SHAPING THE **FUTURE**

2012 ANNUAL REPORT

PHINMA

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.

FINANCIAL HIGHLIGHTS

	2012	2011	2010
INCOME AND DIVIDENDS (In Thousand Pesos)			
Revenues	4,536,633	3,953,505	3,773,732
Net Income (Loss) Attributable to PHN Equity Holders	(36,010)	81,018	475,846
Cash Dividend	103,095	103,095	103,095
FINANCIAL POSITION (In Thousand Pesos)			
Current Assets	3,180,735	3,649,310	4,099,603
Total Assets	9,645,317	9,680,910	9,696,714
Current Liabilities	1,809,957	1,400,814	1,202,941
Non-current Liabilities	849,526	1,102,520	1,193,083
Equity Attributable to PHN Equity Holders	6,392,328	6,516,908	6,538,737
PER SHARE (In Pesos)			
Earnings (Loss)	(0.14)	0.31	1.85
Cash Dividend Per Share	0.40	0.40	0.40
Book Value of Common Shares	24.69	25.29	25.37
FINANCIAL RATIOS			
Current Ratio	1.76	2.61	3.41
Debt to Equity Ratio	0.38	0.35	0.33

AT A GLANCE

EDUCATION

Phinma Corporation (PHN), 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 27,000 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 : 74.2%
UPang : 69.8%
UI : 69.8%

Highlights

- Total network enrollment grew by three percent from 26,200 students in June 2011 to 27,000 in June 2012
- Core income of the four schools of PEN grew to P103.4 million in 2012 from P96.9 million in 2011.
- In 2012, COC achieved a 100% passing rate for electrical and mechanical engineering boards and two of its students scored in the Top 5 nationwide criminology board exam.
- COC and AU both achieved a 100% passing rate in the CPA board examinations in 2012.
- UI produced two board topnotchers, an eighth placer in the 2012 criminology board exams and a fourth placer in the 2012 nursing board exams.
- UPang remains the best performing nursing school in Region 1 attaining a record passing rate of 83% in the nursing board exams.

HOUSING

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

Ownership by Phinma Corporation: 35.4%

Highlights

- Posted net income of P4.7million in 2012, lower than net income of P70.9 million in 2011, due largely to the implementation of a new fire code which pushed back the project starts of Solano Hills and Arezzo Place.
- Paid-up capital increased to P1.088 billion due to P180.1 million stock rights offer, proceeds of which are earmarked for property acquisition.
- Phinma Properties' pipeline for 2013 looks forward to a 1,260 unit medium-rise project in Quezon City and includes projects outside Metro Manila: a total of 1,350 units in Santa Rosa, Laguna and 1,080 units in Davao City.
- Phinma Properties' current pipeline will add another 4,450 condominium units over the next three years.

STEEL PRODUCTS

Union Galvasteel Corporation (UGC) is the market leader in the manufacture of pre-painted galvanized roofing and other steel products, such as steel decking, frames and insulated panels used for cold storage and other facilities.

UGC has the largest and most diversified distribution network in the industry, with roll-forming plants and warehouses in key locations throughout the country.

Ownership by Phinma Corporation: 98.1%

Highlights

- Posted a 10% increase in its revenues to P2.9 billion in 2012 from P2.64 billion in 2011 spurred by increasing demand for construction materials.
- Converted its continuous galvanizing line (CGL) in Calamba into a higher-capacity color coating line (CCL). This CCL, expected to be operational in early 2014, is the largest in the industry with an annual production capacity of 60,000 metric tons.
- Due to the increased competition from imports under the liberalized tariff scheme and an impairment charge of P25 million on machinery unutilized from the conversion of CGL to CCL, UGC registered a 35% decline in its net income to P70 million in 2012 from P108 million in 2011
- Institutionalized its Customer and Technical Services program to strengthen its commitment to provide total customer satisfaction.

ENERGY

Phinma Corporation, through 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: 26.2%

Highlights

- Posted consolidated net income of P471.2 million in 2012, up 15% from P408.2 million in 2011.
- Renewed its license as a Wholesale Aggregator (WA) from the Energy Regulatory Commission (ERC).
- TA Power became a 100%-owned subsidiary of TA Oil upon the latter's acquisition of Holcim's 50% interest in TA Power.
- Completed the transfer of subsidiary CIP II Power Corporation's 21 MW Bunker power plant from Calamba, Laguna to Bacnotan, La Union.
- In 2012, TA Oil raised fresh capital of over P1.6 billion from a rights issue and another P400 million via a private placement to institutional investors.
- TA Oil signed agreements assigning participating interests in various service contracts to wholly-owned subsidiaries Trans-Asia Petroleum Corporation and Palawan 55 Exploration and Production Corporation.

BUSINESS PROCESS OUTSOURCING

Fuld & Company (Fuld US) is a global consulting firm based in Cambridge, Massachusetts specializing in using competitive intelligence to improve strategy and operations.

Business Backoffice Inc, now Fuld Philippines, Inc. (Fuld PH), is a domestic firm providing business intelligence research services. Phinma Corporation acquired Fuld US and Fuld Philippines in June and July 2011, respectively.

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).

Ownership by Phinma Corporation:

OAL	: 80%
Fuld US	: 85%
Fuld PH	: 85%

Highlights

- In 2012, Fuld group posted revenues of P471.2 million. However, net loss amounted to P20.7 million as the Fuld group hired and integrated new management teams in the US, the UK and in Manila in preparation for 2013 and beyond
- Fuld Asia was launched in Singapore in late 2012 to expand into new markets.
- In 2012, OAL booked revenues of P80.4 million, an increase over revenues of P26.7 million in 2011. Projects included one season and two TV specials of Curious George for Universal Studios.
- Challenged by weak demand from US animation studios and delays in production, OAL posted net loss from operations amounting to P161.5 million. PHN also provided an impairment of the remaining goodwill in OAL in the amount of P212 million.

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 by Wyndham Mall of Asia (Microtel MOA) and a subsidiary of Microtel Development Corporation (Microtel).

Microtel MOA is part of Microtel by Wyndham, an international chain of hotels under Wyndham Hotel Group with more than 300 properties worldwide.

Investment by Phinma Corporation: P66.2 million

Highlights

- Microtel MOA achieved an occupancy rate of 83% in 2012, up from 77% in 2011.
- Generated revenues of P175 million and yielded net income of P3.6 million.

Dear Shareholders,

The year 2012 was a year of broad-based growth for the Philippine economy which grew an estimated 6.6%, buoyed by strong contribution from the services, manufacturing, and construction sectors. Strong macroeconomic fundamentals and President Aquino's no-nonsense "Daang Matuwid" program sent further positive signals to the institutional investment community as the local stock market index climbed throughout the year, closing 33% higher and posting one of the best performances in the region.

In the face of this business environment, your Company's consolidated revenue for 2012 amounted to P4.5 billion, an increase of 15% over the P3.9 billion posted in 2011 on stronger demand for our steel products as well as a full year's consolidation of revenue from the competitive intelligence company we acquired in the middle of 2011.

Core income attributable to shareholders of the parent, before one-off provisions and other non-recurring items, amounted to P131.5 million for the year. This includes the favorable financial results of Trans-Asia Oil and Energy Development Corporation and Phinma Education Network (PEN). This was offset, however, by lower income levels of the steel and property businesses and further losses in the BPO businesses. As a result, core income attributable to shareholders of the parent decreased to P131.5 million from P174.1 million in 2011.

In view of the prospects of One Animate Limited (OAL), your Company has taken a conservative stance and written-off the balance of goodwill in OAL amounting to P212 million. This represents a total write-off of the Corporation's exposure in OAL, resulting in a consolidated net loss of P90 million for 2012.

2012 Highlights

Union Galvasteel Corporation (UGC), our subsidiary engaged in steel roofing, posted a 10% growth in sales revenues during the year. However, net income declined by 35%, from P108 million in 2011 to P70 million in 2012, due to competitive pressures and due to a non-cash impairment on machinery which will not be used in the ongoing conversion of the Continuous Galvanizing Line to a Color Coating Line. The company maintained, however, its leadership in the pre-painted roofing industry and is poised for stronger growth as it implements an expansion program which will make it the largest manufacturer of color-coated steel roofing products.

In 2012, core income from the four schools under the Phinma Education Network (PEN) amounted to P103.4 million, an increase from P96.9 million in 2011. Total enrollment at June 2012 reflected a 3% increase over total enrollment in the previous year. In 2012, Cagayan de Oro College (COC) established a satellite campus in Barangay Puerto to serve up to 1,000 students from nearby areas. We are also pleased to report that PEN schools continued to perform well in terms of board examination passing rates.

Demand for animation services from US studios continued to be weak as the US economy contracted in the fourth quarter of the year, to end 2012 with a GDP growth rate of 2.2%. During the year, net loss from operations and from provisions on receivables amounted to P161.5 million. In addition, your Company has conservatively booked an impairment loss on the remaining goodwill in OAL in the amount of P212 million.

"In the face of this favorable business environment, your Company's consolidated revenue for 2012 amounted to P4.5 billion, an increase of 15% over the P3.9 billion posted in 2011."

On the other hand, Trans Asia Oil and Energy Development Corporation (TA Oil) continues to post strong results as earnings increased 15% from P408.2 million in 2011 to P471.2 million in 2012. The Power Group contributed P747 million to the company's revenues through sales of 533 million KWh to the Wholesale Electricity Spot Market (WESM) and to its bilateral customers Holcim Philippines, Quezon Electric Cooperative II, and Sorsogon Electric Cooperative I.

"The Company remains steadfast in its commitment toward nation building through good businesses that will provide attractive returns to our shareholders and improve the lives of Filipinos."

During the year, TA Oil raised over P2 billion in a successful rights issue and private placement to fund its power expansion program and completed the transfer of the 21 MW CIP II bunker power plant to Bacnotan, La Union. Also, the construction of the first 135 MW coal-fired power plant of South Luzon Thermal Energy Corporation (SLTEC), a joint venture with the Ayala group, is on schedule and is expected to commence operations in the second half of 2014.

Phinma Property Holdings Corporation (Phinma Properties), despite the strong markets in 2012, was challenged by new building regulations passed early in the year as well as unfavorable weather, which both resulted in delayed construction and recognition of revenues. Phinma Properties posted a decrease in net income from P70.9 million in 2011 to P4.7 million in 2012. As a result, equity in net earnings of affiliates during the year decreased by 14% from P137.7 million in 2011 to P118.9 million in 2012.

Fuld & Company and Business Backoffice, Inc. (now rebranded as Fuld Philippines) together completed their first calendar year under Phinma. In 2012, Fuld reorganized new teams in the US and UK, and integrated Fuld Philippines into the business but, challenged by weak demand due to the slow nature of the US economic recovery, the Fuld group posted a net loss of P20.7 million. Moving forward, Fuld intends to diversify revenue sources, grow its Asian business out of a new office in Singapore, and build a strong Philippine back office.

Phinma Corporation ended 2012 with a strong balance sheet, with total assets of P9.6 billion and a current ratio and debt-to-equity ratio of 1.76 and 0.04 respectively. Your Company also has funds of approximately P1.0 billion available for investment, should attractive opportunities become available.

We are pleased to report that, based on a core net income of P131.5 million, your Board has declared a cash dividend of P0.40 per share payable on April 17, 2013.

2013 Outlook

Despite the challenges faced by your Company in 2012 arising from weak demand in its US markets, the Philippine business environment remains strong. For 2013, the Philippine economy - despite the continuing weakness in the global market - is expected to grow by 6% to 7% on strong household consumption, fueled by inflows from overseas Filipinos and rising investments from the private sector, as well as from Government infrastructure spending. The Philippine stock market, echoing international institutional investor confidence in the country, again reached new highs in 2013, with the main index breaching the 6,800 mark in early March. Standard & Poor's raised its Philippine outlook to "positive" in late 2012, citing the stability of the Aquino administration and economic growth. Indications are that the country's credit rating will again be upgraded in the first half of 2013. Interest rates are expected to again remain soft during the year, further encouraging local investment.

Moving forward, your Company continues to be particularly optimistic about the energy sector and intends to participate fully in its expected growth. Already, TA Oil has begun to implement expansion plans that provide for an increase in its current generation portfolio by 500 megawatts over the next five years. SLTEC, on the other hand, is in the final stage of the feasibility study for a second 135-MW clean coal-fired unit. Estimated to cost P10 billion, the second unit will also utilize the Atmospheric Circulating Fluidized Bed boiler technology which will minimize the environmental impact of emissions from the power plant.

For 2013, Phinma Properties intends to leverage on its socialized housing expertise as it delivers 600 socialized housing units to the National Housing Authority. The company is also poised for a recovery based on a larger sales network and a healthy pipeline of over 4,400 condominium units over the next three years.

Outside the area of reliable and renewable power and housing, your Company anticipates growth in its other businesses and expects various expansion projects to boost profitability in the future. UGC's new Color Coating Line will be the largest in the industry when it becomes operational in 2014. At the same time, PEN is establishing new satellite campuses in both Cabanatuan and Cagayan de Oro which will come onstream in June 2013.

Your Company remains committed toward its customers, employees, suppliers, business partners, and creditors. Through its chosen areas of quality education, reliable and renewable power, and affordable homes, the Company remains steadfast in its commitment toward nation building through good businesses that will provide attractive returns to our shareholders and improve the lives of Filipinos.

In closing, we would again like to express our gratitude to our directors, management team, and employees who are all invaluable in achieving our goals, as well as to our shareholders who have shown steadfast support as we make life better in the country.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
President

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. The PEN network 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. In addition to offering affordable tuition ranging from P14,000 to P20,000 a semester, the schools continue to offer financial assistance and, through various programs, grant scholarships to children of government employees and high school students graduating with honors.

Total network enrollment grew by three percent from 26,200 students in June 2011 to 27,000 in June 2012 due to a strong increase in COC enrollment, driven by its expansion in the eastern section of Cagayan de Oro City. The Agusan – Puerto satellite campus saw an 80-percent growth in freshman enrollment from 2011 to 2012. In June 2012, COC formally inaugurated the new COC-Puerto campus in Barangay Puerto which accommodates 1,000 more students.

In terms of academic results, COC and AU both achieved a 100-percent passing rate for fresh graduates in the accountancy board exams in May and October 2012, respectively. UPang remains the best performing nursing school in Region 1, hitting an all-time high passing rate of 83 percent for first-timers in the June 2012 nursing board exams, while COC produced a first placer and third placer in the March 2012 criminology board exams. The COC results for electrical and mechanical engineering boards were also 100 percent for first timers in the September 2012 examination. In 2012, UI produced two board topnotchers – an eighth placer in the March 2012 criminology board exams and a fourth placer in the November 2012 nursing board exams.

In 2012, core income from the four schools under the Phinma Education Network (PEN) amounted to P103.4 million, an increase from P96.9 million in 2011. The combined assets of the network grew by five percent from P2.21 billion to P2.31 billion.

In 2012, PEN standardized processes, including salaries and benefits, and introduced a new faculty ranking system and in-house training module across its network. Standards were set for electricity consumption as the network moved towards energy-saving cooling and lighting methods. PEN expects reductions in utility costs for school year 2012 – 2013.

The PEN schools also made a shift toward open source software, reducing laboratory and software costs of the students and the schools. A new system adopting a single registration process was also introduced. The new system will eventually allow online and off-site enrollment and online payments processing, thus improving convenience and providing better and faster services to the students.

In 2012, PEN piloted a new learning system integrating online material with drills and guided self-learning. Initial positive results indicate the new system is potentially more effective than traditional teaching methods. PEN will rapidly expand the use of this learning system in the next school year. UI signed a Memorandum of Agreement with Magsaysay Lines to bring the latter's training services to Region VI through a world-class training center located on the UI campus, while UPang partnered with DMCI and TA Power to renovate and upgrade the engineering laboratories.

Moving forward, PEN is expanding COC's Basic Education Department and is establishing a new AU campus. The new COC Basic Education complex, a five-storey building with 28 to 30 classrooms, broke ground in October 2012 while AU South, AU's new campus located in the Southern district of Cabanatuan, broke ground in November 2012. The facilities will be open for enrollment in June 2013.

PEN schools continue to standardize processes, improve efficiencies, introduce innovation, and expand, pursuant to the continuing mission of your Company to provide a better life for its students and their families through affordable yet quality education.

EDUCATION

ENERGY

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

We are pleased to report that 2012 was another strong year for TA Oil, with the company posting a consolidated net income of P471.2 million, an increase of 15% over the net income of P408.2 million for 2011. As of December 31, 2012, total consolidated assets stood at P7.7 billion, total liabilities at P747.4 million and total equity at P6.9 billion.

In 2012, TA Oil renewed its license as a Wholesale Aggregator (WA) from the Energy Regulatory Commission (ERC) which will enable it to provide quality and affordable supply of power to electric cooperatives in the country. The company also signed an Auxiliary Service Provision Agreement (ASPA) with the National Grid Corporation of the Philippines (NGCP) as it prepares to enter the market for reserve power.

During the year, TA Oil's 3.4 MW bunker-fired Power Plant continued to supply power to the Guimaras electric cooperative and to the Wholesale Electicity Spot Market (WESM) in the Visayas, delivering a total of 4.3 GWh of power. Trans-Asia Power Generation Corporation (TA Power), a subsidiary of TA Oil, also continued to provide power to major customer Holcim Philippines, Inc. (Holcim). Out of the total energy sales of 253 GWh, 91% or 231 GWh were delivered to Holcim while the remaining 9% or 22 GWh were exported to the WESM. In January 2013, TA Power became a 100%-owned subsidiary of TA Oil upon the latter's acquisition of Holcim's 50% interest in TA Power.

In 2012, TA Oil completed the transfer of subsidiary CIP II Power Corporation's 21 MW Bunker power plant from Calamba, Laguna to Bacnotan, La Union. Testing, commissioning, and interconnection of the plant to the Grid were completed in December 2012. In 2013, the power plant will operate as a merchant plant and will support the electricity supply business of TA Oil.

TA Oil affiliate Maibarara Geothermal Inc. continued to develop the Maibarara geothermal power plant project which is around 60% complete at yearend 2012. The project is expected to be operational within the last quarter of 2013. This project is the first renewable energy undertaking declared commercial by the government under the Renewable Energy Act of 2008. Upon commercial operation, the Maibarara geothermal power plant will be the first geothermal power station in Luzon in 16 years.

South Luzon Thermal Energy Corporation (SLTEC) is TA Oil's venture with Ayala Corporation's energy arm, AC Energy Holdings Corporation. The construction of the first 135-MW environmentally friendly Circulating Fluidized Bed coal-fired plant is proceeding as scheduled and the plant is expected to start operations in the second half of 2014.

The commitment of TA Oil towards other renewable energy sources such as wind projects remains steadfast through its wholly-owned subsidiary, Trans-Asia Renewable Energy Corporation (TAREC). With the approval of the Feed-In-Tariff rate for wind projects in July 2012, TAREC advanced further its 54 MW San Lorenzo Wind Project, completing negotiations on the EPC Contract, Loan Agreement, and Operation & Maintenance and Project Management Contracts.

To fund its continued expansion, TA Oil raised fresh capital in 2012, raising over P1.6 billion from a rights issue and another P400 million via a private placement to institutional investors. Both issuances were oversubscribed, and the total P2 billion in proceeds will be used primarily to finance TA Oil's equity investments in the 54 megawatt wind project in San Lorenzo, Guimaras and the planned second 135 megawatt unit of SLTEC's coal-fired power plant in Calaca, Batangas.

On the exploration front, in December 2012 TA Oil signed agreements assigning participating interests in various service contracts to wholly-owned subsidiaries Trans-Asia Petroleum Corporation and Palawan 55 Exploration & Production Corporation. The spin-off of oil and gas assets will bring focus to TA Oil's oil and gas exploration efforts and facilitate additional capital raising which may be required for oil and gas activities in the future.

For 2013, TA Oil looks forward to the implementation of the open-access regime and is well poised to capitalize on this opportunity and the expected robust growth of the Philippine economy to generate higher revenues and income. Beyond 2013, TA Oil expansion plans provide for an increase in the current generation portfolio by 500 megawatts over the next five years as it supports the government's thrust to ensure adequate and reliable supply of power for the growth of the nation.

STEEL PRODUCTS

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

In 2012, the strong economy spurred a robust growth in construction activity, increasing demand for construction materials. UGC leveraged its distribution network, distinct product quality, and customer service, increasing sales to industrial estates, large contractors, and major housing developers. The company also maintained its strong participation in government projects such as school buildings, military housing units, and shelter relocation projects for typhoon-damaged areas of Mindanao. UGC revenue increased 10% from P2.64 billion in 2011 to P2.9 billion in 2012.

As the company's market base expanded and products were innovated during the year, UGC institutionalized its Customer and Technical Services program to strengthen its commitment to provide total customer satisfaction. With the pick-up of construction activity, the company expanded its production capabilities with the commercial operation in August 2012 of its new Polyurethane Line in Calamba, Laguna, producing polyurethane panels for agro-industrial facilities and insulated roofing panels and augmenting its existing Polyurethane Line in Davao.

