2011, the Company's BOD declared a cash dividend of ₱0.40 a share to all common shareholders of record as of March 29, 2011 payable on April 26, 2011.

Segment Information

Financial information on the operating segments are summarized as follows:

	Continuing Operations						
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(In Thousands)			
Year Ended December 31, 2010							
Revenues							
Segment revenue	₱28,839	₱44,781	₱2,660,613	₱895,305	₱60,127	₱–	₱3,689,665
Investment income	307,107	2,270	742	1,712	28	(227,792)	84,067
Total revenues	₱335,946	₱47,051	₱2,661,355	₱897,017	₱60,155	(₱227,792)	₱3,773,732
Results							
Segment results	₱234,627	₱351,846	₱372,536	₱174,918	(₱71,621)	(₱285,513)	₱776,793
Investment income	307,107	2,270	742	1,712	28	(227,792)	84,067
Equity in net earnings of an associate	–	47,501	–	–	–	11,890	59,391
Interest expense and financing charges	(24,212)	(717)	(51,365)	(31,287)	(5,840)	–	(113,421)
Benefit from (provision for) income tax	(6,152)	(83,546)	(72,563)	(19,545)	(907)	15,886	(166,827)
Share of non-controlling interest	–	–	–	(412)	554	(164,299)	(164,157)
Net income attributable to equity holders of parent	₱511,370	₱317,354	₱249,350	₱125,386	(₱77,786)	(₱649,828)	₱475,846
As at December 31, 2010							
Assets and Liabilities							
Segment assets	₱2,752,849	₱763,198	₱2,027,099	₱2,093,216	₱452,936	₱198,271	₱8,287,569
Investment in associates	3,885,950	–	10,288	–	–	(2,531,554)	1,364,684
Deferred tax assets	–	36,407	–	1,963	1,672	4,419	44,461
Total assets	₱6,638,799	₱799,605	₱2,037,387	₱2,095,179	₱454,608	(₱2,328,864)	₱9,696,714
Segment liabilities	₱443,312	₱11,076	₱886,565	₱688,544	₱125,744	(₱228,924)	₱1,926,317
Income and other taxes payable	1,366	35,794	37,122	9,081	462	(36)	83,789
Deferred tax liabilities	–	91,352	49,902	112,481	923	131,260	385,918
Total liabilities	₱444,678	₱138,222	₱973,589	₱810,106	₱127,129	(₱97,700)	₱2,396,024
Other Segment Information							
Capital expenditures	₱1,172	₱–	₱63,725	₱153,652	₱3,653	₱–	₱222,202
Depreciation and amortization	12,457	26,686	72,707	73,112	6,895	46,523	238,380
Noncash items other than depreciation, amortization and provision for impairment losses	328,611	(223)	49,646	(271)	1,198	–	₱378,961

	Continuing Operations							Discontinued Operation - Property Development (see Note 6)	Total Operations
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total		
					(In Thousands)				
Year Ended December 31, 2009									
Revenues									
Segment revenue	₱25,827	₱42,843	₱2,503,987	₱783,564	₱257,209	₱–	₱3,613,430	₱5,292	₱3,618,722
Investment income	369,699	671	708	2,334	29	(261,035)	112,406	–	112,406
Total revenues	₱395,526	₱43,514	₱2,504,695	₱785,898	₱257,238	(₱261,035)	₱3,725,836	₱5,292	₱3,731,128
Results									
Segment results	₱29,499	₱11,267	₱271,859	₱166,687	₱4,320	(₱89,735)	₱393,897	₱66,371	₱460,268
Investment income	369,699	671	708	2,334	29	(261,035)	112,406	–	112,406
Equity in net earnings of an associate	–	29,772	–	–	–	87,885	117,657	–	117,657
Interest expense and financing charges	(15,946)	(783)	(47,575)	(37,632)	(3,846)	–	(105,782)	(1,219)	(107,001)
Benefit from (provision for) income tax	(3,798)	(3,067)	(73,116)	(18,821)	–	19,960	(78,842)	–	(78,842)
Share of non-controlling interest	–	–	–	(2,395)	–	(54,661)	(57,056)	(62)	(57,118)
Net income attributable to equity holders of parent	₱379,454	₱37,860	₱151,876	₱110,173	₱503	(₱297,586)	₱382,280	₱65,090	₱447,370
As at December 31, 2009									
Assets and Liabilities									
Segment assets	₱6,256,991	₱365,137	₱1,541,441	₱2,116,439	₱502,529	(₱3,101,479)	₱7,681,058	₱–	₱7,681,058
Investment in associates	–	325,925	–	–	–	1,010,738	1,336,663	–	1,336,663
Deferred tax assets	–	–	–	941	–	4,661	5,602	–	5,602
Total assets	₱6,256,991	₱691,062	₱1,541,441	₱2,117,380	₱502,529	(₱2,086,080)	₱9,023,323	₱–	₱9,023,323
Segment liabilities	₱453,689	₱10,787	₱727,165	₱872,627	₱80,994	(₱276,906)	₱1,868,356	₱–	₱1,868,356
Income and other taxes payable	5,486	556	48,912	10,778	–	–	65,732	–	65,732
Deferred tax liabilities	–	1,516	60,467	100,887	12,784	147,215	322,869	–	322,869
Total liabilities	₱459,175	₱12,859	₱836,544	₱984,292	₱93,778	(₱129,691)	₱2,256,957	₱–	₱2,256,957
Other Segment Information									
Capital expenditures	₱79,627	₱2	₱37,501	₱25,156	₱6,352	₱–	₱148,638	₱–	₱148,638
Depreciation and amortization	7,519	26,716	70,273	71,030	9,934	63,978	249,450	1,627	251,077
Noncash items other than depreciation, amortization and provision for impairment losses	385,519	146	53,427	54,661	1,107	–	494,860	–	494,860