Under the current liberalized tariff regime, it is now more economical for UGC to import galvanized coils rather than doing the galvanizing in our plant. Hence, the company has decided to convert its idle continuous galvanizing line (CGL) in Calamba into a higher-capacity color coating line (CCL), in anticipation of further growth in the demand for steel roofing. This CCL, expected to be operational in early 2014, will have a capacity of 60,000 metric tons per year of color coated GI materials, making it the largest in the industry and further strengthening UGC's market leadership in the pre-painted roofing sector. To support the growing market in the Visayas, the company is also upgrading its rollforming plant and regional office in Cebu, which will be operational by the second quarter of 2013.

Investing in information technology to support its growing business and information needs, UGC has selected the Oracle E-Business suite to streamline business processes across its nationwide business units. The system is undergoing parallel runs before it goes live by the second quarter of 2013.

The company ended 2012 with a net income of P70 million, a 35% decrease compared to net income of P108 million in 2011. Although demand for construction materials increased, there was also increased competition from imported steel products under the liberalized tariff regime. Moreover, the conversion of the CGL to a CCL resulted in an impairment charge of P25 million on machinery unutilized in the conversion. Without this non-cash charge, UGC net income for 2012 would have increased accordingly.

The company declared dividends to shareholders and settled the balance of its long-term obligations in anticipation of refinancing with new long-term loans at more attractive rates. Total assets amounted to P1.98 billion, total liabilities stood at P1.08 billion and stockholders' equity at P894.6 million.

In 2013, UGC marks its 50th year of operations. Although it has been a challenging journey, we are proud that the company has attained market leadership and financial stability while maintaining quality and integrity. UGC looks forward to more years of contribution to the growth of the country as it fulfills Phinma's commitment to a better life.

HOUSING

Phinma Property Holdings Corporation (Phinma Properties), a 35%-owned affiliate of the Company, is a leading developer of affordable medium- and high-rise condominium units in Metro Manila. Phinma Properties is the Philippine's first and only triple ISO certified housing developer, recognized for its quality, safety, and environment-friendly designs.

Phinma Properties had another challenging year in 2012. A new fire code was introduced in January 2012 as a knee-jerk reaction to a tragic fire in Tuguegarao. This forced the building plans of Arezzo Place Pasig and Solano Hills back to the drawing boards and pushed back the project starts to the second quarter, into the rainy season. Although Temporary Licenses to Sell for the projects were secured and strong sales commenced in June 2012, the unusually long rainy season of 2012 hampered construction. Reservations for the aforementioned projects totaled 813 units by the end of 2012. Construction, however, fell behind with Solano Hills and Arezzo Place ending the year with only 270 and 180 units at finishing stages of construction, respectively.

In 2012, Phinma Properties also experienced delays in the delivery of its Bistekville 2 socialized housing for the Quezon City Local Government Unit (LGU). Only 422 row houses were completed in 2012, compared to a target of 894 units, due to the LGU's delay in clearing the construction area.

The result was a lag in revenue recognition based on construction completion, resulting in net income of P4.7million in 2012 compared to net income of P70.9 million in 2011. During the year, paid-up capital increased to P1.088 billion due to a stock rights offer of P180.1 million earmarked for property acquisition. Total assets increased to P2.87 billion as of end 2012 from P2.63 billion in 2011.

For 2013, Phinma Properties looks forward to Hacienda Balai, a 1,260-unit medium-rise building (MRB) project over a 2.9-hectare land in Quezon City, scheduled for groundbreaking by the middle of the year. Phinma Properties' pipeline also includes projects outside Metro Manila: a total of 1,350 units in Santa Rosa, Laguna, 1,080 units in Davao City, and Phinma Properties' first of three 15-storey condominium buildings in Pasay City. This project pipeline will add another 4,450 condominium units over the next three years.

Phinma Properties also leveraged on socialized housing efficiencies learned in Bistekville 2 and participated in project biddings of the National Housing Authority (NHA). In December 2012, the company was awarded a 600-unit MRB project, subsequently approved by the NHA board in February 2013. Phinma Properties has likewise been awarded the contract for the construction of the 120-room Microtel Technohub.

Phinma Properties' network of brokers has grown from 342 in January 2012 to 618 in December 2012. The expansion of the network is a continuing program and Phinma Properties expects to grow to at least 1,000 active brokers by year end 2013. The strong sales force and robust pipeline ensure that Phinma Properties is well poised for a recovery in 2013 as it continues to make life better for the urban Filipino family by providing quality, affordable homes.

BUSINESS PROCESS OUTSOURCING

Fuld & Company-acquired by PHINMA in June 2011- and Business Back Office Inc. (BBI) have together completed their first full year of operations as part of the PHINMA group. The joint acquisitions were designed to showcase Filipino talent to the world by producing high-value research services for the world's largest corporations.

Fuld & Company is a global consulting firm that pioneered the field of competitive intelligence to improve corporate strategy and operations. Since 1979, Fuld has served more than 300 of the largest global firms, providing customized research and analysis on markets, competitors, suppliers, and customers. Fuld's well-known strategic gaming workshops help clients improve their market positions by evaluating the implications of planning decisions and anticipating market and competitive responses. BBI, now re-branded as Fuld Philippines (Fuld PH), was established in 2002 and has completed over 400 research projects across multiple industries and markets worldwide, providing phone-based intelligence collection and analysis on critical business issues for top management. Together, these operations, based in Manila, Singapore, London, and Cambridge, Massachusetts, offer multinationals a broad array of services to address client tactical market needs, as well as longer term assessments of future markets.

2012 was year of change for Fuld & Company. The firm hired and integrated a new management team in the US and the UK and also made some key additions to the management team in Manila. In August, Fuld acquired Outward Insights, Inc., a strong brand in the competitive intelligence world best known for strategic services such as war games, scenario planning, and consulting. Fuld moved almost all of its secondary research from US/UK -based companies to Fuld PH. 2012 was also a year of transition and integration for Fuld PH, with initiatives focused on the employment of key personnel, streamlining the communication chain, and the review and alignment of current Fuld PH policies and standards with the rest of the Fuld organization.

In 2012, Fuld's business in the US continued to be challenged by the major re-organization and the costs thereof and by weak demand in light of the slow pace of the US economic recovery. In its first full year of operation under Phinma, the Fuld group posted revenue of P471.2 million and net loss of P20.7 million.

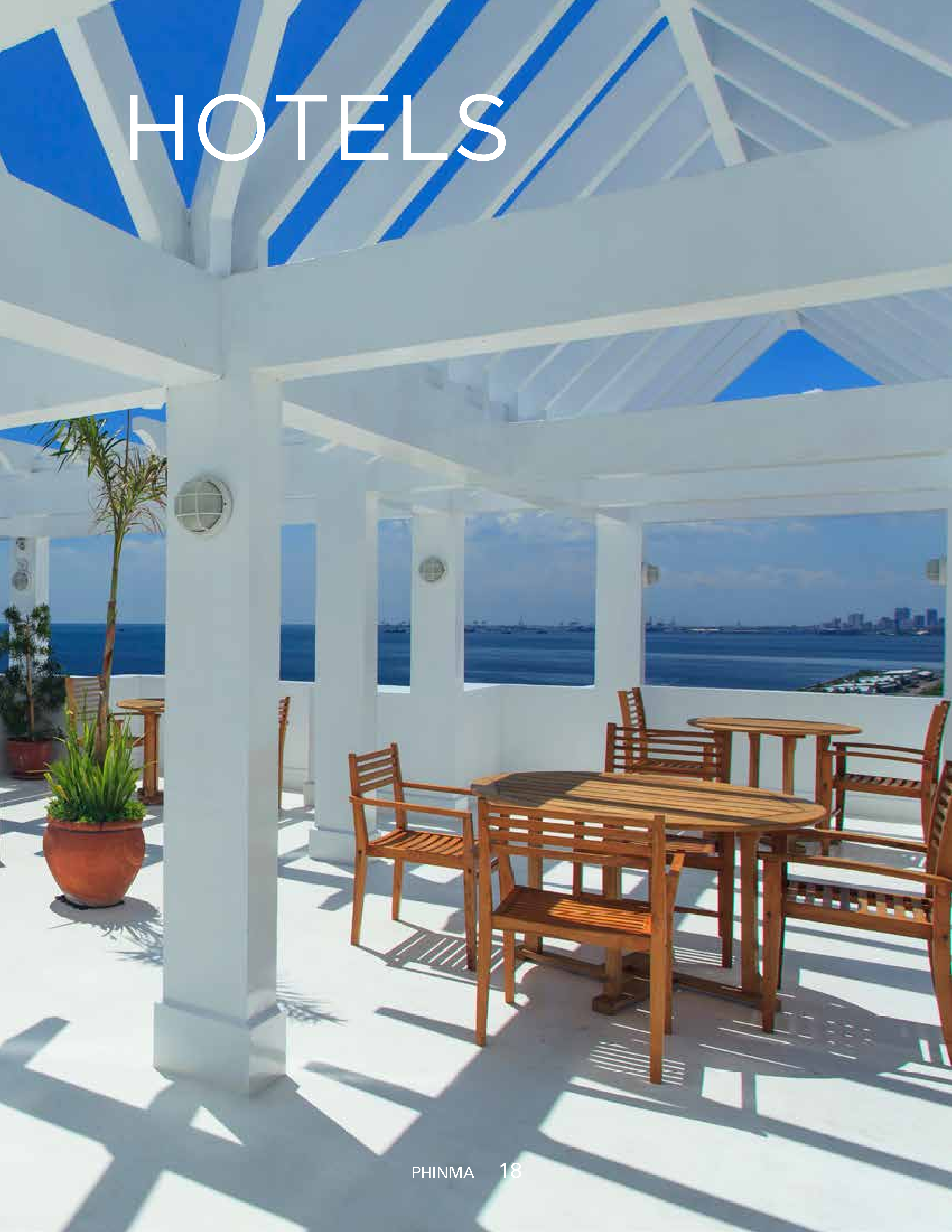
Moving forward, Fuld Asia, launched in Singapore in late 2012, opens an important new market. The current recognition of the brand is very positive and Fuld expects to grow the Asian business significantly in the coming years. 2013 sees Fuld PH striding towards integration and development, continuing efforts to recruit more staff with advanced industry experience. This will be coupled with multi-skill training, fostering extensive integration programs with its counterparts in the US and UK, and developing strategic plans to reconcile its goals and objectives within the Fuld framework. The overall goal for Fuld & Company – and a fundamental part of its growth strategy - remains the building of a strong Philippine back office, which is expected to employ hundreds of Filipinos in the years ahead.

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

In 2012, One Animate booked revenues of P80.4 million, an increase over revenues of P26.7 million in 2011. Projects for 2012 included one season and two TV specials of Curious George for Universal Studios. During the year, One Animate continued to be challenged by weak demand from US animation studios as the US economy contracted in the fourth quarter of 2012. Delayed production on existing contracts also resulted in cost overruns as the company subcontracted additional capacity to meet deadlines. In 2012 the company also provided for the write off of doubtful receivables related to production on the Voltron account in 2011.

All told, net loss from operations of One Animate amounted to P161.5 million. To prevent further losses, in December 2012, Toon City retrenched most of its employees, in line with a shift to a contractual production model. Your Company has decided to take a conservative stance and book a non-cash impairment of the remaining goodwill in OAL in the amount of P212 million.

HOTELS



In view of increasing tourist arrivals and the need for tourism infrastructure, Phinma Corporation ventured into the hospitality industry. Today, part of Phinma Corporation's mission is to provide affordable quality hotel services in the Philippines.

Coral Way City Hotel Corporation (Coral Way) owns the 150-room Microtel by Wyndham (Microtel) Mall of Asia which commenced full commercial operations in September 2010. The hotel is managed by Microtel Development Corporation (MDC).

Microtel is an international chain of hotels under Wyndham Hotel Group with more than 300 properties worldwide. Microtel pioneered the no-frills hotel concept in the Philippines that targets the mid-market. Its approach is back-to-basics and focuses on providing consistently clean, comfortable and secure accommodations at value rates.

In the Philippines, there are 10 hotels located in key regional hubs and resort locations such as Baguio, Batangas, Boracay, Cabanatuan, Cavite, Davao, General Santos, Mall of Asia, Puerto Princesa, and Tarlac. Three more hotels - in Acropolis, Quezon City, UP Technohub, Quezon City, and Sta. Rosa, Laguna - will open soon.

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

Strategically situated near SMX Convention Center and SM Mall of Asia, Microtel Mall of Asia (MOA) caters to local and international travelers, both on business and leisure trips. In 2012, the hotel had an occupancy rate of 83%, with 68% of the bookings coming from the leisure market and the rest from corporate bookings and attendees of conventions, meetings and events in the area.

In 2012, Microtel MOA achieved gross revenue of P175 million, gross operating profit of P71.8 million and net income of P3.6 million.

For 2013, Microtel MOA will aggressively promote through various channels such as print, television, online partnerships, and events. It will also continue to focus its sales and marketing efforts to tap the corporate accounts and meetings, incentives, conventions and events market. The hotel will likewise fully utilize web-based sales and marketing tools to achieve greater Internet visibility and availability and generate more online bookings.

BOARD OF DIRECTORS

Oscar J. Hilado
CHAIRMAN

Ramon R. Del Rosario, Jr.
VICE CHAIRMAN

Roberto M. Laviña
DIRECTOR

Magdaleno B. Albarracin, Jr.
DIRECTOR

Victor J. del Rosario
DIRECTOR

Jose L. Cuisia, Jr.
DIRECTOR

Omar T. Cruz
DIRECTOR

Filomeno G. Francisco
DIRECTOR

Felipe B. Alfonso[+]
INDEPENDENT DIRECTOR

Guillermo D. Luchangco
INDEPENDENT DIRECTOR

Roberto F. de Ocampo
INDEPENDENT DIRECTOR

Oscar J. Hilado has been Chairman of the Board of the Company since 2003. He is also Chairman of the Board of Phinma, Inc., Holcim Philippines, Inc., Trans Asia Oil and Energy Development Corporation, Phinma Property Holdings Corporation, and Union Galvasteel Corporation. Mr. Hilado is also a director of A. Soriano Corporation, First Philippine Holdings Corporation, Philex Mining 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. is President and Chief Executive Officer, 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 Trans-Asia Power Generation Corp., Trans-Asia Renewable Energy Corp., Microtel Inns and Suites (Pilipinas), Inc., Microtel Development Corp., United Pulp and Paper Inc., Fuld & Co., Inc. and Fuld & Co. (Philippines), Inc. and a member of the Board of Directors of other Phinma-managed companies. He is Vice Chairman and Executive Committee Chairman of Trans-Asia Oil and Energy Development Corp. He is also a member of the Board of Directors of Ayala Corp. and Holcim Philippines, Inc. Mr. del Rosario is Chairman of the Makati Business Club and Philippine Business for Education. He served as Philippine Secretary of Finance in 1992-1993. He is the brother of Victor J. del Rosario. He has been a Director of the Company since 1979 and became President and Vice-Chairman of the Board on December 12, 2003. Mr. del Rosario is a graduate of De La Salle University and Harvard Business School.

Magdaleno B. Albarracin, Jr. has been Senior Executive Vice President of the Company since 1988 and is Vice-Chairman of Phinma, Inc. He is also a director 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, as member of the Board of Regents of UP, as member of the Board of Trustees of the University of San Carlos, Cebu City and as President of the Asean Federation of Cement Manufacturers. Dr. Albarracin has a Bachelor of Science degree in Electrical Engineering from the University of the Philippines and a Master of Science degree in Electrical Engineering from the University of Michigan. He obtained his Master in Business Administration degree from the University of the Philippines and his Doctorate in Business Administration from Harvard University. He has been a Director of the Company since 1980.

Roberto M. Laviña was appointed as Senior Executive Vice President and Chief Operating Officer last July 27, 2012. Mr. Laviña is also the Senior Executive Vice President and Chief Operating Officer/ Phinma Group Chief Financial Officer of Phinma, Inc. and Senior Executive Vice President / Treasurer of Trans-Asia Oil and Energy Development Corporation. He also occupies various executive posts in Phinma-managed companies. He holds a Bachelor of Science degree in Economics from Ateneo de Manila University and obtained his Master's degree in Business Management from the Asian Institute of Management. He became a Director of the Company on May 20, 2004.

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

Jose L. Cuisia, Jr. is the Ambassador Extraordinary and Plenipotentiary to the United States of America and is the Vice-Chairman of The Philippine American Life and General Insurance Company. He is also the Chairman of the Board for The Covenant Car Company, Inc. (TCI) and the Vice-Chairman of the Board of SM Prime Holdings (SMPHI). He holds directorates in BPI-Philam Life Assurance Co. (BPLAC), Phinma Corporation, Holcim Philippines, Inc., Manila Water Company, Inc., Integra Business Processing Solutions, Inc. (Integra BPSI), ICCP Holdings and Beacon Property Ventures (all of which are publicly listed companies). Ambassador Cuisia previously served the Philippine Government as Governor of the Philippine Central Bank and Chairman of its Monetary Board from 1990-1993. He was also appointed Commissioner, representative of the Employer's Group, for the Social Security System (SSS) last September-December 2010. The Ambassador was also Governor for the Philippines to the International Monetary Fund (IMF) and Alternate Governor to the World Bank. Prior to service in the Central Bank, he was also Administrator and CEO of the Philippine Social Security System from 1986- 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. Ambassador Cuisia has been a Director of the Company since 1994.

Felipe B. Alfonso (†) was the Vice-Chairman of the Board of Trustees of the Asian Institute of Management (AIM) Scientific Research Foundation, Inc. He was previously President of the Asian Institute of Management, Chairman and subsequently Vice Chairman of Manila Electric Company and was Chairman of H&Q Philippine Holdings, Inc. Mr. Alfonso was the Chairman of the Board of e-Meralco Ventures, Inc. (EMVI), Radius Inc., and STI Inc. and I-Academy Inc. He was a member of the board of directors of AIG Global Fund, Inc., Lopez Holdings Corporation, Jollibee Foods Corporation, PHILAM Bond Fund, Inc., PHILAM Dollar Bond Fund, Inc., PHILAM Fund, Inc., PHILAM Managed Income Fund, Inc., PHILAM Strategic Growth Fund, Inc., and Philippine Investment Management, Inc. (Phinma) and served in Andorra Ventures Corporation and First Private Power Corporation. He was a Trustee of the Coca-Cola Foundation of the Philippines, First Philippine Conservation, Inc. (FPCI), Knowledge Channel Foundation, Inc., and STI Foundation. He was also the Vice Chairman of the Lopez Group Foundation, Inc. Mr. Alfonso obtained his Bachelor of Laws degree from the Ateneo de Manila University and his Master's degree in Business Administration from New York University. He became an Independent Director of the Company on April 19, 2001. Mr. Alfonso passed away on April 5, 2013.

Guillermo D. Luchangco is the Chairman and CEO of various companies under the ICCP Group and is Chairman and President of Beacon Property Ventures, Inc. He is a director of various companies including Phinma Property Holdings Corp., Fuld Philippines, Inc., Globe Telecom, Inc., Roxas & Company, Inc., Ionics Inc., Ionic Circuits, Ltd. He was formerly the Vice-Chairman and President of Republic Glass Corporation in 1987 and the Managing Director of SGV & Co. in 1980. Mr. Luchangco received his Bachelor of Science degree in Chemical Engineering (Magna cum Laude), from De La Salle University and holds a Master's degree in Business Administration from the Harvard Business School. He became an Independent Director of the Company on April 11, 2005.

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

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

Filomeno G. Francisco was formerly President and Chief Operating Officer of AB Capital and Investment Corporation (ABCIC). He is currently President of Brown Cross Investments Corporation and Chairman of Ginory Holdings Corporation. Mr. Francisco served on the Boards of Investment House Association of the Philippines, Philippine Stock Exchange, PSE Foundation and Manila Stock Exchange. Mr. Francisco also held directorates in ABCIC, Cebu Holdings, Inc, Philippines Long-Term Equity Fund, Hi Cement Corporation, and United Pulp and Paper Co., Inc. He has a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University.

EXECUTIVE OFFICERS

Ramon R. Del Rosario, Jr.
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Roberto M. Laviña
SENIOR EXECUTIVE VICE PRESIDENT AND
CHIEF OPERATING OFFICER

Magdaleno B. Albarracin, Jr.
SENIOR EXECUTIVE VICE PRESIDENT

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

Juan J. Diaz
CORPORATE SECRETARY

Pythagoras L. Brion, Jr.
SENIOR VICE PRESIDENT AND TREASURER

Regina B. Alvarez
SENIOR VICE PRESIDENT - FINANCE

Cecille B. Arenillo
VICE PRESIDENT - TREASURY AND COMPLIANCE OFFICER

Rizalina P. Andrada
VICE PRESIDENT - FINANCE

Rolando D. Soliven
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 24, 2013 the Corporate Governance Compliance Certification (CGCC) certifying that as of December 31, 2012, the Corporation substantially adopted the provisions of the Manual on Corporate Governance. The Compliance Officer also submitted to the Philippine Stock Exchange on March 20, 2013 the Compliance Report on Corporate Governance for year 2012 based on the Corporate Governance Guidelines for Listed Companies.

BOARD OF DIRECTORS

Composition

As of December 31, 2012, 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 three 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 four regular meetings and one organizational meeting in 2012. The matters taken up during the Board meetings are detailed in the Definitive Information Statement sent to shareholders.

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

	2012 BOARD MEETINGS				
DIRECTORS	Mar 22 Regular	May 14 Organizational	May 14 Regular	Jul 27 Regular	Nov 13 Regular
Oscar J. Hilado	P	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	P	P	P	P
Ramon R. Del Rosario, Jr.	P	P	P	P	P
Jose L. Cuisia, Jr.	P	P	P	P	P
Victor J. Del Rosario	P	P	P	P	P
Roberto M. Laviña	P	P	P	P	P
Omar T. Cruz	P	A	A	P	P
Filomeno G. Francisco	P	P	P	P	P
Roberto F. De Ocampo	P	P	P	P	P
Felipe B. Alfonso	P	P	P	P	P
Guillermo D. Luchangco	P	P	P	A	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.

As of December 31, 2012 the board committees and its members were as follows:

	BOARD COMMITTEES				
DIRECTORS	AUDIT	EXCOM	NOMINATION	COMPENSATION	RETIREMENT
Oscar J. Hilado		Chairman	Chairman	Member	Chairman
Magdaleno B. Albarracin, Jr.	Member	Member			Member
Ramon R. Del Rosario, Jr.		Member	Member	Member	
Jose L. Cuisia, Jr.		Member		Chairman	
Victor J. Del Rosario	Member				Member
Roberto M. Laviña					Member
Filomeno G. Francisco	Member				
Roberto F. De Ocampo	Member				
Felipe B. Alfonso	Chairman			Member	
Guillermo D. Luchangco		Member	Member		

Nomination Committee

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

In March 2013, the Nomination Committee, after a review of the qualifications of the candidates, submitted to the Board of Directors the list of qualified nominees.

Compensation Committee

The Compensation Committee is composed of four 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.

Audit Committee

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

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

In 2012, the Audit Committee held four meetings and overall attendance was 77.5%. The Committee reviewed the audited financial statements for 2011 and the interim statements for the quarters ending March 31, June 30, and September 30 for the year 2012. It likewise endorsed to the Board of Directors the nomination of SGV and Co. as the company's external auditor for 2012, and reviewed and approved the Internal Audit plan for 2012.

Attendance

AUDIT COMMITTEE	YEAR 2012			
	Mar 21	May 10	July 26	Nov 9
Felipe B. Alfonso	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	P	A	P
Victor J. Del Rosario	P	A	P	P
Roberto F. De Ocampo	A	P	A	P
Filomeno G. Francisco	-	-	P	P

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 May 15, 2012, 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. Catherine E. Lopez is the partner in charge. On March 6, 2013, SGV & Co. issued its report on the financial statements for the year ended December 31, 2012, 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 consecutive years or more. Ms. Lopez has been the audit partner of the Company for one year.

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
2012	P4,000,000	-	-
2011	4,000,000	-	-

INTERNAL AUDIT

The Group Internal Audit (GIA) team provides independent and objective internal auditing services to the Company and assists it in accomplishing its objectives by evaluating and improving the effectiveness of the Company's risk management, control, and governance processes. The GIA team reports functionally to the Board, through the Audit Committee, and administratively to Senior Management.

In May 2012, the Audit Committee approved a revision of the GIA Charter to adhere to the Institute of Internal Auditors' guidance, including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (ISPPIA). Under this Charter, GIA performed various internal control reviews of the Company and its subsidiaries and affiliates. Based on the results of these reviews, Group Internal Audit reported that overall controls are adequate and effective.

DISCLOSURE AND TRANSPARENCY

Phinma Corporation commits itself to high standards of disclosure and transparency. In addition to submitting annual and quarterly financial information and other statutory requirements, the corporation promptly discloses material information such as declaration of dividends, investments and divestments and other items. The disclosures to the PSE and SEC in 2012 included the following:

- Subscription in the stock rights offering of Trans-Asia Oil and Energy Development Corporation.
- Subscription in the stock rights offering of Phinma Property Holdings Corporation.
- Purchase of parcels of land located in Barangay Puting Lupa, Calamba City.

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.

Phinma Corporation believes that good governance is an integral component of sound business management and exerts every effort necessary to ensure compliance within the organization.

CORPORATE SOCIAL RESPONSIBILITY

Caring for Nature ... Ourselves
Joanah Faith Sanz, 15
1st place, Category A
TA Oil's 'Hamon ni Juan Matipid: Kabataan, Kampeon ng Kalikasan' Contest

Phinma Corporation's corporate social responsibility initiatives focus on areas related to its mission of providing quality education, affordable housing, and reliable and renewable power. Company officers and employees, in their personal capacities, volunteer and reach out to local communities through various socially relevant Company-sponsored programs.

Education

Phinma is deeply committed to education. To give more students access to better education, the four schools under the Phinma Education Network (PEN) extend financial assistance to students. For School Year 2012-13, PEN awarded full tuition scholarships to 638 Presidential scholars on the basis of academic performance and half scholarships to 5,688 Financial Assistance Program scholars on the basis of financial need.

The Company continues to support the Phinma National Scholarship (PNS) program of Phinma Foundation, Inc. From its initial batch of 11 scholars in 2006, the PNS program has grown to a total of 85 scholars enrolled in education, accounting and engineering. The program also has 30 graduates, all of whom passed their respective board examinations, with two ranking among the top 10 examinees.

The PNS program aims to produce not just graduates but leaders as well. Activities such as on-the-job training, leadership conferences, workshops and exchange programs are conducted year-round to hone each of the scholars' skills and potential. This year's three-day leadership conference included an effective habits workshop geared towards decision-making. The activities also included an educational tour of the Mind Museum and a viewing of PETA theater performances entitled "Batang Rizal" and "Kwento ni Lola Basyang."

In 2012, the PNS program was supported by several individuals and institutions. Of the 85 scholars, 11 were sponsored by Phinma directors, officers, employees, and various program partners, including 12 scholars sponsored by Australian Aid, three by Multinational Investment Bancorporation, two by Doña Marta T. Hernandez Foundation, one by the Province of Sarangani and another by the Alcantara Foundation. PNS is targeting to support 100 scholars next school year.

Phinma Foundation also supported three seminarians for the school year 2012-2013 and provided financial assistance to 76 high school and 28 college students nationwide, through the generous contribution of a director.

This commitment to education is also shared by the operating companies. Microtel Mall of Asia donates newspapers daily to Marcelo Elementary School in Pasay City to help improve English proficiency and current events awareness among students. In 2012, Phinma Properties and PEN embarked on a project to provide education and an office to Kesz Valdez, the 13-year old Caviteño awarded the International Children's Peace Prize. Kesz, under the tutelage of noted social workers Efren Peñaflorida and Harnin Manalaysay, teaches five- to 10-year-old children proper hygiene and first aid, giving out toiletries and hygiene kits. Phinma Properties will provide the modest 50 sqm. home office; PEN will support Kesz's education.

Environment

Trans-Asia Oil and Energy Development Corporation's (TA Oil) Harnessing Energy Literacy for Planet Earth (HELP Earth) program continued to gain traction during the year. TA Oil has donated 20 HELP Earth multimedia corners in the country, with three given in 2012 to elementary schools in Guadalupe Viejo, Makati City, Norzagaray, Bulacan, and Infanta, Quezon. In May 2012, training on how to use the Energy Activity Guidebook was conducted in Norzagaray, Bulacan. The training, participated in by 27 science teachers and five principals, focused on helping science teachers teach energy-related lessons.

A HELP Earth Savers Club, composed of students passionate about science and the environment, was formed in eight partner-schools in Bulacan. The

club's goal is to maximize the use of the HELP Earth multimedia corners, with students taking the lead. By the end of 2012, 64 elementary and 34 high school student leaders had joined a leadership seminar, which encouraged proactive leadership in finding solutions to mitigate environmental challenges.

The four schools under the Phinma Education Network (PEN) likewise undertook activities geared towards the environment. In cooperation with the Department of Environment and Natural Resources and the local governments, the schools committed to long-term, annual tree planting campaigns with the goal of creating man-made forests in each locality. PEN was assigned approximately 15 hectares of land. In 2012, it planted a total of 9,000 trees.

During the year, Union Galvasteel Corporation (UGC) continued its annual coastal and river clean-up campaigns at Baranca de Sipit Creek in Barangay Real, Calamba City as part of Laguna Lake Development Authority's Adopt-A-River project.

Shelter

UGC partnered with the Canossian Sisters in 2010 to develop homes for typhoon-displaced migrant workers on a three-hectare ricefield in Sitio Ronggot, Calamba City. In 2012, seven more UGC-designed shelters were completed to add to the 28 homes already built. Another six homes are presently undergoing construction and another four will be built in 2013 to complete the target 45 homes of "Canossa Galvaville". The community also has a UGC-built chapel and two artesian wells. Plans are also being drawn up to provide running water and electrification in the next two years.

UGC also teamed up with Our Lady of Victory (OLV) to construct a one-storey dormitory in Tugbok, Mintal, Davao City to house the physically handicapped and the underprivileged. The aim is to assist them in their quest to become able individuals and active members of society. Through the OLV Training Center, the physically handicapped are trained in metal craft, carpentry, woodwork, and other cottage industries.

Disaster Response

In December 2012, Typhoon Pablo hit the Davao region. UGC employees manifested the bayanihan spirit by collecting and distributing relief goods, including 800 items of medical supplies, 100 gallons of water and 240 covered pails to 440 families in New Bataan, Compostela Valley and Cateel, Davao Oriental. UGC also brought an engine-generator used as a charging station for mobile phones. At the same time, COC, although not in Typhoon Pablo's direct path, acted as a disaster relief center by opening its doors to affected employees and people in the surrounding community.

Individual Social Responsibility

Phinma further expands the concept of CSR to include Individual Social Responsibility (ISR) through the

Company officers and employees, in their personal capacities, volunteer and reach out to local communities through various socially relevant Company-sponsored programs.

Phinma HERO Network, a campaign aimed towards transforming each member of its workforce into a H.E.R.O. – Helpful Employee Responsible for Others. Since its launch in 2009, the program has mobilized over 470 employees to volunteer in underserved communities.

In 2012, volunteers contributed their time, talent, and resources through over 40 outreach activities such as enrichment classes for elementary and high school students and children in conflict with the law, bloodletting activities, a visit and medical mission for the inmates of New Bilibid Prison, Brigada Eskwela repair and clean-up, and wish grants for cancer patients. These projects were conducted in partnership with Caritas Manila Restorative Justice Ministry, Department of Education, Make-A-Wish Foundation Philippines, Manila Youth Reception Center, Mano Amiga Academy, Philippine Red Cross and Phinma Group CSR Programs.

The HERO Network also launched its first leadership training in February 2013 to celebrate its 4th anniversary. The training, attended by 33 volunteers, focused on enhancing creative thinking and communication skills. The HERO Network seeks to develop leadership in volunteers who will initiate activities in their chosen communities and personal advocacies.

The program will continue to partner with schools, nonprofit groups, and the Phinma Group's adopted beneficiaries to provide more meaningful opportunities for employee-volunteers to serve. Through these efforts, HERO hopes to achieve 100% volunteer participation within Phinma by 2016.

FINANCIAL STATEMENTS

REPORT OF AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

The Audit Committee is composed of five (5) members. An independent director chairs the Audit Committee. The Committee has adequate understanding of the Company's business and industry in which it operates.

We are pleased to report our activities for Calendar Year 2012.

The Audit Committee had four (4) meetings during the year. Overall, attendance is at 78%. The first meeting was held to discuss the results of the annual audit of the external auditor (SGV and Co), review of audited 2011 financial statements for endorsement to the Board, the Group Internal Audit's 2011 accomplishments and 2012 Audit Plan, and the 2011 Audit Committee Report. The remaining three meetings were held to review the quarterly financial statements of the Company, revisions to the Internal Audit Charter and SGV and Co.'s audit plan for 2012.

We received information and support from Management, the Compliance Officer and Group 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 2011 audited consolidated financial statements and 2012 quarterly consolidated financial statements.

Informatively, in our first meeting for 2013, held March 6, 2013, we, likewise, reviewed and endorsed to the Board of Directors for approval the 2012 audited consolidated financial statements presented in this annual report. These activities were performed in the following context:

- Management has the responsibility for the financial statements and the financial reporting process.
- SyCip, Gorres, Velayo & Co. (SGV & Co.) is responsible for expressing an opinion on the annual audited consolidated financial statements in accordance with Philippine Reporting Standards.

External Audit

On March 21, 2012, we endorsed to the Board of Directors the nomination of Sycip, Gorres, Velayo and Company (SGV) as the Company's external auditor for 2012. We reviewed and approved the scope and deliverables of the SGV audit plan. The Committee ensured that the SGV's scope included the review of Company's compliance to Philippine Financial Reporting Standards (PFRS).

We also proposed to the Board of Directors to retain SGV and Co. as the external auditor for 2013 as discussed in our committee meeting held March 6, 2013.

Internal Audit

We reviewed and approved the Internal Audit plan for 2012. We also approved the proposed revisions to the Group Internal Audit (GIA) Charter. The key revisions to the GIA Charter were made to comply with International Standards for the Professional Practice of Internal Auditing

Audit Committee Charter

We performed a self-assessment of the Audit Committee's performance in line with the Guidelines issued by the Securities and Exchange Commission for the year 2012. Following this exercise, we recommended, and the Board of Directors subsequently approved, the revision of the Audit Committee Charter to fully comply with the SEC Guidelines.

FELIPE B. ALFONSO
Chairman, Independent Director

ROBERTO F. DE OCAMPO
Independent Director

FILOMENO G. FRANCISCO
Independent Director

VICTOR J. DEL ROSARIO
Executive Director

MAGDALENO B. ALBARRACIN, JR.
Executive Director

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The management of PHINMA CORPORATION AND SUBSIDIARIES is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Signed this 6th day of March 2013.

OSCAR J. HILADO
Chairman of the Board

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PHINMA Corporation

We have audited the accompanying consolidated financial statements of PHINMA Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, 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, 2012, 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, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez

Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-AR-2 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-085-895
BIR Accreditation No. 08-001998-65-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669691, January 2, 2013, Makati City

March 6, 2013

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011 (As restated - Note 6)
	(In Thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 31 and 32)	**₱465,179**	₱916,157
Investments held for trading (Notes 8, 31 and 32)	**800,415**	771,517
Trade and other receivables (Notes 9, 28, 31 and 32)	**871,881**	857,649
Inventories (Note 10)	**956,472**	977,919
Input value-added taxes	**5,425**	40,697
Derivative asset and other current assets (Notes 31 and 32)	**81,363**	85,371
Total Current Assets	**3,180,735**	3,649,310
Noncurrent Assets		
Investments in associates - at equity (Note 11)	**2,344,065**	1,835,145
Available-for-sale (AFS) investments (Notes 12, 31 and 32)	**232,406**	140,990
Property, plant and equipment (Notes 13 and 19)	**2,258,625**	2,260,744
Investment properties (Notes 14 and 19)	**421,707**	410,890
Intangibles (Notes 6 and 15)	**1,091,033**	1,307,946
Deferred tax assets - net (Note 29)	**85,231**	49,245
Other noncurrent assets (Note 16)	**31,515**	26,640
Total Noncurrent Assets	**6,464,582**	6,031,600
	₱9,645,317	₱9,680,910
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 17, 31 and 32)	**₱373,676**	₱455,193
Trade and other payables (Notes 18, 31 and 32)	**536,683**	402,495
Unearned revenues - inclusive of current portion of deferred rent revenue of ₱1.2 million in 2012 and 2011 (Notes 4 and 28)	**197,051**	204,567
Trust receipts payable (Notes 10, 31 and 32)	**554,797**	103,735
Income and other taxes payable	**41,796**	44,889
Due to related parties (Notes 28, 31 and 32)	**17,655**	24,496
Derivative liability (Notes 31 and 32)	**–**	2,281
Current portion of long-term loan payable (Notes 6, 31 and 32)	**23,645**	22,095
Current portion of long-term debt (Notes 19, 28, 31 and 32)	**64,654**	141,063
Total Current Liabilities	**1,809,957**	1,400,814
Noncurrent Liabilities		
Long-term debt (Notes 19, 28, 31 and 32)	**347,532**	599,659
Long-term loan payable (Notes 6, 31 and 32)	**47,290**	78,912
Deferred tax liabilities - net (Note 29)	**313,736**	310,995
Pension and other post-employment benefits (Note 30)	**88,179**	58,249
Deferred rent revenue - net of current portion (Note 28)	**46,062**	47,228
Other noncurrent liabilities (Note 28)	**6,727**	7,477
Total Noncurrent Liabilities	**849,526**	1,102,520
Total Liabilities	**2,659,483**	2,503,334
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 20)	**2,588,946**	2,577,249
Additional paid-in capital	**256,495**	255,785
Other components of equity (Note 20)	**36,032**	33,914
Retained earnings (Note 20)	**3,510,855**	3,649,960
Equity attributable to equity holders of the parent	**6,392,328**	6,516,908
Equity Attributable to Non-controlling Interest (Note 6)	**593,506**	660,668
Total Equity	**6,985,834**	7,177,576
	₱9,645,317	₱9,680,910

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2012	2011	2010
	(In Thousands, Except Per Share Data)		
REVENUE			
Sale of goods	**₱3,082,380**	₱2,695,638	₱2,795,576
Tuition and school fees	**726,872**	823,964	754,323
Consultancy services	**471,262**	258,065	–
Investment income (Notes 8 and 21)	**133,068**	102,335	84,067
Animation services	**80,396**	26,631	60,127
Rental income (Note 14)	**42,655**	46,872	79,639
	4,536,633	3,953,505	3,773,732
COSTS AND EXPENSES			
Cost of sales (Notes 22, 25 and 26)	**(2,403,519)**	(2,117,967)	(2,038,152)
Cost of educational, animation and consultancy services (Notes 22, 25 and 26)	**(666,489)**	(690,310)	(573,259)
General and administrative expenses (Notes 9, 16, 23, 25, 26 and 28)	**(914,608)**	(641,444)	(561,983)
Selling expenses (Notes 9, 24, 25 and 26)	**(442,086)**	(329,018)	(228,987)
	(4,426,702)	(3,778,739)	(3,402,381)
OTHER INCOME (CHARGES)			
Impairment loss on goodwill (Notes 4 and 15)	**(212,300)**	(166,369)	–
Equity in net earnings of associates (Note 11)	**118,944**	137,656	59,391
Interest expense and other financial charges (Note 27)	**(101,303)**	(108,381)	(113,421)
Foreign exchange losses - net (Note 31)	**(22,874)**	(6,298)	(32,402)
Gain on sale of investment properties (Notes 9 and 14)	**16,277**	1,611	386,073
Net gains on derivatives (Note 32)	**12,270**	7,121	50,061
Income from reversal of unrecoverable input value-added tax	**1,542**	–	52,349
Others – net (Note 11)	**30,399**	63,424	33,428
	(157,045)	(71,236)	435,479
INCOME (LOSS) BEFORE INCOME TAX	**(47,114)**	103,530	806,830
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**69,535**	128,294	135,619
Deferred	**(26,592)**	(82,273)	31,208
	42,943	46,021	166,827
NET INCOME (LOSS)	**(₱90,057)**	₱57,509	₱640,003
Attributable to			
Equity holders of the Parent	**(₱36,010)**	₱81,018	₱475,846
Non-controlling interest	**(54,047)**	(23,509)	164,157
Net income (loss)	**(₱90,057)**	₱57,509	₱640,003
Basic/Diluted Earnings (Loss) Per Common Share - Attributable to Equity Holders of the Parent (Note 34)	**(₱0.14)**	₱0.31	₱1.85

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
		(In Thousands)	
NET INCOME (LOSS)	**(₱90,057)**	₱57,509	₱640,003
OTHER COMPREHENSIVE INCOME (LOSS)			
Cumulative translation adjustments	**(5,803)**	790	6,184
Unrealized gain (loss) on change in fair value of AFS investments (Note 12)	**(635)**	(367)	1,060
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 11)	**4,713**	(175)	7,731
	(1,725)	248	14,975
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱91,782)**	₱57,757	₱654,978
Attributable to			
Equity holders of the Parent	**(₱37,735)**	₱81,266	₱489,576
Non-controlling interest	**(54,047)**	(23,509)	165,402
Total Comprehensive Income (Loss)	**(₱91,782)**	₱57,757	₱654,978