	Continuing Operations							Discontinued Operation - Property Development (see Note 6)	Total Operations
	Investment Holdings	Property Development	Steel	Educational Services	BPO (As Restated-see Note 7)	Eliminations	Total		
					(In Thousands)				
Year Ended December 31, 2008									
Revenues									
Segment revenue	₱25,395	₱42,911	₱2,723,285	₱313,806	₱–	₱–	₱3,105,397	₱57,004	₱3,162,401
Investment income	238,514	2,054	832	1,341	–	(163,673)	79,068	6,714	85,782
Total revenues	₱263,909	₱44,965	₱2,724,117	₱315,147	₱–	(₱163,673)	₱3,184,465	₱63,718	₱3,248,183
Results									
Segment results	₱131,810	₱11,358	₱281,773	₱39,530	₱–	(₱98,575)	₱365,896	₱6,577	₱372,473
Investment income	238,514	2,054	832	1,341	–	(163,673)	79,068	6,714	85,782
Equity in net earnings of an associate	–	39,839	–	–	–	1,747	41,586	–	41,586
Interest expense and financing charges	(16,793)	–	(69,941)	(6,449)	–	–	(93,183)	(6,679)	(99,862)
Benefit from (provision for) income tax	(4,435)	(3,384)	(72,364)	(2,539)	–	2,270	(80,452)	(2,300)	(82,752)
Share of non-controlling interest	–	–	–	–	–	(42,915)	(42,915)	(1,152)	(44,067)
Net income attributable to equity holders of parent	₱349,096	₱49,867	₱140,300	₱31,883	₱–	(₱301,146)	₱270,000	₱3,160	₱273,160
As at December 31, 2008									
Assets and Liabilities									
Segment assets	₱6,129,210	₱376,069	₱1,939,046	₱699,258	₱551,329	(₱3,036,681)	₱6,658,231	₱596,270	₱7,254,501
Investment in associates	–	323,976	–	–	–	927,402	1,251,378	–	1,251,378
Deferred tax assets	–	–	–	8,774	–	4,903	13,677	283	13,960
Total assets	₱6,129,210	₱700,045	₱1,939,046	₱708,032	₱551,329	(₱2,104,376)	₱7,923,286	₱596,553	₱8,519,839
Segment liabilities	₱482,359	₱16,047	₱1,053,072	₱202,714	₱119,459	(₱214,348)	₱1,659,303	₱40,528	₱1,699,831
Income and other taxes payable	2,704	2,460	40,562	2,408	–	–	48,134	6,342	54,476
Deferred tax liabilities	–	2,372	68,992	38,252	(14,373)	(8,003)	87,240	–	87,240
Total liabilities	₱485,063	₱20,879	₱1,162,626	₱243,374	₱105,086	(₱222,351)	₱1,794,677	₱46,870	₱1,841,547
Other Segment Information									
Capital expenditures	₱530	₱8,661	₱80,353	₱25,741	₱13,362	₱–	₱128,647	₱–	₱128,647
Depreciation and amortization	8,041	26,313	55,593	35,192	–	₱640	125,779	12,173	137,952
Noncash items other than depreciation, amortization and provision for impairment losses	9,302	–	23,252	21,336	–	–	53,890	–	53,890

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