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 20)	Additional Paid-in Capital	Share in Equity Component of Convertible Notes (Note 20)	Share in Unrealized Gain (Loss) on Change in Fair Value of AFS Investments of Associates (Notes 11 and 20)	Unrealized Gain (Loss) on Change in Fair Value of AFS Investments (Notes 12 and 20)	Cumulative Translation Adjustments (Note 20)	Other Reserves (Note 20)	Retained Earnings: Appropriated (Note 20)	Retained Earnings: Unappropriated	Subtotal	Non-controlling Interest	Total Equity
						(In Thousands)						
Balance, January 1, 2012	**₱2,577,249**	**₱255,785**	**₱–**	**₱19,051**	**₱985**	**₱4,935**	**₱8,943**	**₱1,000,000**	**₱2,649,960**	**₱6,516,908**	**₱660,668**	**₱7,177,576**
Total comprehensive income (loss)				**4,713**	**(635)**	**(5,803)**			**(36,010)**	**(37,735)**	**(54,047)**	**(91,782)**
Cash dividends - ₱0.40 a share (Note 20)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(103,095)**	**(103,095)**	**–**	**(103,095)**
Issuance of stocks from stock purchase plan (Note 20)	**11,697**	**710**	**–**	**–**	**–**	**–**	**(12,407)**	**–**	**–**	**–**	**–**	**–**
Stock purchase plan (Note 20)	**–**	**–**	**–**	**–**	**–**	**–**	**24,315**	**–**	**–**	**24,315**	**–**	**24,315**
Dividends received	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21,585)**	**(21,585)**
Acquisition of subsidiaries (Note 6)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,971**	**9,971**
Acquisition of non-controlling interest (Note 6)	**–**	**–**	**–**	**–**	**–**	**–**	**(8,065)**	**–**	**–**	**(8,065)**	**(2,016)**	**(10,081)**
Subscriptions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**515**	**515**
Balance, December 31, 2012	**₱2,588,946**	**₱256,495**	**₱–**	**₱23,764**	**₱350**	**(₱868)**	**₱12,786**	**₱1,000,000**	**₱2,510,855**	**₱6,392,328**	**₱593,506**	**₱6,985,834**
Balance, January 1, 2011	₱2,577,249	₱255,785	₱–	₱19,226	₱1,352	₱4,145	₱8,943	₱1,000,000	₱2,672,037	₱6,538,737	₱761,953	₱7,300,690
Total comprehensive income	–	–	–	(175)	(367)	790	–	–	81,018	81,266	(23,509)	57,757
Cash dividends - ₱0.40 a share (Note 20)	–	–	–	–	–	–	–	–	(103,095)	(103,095)	–	(103,095)
Dividends received	–	–	–	–	–	–	–	–	–	–	(98,914)	(98,914)
Acquisition of subsidiaries (Note 6)	–	–	–	–	–	–	–	–	–	–	11,902	11,902
Subscriptions	–	–	–	–	–	–	–	–	–	–	9,236	9,236
Balance, December 31, 2011	₱2,577,249	₱255,785	₱–	₱19,051	₱985	₱4,935	₱8,943	₱1,000,000	₱2,649,960	₱6,516,908	₱660,668	₱7,177,576
Balance, January 1, 2010	₱2,577,249	₱255,785	₱13,443	₱11,495	₱300	(₱802)	₱–	₱1,000,000	₱2,282,587	₱6,140,057	₱626,309	₱6,766,366
Total comprehensive income	–	–	–	7,731	1,052	4,947	–	–	475,846	489,576	165,402	654,978
Cash dividends - ₱0.40 a share (Note 20)	–	–	–	–	–	–	–	–	(103,095)	(103,095)	–	(103,095)
Dividends received	–	–	–	–	–	–	–	–	–	–	(25,218)	(25,218)
Subscriptions	–	–	–	–	–	–	–	–	–	–	4,403	4,403
Reclassification of share in equity component of convertible notes (Note 20)	–	–	(13,443)	–	–	–	–	–	16,699	3,256	–	3,256
Change in ownership interest without loss of control (Note 1)	–	–	–	–	–	–	8,943	–	–	8,943	(8,943)	–
Balance, December 31, 2010	₱2,577,249	₱255,785	₱–	₱19,226	₱1,352	₱4,145	₱8,943	₱1,000,000	₱2,672,037	₱6,538,737	₱761,953	₱7,300,690

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**(₱47,114)**	₱103,530	₱806,830
Noncash adjustment to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Note 26)	**233,048**	218,079	238,380
Impairment loss on goodwill (Note 15)	**212,300**	166,369	–
Equity in net earnings of associates (Note 11)	**(118,944)**	(137,656)	(59,391)
Interest expense and other financial charges (Note 27)	**101,303**	108,381	113,421
Retirement cost (Note 30)	**63,721**	38,478	38,168
Interest income (Note 21)	**(58,303)**	(61,287)	(60,252)
Provision for unrecoverable input value-added tax (Note 23)	**45,471**	7,372	4,063
Dividend income (Note 21)	**(23,896)**	(2,454)	(4,469)
Stock purchase plan expense (Note 20)	**19,821**	–	–
Gain on sale of investment property	**(16,276)**	(1,611)	(386,073)
Net gains on derivatives - net (Note 32)	**(12,270)**	(7,121)	(50,061)
Unrealized foreign exchange loss - net	**3,107**	4,672	17,442
Loss (gain) on sale of property and equipment	**(1,992)**	(56)	72
Income from reversal of unrecoverable input value-added tax	–	–	(52,349)
Gain on sale of AFS investments	–	(4)	(16)
Operating income before working capital changes	**399,976**	436,692	605,765
Decrease (increase) in:			
Short-term investments	–	47,316	(47,316)
Investments held for trading	**(27,206)**	67,707	(291,404)
Trade and other receivables	**(16,665)**	309,983	308,999
Inventories	**21,447**	(147,009)	(229,669)
Other current assets	**37,336**	(6,586)	(11,066)
Increase (decrease) in:			
Trade and other payables	**5,497**	(83,689)	(219,211)
Trust receipts payable	**451,061**	(18,589)	(9,484)
Other taxes payable	**(6,424)**	(63,614)	(5,694)
Unearned revenues	**(7,515)**	9,683	6,419
Cash generated from operations	**857,507**	551,894	107,339
Interest paid	**(103,835)**	(109,266)	(127,981)
Income tax paid	**(63,734)**	(102,452)	(87,618)
Net cash provided by (used in) operating activities	**689,938**	340,176	(108,260)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investments in associates	**(533,153)**	(350,364)	–
Property, plant and equipment and investment properties (Notes 13, 14 and 37)	**(250,638)**	(315,790)	(222,202)
Proceeds from sale/settlement of:			
AFS investments	**9,502**	257,940	258
Forward currency contracts	**9,460**	13,844	52,484
Investment properties	**24,538**	9,986	135,300
Property, plant and equipment	**26,196**	766	47,141
Purchase price adjustment (Note 15)	**7,063**	–	–
Receipt of deposits for investment	**96,120**	–	–
Acquisition of subsidiaries - net of cash acquired (Note 6)	–	(235,141)	–
Interest received	**59,424**	58,381	60,372
Decrease (increase) in other noncurrent assets	**(66,829)**	19,640	9,333
Dividends received	**54,201**	17,986	43,570
Acquisition of non-controlling interest (Note 6)	**(10,081)**	–	–
Net cash provided by (used in) investing activities	**(574,197)**	(522,752)	126,256

	Years Ended December 31		
	2012	2011	2010
		(In Thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Notes payable	**380,792**	447,133	212,991
Long-term debt	**–**	37,841	400,000
Payments of:			
Notes payable	**(462,309)**	(241,737)	(67,634)
Long-term debt	**(330,359)**	(142,474)	(256,440)
Cash dividends	**(102,014)**	(101,874)	(103,095)
Long-term loan payable	**(34,894)**	(4,160)	–
Increase (decrease) in:			
Non-controlling interest	**(11,099)**	(89,677)	(16,314)
Due to related parties	**(6,841)**	(8,433)	(27,341)
Net cash provided by (used in) financing activities	**(566,724)**	(103,381)	142,167
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**5**	(56)	(10,210)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(450,978)**	(286,013)	149,953
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**916,157**	1,202,170	1,052,217
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱465,179**	₱916,157	₱1,202,170

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

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

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

Name of Subsidiaries	Nature of Business	Calendar/Fiscal Yearend	Percentage of Ownership 2012	2011
Union Galvasteel Corporation (UGC) [a]	Manufacture and distribution of steel products	December 31	98.08	98.08
One Animate Limited (OAL) and Subsidiary [b]	Business Process Outsourcing - Animation services	December 31	80.00	80.00
Pamantasan ng Araullo (Araullo University), Inc.(AU) [c]	Educational institution	March 31	78.64	78.64
Cagayan de Oro College, Inc. (COC) [c]	Educational institution	March 31	74.21	74.21
University of Iloilo (UI) [c]	Educational institution	March 31	69.79	69.79
University of Pangasinan (UPANG) and Subsidiary [c]	Educational institution	March 31	69.75	69.75
P & S Holdings Corporation (PSHC)	Investment and real estate holdings	December 31	60.00	60.00
Asian Plaza, Inc. (API)	Lease of real property	December 31	57.62	57.62
Fuld & Company, Inc. (Fuld U.S.) and Subsidiary [d]	Business Research	December 31	85.00	85.00
Fuld & Company (Philippines), Inc. (Fuld Philippines) [e]	Business Research	December 31	85.00	85.00

[a] *On December 22, 2010, the SEC approved the merger of UGC and Atlas Holdings Corporation (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 in UGC from 98.36% .*
[b] *OAL owns 100% interest in Toon City Animation, Inc. (Toon City) in 2012 and 95% in 2011.*
[c] *Balances of these subsidiaries as of and for the year ended December 31 were used for consolidation purposes, which is the same reporting period of PHN.*
[d] *Acquired by PHN on June 10, 2011.*
[e] *Acquired by PHN on July 25, 2011.*

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

The information on the segments of the Company is presented in Note 35.

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

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on March 6, 2013.

2. Basis of Preparation and Statement of Compliance

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

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

---

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

Current Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS which were adopted on January 1, 2012.

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

- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)*
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments have no impact on the Company's financial statements since the Company has no investment properties and property and equipment carried at revalued amounts.

Standards and Interpretations Issued but not yet Effective
Standards and interpretations issued effective subsequent to December 31, 2012 are listed below. The Company intends to adopt these standards and interpretations when they become effective.

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

  (a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  (b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  (c) The net amounts presented in the statement of financial position;
  (d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
  (e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

- PFRS 10, *Consolidated Financial Statements,* PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

  A reassessment of control was performed by the Parent Company on all its subsidiaries in accordance with the provisions of PFRS 10. Following the reassessment, the Parent Company determined that it still controls all of its subsidiaries.

- PFRS 11, *Joint Arrangements*, PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Company does not expect this Standard to have any impact on its financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities*, PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

  The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement*, PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

  The Company does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)* (Amendments), The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments are not expected to have any impact on the Company's financial position or performance. The amendments become effective for annual periods beginning on or after July 1, 2012.

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

The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

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

	As at December 31, 2012 ₱'000	As at January 1, 2012 ₱'000
Increase (decrease) in:		
Consolidated balance sheet		
Net defined benefit asset/liability	104,787	85,997
Deferred tax asset/liability	26,031	14,187
Other comprehensive income	21,106	(5,340)
Retained earnings	(99,862)	(66,471)

	2012 ₱'000
Consolidated income statement	
Net benefit cost	45,235
Income tax expense	(11,844)
Profit for the year	33,391

- PAS 27, *Separate Financial Statements* (as revised in 2011), As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Company. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011), As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine,* This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The interpretation is effective for annual periods beginning on or after January 1, 2013. This new interpretation is not relevant to the Company.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments). The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PFRS 9, *Financial Instruments*, PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  PFRS 9 will become effective for annual periods beginning on or after January 1, 2015.

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

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*

  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*

  The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments are not expected to have an impact on the Company's financial position or performance.

- *PAS 16, Property, Plant and Equipment - Classification of servicing equipment*

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

- *PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*

  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Company expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

---

4. Summary of Significant Accounting and Financial Reporting Policies

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

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

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

Non-controlling interest represents the portion of profit or loss and net assets in the subsidiaries not held by the Company and is presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from equity attributable to equity holders of the parent. 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" under "Other Components of Equity" in the consolidated statements of changes in equity. If the Company loses control over a subsidiary, it:

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company’s investments held for trading and derivative asset are classified under this category. The aggregate carrying values of financial assets under this category amounted to ₱800.9 million and ₱771.5 million as of December 31, 2012 and 2011, respectively (see Note 32). Included under financial liability at FVPL is the Company’s derivative liability. The carrying values of financial liability at FVPL amounted to ₱2.3 million as of December 31, 2011 (see Note 32).

Derivative Financial Instruments

The Company enters into short-term forward currency contracts to hedge its currency exposure (see Note 32). Such derivative financial instruments are initially recorded at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statements of income. The Company has opted not to designate its derivative transactions under hedge accounting. The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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

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

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

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

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

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

The Company has no embedded derivatives in 2012 and 2011.

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

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

The Company's cash and cash equivalents, trade and other receivables and installment contract receivables are classified under this category. The aggregate carrying values of financial assets under this category amounted to ₱1,337.0 million and ₱1,773.8 million as of December 31, 2012 and 2011, respectively (see Note 32).

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

The Company has no financial assets classified as HTM as of December 31, 2012 and 2011.

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

The Company's investments in quoted and unquoted equity securities and other investments are classified under this category. The carrying values of financial assets under this category amounted to ₱232.4 million and ₱141.0 million as of December 31, 2012 and 2011, respectively (see Note 32).

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

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

The Company's notes payable, trade and other payables, trust receipts payable, due to related parties, long-term loan payable and long-term debt are classified under this category. The aggregate carrying values of financial liabilities under this category amounted to ₱1,965.9 million and ₱1,827.6 million as of December 31, 2012 and 2011, respectively (see Note 32).

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

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

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

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

Assets Carried at Amortized Cost. If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the consolidated statements of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Assets Carried at Cost. If there is objective evidence (such as continuing losses or significant financial difficulties of the investee company) that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired; or
- the Company retains the 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 expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts, of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income.

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

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

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

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

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

The Company shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance to PAS 39 from that date, provided that the associate does not become a subsidiary or joint venture. On the loss of significant influence, the Company shall measure at fair value any investment the Company retains in the former associate. The Company shall recognize in profit or loss the difference between:

a. the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and
b. the carrying amount of the investment at the date when significant influence is lost.

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

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

use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

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

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

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

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

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

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

Investment Properties

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

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

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

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

Business Combinations, Goodwill and Goodwill Impairment

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

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

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

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

Intangible Assets

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

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

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired when events or changes in circumstances indicate that the carrying value of a nonfinancial asset may not be recoverable. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

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

The following assets have specific characteristics for impairment testing:

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

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

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

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

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

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

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

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

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

Consultancy Services. Revenue is recognized when services are rendered.

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.

Cost of Sales, Educational, Animation and Consultancy Services

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

General and Administrative Expenses

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

Selling Expenses

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

Retirement Costs

PHN, UGC, Toon City, UPANG and AU have distinct funded, noncontributory defined benefit retirement plans while UI and COC have a defined, unfunded, noncontributory retirement plans covering all permanent employees, each administered by their respective Retirement Committees. Retirement costs are actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each plan at the end of the previous financial reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

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

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

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

Stock Purchase Plan
The Company has a stock purchase plan offered to senior officers which gives the right to purchase shares of the Company set aside by the plan.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques. The amount is fixed at grant date.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Company's best estimate of the number of equity instruments that will ultimately vest. The consolidated statements of income charge or credit for the period represents the movement in cumulative expense recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. An additional expense is likewise recognized for any modification which increases the total fair value of the share-based payment arrangement or which is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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

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

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

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

Provisions

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

Borrowing Costs

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

Foreign Currency-denominated Transactions and Translation

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Diluted Earnings Per Share
Diluted earnings per share amounts are calculated by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

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 35 to the consolidated financial statements.

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

Rental income amounted to ₱42.7 million, ₱46.9 million and ₱79.6 million in 2012, 2011 and 2010, respectively.

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

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

Derecognition of Financial Assets. Pursuant to an agreement between PHN and Vicsal Investment Inc. (Vicsal), PHN agreed to sell its shares in AB Capital subject to certain conditions, including the following:

(a) Approval of the Bangko Sentral ng Pilipinas (BSP)
(b) Removal of assets other than those identified and agreed to be retained by Vicsal in AB Capital, by transfer to a New Company in exchange for shares in New Company and/or by sale or assignment of assets to the New Company
(c) Return of capital to PHN pertaining to shares in New Company

(d) Selling Shareholders shall secure all Government Authorizations, including approvals and clearances, required for the return of capital of AB Capital to PHN and other sellers
(e) On Closing Date, PHN shall transmit to the Buyer the Deed of Absolute Sale

Management assessed that the transaction is not yet completed since certain conditions are not yet complied with.

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

Impairment of Goodwill and Trademarks. The Company performs impairment testing of goodwill and trademarks on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Value in use is determined by making an estimate of the expected future cash flows from the cash-generating unit and applies a discount rate to calculate the present value of these cash flows. Goodwill acquired through business combination has been allocated to one cash-generating unit which is also the operating entity acquired through business combination and to which the goodwill relates. The recoverable amount of the goodwill and trademarks has been determined based on value in use calculation using cash flow projections covering a five-year period. The calculation of value in use for the Company's goodwill and trademark is sensitive to revenue growth rates and discount rates. Revenue growth rates estimates are based on values achieved in previous years and also takes into account anticipated increase from various market initiatives. The pre-tax discount rates applied to cash flow projections ranges from 9% to 12% in 2012 and 2011. Discount rate reflects the current market assessment of the risk specific to each cash-generating unit. The discount rate is based on the average percentage of the weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the cash-generating unit for which future estimates of cash flows have not been adjusted. Management believes that no reasonably possible change in these key assumptions would cause the carrying values to materially exceed its recoverable amount. The Company performs its annual testing of goodwill and trademarks at December 31.

Impairment loss on goodwill amounting to ₱212.3 million and ₱166.4 million was recognized in 2012 and 2011 respectively. No impairment loss on trademarks was recognized in 2012 and 2011. The carrying amount of goodwill and trademarks amounted to ₱1,091.0 million and ₱1,304.4 million as of December 31, 2012 and 2011, respectively, and is presented as part of the "Intangibles" account in the consolidated statements of financial position (see Note 15).

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

There are no impairment of nonfinancial assets in 2012 and 2011. The carrying amounts of investments in associates amounted to ₱2,334.1 million and ₱1,835.1 million as at December 31, 2012 and 2011, respectively (see Note 11). The carrying amounts of property, plant and equipment amounted to ₱2,258.6 million and ₱2,260.7 million as of December 31, 2012 and 2011, respectively (see Note 13). The carrying amounts of investment properties amounted to ₱421.7 million and ₱410.9 million as of December 31, 2012 and 2011, respectively (see Note 14).

The carrying amounts of intangibles, other than goodwill and trademarks, amounted to nil and ₱3.6 million as of December 31, 2012 and 2011, respectively (see Note 15).

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

Based on management’s assessment, the Company’s AFS investments are not impaired. The carrying values of AFS investments amounted to ₱232.4 million and ₱141.0 million as of December 31, 2012 and 2011, respectively (see Note 12).

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 ₱871.9 million and ₱857.6 million as of December 31, 2012 and 2011, respectively (see Note 9). The allowance for impairment of receivables amounted to ₱197.8 million and ₱164.8 million as of December 31, 2012 and 2011, respectively (see Note 9).

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

Deferred tax assets amounted to ₱103.1 million and ₱78.9 million as of December 31, 2012 and 2011, respectively (see Note 29).

Deductible temporary differences, unused NOLCO and MCIT for which no deferred tax assets were recognized in the consolidated statements of financial position amounted to ₱464.7 million and ₱374.7 million as of December 31, 2012 and 2011, respectively (see Note 29).

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

Allowance for unrecoverable input VAT amounted to ₱118.6 million and ₱89.2 million as of December 31, 2012 and 2011, respectively (see Note 16). The carrying amount of input VAT classified as current assets amounted to ₱5.4 million and ₱40.7 million as of December 31, 2012 and 2011, respectively. Input VAT classified as other noncurrent assets amounted to ₱0.6 million and nil as of December 31, 2012 and 2011, respectively (see Note 16).

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

The carrying amounts of depreciable property, plant and equipment amounted to ₱1,066.6 million and ₱1,059.6 million as of December 31, 2012 and 2011, respectively (see Note 13). The carrying amounts of depreciable investment properties amounted to ₱74.4 million and ₱80.6 million as of December 31, 2012 and 2011, respectively (see Note 14). The carrying amounts of intangibles with finite useful lives amounted to nil and ₱3.6 million as of December 31, 2012 and 2011, respectively (see Note 15).

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

The carrying amounts of inventories amounted to ₱956.5 million and ₱977.9 million as of December 31, 2012 and 2011, respectively (see Note 10).

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

The fair values of the identifiable net assets acquired (liabilities assumed) from Fuld U.S. and Fuld Philippines amounted to ₱83.8 million and (₱4.5 million), respectively, in 2011 (see Note 6).

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 30 include among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Net pension liability, included under "Pension and other post-employment benefits" account in the consolidated statements of financial position, amounted to ₱51.8 million and ₱31.8 million as of December 31, 2012 and 2011, respectively. Net pension expense amounted to ₱53.8 million, ₱31.7 million and ₱34.3 million in 2012, 2011 and 2010, respectively (see Note 30).

Fair Value of Financial Assets and Liabilities. The Company carries certain financial assets and liabilities at fair value in the consolidated statements of financial position. Determining the fair value of financial assets and liabilities requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates).

However, the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income.

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 32.

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

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

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

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
	(In Thousands)	
Cash on hand and in banks	₱8,969	₱8,969
Receivables	69,340	69,340
Prepaid expenses and other assets	20,453	20,453
Property and equipment	8,491	8,491
Intangibles (Note 15)	47,156	–
	154,409	107,253
Accounts payable and accrued liabilities	(56,429)	(56,429)
Deferred tax liabilities	(14,147)	–
	(70,576)	(56,429)
Total identifiable net assets	83,833	₱50,824
Non-controlling interest at fair value	(12,575)	
Goodwill arising from acquisition (Note 15)	284,252	
Total consideration transferred	₱355,510	

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

The cost of acquiring Fuld U.S. amounted to U.S.$8.2 million (₱355.5 million) consisting of cash payment of U.S.$5.8 million and the remaining balance of U.S.$2.4 million payable in four years at four equal installments with an interest rate of 4.5% per annum. As of December 31, 2012, current and noncurrent portions of long-term loan payable related to the acquisition of Fuld U.S. amounted to ₱23.6 million ($0.6 million) and ₱47.23 million ($1.1 million), respectively.

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

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

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

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

The total consideration in the 2011 consolidated financial statements was based on a provisional assessment of fair values. The total consideration and the purchase price allocation were finalized in 2012. The 2011 comparative information was restated to reflect the adjustment to the provisional amounts. Total liabilities increased by ₱9.3 million with a corresponding increase in goodwill of the same amount. This resulted in ₱284.2 million of goodwill arising on the acquisition. The goodwill includes the value of expected synergies arising between Fuld U.S. and the Company's knowledge process outsourcing portfolio.

From the date of acquisition, Fuld U.S. has contributed ₱248.3 million of revenue and ₱12.5 million loss to the consolidated income before income tax of the Company in 2011. If the combination had taken place at the beginning of 2011, consolidated revenue from continuing operation would have been ₱4,174.4 million and consolidated net income would have been ₱72.4 million in 2011.

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

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

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
	(In Thousands)	
Cash on hand and in banks	₱1,012	₱1,012
Receivables	1,756	1,756
Advances to employees	163	163
Property and equipment	636	636
	3,567	3,567
Accrued payable and accrued expenses	(5,157)	(5,157)
Loans payable	(961)	(961)
Retirement payable	(78)	(78)
Taxes payable	(1,857)	(1,857)
	(8,053)	(8,053)
Total identifiable net liabilities	(4,486)	(₱4,486)
Non-controlling interest at fair value	673	
Goodwill arising from acquisition (see Note 15)	14,120	
Total consideration transferred	₱10,307	

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

The cost of acquiring Fuld Philippines amounted to ₱10.3 million, of which ₱4.0 million (non-cash investing transaction) was retained by the Company. As of December 31, 2012 and 2011, retained portion amounted to ₱3.0 million and ₱4.0 million, respectively, included as part of "Trade and other payables" account in the statements of financial position.

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

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

The fair value of receivables amounted to ₱1.8 million. These receivables are not impaired and are expected to be collected in full.

The total consideration in the 2011 consolidated financial statements was based on a provisional assessment of fair values. The total consideration and the purchase price allocation were finalized in 2012. The 2011 comparative information was restated to reflect the adjustment to the provisional amounts. Total liabilities increased by ₱3.4 million. There was also a corresponding increase in goodwill amounting to ₱3.4 million resulting in ₱14.1 million of goodwill arising on the acquisition. The goodwill includes the value of expected synergies arising between Fuld Philippines and the Company's knowledge process outsourcing portfolio.

From the date of acquisition, Fuld Philippines has contributed ₱9.7 million of revenue and ₱0.2 million loss to the consolidated income before income tax of the Company in 2011. If the combination had taken place at the beginning of the year, consolidated revenue from continuing operations would have been ₱4,174.4 million and consolidated net income would have been ₱72.4 million.

Acquisition of non-controlling interest in Toon City
On February 29, 2012, OAL acquired the remaining 5% non-controlling interest in Toon City for ₱10.1 million. The difference between the acquisition cost and the book value of the interest acquired amounting to ₱8.1 million was recognized as "Other reserves" in the equity section of the consolidated statement of financial position.

Acquisition in Fuld US
In August 2012, FULD US acquired Outward Insights, LLC by issuing FULD US common stock. Goodwill arising from acquisition amounted to ₱6.1 million. The carrying value of the net assets acquired approximates its fair values. The net assets of Outward Insights, LLC recognized in the Company's December 31, 2012 financial statements were based on provisional assessment of fair values as the audit and fair valuation of the identifiable net assets acquired were not yet completed.

7. Cash and Cash Equivalents

This account consists of:

	2012	2011
	(In Thousands)	
Cash on hand and in banks	**₱150,264**	₱83,853
Short-term deposits	**314,915**	832,304
	₱465,179	₱916,157

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

Interest income from cash and cash equivalents amounted to ₱22.1 million, ₱32.3 million and ₱29.6 million in 2012, 2011 and 2010, respectively (see Note 21).

8. Investments Held for Trading

This account consists of investments in:

	2012	2011
	(In Thousands)	
Bonds	**₱491,127**	₱414,525
Unit Investment Trust Funds (UITFs)	**302,687**	353,065
Marketable equity securities	**6,601**	3,927
	₱800,415	₱771,517

Net gains from fair value change of investments held for trading amounted to ₱50.9 million, ₱38.6 million and ₱19.3 million in 2012, 2011 and 2010, respectively (see Note 21). The unrealized gains from fair value change of investments held for trading amounted to ₱42.1 million, ₱27.9 million and ₱13.0 million in 2012, 2011 and 2010, respectively. Cumulative unrealized gains from fair value change of investment held for trading amounted to ₱14.3 million and ₱18.6 million as at December 31, 2012 and 2011, respectively.

Investments held for trading have yields ranging from 1.06% to 6.55% in 2012, 3.66% to 7.98% in 2011 and 3.27% to 10.46% in 2010. Interest income from investments held for trading amounted to ₱23.7 million, ₱15.0 million and ₱20.3 million in 2012, 2011 and 2010, respectively (see Note 21).

9. Trade and Other Receivables

This account consists of:

	2012	2011
	(In Thousands)	
Trade	**₱889,284**	₱780,742
Installment contract receivables (see Note 14)	**68,884**	72,617
Advances to suppliers and contractors	**56,002**	13,449
Accrued interest	**10,696**	11,817
Receivable from PHN Retirement/Gratuity Plan (PHN Retirement)	**8,939**	8,939
Advances to officers and employees	**8,875**	6,094
Due from related parties (see Note 28)	**2,913**	75,653
Others	**24,062**	53,144
	1,069,655	1,022,455
Less allowance for doubtful accounts	**197,774**	164,806
	₱871,881	₱857,649

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

Installment contract receivables mainly represent the balance of receivable from a third party for the sale of API's property (see Note 14). The receivables are noninterest-bearing and are short-term in nature.

The terms and conditions of the amounts due from related parties are discussed in Note 28.

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

Movements in the allowance for doubtful accounts are as follows:

	2012		
	Trade	**Others**	**Total**
		(In Thousands)	
Balance at January 1, 2012	**₱156,561**	**₱8,245**	**₱164,806**
Provisions (Notes 23 and 24)	**36,374**	**–**	**36,374**
Reversals/write-offs	**(730)**	**(2,676)**	**(3,406)**
Balance at December 31, 2012	**₱192,205**	**₱5,569**	**₱197,774**
Individual impairment	**₱33,910**	**₱1,364**	**₱35,274**
Collective impairment	**158,295**	**4,205**	**162,500**
	₱192,205	**₱5,569**	**₱197,774**

	2011		
	Trade	Others	Total
		(In Thousands)	
Balance at January 1, 2011	₱138,052	₱8,245	₱146,297
Provisions (Notes 23 and 24)	36,192	–	36,192
Reversals/write-offs	(17,683)	–	(17,683)
Balance at December 31, 2011	₱156,561	₱8,245	₱164,806
Individual impairment	₱38,536	₱6,640	₱45,176
Collective impairment	118,025	1,605	119,630
	₱156,561	₱8,245	₱164,806

10. Inventories

This account consists of:

	2012	2011
	(In Thousands)	
At cost:		
Finished goods	**₱875,576**	₱886,342
Raw materials	**19,796**	36,303
Other inventories	**27,350**	20,633
At net realizable value -		
Spare parts and others	**33,750**	34,641
	₱956,472	₱977,919

Under the terms of the agreements covering liabilities under trust receipts, certain inventories amounting to ₱554.8 million and ₱103.7 million as of December 31, 2012 and 2011, respectively, have been released to UGC in trust for the banks. UGC is accountable to the banks for the inventories under trust or its sales proceeds.

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

The cost of spare parts and other inventories carried at net realizable value amounted to ₱35.1 million and ₱36.0 million as of December 31, 2012 and 2011, respectively.

Cost of inventories sold, presented as “Inventories used” under “Cost of Sales”, amounted to ₱2,083.9 million, ₱1,844.9 million and ₱1,740.5 million in 2012, 2011 and 2010, respectively (see Note 22).

11. **Investments in Associates**

This account consists of investments in the following entities:

	Percentage of Ownership	
	2012	2011
PHINMA Property Holdings Corporation (PPHC)	**35.35**	35.35
Trans-Asia Oil and Energy Development Corporation (TA Oil)	**26.21**	28.26
AB Capital and Investment Corporation (AB Capital) [(a)]	**26.51**	26.51
Luzon Bag Corporation[(b)]	**21.05**	21.05
Asia Coal Corporation (Asia Coal) [(c)]	**12.08**	12.08

[(a)] *In 2012, represents the shares to be received by PHN from AB Capital upon return of capital.*
[(b)] *Liquidated in 2012.*
[(c)] *Ceased commercial operations and 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:

	2012	2011
	(In Thousands)	
Acquisition costs:		
Balance at beginning of year	**₱1,888,248**	₱1,537,282
Additions	**533,153**	350,966
Reclassified to AFS investment	**(116,222)**	–
Balance at end of year	**2,305,179**	1,888,248
Accumulated equity in net income (losses):		
Balance at beginning of year	**(72,154)**	(191,824)
Equity in net earnings for the year	**118,944**	137,656
Dividends received	**(54,201)**	(17,986)
Reclassified to AFS investment	**22,533**	–
Balance at end of year	**15,122**	(72,154)
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	**19,051**	19,226
Change in fair value during the year	**4,713**	(175)
Balance at end of year	**23,764**	19,051
	₱2,344,065	₱1,835,145

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

	2012	2011
	(In Thousands)	
TA Oil*	**₱1,828,597**	₱1,267,692
PPHC	**413,034**	373,630
AB Capital	**100,227**	191,397
Academy of Competitive Intelligence**	**1,939**	2,158
Asia Coal	**268**	268
	₱2,344,065	₱1,835,145

** The fair value based on quoted share price amounted to ₱1,476.9 million and ₱896.0 million as of December 31, 2012 and 2011, respectively.*
*** Associate of Fuld U.S.*

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

	2012	2011
	(In Thousands)	
Share in the associates' net assets:		
Current assets	**₱2,168,209**	₱1,683,679
Noncurrent assets	**963,642**	945,154
Current liabilities	**(410,191)**	(410,481)
Noncurrent liabilities	**(389,124)**	(388,283)
Net assets attributable to common stockholders	**₱2,332,536**	₱1,830,069
Share in the associates' revenue and net income:		
Revenue	**₱732,538**	₱694,215
Net income	**118,705**	146,875
Carrying amount of the investments	**₱2,344,065**	₱1,835,145

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

a. TA Oil

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

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

On March 20, 2012, the stockholders of TA Oil approved the increase in the authorized capital stock subject to the approval of the SEC from ₱4.2 billion divided into 4.2 billion shares with a par value of ₱1 per share to ₱8.4 billion divided in to 8.4 billion shares with a par value of ₱1 per share. The said increase in authorized capital stock shall be funded by a stock rights offering, the terms and conditions of which, including the final issue size, rights entitlement, offer price and record date shall be determined by the board of directors. The application for the increase in authorized capital stock was approved by the SEC in November 2012.

On October 3, 2012, the SEC approved the stock rights offering of 1.415 billion shares of TA Oil at the rate of one share for every two shares held as of record date of November 14, 2012, at a price of ₱1.00 per share. The offer period commenced on November 14, 2012 and ended on November 20, 2012. TA Oil also offered an additional 212.25 million shares to meet additional demand from eligible stockholders ("Overallotment Option"). Total proceeds will be used to finance its equity investments in a 54MW wind energy project in San Lorenzo, Guimaras and the second 135MW clean coal-fired power plant in Calaca, Batangas, and other power project opportunities.

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

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

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

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

Dividend income recognized by the Parent Company from TA Oil amounted to ₱18.0 million each in 2012, 2011 and 2010.

TA Oil has 100% equity interest in CIP II Power Corporation (CIPP) which operates a 21MW Bunker C-fired power plant in CIP II Special Economic Zone in Calamba, Laguna. In April, 2009, the terms of the sale of the distribution assets to Manila Electric Company was finalized resulting in the cessation of CIPP's operations starting April 2009. Also, the separation of substantially all of CIPP's employees effective January 2010 was announced. On February 22, 2010 and March 24, 2010, the BOD and stockholders of TA Oil and CIPP approved the proposed merger of TA Oil and CIPP, respectively, subject to the approval by the SEC. As of December 31, 2012, 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 27, 2012, the BOD approved the stock rights offering at the rate of one share for every five shares held as of record date of November 28, 2012, at a price of ₱0.10 per share. The existing shareholders of PPHC subscribed to and fully paid for 1,801,470,025 shares valued at ₱180.1 million.

On March 13, 2012, the BOD of PPHC declared a cash dividend amounting to ₱63.5 million or 7% of outstanding capital stock to all shareholders of record as of March 23, 2012. This was paid in 2012.

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

Dividend income recognized by the Parent Company from PPHC amounted to ₱22.5 million and ₱21.1 million each in 2012, 2011 and 2010, respectively.

c. AB Capital

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

Pursuant to an agreement between PHN and Vicsal Investment Inc. (Vicsal), PHN agreed to sell its shares in AB Capital subject to certain conditions, including the following:

(a) Approval of the Bangko Sentral ng Pilipinas (BSP)

(b) Removal of assets other than those identified and agreed to be retained by Vicsal in AB Capital, by transfer to a New Company in exchange for shares in New Company and/or by sale or assignment of assets to the New Company

(c) Return of capital to PHN pertaining to shares in New Company

(d) Selling Shareholders shall secure all Government Authorizations, including approvals and clearances, required for the return of capital of AB Capital to PHN and other sellers

(e) On Closing Date, PHN shall transmit to the Buyer the Deed of Absolute Sale

On June 29, 2012, in accordance with PAS 28, PHN discontinued the use of the equity method on the AB Capital shares to be sold to Vicsal due to the change in relationship of PHN with AB Capital. The investment in AB Capital to be sold to Vicsal is accounted for in accordance with PAS 39 from that date.

The AB Capital shares to be sold to Vicsal are presented at its fair value as an available-for-sale financial asset in accordance with PAS 39 amounted to ₱101.8 million. The difference between the fair value and carrying amount of the AB Capital shares to be sold to Vicsal amounting to ₱6.7 million is recorded as “Unrealized fair value adjustment on AFS investment previously held as associate” and included under “Others-net” in the consolidated statements of comprehensive income.

Investment in AB Capital presented as part of Investments in Associates in the statements of consolidated financial position represents the New Company shares to be received by PHN from AB Capital upon return of capital.

d. Asia Coal

Asia Coal is engaged in the trading of coal. On March 19, 2009, the BOD and stockholders of Asia Coal approved the shortening of the term of Asia Coal’s corporate existence until October 31, 2009, thereby causing the dissolution of Asia Coal as of such date, subject to the approval of the SEC. As of December 31, 2012, Asia Coal is in the process of securing a tax clearance with the Bureau of Internal Revenue (BIR) in connection with the filing with the SEC of its application for dissolution.

12. AFS Investments

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

	2012	2011
	(In Thousands)	
Quoted	**₱10,101**	₱20,620
Unquoted (Note 11)	**267,822**	165,887
	277,923	186,507
Less accumulated impairment losses	**45,517**	45,517
	₱232,406	₱140,990

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 (loss) on change in fair value on such quoted AFS amounting to (₱0.6 million), (₱0.4 million) and ₱1.1 million were recognized in 2012, 2011 and 2010, respectively.

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

13. **Property, Plant and Equipment**

This account consists of:

	January 1, 2012	**Additions**	**Disposals**	**Reclassification**	**December 31, 2012**
			(In Thousands)		
Cost					
Land	**₱1,085,875**	**₱36,190**	**(₱23,760)**	**₱–**	**₱1,098,305**
Plant site improvements	**22,834**	**528**	**(119)**	**5,413**	**28,656**
Buildings and improvements	**1,252,026**	**52,233**	**(4,522)**	**2,802**	**1,302,539**
Machinery and equipment	**723,353**	**50,514**	**(115,222)**	**71,682**	**730,327**
Transportation and other equipment	**469,532**	**65,519**	**(20,682)**	**(40,454)**	**473,915**
	3,553,620	**204,984**	**(164,305)**	**39,443**	**3,633,742**
Less Accumulated Depreciation					
Plant site improvements	**₱17,809**	**₱2,555**	**(₱119)**	**₱3,539**	**₱23,784**
Buildings and improvements	**482,495**	**55,268**	**(2,328)**	**(847)**	**534,588**
Machinery and equipment	**568,813**	**100,794**	**(114,754)**	**12,252**	**567,105**
Transportation and other equipment	**339,065**	**64,679**	**(17,643)**	**(42,724)**	**343,377**
	1,408,182	**223,296**	**(134,844)**	**(27,780)**	**1,468,854**
	2,145,438	**(18,312)**	**(29,461)**	**67,223**	**2,164,888**
Construction in progress	**115,306**	**45,654**	**–**	**(67,223)**	**93,737**
Net Book Value	**₱2,260,744**	**₱27,342**	**(₱29,461)**	**₱–**	**₱2,258,625**

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

Undepreciated capitalized borrowing costs amounted to ₱1.4 million and ₱1.7 million as at December 31, 2012 and 2011, respectively. There were no borrowing costs capitalized in 2012, 2011 and 2010.

Certain property, plant and equipment of UGC, AU and UPANG totaling ₱0.92 billion and ₱1.1 billion as of December 31, 2012 and 2011, respectively, were used as security for their respective long-term debt as disclosed in Note 19 to the consolidated financial statements.

14. **Investment Properties**

This account consists of:

	January 1, 2012	**Additions**	**Disposals**	**December 31, 2012**
		(In Thousands)		
Cost:				
Land	**₱330,314**	**₱25,226**	**(₱8,261)**	**₱347,279**
Buildings for lease	**93,316**	**–**	**–**	**93,316**
	423,630	**25,226**	**(8,261)**	**440,595**
Less accumulated depreciation -				
Buildings for lease	**12,740**	**6,148**	**–**	**18,888**
	₱410,890	**₱19,078**	**(₱8,261)**	**₱421,707**

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

The fair value of investment properties based on the latest valuation performed by independent firms of appraisers on various dates in 2012 and 2011 amounted to ₱894.7 million and ₱810.6 million as of December 31, 2012 and 2011, respectively. The valuation of investment properties was based on market values using sales comparison approach, which considers the sales of similar or substitute properties and related market data and establishes value estimate by processes involving comparison.

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

On December 28, 2010, API signed a Memorandum of Agreement with Shang Property Developers, Inc. (SPDI) for the sale of API's property for ₱615.0 million. Outstanding receivable from SPDI amounted to ₱68.9 million and ₱72.6 million, presented in "Installment contract receivables" account under "Trade and other receivables", as at December 31, 2012 and 2011, respectively (see Note 9).

Land include PSHC's land amounting to ₱220.0 million which was used as security for its long-term debt as disclosed in Note 19 to the consolidated financial statements.

Rental income amounted to ₱42.7 million, ₱46.9 million and ₱79.6 million in 2012, 2011 and 2010, respectively, and presented in the consolidated statements of income. While direct costs and expenses incurred amounted to ₱6.2 million, ₱6.3 million and ₱26.7 million in 2012, 2011 and 2010, respectively, and included as part of "General and administrative expenses" account in the consolidated statements of income (see Note 23).

15. **Intangibles**

Following are the details and movements in this account:

	January 1, 2012	**Additions**	**Adjustment**	**Impairment**	**December 31, 2012**
			(In Thousands)		
Cost:					
Goodwill (Note 6)	**₱1,257,186**	**₱6,054**	**(₱7,063)**	**(₱212,300)**	**₱1,043,877**
Student lists	**131,120**	**–**	**–**	**–**	**131,120**
Trademarks (Note 6)	**47,156**	**–**	**–**	**–**	**47,156**
Customer contracts	**22,080**	**–**	**–**	**–**	**22,080**
	1,457,542	**6,054**	**(7,063)**	**(212,300)**	**1,244,233**
Accumulated amortization:					
Student lists	**127,516**	**3,604**	**–**	**–**	**131,120**
Customer contracts	**22,080**	**–**	**–**	**–**	**22,080**
	149,596	**3,604**	**–**	**–**	**153,200**
	₱1,307,946	**₱2,450**	**(₱7,063)**	**(₱212,300)**	**₱1,091,033**

	January 1, 2011	Additions	Adjustment	Impairment	December 31, 2011 (As restated - Note 6)
			(In Thousands)		
Cost:					
Goodwill (Note 6)	₱1,125,183	₱298,372	₱–	(₱166,369)	₱1,257,186
Student lists	131,120	–	–	–	131,120
Trademarks (Note 6)	–	47,156	–	–	47,156
Customer contracts	22,080	–	–	–	22,080
	1,278,383	345,528	–	(166,369)	1,457,542
Accumulated amortization:					
Student lists	92,268	35,248	–	–	127,516
Customer contracts	22,080	–	–	–	22,080
	114,348	35,248	–	–	149,596
	₱1,164,035	₱310,280	₱–	(₱166,369)	₱1,307,946

The Company recognized impairment loss on goodwill amounting to ₱212.3 million in 2012 and ₱166.4 million in 2011.

In 2012, the Company received ₱7.1 million from its escrow fund which pertains to excess payment from the acquisition of UPANG on February 2, 2009. The excess consideration was adjusted to the cost of the business combination in 2012.

16. **Other Noncurrent Assets**

This account consists of:

	2012	2011
	(In Thousands)	
Input VAT - net of allowance for unrecoverable amount of ₱118.6 million and ₱89.2 million in 2012 and 2011, respectively (Note 23)	**₱605**	₱–
Refundable deposits	**8,349**	1,794
Others - net of allowance for doubtful advances of ₱51.5 million in 2012 and ₱51.1 million in 2011	**22,561**	24,846
	₱31,515	₱26,640

17. Notes Payable

This account consists of notes payable of the following subsidiaries:

	2012	2011
	(In Thousands)	
UGC	**₱274,821**	₱423,543
AU	**50,751**	–
COC	**35,604**	11,500
UI	**12,500**	20,150
	₱373,676	₱455,193

This account consists of unsecured short-term peso-denominated loans obtained from financial institutions with annual interest rates ranging from 4.50% to 5.75% in 2012 and 4.63% to 5.25% in 2011.

18. Trade and Other Payables

This account consists of:

	2012	2011 (As restated - Note 6)
	(In Thousands)	
Trade	**₱127,079**	₱108,901
Payable to third parties	**124,583**	44,449
Accruals for:		
Personnel costs (see Notes 25 and 28)	**65,400**	52,773
Professional fees and others (see Note 28)	**38,194**	65,912
Interest (see Note 27)	**8,291**	10,823
Freight, hauling and handling	**6,549**	883
Customers' deposits	**91,977**	44,756
Dividends	**30,274**	31,916
Others	**44,336**	42,082
	₱536,683	₱402,495

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

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

Other liabilities pertains to other accrued and unpaid general and administrative expenses which are normally settled throughout the financial year.

19. **Long-term Debt**

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

	2012	2011
	(In Thousands)	
UPANG	**₱228,500**	₱259,148
AU	**30,000**	45,653
UGC	**–**	280,000
	258,500	584,801
Less debt issuance cost	**2,267**	827
	256,233	583,974
PSHC	**152,873**	151,050
Fuld U.S.	**3,080**	5,698
	412,186	740,722
Less current portion - net of debt issuance cost	**64,654**	141,063
	₱347,532	₱599,659

UPANG

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

Tenure	Seven (7) - year term loan with one year grace period for repayment.
Repayment	The first principal payment will commence at the end of the 5th quarter from the date of drawdown; amortization will be graduated, at ₱12.5 million from the fifth to the 16th quarters; ₱15.0 million from the 17th to the 24th quarters and the ₱7.5 million for the last four quarters until full settlement.
Funding/Interest rate	Interest will be based on the Wholesale Lending Program (third party funder) with a fixed rate of 8% for the first five years. Rates for the remaining two year period of the term shall be based on the prevailing two-year PDST-F rate plus a minimum spread of 2%.
Security	The facility will be secured by Real Estate Mortgage amounting to ₱300.0 million on the school assets covering land and land improvements (see Note 13).

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

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

  UPANG's current ratio is below the required current ratio of 1:1. Based on the loan agreement, an event of default includes the failure to comply with any of the loan covenants and such noncompliance is either not remediable or if remediable, continues to be unremedied for a period of 30 days from written notice by the bank. The University has not received any notice from the Bank. In March 2013, the University requested from the bank for the waiver of the required current ratio. As of March 6, 2013, the University is awaiting the bank's response to this request.

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

On December 21, 2012, a Term Loan Agreement was signed by the UPANG and China Bank for a 7-year term loan for a maximum principal amount of ₱275 million. The proceeds will be used to refinance existing obligations and to fund the capital expenditures for the school year 2012-2013. The loan was drawn on February 1, 2013 and February 15, 2013 totalling to ₱250 million with interest based on 7-year PDSTF plus spread. Under the new term loan, the Company is not allowed to pay dividends for the first 3 years of the loan. Dividends may be paid starting on the 4th year, provided the current ratio shall not be less than 1.25:1.00 and debt-service cover shall at least be 1.50:1.00.

UGC

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

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

As of December 31, 2011, the loans from the lenders are collateralized by mortgage agreement on UGC's land, plantsite improvements, buildings and installations and machinery and equipment of Calamba and Davao plants amounting to ₱461.3 million, respectively (see Note 13).

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

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

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

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

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

Amortization of debt issue costs, included under "Interest expense and other financial charges" account in the consolidated statements of income, amounted to ₱0.8 million, ₱0.7 million and ₱1.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. Interest expense amounted to ₱15.1 million, ₱25.6 million and ₱25.4 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 27).

On September 19, 2012, the outstanding long-term debt of ₱240 million from BDO and RCBC were pre-terminated.

PSHC

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

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

Initially, the said loan is payable in two installments amounting to ₱44.0 million on July 15, 2008 and ₱110.0 million on July 15, 2013. On July 8, 2008, a Memorandum of Agreement was executed by UPPC and PSHC amending the maturity date of ₱44.0 million from July 15, 2008 to July 15, 2013. A recomputation of the effective interest rate of 10.52% was made in 2008 to reflect the change in the payment terms of the liability in 2013. On December 20, 2012, a Memorandum of Agreement was executed by UPPC and the Company amending the payment terms of the ₱154.0 million from July 15, 2013 to July 15, 2018. A recomputation of the effective interest rate of 9.28% was made to reflect the change in the payment terms in the liability. Additional interest expense resulting from the accretion of loan payable amounted to ₱1.82 million, ₱1.70 million and ₱1.5 million in 2012, 2011 and 2010, respectively (see Note 27). The details of the loan are as follows:

	2012	2011
	(In Thousands)	
Loan payable to UPPC	**₱154,000**	₱154,000
Less unamortized discount	**1,127**	2,950
	₱152,873	₱151,050

To secure the payment of the loan, PSHC constituted a mortgage over its land amounting to ₱220.0 million in favor of certain creditors of UPPC (see Note 14).

The payable of PSHC to UPPC incurs an annual interest at a rate subject to mutual agreement by UPPC and PSHC on each anniversary date. Interest expense on the amount payable to UPPC, computed at 9.1% of the outstanding principal balance, amounted to ₱14.0 million in 2012, 2011 and 2010 (see Note 27).

AU

AU's long-term debt consists of:

	2012	2011
	(In Thousands)	
Loan payable to China Bank	**₱30,000**	₱45,653
Less current portion	**12,251**	9,573
	₱17,749	₱36,080

Loan payable to China Bank represents the balance of a 10-year loan from China Bank which was used to preterminate the restructured long-term debt from another local bank, partially finance Araullo University's building renovation and purchase various school equipment. The debt is payable on fixed monthly amortization of ₱750,000 starting April 17, 2006. Interest shall be payable monthly in arrears based on variable pass-on rate plus spread. In 2010, the outstanding loan payable to China Bank of ₱53.25 million was restructured with the same lender at a fixed rate interest based on the 5-year prevailing PDST-F rate plus a spread of 1.5% payable quarterly in arrears including the applicable taxes for the account of the borrower. The new debt is to be paid in 19 quarterly installments until February 5, 2015 under a graduated amortization schedule based on the agreement. Transaction costs paid and included in the carrying amount of the new debt amounted to ₱2.4 million. Actual average interest rate was 10.3% in 2012 and 2011.

AU's land, including existing and future improvements thereon, is used as collateral for its loan payable to China Bank. The net book value of the said land and improvements amounted to ₱160.0 million and ₱163.0 million as of December 31, 2012 and 2011, respectively (see Note 13).

20. **Equity**

a. Capital Stock

The composition of the Parent Company's capital stock as of December 31, 2012, 2011 and 2010 is as follows:

	Number of Shares		
	2012	2011	2010
Preferred - cumulative, nonparticipating,			
₱10 par value			
Class AA			
Authorized	**50,000,000**	50,000,000	50,000,000
Class BB			
Authorized	**50,000,000**	50,000,000	50,000,000
Common - ₱10 par value			
Authorized	**420,000,000**	420,000,000	420,000,000
Common shares:			
Issued	**258,867,064**	257,697,313	257,697,313
Subscribed	**39,994**	39,994	39,994
Issued and subscribed (see Note 35)	**258,907,058**	257,737,307	257,737,307

The issued and outstanding shares as of December 31, 2012, 2011 and 2010 are held by 1,278, 1,292 and 1,306 equity holders, respectively.

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

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

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

**Increase in authorized capital stock.*

b. Retained Earnings

On March 22, 2012, the BOD of PHN declared a cash dividend of ₱0.40 a share to all common shareholders of record as of April 11, 2012.

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

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.

On October 5, 2005, the BOD of PHN appropriated ₱1.0 billion of retained earnings for future investments. As approved by the BOD of PHN last March 6, 2013, the said appropriation shall remain in effect and shall be used for the following, subject to specific terms and conditions as the Board shall fix:

i. Investments in PPHC of up to ₱300 million by year 2014;
ii. Investments in Microtel Development Corporation of up to ₱200 million by year 2015; and
iii. Investments in Trans-Asia Oil and Energy Development Corporation of up to ₱500 million by year 2016.

The BOD of PHN declared the following stock dividends:

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

The retained earnings account is restricted for the payment of dividends to the extent of ₱599.1 million and ₱594.1 million as of December 31, 2012 and 2011, respectively, representing the accumulated equity in net earnings of the subsidiaries and associates. The accumulated equity in net earnings of the subsidiaries and associates is not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries and associates.

c. Other Components of Equity

This account consists of:

	2012	2011
	(In Thousands)	
Share in unrealized gain on change in fair value of AFS investments of associates (Note 11)	**₱23,764**	₱19,051
Cumulative translation adjustments	**(868)**	4,935
Unrealized gain on change in fair value of AFS investments (Note 12)	**350**	985
Other reserves:		
Reserve for Stock Purchase Plan	**11,908**	–
Other reserves resulting from change in ownership interest in subsidiaries without loss of control (Notes 1 and 6)	**878**	8,943
	₱36,032	₱33,914

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

d. Stock Purchase Plan

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

Purpose	To motivate the Senior Officers to achieve the Company's goals, to help make the personal goals and corporate goals congruent and to reward the officers for the resulting increase in the value of PHN shares.
Prices of share	The officers shall purchase shares of stock of PHN from those set aside under the Stock Purchase Plan at the average closing price of PHN shares in the stock market for 20 trading days, in no case shall the price be lower than par value.

Tranches	1/3 of the maximum shares can be purchased upon date of first notice and 1/3 each every year thereafter provided that work performance is deemed acceptable.
Holding period	One-third of the shares shall not be sold or transferred to a 3rd party for at least one year from the date of each purchase or until retirement whichever comes first. Another one-third of the shares shall not be sold or transferred to a 3rd party for at least two years from the date of each purchase or until retirement whichever comes first. The last one-third of the shares shall not be sold or transferred to a 3rd party for at least three years from the date of each purchase or until retirement whichever comes first. Any such sale or transfer shall be considered null and void.

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

Under its Stock Purchase Plan, officers of the Company can purchase ₱30.5 million worth of shares over three years, subject to certain conditions. The shares can be purchased at the average closing price of PHN shares in the market 20 days prior to each notice, but in no case shall the price be less than par value.

As of December 31, 2012, total shares acquired under the stock purchase plan amount to 1,169,751 or ₱12.4 million.

Total cumulative expense recognized in relation to the stock purchase plan amounted to ₱24.3 million as of December 31, 2012. There were no unexercised vested shares as of December 31, 2012.

21. Investment Income

This account consists of:

	2012	2011	2010
		(In Thousands)	
Interest income:			
Cash and cash equivalents (Note 7)	**₱22,131**	₱32,265	₱29,624
Investments held for trading (Note 8)	**23,704**	14,998	20,258
Due from related parties (Note 28)	**12,468**	14,024	10,370
	58,303	61,287	60,252
Net gains from fair value change of investments held for trading (Note 8)	**50,869**	38,594	19,346
Dividend income	**23,896**	2,454	4,469
	₱133,068	₱102,335	₱84,067

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

This account consists of:

	2012	2011	2010
		(In Thousands)	
Cost of sales	**₱2,403,519**	₱2,117,967	₱2,038,152
Cost of educational services	**510,392**	518,249	481,946
Cost of animation services	**106,944**	87,176	91,313
Cost of consultancy services	**49,153**	84,885	–
	₱3,070,008	₱2,808,277	₱2,611,411

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

	2012	2011	2010
		(In Thousands)	
Inventories used (Note 10)	**₱2,083,862**	₱1,844,916	₱1,740,462
Personnel costs (Note 25)	**443,194**	534,982	454,703
Depreciation (Note 26)	**158,371**	133,475	127,399
Laboratory and school supplies	**100,062**	60,176	51,836
Equipment running	**56,836**	55,253	18,342
Repairs and maintenance	**34,081**	39,249	52,265
Educational tour expenses	**20,217**	23,449	9,044
School affiliations and other expenses	**15,827**	12,750	16,557
Sports development and school activities	**9,268**	9,508	16,089
Accreditation expenses	**4,606**	75	19,260
Others	**143,684**	94,444	105,454
	₱3,070,008	₱2,808,277	₱2,611,411

23. **General and Administrative Expenses**

This account consists of:

	2012	2011	2010
		(In Thousands)	
Personnel costs (Notes 25, 28 and 30)	**₱463,803**	₱257,206	₱145,711
Professional fees and outside services (Note 28)	**130,048**	120,294	169,323
Depreciation and amortization (Notes 14 and 26)	**66,714**	73,067	101,949
Provision for unrecoverable input value-added tax (Note 16)	**45,471**	7,372	4,063
Rent, light and water	**43,534**	18,706	5,935
Taxes and licenses	**29,821**	20,929	21,937
Transportation and travel	**24,109**	10,395	5,563
Provision for doubtful accounts (Note 9)	**24,072**	23,505	30,189
Advertising and promotions	**18,588**	22,921	15,987
Insurance	**6,189**	4,821	4,662
Communications	**7,663**	2,643	4,199
Office supplies	**4,820**	5,097	5,475
Donation	**3,735**	19,393	20,605
Others	**46,041**	55,095	26,385
	₱914,608	₱641,444	₱561,983

24. **Selling Expenses**

This account consists of:

	2012	2011	2010
		(In Thousands)	
Personnel costs (Note 25)	**₱227,003**	₱135,984	₱64,791
Freight, handling and hauling	**71,186**	53,147	49,416
Transportation and travel	**35,666**	30,832	17,990
Commission	**23,578**	23,541	21,779
Provision for doubtful accounts (Note 9)	**12,302**	12,687	12,085
Advertising	**12,154**	14,858	9,957
Taxes and licenses	**10,464**	9,378	8,046
Supplies	**9,151**	8,822	9,243
Repairs and maintenance	**8,272**	8,215	8,002
Depreciation (Note 26)	**7,963**	11,537	9,032
Postage, telephone and telegraph	**7,339**	8,436	7,671
Entertainment, amusement and recreation	**2,830**	3,167	3,050
Insurance	**2,386**	2,596	2,182
Outside services	**1,919**	1,272	1,418
Rental and utilities	**1,325**	1,120	1,008
Others	**8,548**	3,426	3,317
	₱442,086	₱329,018	₱228,987

25. **Personnel Costs**

This account consists of:

	2012	2011	2010
		(In Thousands)	
Salaries, employee benefits and bonuses (Note 28)	**₱1,017,737**	₱875,775	₱605,285
Retirement and other post-employment benefits (Note 30)	**63,721**	38,478	38,168
Training	**10,098**	8,381	6,902
Others	**42,444**	5,538	14,850
	₱1,134,000	₱928,172	₱665,205

26. **Depreciation and Amortization**

Depreciation and amortization relate to the following assets:

	2012	2011	2010
		(In Thousands)	
Property, plant and equipment and investment properties:			
Cost of sales, educational and animation services (Note 22)	**₱158,371**	₱133,475	₱127,399
General and administrative expenses (Note 23)	**63,110**	37,819	66,704
Selling expenses (Note 24)	**7,963**	11,537	9,032
Intangibles -			
General and administrative expenses (Note 23)	**3,604**	35,248	35,245
	₱233,048	₱218,079	₱238,380

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

This account consists of:

	2012	2011	2010
		(In Thousands)	
Interest expense on loans and borrowings (Notes 17 and 19)	**₱101,141**	₱107,903	₱104,375
Other financial charges	**162**	478	9,046
	₱101,303	₱108,381	₱113,421

28. **Related Party Transactions**

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

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2012, 2011 and 2010, the Company has not recorded any impairment of receivables from related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

			2012			
Company	**Nature**	**Amount/ Volume**	**Amount Due to Related Parties**	**Amount Due from Related Parties (see Note 9)**	**Terms**	**Conditions**
			(In Thousands)			
Ultimate Parent	Share in expenses, management fees	**₱28,231**	**₱12,608**	**₱299**	Noninterest-bearing	Unsecured, no impairment
Associates	Grant of interest bearing advances	**1,500**	–	**1,500**	4.87%–5.07% 30–60 days	Unsecured, no impairment
	Share in expenses	**1,563**	–	**821**	Noninterest-bearing	Unsecured, no impairment
Other Related Parties	Share in expenses	**5,687**	**5,047**	**293**	Noninterest-bearing	Unsecured, no impairment
			₱17,655	**₱2,913**		

2011

Company	Nature	Amount/ Volume	Amount Due to Related Parties	Amount Due from Related Parties (see Note 9)	Terms	Conditions
			(In Thousands)			
Ultimate Parent	Share in expenses, management fees	₱85,310	₱20,200	₱58,258	Noninterest-bearing	Unsecured, no impairment
Associates	Grant of interest bearing advances	131,307	–	643	4.87%–5.07% 30–60 days	Unsecured, no impairment
	Share in expenses	1,589	–	3,010	Noninterest-bearing	Unsecured, no impairment
Other Related Parties	Share in expenses	22,542	4,296	13,742	Noninterest-bearing	Unsecured, no impairment
			₱24,496	₱75,653		

2010

Company	Nature	Amount/ Volume	Amount Due to Related Parties	Amount Due from Related Parties (see Note 9)	Terms	Conditions
			(In Thousands)			
Ultimate Parent	Share in expenses, management fees	₱63,207	₱29,690	₱239	Noninterest-bearing	Unsecured, no impairment
	Grant of interest bearing advances	25,272	–	–	3.16%, 32 days	Unsecured, no impairment
Associates	Share in expenses	2,684	–	740	Noninterest-bearing	Unsecured, no impairment
	Grant of interest bearing advances	3,753	–	–	3.16%, 32 days	Unsecured, no impairment
Other Related Parties	Share in expenses	37,811	3,239	8,336	Non-interest bearing	Unsecured, no impairment
			₱32,929	₱9,315		

PHINMA, Inc. The Company has a management contract with PHINMA, Inc. up to June 30, 2013, renewable thereafter mutual agreement. Under this contract, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance and other business activities of the Company. Under the existing management agreement, the Parent Company pays PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of the Parent Company's net income.

TA Oil and TA Power. TA Oil and TA Power are likewise controlled by PHINMA, Inc. through a management agreement. Phinma Corporation bills TA Oil and TA Power for their share in expenses.

PPHC. The Company grants interest bearing advances to PPHC for a period of 30-60 days. The Company also bills PPHC their share in expenses.

PSHC. PSHC has outstanding long-term debt to UPPC arising from the acquisition of land from UPPC, then an associate of the Company (see Note 19). PSHC leases the land to UPPC for a period of 50 years, renewable for another 25 years upon the approval of the Philippine Department of Trade and Industry. Annual lease income during the entire lease term is initially fixed at ₱14.6 million. In connection with the lease, UPPC was required to make a lease deposit with PSHC of ₱55.5 million in July 2003 and an additional ₱2.9 million in April 2005, aggregated and reflected as part of "Other noncurrent liabilities" at amortized cost at the end of the reporting period, and refundable to UPPC upon the expiration of the lease. The lease deposit's present value was calculated using an effective interest rate of 12.0% per annum. On August 2, 2006, PSHC and UPPC amended the lease agreement increasing the annual rent revenue from ₱14.6 million to ₱19.2 million effective January 1, 2006.

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

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

	2012	2011
	(In Thousands)	
Trade and other receivables	**₱–**	₱1,712
Unearned revenues	**47,228**	48,394
Trade and other payables	**–**	1,144
Long-term debt	**152,873**	151,050
Other noncurrent liabilities	**595**	531

Retirement Fund. The Parent Company has established a retirement fund that is managed by a trustee. The carrying value and fair value of the retirement fund of the Parent Company amounts to ₱46.0 million and ₱37.3 million as of December 31, 2012 and 2011, respectively.

Management and Directors' Compensation

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

Management fees and bonuses, included in "Professional fees and outside services" account under "General and administrative expenses", amounted to ₱35.5 million, ₱42.0 million and ₱110.2 million in 2012, 2011 and 2010, respectively. The related unpaid amount, included in "Accruals for professional fees and others" account under "Trade and other payables" in the consolidated statements of financial position, amounted to ₱13.7 million and ₱16.5 million as of December 31, 2012 and 2011, respectively.

PHN, UGC, AHC, UI and AU recognized bonus to directors computed based on net income with pre-agreed adjustments. Directors' bonus, included in "Personnel costs" account under "General and administrative expenses", amounted to ₱12.5 million, ₱20.9 million and ₱43.2 million in 2012, 2011 and 2010, respectively. The related unpaid amount, included in "Accruals for personnel costs" account under "Trade and other payables" in the consolidated statements of financial position, amounted to ₱6.7 million and ₱7.2 million as of December 31, 2012 and 2011, respectively.

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

	2012	2011	2010
		(In Thousands)	
Short-term employee benefits	**₱73,340**	₱69,168	₱70,227
Post-employment benefits (Note 30):			
Retirement benefits	**6,686**	5,107	4,582
Vacation and sick leave	**1,989**	1,213	2,064
	₱82,015	₱75,488	₱76,873

29. Income Tax

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

	2012	2011
	(In Thousands)	
Deferred tax assets:		
NOLCO	**₱28,769**	₱13,753
Allowance for doubtful accounts	**25,676**	23,676
Pension liability	**17,334**	8,113
Unearned tuition fee revenue	**12,881**	4,148
Accrued expenses	**6,468**	13,118
Stock purchase plan	**4,482**	–
Unrealized foreign exchange losses	**2,750**	8,524
Excess of straight-line recognition of management fee over contract payment terms	**2,709**	2,709
Unamortized past service costs	**1,137**	1,556
Allowance for inventory writedown	**409**	409
Unrealized loss on change in fair value	**314**	–
Accrued interest expense	**156**	1,091
Allowance for impairment losses	**–**	1,255
MCIT	**–**	339
Unamortized accrued rent expense	**–**	185
	103,085	78,876
Deferred tax liabilities:		
Fair value adjustments on property and equipment of subsidiaries	**(244,892)**	(286,403)
Accelerated depreciation	**(40,800)**	(33,508)
Accrued revenue	**(25,878)**	(89)
Unrealized gain on change in fair value	**(10,149)**	(3,700)
Deferred installment sales	**(7,282)**	(7,282)
Unamortized capitalized borrowing cost	**(420)**	(525)
Derivative assets	**(158)**	(390)
Pension asset	**–**	(6,104)
Unrealized foreign exchange gains	**–**	(2,377)
Unamortized debt issuance costs	**–**	(248)
Others	**(2,011)**	–
	(331,590)	(340,626)
	(₱228,505)	(₱261,750)

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

	2012	2011
	(In Thousands)	
Deferred tax assets - net	**₱85,231**	₱49,245
Deferred tax liabilities - net	**(313,736)**	(310,995)
	(₱228,505)	(₱261,750)

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

	2012	2011
	(In Thousands)	
NOLCO	**₱279,203**	₱212,722
Allowance for unrecoverable input VAT	**118,573**	89,214
Accrued personnel costs and employee benefits	**22,596**	31,675
Unrealized foreign exchange losses	**21,633**	16,980
Unamortized past service costs	**14,970**	13,443
MCIT	**7,758**	8,377
Unrealized loss on derivatives	**–**	2,281
	₱464,733	₱374,692

Deferred tax assets amounting to ₱139.4 million and ₱112.4 in 2012 and 2011, respectively, 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 ₱7.8 million can be deducted against RCIT due while NOLCO totaling ₱364.3 million can be claimed as deduction against taxable income, as follows:

		Amount	
Date Paid/Incurred	Expiry Date	MCIT	NOLCO
		(In Thousands)	
December 31, 2010	December 31, 2013	₱4,788	₱6,507
December 31, 2011	December 31, 2014	1,137	223,104
December 31, 2012	December 31, 2015	1,833	134,705
		₱7,758	₱364,316

MCIT amounting to ₱2.5 million and ₱2.8 million expired in 2012 and 2011, respectively. No MCIT and NOLCO were claimed as deduction against regular taxable income in 2012 and 2011.

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:

	2012	2011	2010
Applicable statutory tax rate	**30%**	30.0%	30.0%
Income tax effects of:			
Tax rate differential of schools	**52.1**	(27.4)	(3.6)
Interest income subjected to lower final tax rate	**19.9**	(17.8)	(2.2)
Dividend income exempt from tax	**1.2**	(0.7)	(0.2)
Change in unrecognized deferred tax assets and others	**(208.4)**	60.4	(3.3)
Effective tax rates	**(105.2%)**	44.5%	20.7%

30. **Pension and Other Post-employment Benefits**

Pension and other post-employment benefits consist of:

	2012	2011
	(In Thousands)	
Net pension liability	**₱51,788**	₱31,778
Vacation and sick leave	**36,391**	26,471
	₱88,179	₱58,249

Pension and other employee benefits expenses under “Cost of sales”, “General and administrative expenses” and “Selling expenses”, consist of:

	2012	2011	2010
		(In Thousands)	
Net pension expense	**₱53,756**	₱31,747	₱34,317
Vacation and sick leave	**9,965**	6,731	3,851
	₱63,721	₱38,478	₱38,168

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

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

Net pension expense consists of:

	2012	2011	2010
		(In Thousands)	
Current service cost	**₱20,822**	₱13,764	₱22,764
Interest cost on defined benefit obligation	**14,645**	13,911	13,169
Expected return on plan assets	**(8,435)**	(7,956)	(7,776)
Past service cost	**22,846**	10,105	4,141
Net actuarial loss recognized	**3,878**	1,923	2,019
Net pension expense	**₱53,756**	₱31,747	₱34,317

Details of net pension liability are as follows:

	2012	2011
	(In Thousands)	
Present value of defined benefit obligation	**₱300,184**	₱219,656
Fair value of plan assets	**(142,080)**	(120,150)
Unfunded obligation	**158,104**	99,506
Benefits paid	**(6,454)**	(4,182)
Unrecognized net actuarial losses	**(99,862)**	(63,546)
Pension liability	**₱51,788**	₱31,778

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

	2012	2011
	(In Thousands)	
Balance at beginning of year	**₱219,656**	₱165,644
Current service cost	**20,822**	13,764
Interest cost on defined benefit obligation	**14,645**	13,911
Actuarial losses	**29,606**	36,236
Benefits paid	**(7,974)**	(15,421)
Increase in past service cost	**23,429**	5,522
Balance at end of year	**₱300,184**	₱219,656

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

	2012	2011
	(In Thousands)	
Balance at beginning of year	**₱120,150**	₱113,945
Contributions by employer	**25,310**	11,423
Benefits paid	**(7,974)**	(15,421)
Expected return on plan assets	**8,435**	7,956
Actuarial gains (losses)	**(3,841)**	2,247
Balance at end of year	**₱142,080**	₱120,150
Actual return on plan assets	**₱4,594**	₱10,203

The Company expects to contribute ₱34.3 million to its defined benefit pension plans in 2013.

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

	2012	2011	2010
Discount rates	**5-8%**	7–12%	7–12%
Expected rates of return on plan assets	**5-10%**	5–8%	5–8%
Rates of salary increase	**3-8%**	5–9%	5–9%

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

	2012	2011
Fixed income securities and others	**84%**	66%
Equities	**14%**	32%
Property	**2%**	2%
	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 Company has established a retirement fund that is managed by a trustee. The carrying value and fair value of the retirement fund of the Company amounts to ₱46.0 million and ₱37.3 million as of December 31, 2012 and 2011, respectively. The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2012	2011
Cash and short-term investments	**83%**	83%
Property	**12**	12
Marketable equity securities	**5**	5
	100%	100%

Cash and short-term investments include liquid investments in Special Deposit Accounts (SDAs), government securities and mutual funds and UITFs. Marketable equity securities can be sold through the Philippine Stock Exchange. These include shares of stock of the Parent Company with a fair value of ₱2.2 million and ₱2.4 million as of December 31, 2012 and 2011, respectively. Cumulative unrealized fair value gains on the shares amount to ₱0.5 million. The plan assets also include an investment in a unit in Island Palm Garden Condominium located in Quezon City.

The voting rights over the shares are exercised through the trustee by the retirement committee, the members of which are directors or officers of the Parent Company.

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

	2012	2011	2010	2009	2008
			(In Thousands)		
Present value of defined benefit obligation	**₱300,184**	₱219,656	₱165,644	₱156,033	₱47,564
Fair value of plan assets	**(142,080)**	(120,150)	(113,945)	(81,870)	(73,022)
Unfunded (surplus) obligation	**158,104**	99,506	51,699	74,163	(25,458)
Experience adjustments on plan liabilities	**(35)**	(27)	(5,469)	(1,284)	1,900
Experience adjustments on plan assets	**43**	7	2,026	–	36

31. **Financial Risk Management Objectives and Policies**

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

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

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

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

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

A comprehensive credit and business review in coordination with dealers or underwriters is performed whenever the Company invests in non-rated securities. Furthermore, the Company monitors the credit quality of corporate and sovereign bonds with reference to credit rating studies and updates from the major rating agencies. The Company's exposure to credit risk on its cash and cash equivalents, investments held for trading, AFS investments, trade and other receivables and derivative instruments arises from default of the counterparties with maximum exposures equal to the carrying amounts of the instruments.

	2012	2011
	(In Thousands)	
Loans and receivables:		
Cash and cash equivalents	**₱465,179**	₱916,157
Trade and other receivables	**871,881**	857,649
Investments held for trading:		
Investments in bonds	**491,127**	414,525
Investments in marketable equity securities	**6,601**	3,927
Derivative assets	**528**	–
AFS investments:		
Quoted	**10,101**	20,620
Unquoted - net of accumulated impairment losses	**222,305**	120,370
	₱2,067,722	₱2,333,248

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

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

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

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

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

	2012				
	Neither Past Due nor Impaired				
	High Grade	**Standard Grade**	**Substandard Grade**	**Impaired**	**Total**
			(In Thousands)		
Investments held for trading:					
Investments in bonds	**₱480,029**	**₱11,098**	**₱–**	**₱–**	**₱491,127**
Investments in marketable equity securities	**–**	**6,601**	**–**	**–**	**6,601**
Derivative assets	**528**	**–**	**–**	**–**	**528**
AFS investments:					
Quoted	**–**	**10,101**	**–**	**–**	**10,101**
Unquoted	**–**	**222,305**	**–**	**45,517**	**267,822**
	₱480,557	**₱454,693**	**₱–**	**₱45,517**	**₱776,179**

	2011				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Substandard Grade	Impaired	Total
			(In Thousands)		
Investments held for trading:					
Investments in bonds	₱387,264	₱27,262	₱–	₱–	₱414,526
Investments in marketable equity securities	–	3,927	–	–	3,927
AFS investments:					
Quoted	–	20,620	–	–	20,620
Unquoted	–	120,370	–	45,517	165,887
	₱387,264	₱172,179	₱–	₱45,517	₱604,960

Credit Quality of Trade and Other Receivables

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

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

	2012			
	Neither Past Due nor Impaired			
	High Grade	**Standard Grade**	**Past Due or Impaired**	**Total**
		(In Thousands)		
Trade	**₱–**	**₱697,079**	**₱192,205**	**₱889,284**
Due from related parties	**–**	**2,913**	**–**	**2,913**
Installment contract receivables	**–**	**68,884**	**–**	**68,884**
Advances to suppliers and contractors	**–**	**56,002**	**–**	**56,002**
Accrued interest	**10,696**	**–**	**–**	**10,696**
Receivable from PHN Retirement	**–**	**8,939**	**–**	**8,939**
Advances to officers and employees	**–**	**7,343**	**1,532**	**8,875**
Others	**–**	**20,025**	**4,037**	**24,062**
	₱10,696	**₱861,185**	**₱197,774**	**₱1,069,655**

	2011			
	Neither Past Due nor Impaired			
	High Grade	Standard Grade	Past Due or Impaired	Total
		(In Thousands)		
Trade	₱–	₱624,181	₱156,561	₱780,742
Due from related parties	–	72,779	2,874	75,653
Installment contract receivables	–	72,617	–	72,617
Advances to suppliers and contractors	–	10,623	2,826	13,449
Accrued interest	11,817	–	–	11,817
Receivable from PHN Retirement	–	8,939	–	8,939
Advances to officers and employees	–	6,094	–	6,094
Others	–	50,599	2,545	53,144
	₱11,817	₱845,832	₱164,806	₱1,022,455

As of December 31, 2012 and 2011, the aging analysis of trade and other receivables (including installment contract receivables) are as follows:

	2012							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	30–60 Days	60–90 Days	90–120 Days	>130 Days	Past Due and Impaired
	(In Thousands)							
Trade	**₱889,284**	**₱429,005**	**₱105,587**	**₱35,363**	**₱35,023**	**₱26,405**	**₱65,696**	**₱192,205**
Due from related parties	**2,913**	**2,913**	**–**	**–**	**–**	**–**	**–**	**–**
Installment contract receivables	**68,884**	**68,884**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to suppliers and contractors	**56,002**	**37,077**	**2,580**	**2,152**	**1,782**	**2,504**	**9,907**	**–**
Accrued interest	**10,696**	**10,696**	**–**	**–**	**–**	**–**	**–**	**–**
Receivable from PHN Retirement	**8,939**	**8,939**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to officers and employees	**8,875**	**4,189**	**486**	**548**	**314**	**77**	**1,729**	**1,532**
Others	**24,062**	**17,936**	**103**	**10**	**51**	**21**	**1,904**	**4,037**
	₱1,069,655	**₱579,639**	**₱108,756**	**₱38,073**	**₱37,170**	**₱29,007**	**₱79,236**	**₱197,774**

	2011							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	30–60 Days	60–90 Days	90–120 Days	>130 Days	Past Due and Impaired
	(In Thousands)							
Trade	₱780,742	₱414,014	₱88,274	₱35,125	₱15,242	₱22,485	₱49,041	₱156,561
Due from related parties	75,653	72,779	–	–	–	–	–	2,874
Installment contract receivables	72,617	72,617	–	–	–	–	–	–
Advances to suppliers and contractors	13,449	7,797	445	874	457	638	412	2,826
Accrued interest	11,817	11,817	–	–	–	–	–	–
Receivable from PHN Retirement	8,939	8,939	–	–	–	–	–	–
Advances to officers and employees	6,094	6,094	–	–	–	–	–	–
Others	53,144	46,964	345	345	345	–	2,600	2,545
	₱1,022,455	₱641,021	₱89,064	₱36,344	₱16,044	₱23,123	₱52,053	₱164,806

Impaired financial instruments comprise of trade receivables from customers, related parties and other receivables. The past due but not impaired trade and receivables are expected to be collected the following year.

Liquidity Risk

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

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

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

	2012					
	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	**₱465,179**	**₱–**	**₱–**	**₱–**	**₱–**	**₱465,179**
Financial assets at FVPL:						
Investments in bonds	**7,581**	**27,632**	**–**	**21,893**	**434,021**	**491,127**
Investments in marketable equity securities	**6,601**	**–**	**–**	**–**	**–**	**6,601**
Derivative assets	**528**	**–**	**–**	**–**	**–**	**528**
AFS investments -						
Quoted	**10,101**	**–**	**–**	**–**	**–**	**10,101**
	₱489,990	**₱27,632**	**₱–**	**₱21,893**	**₱434,021**	**₱973,536**

	2011					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
			(In Thousands)			
Financial Assets						
Loans and receivables -						
Cash and cash equivalents	₱916,157	₱–	₱–	₱–	₱–	₱916,157
Financial assets at FVPL:						
Investments in bonds	24,066	7,845	30,743	29,329	322,542	414,525
Investments in marketable equity securities	3,927	–	–	–	–	3,927
AFS investments -						
Quoted	20,620	–	–	–	–	20,620
	₱964,770	₱7,845	₱30,743	₱29,329	₱322,542	₱1,355,229

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

	2012					
	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	**₱373,676**	**₱–**	**₱–**	**₱–**	**₱–**	**₱373,676**
Trade and other payables	**536,683**	**–**	**–**	**–**	**–**	**536,683**
Trust receipts payable	**560,649**	**–**	**–**	**–**	**–**	**560,649**
Due to related parties	**17,655**	**–**	**–**	**–**	**–**	**17,655**
Long-term loan payable*	**26,852**	**25,773**	**24,709**	**–**	**–**	**77,334**
Long-term debt*	**98,705**	**92,192**	**79,374**	**113,154**	**161,591**	**545,016**
	₱1,614,220	**₱117,965**	**₱104,083**	**₱113,154**	**₱161,591**	**₱2,111,013**

** Including current and noncurrent portions.*

	2011 (As restated - Note 6)					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
			(In Thousands)			
Financial Liabilities						
Other financial liabilities:						
Notes payable	₱459,115	₱–	₱–	₱–	₱–	₱459,115
Trade and other payables	402,495	–	–	–	–	402,495
Trust receipts payable	104,240	–	–	–	–	104,240
Due to related parties	24,496	–	–	–	–	24,496
Long-term loan payable*	24,713	26,304	26,304	26,304	–	103,625
Long-term debt*	197,122	477,447	68,985	56,437	23,347	823,338
	₱1,212,181	₱503,751	₱95,289	₱82,741	₱23,347	₱1,917,309

** Including current and noncurrent portions.*

Market Risk

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

Foreign Currency Risk

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

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

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

	2012		2011	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
		(In Thousands)		
Financial assets:				
Cash and cash equivalents	**US$514**	**₱21,100**	US$3,720	₱163,085
Receivables	**339**	**13,916**	151	6,620
Investments in bonds	**1,664**	**68,307**	2,284	100,131
	US$2,517	**₱103,323**	US$6,155	₱269,836
Financial liabilities:				
Trust receipts payable	**US$935**	**₱38,382**	US$2,366	₱103,725
Long-term loan payable	**1,728**	**70,934**	2,304	101,007
	US$2,663	**₱109,316**	US$4,670	₱204,732

In translating foreign currency-denominated financial assets into peso amounts, the exchange rate used was ₱41.05 to US$1.00 and ₱43.84 to US$1.00 as of December 31, 2012 and 2011, 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, 2012 and 2011. 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, 2012 and 2011.

	2012	
	Increase (Decrease) in Peso-Dollar Exchange Rate	**Effect on Profit Before Tax**
		(In Millions)
PHN	**₱1.00**	**₱0.017**
	(1.00)	**(0.017)**
UGC	**1.00**	**0.927**
	(1.00)	**(0.927)**
Fuld Philippines	**1.00**	**0.397**
	(1.00)	**(0.397)**

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

Interest Rate Risk

a. Cash Flow Interest Rate Risk

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

The Company is exposed to cash flow interest rate risk due to AU's variable rate loan from China Bank as at December 31, 2010 (see Note 19). On August 5, 2011, the interest on AU's loan is fixed based on the 5-year prevailing PDST-F plus a spread of 1.50% payable quarterly.

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

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

b. Price Interest Rate Risk

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

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

				2012			
	Interest Rates	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–5 Years**	**More than 5 Years**	**Total**
				(In Thousands)			
Fixed Rate							
Placements (PHP)	**1.75%–4.69%**	**272,546**	**–**	**–**	**–**	**–**	**272,546**
Placements (AUD)	**2.22%**	**30,141**	**–**	**–**	**–**	**–**	**30,141**
Investments in bonds (PHP)	**5.875%-11.75%**	**7,582**	**–**	**–**	**–**	**415,258**	**422,840**
Investments in bonds (US$)	**5.0%–10.375%**	**–**	**27,632**	**–**	**21,893**	**18,762**	**68,287**

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

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

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

The table below set forth the estimated change in the Company's income before tax due to a reasonably possible change in the market prices of quoted bonds and interest rates for peso placements and trust receipts classified under financial assets at FVPL and short term deposits classified under loans and receivables, brought about by movement in the interest rate as of December 31, 2012 and 2011. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2012	
	Increase/(Decrease) in Basis Points	**Effect on Profit Before Tax**
		(In Thousands)
PHN – peso placement	**50**	**₱219**
	(50)	**(219)**
– dollar placement	**25**	**35**
	(25)	**(35)**
– peso bonds	**50**	**(8,192)**
	(50)	**8,192**
– dollar bonds	**20**	**114**
	(20)	**(114)**
API, PSHC, PEN		
– peso placement	**50**	**1,285**
	(50)	**(1,285)**
UGC – trust receipts	**50**	**115**
	(50)	**(115)**

	2011	
	Increase/(Decrease) in Basis Points	Effect on Profit Before Tax
		(In Thousands)
PHN – peso placement	175	₱1,015
	(175)	(1,015)
– dollar placement	50	1,506
	(50)	(1,506)
– peso bonds	50	(7,758)
	(50)	7,758
– dollar bonds	100	851
	(100)	(851)
UGC – trust receipts	25	(37)
	(25)	37

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, 2012 and 2011. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

	2012	
	Increase/Decrease in Stock Exchange Index	**Effect on Profit Before Tax**
		(In Thousands)
PHN	**+15%**	**₱422**
	-15%	**(422)**
UGC	**+15%**	**₱167**
	-15%	**(167)**
API	**+15%**	**293**
	-15%	**(293)**

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

Capital Management

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

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

To ensure that there are sufficient funds to settle its liabilities, the Company's policy is to keep debt-to-equity ratio below 1:1. The Company's consolidated debt-to-equity ratio as of December 31, 2012 and 2011 are as follows:

	2012	2011
	(In Thousands)	
Total liabilities	**₱2,659,483**	₱2,503,334
Total equity	**6,985,834**	7,177,576
Debt-to-equity ratio	**0.38:1**	0.35:1

32. **Financial Instruments**

Fair Value

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

	Carrying Amount		Fair Value	
	2012	2011	**2012**	2011
		(In Thousands)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱465,179**	₱916,157	**₱465,179**	₱916,157
Trade and other receivables	**871,881**	857,649	**871,881**	857,649
	1,337,060	1,773,806	**1,337,060**	1,773,806
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds	**491,127**	414,525	**491,127**	414,525
Investments in marketable equity securities	**6,601**	3,927	**6,601**	3,927
Derivative asset	**528**	–	**528**	–
	498,256	418,452	**498,256**	418,452
AFS investments:				
Quoted	**10,101**	20,620	**10,101**	20,620
Unquoted	**222,305**	120,370	**222,305**	120,370
	232,406	140,990	**232,406**	140,990
	₱2,067,722	₱2,333,248	**₱2,067,722**	₱2,333,248

	Carrying Amount		Fair Value	
	2012	2011 (As restated - Note 6)	**2012**	2011 (As restated - Note 6)
		(In Thousands)		
Financial Liabilities				
Financial liability at FVPL - Derivative liability	**₱–**	₱2,281	**₱–**	₱2,281
Other financial liabilities:				
Notes payable	**373,676**	455,193	**373,676**	455,193
Trade and other payables	**536,685**	402,495	**536,685**	402,495
Trust receipts payable	**554,797**	103,735	**554,797**	103,735
Due to related parties	**17,655**	24,496	**17,655**	24,496
Long-term loan payable*	**70,935**	101,007	**78,330**	110,460
Long-term debt*	**412,186**	740,722	**364,005**	774,019
	1,965,934	1,827,648	**1,925,148**	1,870,398
	₱1,965,934	₱1,829,929	**₱1,925,148**	₱1,872,679

**Including current and noncurrent portion.*

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

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

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

Long-term Loan Payable and Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable rates for similar types of loans. Discount rates used range from 3% to 5% in 2012 and 2.7% to 6.0% in 2011.

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

Derivative Instruments

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

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

The Company has outstanding currency forward contracts with an aggregate notional amount of US$4.3 million and US$6.3 million as of December 31, 2012 and 2011, respectively. The weighted average contracted forward rate is ₱41.12 to US$1.00 and ₱43.49 to US$1.00 as of December 31, 2012 and 2011, respectively. The currency forward contracts outstanding as of December 31, 2012 will mature up to April 2013. The net changes in fair values of these outstanding currency forward contracts amounted to ₱0.5 million and negative ₱2.3 million as of December 31, 2012 and 2011, respectively.

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

	2012	2011
	(In Thousands)	
Balance at beginning of year	**(₱2,281)**	₱4,442
Net change in fair value during the year	**12,270**	7,121
Fair value of settled contracts	**(9,461)**	(13,844)
Balance at end of year	**₱528**	(₱2,281)

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

The Company's embedded derivatives have an aggregate notional amount of US$7.2 million as of December 31, 2009. The weighted average contracted forward rate is ₱42.72 to US$1.00 as of December 31, 2009. The net fair values of the embedded derivatives amounted to ₱2.8 million gain as of December 31, 2009. These embedded derivatives matured in 2010. There are no embedded derivatives as of December 31, 2012 and 2011.

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

Fair Value Hierarchy

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

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

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

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

Financial assets measured at fair value are as follows:

	2012	**Level 1**	**Level 2**	**Level 3**
		(In Thousands)		
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds	**₱491,127**	**₱491,127**	**₱–**	**₱–**
Investments in marketable equity securities	**6,601**	**6,601**	**–**	**–**
AFS investments -				
Quoted	**10,101**	**10,101**	**–**	**–**
	₱507,829	**₱507,829**	**₱–**	**₱–**

	2011	Level 1	Level 2	Level 3
		(In Thousands)		
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds	₱414,525	₱414,525	₱–	₱–
Investments in marketable equity securities	3,927	3,927	–	–
AFS investments -				
Quoted	20,620	20,620	–	–
	₱439,072	₱439,072	₱–	₱–

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

During the years ended December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

33. Commitments and Contingencies

a. Unused Credit Lines

PHN has an unused credit line amounting to ₱500.0 million as at December 31, 2012.

UGC has the following unused approved credit lines with local banks and financial institutions as of December 31, 2012:

Nature	Amount
	(In Thousands)
Letters of credit/trust receipts	₱332,935
Bills purchase line	158,995
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, 2012 are as follows:

	Amount
	(In Thousands)
2013	₱17,498
2014	16,124

c. Property Agreement

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

d. Others

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

34. EPS Computation

Basic EPS is computed as follows:

	2012	2011	2010
		(In Thousands)	
(a) Net income (loss) attributable to equity holders of the parent	**(₱36,010)**	₱81,018	₱475,846
(b) Weighted average number of common shares outstanding	**258,322**	257,737	257,737
Basic EPS attributable to equity holders of the parent (a/b)	**(₱0.14)**	₱0.31	₱1.85

Diluted EPS is computed as follows:

	2012	2011	2010
		(In Thousands)	
(a) Net income (loss) attributable to equity holders of the parent	**(₱36,010)**	₱81,018	₱475,846
(b) Weighted average number of common shares outstanding adjusted for the effect of exercise of shares from Stock Purchase Plan	**259,095**	257,737	257,737
Diluted EPS attributable to equity holders of the parent (a/b)	**(₱0.14)**	₱0.31	₱1.85

	2012	2011	2010
		(In Thousands)	
Weighted average number of common shares for basic earnings per share	**258,322**	257,737	257,737
Effect of exercise of shares from Stock Purchase Plan	**773**	–	–
Weighted average number of common shares outstanding adjusted for the effect of exercise of shares from Stock Purchase Plan	**259,095**	257,737	257,737

The assumed exercise of shares from the Stock Purchase Plan would result in additional 1,545,894 common shares in 2012 and nil in 2011 and 2010. The estimated number of shares to be issued is based on the closing price of the Company's share as of December 31, 2012.

35. **Segment Information**

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

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

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

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

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

Segment Information
Financial information on the operating segments are summarized as follows:

	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(In Thousands)			
Year Ended December 31, 2012							
Revenues							
Segment revenue	**₱33,410**	**₱649**	**₱2,911,208**	**₱906,638**	**₱551,658**	**₱–**	**₱4,403,563**
Investment income	**311,242**	**15,088**	**1,437**	**735**	**18**	**(195,450)**	**133,070**
Total revenues	**₱344,652**	**₱15,737**	**₱2,912,645**	**₱907,373**	**₱551,676**	**(₱195,450)**	**₱4,536,633**
Results							
Segment results	**(₱320,521)**	**(₱100,129)**	**₱145,515**	**₱142,833**	**(₱393,452)**	**₱327,931**	**(₱197,823)**
Investment income	**311,242**	**15,088**	**1,437**	**736**	**18**	**(195,452)**	**133,069**
Equity in net earnings of an associate	**–**	**(2,325)**	**–**	**–**	**3,508**	**117,760**	**118,943**
Interest expense and financing charges	**(19,824)**	**–**	**(47,332)**	**(23,758)**	**(10,389)**	**–**	**(101,303)**
Benefit from (provision for) income tax	**(9,170)**	**–**	**(29,320)**	**(14,743)**	**5,826**	**4,464**	**(42,943)**
Share of non-controlling interest	**–**	**–**	**–**	**(1,114)**	**–**	**55,161**	**54,047**
Net income attributable to equity holders of parent	**(₱38,273)**	**(₱87,366)**	**₱70,300**	**₱103,954**	**(₱394,489)**	**₱309,864**	**(₱36,010)**
As at December 31, 2012							
Assets and Liabilities							
Segment assets	**₱1,556,278**	**₱403,088**	**₱1,949,318**	**₱2,313,948**	**₱226,860**	**₱762,258**	**₱7,211,750**
Investment in associates	**4,778,588**	**–**	**10,288**	**–**	**1,939**	**(2,442,479)**	**2,348,336**
Deferred tax assets	**–**	**–**	**31,284**	**26,634**	**35,146**	**(7,833)**	**85,231**
Total assets	**₱6,334,866**	**₱403,088**	**₱1,990,890**	**₱2,340,582**	**₱263,945**	**(₱1,688,054)**	**₱9,645,317**
Segment liabilities	**₱438,542**	**₱484**	**₱1,017,052**	**₱778,503**	**₱482,820**	**(₱413,445)**	**₱2,303,956**
Income and other taxes payable	**1,935**	**–**	**22,943**	**16,329**	**589**	**–**	**41,796**
Deferred tax liabilities	**5,852**	**7,281**	**47,317**	**140,104**	**83**	**113,094**	**313,731**
Total liabilities	**₱446,329**	**₱7,765**	**₱1,087,312**	**₱934,936**	**₱483,492**	**(₱300,351)**	**₱2,659,483**
Other Segment Information							
Capital expenditures	**₱14,071**	**₱–**	**₱24,906**	**₱149,375**	**₱30,929**	**₱–**	**₱219,281**
Depreciation and amortization	**11,529**	**667**	**98,824**	**72,410**	**20,342**	**14,881**	**218,653**
Provision for impairment loss on investment in a subsidiary/goodwill	**59,779**	**–**	**–**	**–**	**212,300**	**(59,779)**	**212,300**
Provision for unrecoverable input value-added tax	**1,542**	**–**	**–**	**–**	**–**	**–**	**1,542**

	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total Operations
				(In Thousands)			
Year Ended December 31, 2011							
Revenues							
Segment revenue	₱33,585	₱10,695	₱2,640,861	₱881,333	₱284,696	₱–	₱3,851,170
Investment income	508,173	14,867	2,571	2,435	39	(425,750)	102,335
Total revenues	₱541,758	₱25,562	₱2,643,432	₱883,768	₱284,735	(₱425,750)	₱3,953,505
Results							
Segment results	(₱346,987)	(₱35,539)	₱198,804	₱168,647	(₱103,272)	₱90,267	(₱28,080)
Investment income	508,173	14,867	2,571	2,435	39	(425,750)	102,335
Equity in net earnings of an associate	–	25,071	–	–	1,556	111,029	137,656
Interest expense and financing charges	(19,620)	–	(49,636)	(29,052)	(10,073)	–	(108,381)
Benefit from (provision for) income tax	(2,821)	(2,722)	(43,794)	(9,984)	(2,371)	15,671	(46,021)
Share of non-controlling interest	–	–	–	(716)	1,947	22,278	23,509
Net income attributable to equity holders of parent	₱138,745	₱1,677	₱107,945	₱131,330	(₱112,174)	(₱186,505)	₱81,018
As at December 31, 2011 (As restated - Note 6)							
Assets and Liabilities							
Segment assets	₱2,095,305	₱525,506	₱1,928,240	₱2,209,903	₱460,844	₱576,722	₱7,796,520
Investment in associates	4,319,127	–	10,288	–	2,159	(2,496,429)	1,835,145
Deferred tax assets	–	–	19,904	2,879	22,283	4,179	49,245
Total assets	₱6,414,432	₱525,506	₱1,958,432	₱2,212,782	₱485,286	(₱1,915,528)	₱9,680,910
Segment liabilities	₱419,476	₱977	₱955,196	₱748,466	₱361,363	(₱338,028)	₱2,147,450
Income and other taxes payable	2,914	120	25,739	12,870	3,246	–	44,889
Deferred tax liabilities	–	7,281	52,759	119,793	83	131,079	310,995
Total liabilities	₱422,390	₱8,378	₱1,033,694	₱881,129	₱364,692	(₱206,949)	₱2,503,334
Other Segment Information							
Capital expenditures	₱18,026	₱10,000	₱91,710	₱181,516	₱18,300	(₱3,762)	₱315,790
Depreciation and amortization	11,748	772	77,975	73,088	7,972	46,524	218,079
Provision for impairment loss on investment in a subsidiary/goodwill	274,172	–	–	–	166,369	(274,172)	166,369
Provision for unrecoverable input value-added tax	7,372	–	–	–	–	–	7,372
Year Ended December 31, 2010							
Revenues							
Segment revenue	₱28,839	₱44,781	₱2,660,613	₱895,305	₱60,127	₱–	₱3,689,665
Investment income	307,107	2,270	742	1,712	28	(227,792)	84,067
Total revenues	₱335,946	₱47,051	₱2,661,355	₱897,017	₱60,155	(₱227,792)	₱3,773,732
Results							
Segment results	₱234,627	₱351,846	₱372,536	₱174,918	(₱71,621)	(₱285,513)	₱776,793
Investment income	307,107	2,270	742	1,712	28	(227,792)	84,067
Equity in net earnings of an associate	–	47,501	–	–	–	11,890	59,391
Interest expense and financing charges	(24,212)	(717)	(51,365)	(31,287)	(5,840)	–	(113,421)
Benefit from (provision for) income tax	(6,152)	(83,546)	(72,563)	(19,545)	(907)	15,886	(166,827)
Share of non-controlling interest	–	–	–	(412)	554	(164,299)	(164,157)
Net income attributable to equity holders of parent	₱511,370	₱317,354	₱249,350	₱125,386	(₱77,786)	(₱649,828)	₱475,846
As at December 31, 2010							
Assets and Liabilities							
Segment assets	₱2,752,849	₱763,198	₱2,027,099	₱2,093,216	₱452,936	₱198,271	₱8,287,569
Investment in associates	3,885,950	–	10,288	–	–	(2,531,554)	1,364,684
Deferred tax assets	–	36,407	–	1,963	1,672	4,419	44,461
Total assets	₱6,638,799	₱799,605	₱2,037,387	₱2,095,179	₱454,608	(₱2,328,864)	₱9,696,714
Segment liabilities	₱443,312	₱11,076	₱886,565	₱688,544	₱125,744	(₱228,924)	₱1,926,317
Income and other taxes payable	1,366	35,794	37,122	9,081	462	(36)	83,789
Deferred tax liabilities	–	91,352	49,902	112,481	923	131,260	385,918
Total liabilities	₱444,678	₱138,222	₱973,589	₱810,106	₱127,129	(₱97,700)	₱2,396,024
Other Segment Information							
Capital expenditures	₱1,173	₱–	₱63,725	₱153,652	₱3,652	₱–	₱222,202
Depreciation and amortization	12,456	26,686	72,707	73,112	6,896	46,523	238,380
Reversal of impairment loss on investment in a subsidiary	346,282	–	–	–	–	(346,282)	–
Provision for (reversal of) unrecoverable input value-added tax	3,891	–	(52,177)	–	–	–	(48,286)

36. **Events after the Reporting Period**

On March 6, 2013, the Parent Company's BOD declared a cash dividend amounting to ₱103.2 million equivalent to ₱0.40 a share to all common shareholders of record as of March 22, 2013, which is payable on April 17, 2013.

37. **Note to Consolidated Statement of Cash Flows**

In 2012, the Company has a noncash investing activity pertaining to acquisition of investment property amounting to ₱25.2 million and noncash financing activity pertaining to issuance of shares of stock amounting to ₱12.4 million.

CORPORATE DIRECTORY

EDUCATION
Pamantasan Ng Araullo
(Araullo University), Inc.
Barangay Bitas, Maharlika Highway
Cabanatuan City, Nueva Ejica
Tel (044) 464-3399
www.au.phinma.edu.ph

Cagayan De Oro College
Max Suniel St., Carmen
Cagayan de Oro City, Misamis Oriental
Tel (088) 858-5867
www.coc.phinma.edu.ph

University Of Pangasinan
Avelino Street, Dagupan City
Pangasinan
Tel (075) 522-5635
www.up.phinma.edu.ph

University Of Iloilo
Rizal Street, Iloilo City
Tel (033) 338-1071
www.ui.phinma.edu.ph

STEEL PRODUCTS
Union Galvasteel Corporation
12th Floor, PHINMA Plaza
39 Plaza Drive, Rockwell Center, Makati City
Tel (632) 520-8830
www.uniongalvasteel.com.ph

HOUSING
Phinma Property Holdings Corporation
29 Epifanio Delos Santos Avenue
Mandaluyong City
Tel (632) 533-7777
www.phinmaproperties.com

ENERGY
Trans-Asia Oil And
Energy Development Corporation
11th Floor, PHINMA Plaza
39 Plaza Drive, Rockwell Center, Makati City
Tel (632) 870-0100
www.transasia-energy.com

BUSINESS PROCESS OUTSOURCING
Fuld & Company, Inc.
25 First Street, Suite 301
Cambridge, MA 02141, USA
Tel +1 (617) 492-5900
www.fuld.com

Fuld & Company (Philippines), Inc.
3402 One Corporate Center
Meralco Avenue corner Julia Vargas Street
Ortigas Center, Pasig City
Tel (632) 706-3292

HOTEL
Microtel Mall of Asia
Coral Way Avenue corner Seaside Boulevard
SM Mall of Asia Complex, Pasay City
Tel (632) 403-3333
www.microtelbywyndham-manila.com

OTHERS
Asian Plaza, Inc.
12th Floor, PHINMA Plaza
39 Plaza Drive, Rockwell Center, Makati City
Tel (632) 870-0100

PHINMA CORPORATION
12th Floor, PHINMA Plaza
39 Plaza Drive, Rockwell Center, Makati City
Tel (632) 870-0100
Fax (632) 870-0456
www.phinmacorp.com.ph

INDEPENDENT PUBLIC ACCOUNTANTS
Sycip, Gorres, Velayo & Co.
6760 Ayala Avenue, Makati City
Tel (632) 891-0307

TRANSFER AGENTS
Stock Transfer Services, Inc.
34th Floor, Unit D
Rufino Pacific Tower
6784 Ayala Avenue, Makati City
Tel (632) 403-2410

Concept and Design | K2 Interactive (Asia), Inc. **Portrait Photography** | Cesar Caina **Operational Photography** | Jay Jallorina

PHINMA Corporation
12th Floor, Phinma Plaza, 39 Plaza Drive
Rockwell Center, Makati City 1210
www.phinmacorp.com.ph